

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 September 27, 2017

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



(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

24 Union Square East, 5th Floor
New York, New York

(Address of principal executive offices)

47-1941186

(IRS Employer
Identification No.)

10003

(Zip Code)

(646) 747-7200

(Registrant's telephone number, including area code)

Not applicable

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

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

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

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

Large accelerated filer

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

Accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of October 25, 2017, there were 26,195,741 shares of Class A common stock outstanding and 10,534,792 shares of Class B common stock outstanding.

SHAKE SHACK INC.

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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 28, 2016, as amended, and subsequent Quarterly Reports on Form 10-Q 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).

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SHAKE SHACK INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except share and per share amounts)

	September 27 2017	December 28 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 26,887	\$ 11,607
Marketable securities	63,299	62,040
Accounts receivable	5,139	6,006
Inventories	1,127	806
Prepaid expenses and other current assets	2,057	3,485
Total current assets	98,509	83,944
Property and equipment, net	174,689	136,264
Deferred income taxes, net	322,224	313,207
Other assets	4,515	4,779
TOTAL ASSETS	\$ 599,937	\$ 538,194
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 8,639	\$ 6,921
Accrued expenses	13,181	8,538
Accrued wages and related liabilities	5,127	6,084
Other current liabilities	9,817	10,173
Total current liabilities	36,764	31,716
Deemed landlord financing	13,162	2,007
Deferred rent	34,780	31,107
Liabilities under tax receivable agreement, net of current portion	280,820	267,902
Other long-term liabilities	2,633	4,109
Total liabilities	368,159	336,841
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, no par value—10,000,000 shares authorized; none issued and outstanding as of September 27, 2017 and December 28, 2016.	—	—
Class A common stock, \$0.001 par value—200,000,000 shares authorized; 26,161,111 and 25,151,384 shares issued and outstanding as of September 27, 2017 and December 28, 2016, respectively.	26	25
Class B common stock, \$0.001 par value—35,000,000 shares authorized; 10,567,792 and 11,253,592 shares issued and outstanding as of September 27, 2017 and December 28, 2016, respectively.	11	11
Additional paid-in capital	147,890	135,448
Retained earnings	28,862	16,719
Accumulated other comprehensive income (loss)	30	(15)
Total stockholders' equity attributable to Shake Shack Inc.	176,819	152,188
Non-controlling interests	54,959	49,165
Total equity	231,778	201,353
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 599,937	\$ 538,194

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		Thirty-Nine Weeks Ended	
	September 27 2017	September 28 2016	September 27 2017	September 28 2016
Shack sales	\$ 91,100	\$ 71,871	\$ 253,258	\$ 188,430
Licensing revenue	3,509	2,696	9,416	6,774
TOTAL REVENUE	94,609	74,567	262,674	195,204
Shack-level operating expenses:				
Food and paper costs	25,760	20,393	71,646	53,529
Labor and related expenses	23,806	18,216	66,692	46,640
Other operating expenses	9,229	6,577	25,380	17,475
Occupancy and related expenses	7,522	6,009	20,741	15,541
General and administrative expenses	9,204	7,885	27,352	22,265
Depreciation expense	5,604	3,719	15,610	10,229
Pre-opening costs	2,670	2,598	6,961	6,708
Loss on disposal of property and equipment	204	—	317	—
TOTAL EXPENSES	83,999	65,397	234,699	172,387
OPERATING INCOME	10,610	9,170	27,975	22,817
Other income, net	229	151	622	197
Interest expense	(475)	(89)	(1,144)	(267)
INCOME BEFORE INCOME TAXES	10,364	9,232	27,453	22,747
Income tax expense	2,494	2,443	7,537	6,058
NET INCOME	7,870	6,789	19,916	16,689
Less: net income attributable to non-controlling interests	2,873	3,023	7,773	8,163
NET INCOME ATTRIBUTABLE TO SHAKE SHACK INC.	\$ 4,997	\$ 3,766	\$ 12,143	\$ 8,526
Earnings per share of Class A common stock:				
Basic	\$ 0.19	\$ 0.16	\$ 0.47	\$ 0.38
Diluted	\$ 0.19	\$ 0.15	\$ 0.46	\$ 0.37
Weighted-average shares of Class A common stock outstanding:				
Basic	26,024	24,023	25,733	22,310
Diluted	26,477	24,554	26,248	22,805

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27 2017	September 28 2016	September 27 2017	September 28 2016
Net income	\$ 7,870	\$ 6,789	\$ 19,916	\$ 16,689
Other comprehensive income (loss), net of tax:				
Available-for-sale securities ⁽¹⁾ :				
Change in net unrealized holding gains (losses)	53	(11)	36	(19)
Less: reclassification adjustments for net realized losses included in net income	14	3	28	3
Net change	67	(8)	64	(16)
OTHER COMPREHENSIVE INCOME (LOSS)	67	(8)	64	(16)
COMPREHENSIVE INCOME	7,937	6,781	19,980	16,673
Less: comprehensive income attributable to non-controlling interest	2,893	3,020	7,792	8,157
COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAKE SHACK INC.	\$ 5,044	\$ 3,761	\$ 12,188	\$ 8,516

(1) Net of tax benefit (expense) of \$0 for the thirteen and thirty-nine weeks ended September 27, 2017 and September 28, 2016.

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(in thousands, except share amounts)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non- Controlling Interest	Total Equity
	Shares	Amount	Shares	Amount					
BALANCE, DECEMBER 28, 2016	25,151,384	\$ 25	11,253,592	\$ 11	\$ 135,448	\$ 16,719	\$ (15)	\$ 49,165	\$201,353
Net income						12,143		7,773	19,916
Other comprehensive income:									
Net unrealized gains related to available-for-sale securities							45	19	64
Equity-based compensation					3,909				3,909
Activity under stock compensation plans	323,927	1			3,580			2,670	6,251
Redemption of LLC Interests	685,800	—	(685,800)	—	2,883			(2,883)	—
Establishment of liabilities under tax receivable agreement and related changes to deferred tax assets associated with increases in tax basis					2,070				2,070
Distributions paid to non-controlling interest holders								(1,785)	(1,785)
BALANCE, SEPTEMBER 27, 2017	26,161,111	\$ 26	10,567,792	\$ 11	\$ 147,890	\$ 28,862	\$ 30	\$ 54,959	\$231,778

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Thirty-Nine Weeks Ended	
	September 27 2017	September 28 2016
OPERATING ACTIVITIES		
Net income (including amounts attributable to non-controlling interests)	\$ 19,916	\$ 16,689
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	15,610	10,229
Equity-based compensation	3,823	3,817
Deferred income taxes	3,056	121
Non-cash interest expense	245	211
Excess tax benefits on equity-based compensation	—	(35)
Loss on sale of marketable securities	27	3
Loss on disposal of property and equipment	317	—
Changes in operating assets and liabilities:		
Accounts receivable	5,628	1,365
Inventories	(321)	(285)
Prepaid expenses and other current assets	1,844	196
Other assets	(516)	(768)
Accounts payable	536	(53)
Accrued expenses	4,455	4,503
Accrued wages and related liabilities	(957)	(493)
Other current liabilities	(1,544)	1,448
Deferred rent	702	3,863
Other long-term liabilities	1,150	(289)
NET CASH PROVIDED BY OPERATING ACTIVITIES	53,971	40,522
INVESTING ACTIVITIES		
Purchases of property and equipment	(41,179)	(39,268)
Purchases of marketable securities	(6,675)	(60,566)
Sales of marketable securities	6,399	498
NET CASH USED IN INVESTING ACTIVITIES	(41,455)	(99,336)
FINANCING ACTIVITIES		
Payments on promissory note	—	(313)
Proceeds from deemed landlord financing	530	—
Payments on deemed landlord financing	(154)	—
Distributions paid to non-controlling interest holders	(2,392)	(1,602)
Payments under tax receivable agreement	(1,471)	—
Proceeds from stock option exercises	6,567	2,072
Employee withholding taxes related to net settled equity awards	(316)	—
Excess tax benefits from equity-based compensation	—	35
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,764	192
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,280	(58,622)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11,607	70,849
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 26,887	\$ 12,227

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)

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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"). On February 4, 2015, we completed an initial public offering ("IPO") of 5,750,000 shares of our Class A common stock at a public offering price of \$21.00 per share. We used the net proceeds from the IPO to purchase newly-issued membership interests from SSE Holdings ("LLC Interests"). Following the organizational transactions completed in connection with the IPO, we became the sole managing member of SSE Holdings. As sole managing member, we operate and control all of the business and affairs 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. As of September 27, 2017 we owned 71.2% of SSE Holdings. Unless the context otherwise requires, "we," "us," "our," "Shake Shack," the "Company" and other similar references, refer to Shake Shack Inc. and, unless otherwise stated, all of its subsidiaries, including SSE Holdings.

We operate and license Shake Shack restaurants ("Shacks"), which serve hamburgers, chicken sandwiches, hot dogs, crinkle-cut fries, shakes, frozen custard, beer, wine and more. As of September 27, 2017, there were 143 Shacks in operation, system-wide, of which 79 were domestic company-operated Shacks, 10 were domestic licensed Shacks and 54 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 28, 2016, as amended ("2016 Form 10-K"). In our opinion, all adjustments, which are normal and recurring in nature, necessary for a fair presentation of our financial position and results of operation have been included. Certain reclassifications have been made to prior period amounts to conform to the current year presentation. Operating results for interim periods are not necessarily indicative of the results that may be expected for a full fiscal year.

The accompanying Condensed Consolidated Balance Sheet as of December 28, 2016 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 2016 Form 10-K.

SSE Holdings is considered a VIE. 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 September 27, 2017 and December 28, 2016, the net assets of SSE Holdings were \$189,581 and \$158,845, respectively. The assets of SSE Holdings are subject to certain restrictions in SSE Holdings' revolving credit agreements. See Note 7 for more information.

Fiscal Year

We operate on a 52/53 week fiscal year ending on the last Wednesday in December. Fiscal 2017 contains 52 weeks and ends on December 27, 2017 . Fiscal 2016 contained 52 weeks and ended on December 28, 2016 . 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 2017. The effects of adoption did not have a material impact on our consolidated financial statements.

Accounting Standards Update (“ASU”)	Description	Date Adopted
Improvements to Employee Share-Based Payment Accounting (ASU 2016-09)	This standard simplifies certain aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, certain classifications on the statement of cash flows, and an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur. Upon adoption, we made such policy election. The adoption methodology applied varied based on each applicable provision of the standard, and none of the provisions had a material impact on our consolidated financial statements.	December 29, 2016
Simplifying the Measurement of Inventory (ASU 2015-11)	This standard applies to inventory measured using methods other than last-in, first-out (LIFO) or the retail method, and requires entities to measure such inventory at the lower of cost or net realizable value. It was applied prospectively.	December 29, 2016

Recently Issued Accounting Pronouncements

Accounting Standards Update (“ASU”)	Description	Expected Impact	Effective Date
Statement of Cash Flows: Classification of Certain Cash Receipts and Payments (ASU 2016-15)	This standard provides guidance on eight specific cash flow issues with the objective of reducing diversity in practice. It should be applied retrospectively to each period presented, subject to certain conditions.	We are currently evaluating the impact this standard will have on our consolidated financial statements.	December 28, 2017

Accounting Standards Update (“ASU”)	Description	Expected Impact	Effective Date
Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01)	For public business entities, this standard requires: (i) certain equity investments to be measured at fair value with changes in fair value recognized in net income; (ii) a qualitative assessment to identify impairment of equity investments without readily determinable fair values; (iii) elimination of the requirement to disclose the method(s) and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet; (iv) use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (v) separate presentation in other comprehensive income of the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (vi) separate presentation of financial assets and liabilities by measurement category and form of financial asset in the financial statements; and (vii) an entity to evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. The standard should be applied by means of a cumulative-effect adjustment to the balance sheet at the beginning of the fiscal year of adoption. Early adoption is permitted, subject to certain conditions resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value.	We are currently evaluating the impact this standard will have on our consolidated financial statements.	December 28, 2017
Accounting Standards Update (“ASU”)	Description	Expected Impact	Effective Date
Revenue from Contracts with Customers and related standards (ASU’s 2014-09, 2015-14, 2016-08, 2016-10, 2016-12, 2016-20)	This standard supersedes the existing revenue recognition guidance and provides a new framework for recognizing revenue. The core principle of the standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The new standard also requires significantly more comprehensive disclosures than the existing standard. Guidance subsequent to ASU 2014-09 has been issued to clarify various provisions in the standard, including principal versus agent considerations, identifying performance obligations, licensing transactions, as well as various technical corrections and improvements. This standard may be adopted using either a retrospective or modified retrospective method. Early adoption is permitted.	<p>We are currently in the process of evaluating the impact this standard is expected to have on our consolidated financial statements.</p> <p>Based on our preliminary assessment, we believe that the pattern and timing of revenue recognition related to the fixed fees associated with our licensing agreements (such as restaurant opening and territory fees) will differ from current policy. Currently, restaurant opening fees are recorded as deferred revenue when received and proportionate amounts are recognized as revenue when a licensed Shack is opened and all material services and conditions related to the fee have been substantially performed. Territory fees are recorded as deferred revenue when received and recognized as revenue on a straight-line basis over the term of the license agreement, which generally begins upon execution of the contract. Under the new standard, we will likely identify the licenses granted to each restaurant under each licensing agreement as separate performance obligations. Accordingly, we would allocate the opening and territory fees to each restaurant and recognize such fees as revenue on a straight-line basis over the individual restaurants’ license terms, which generally begin when the restaurant opens. We do not expect the accounting for the sales-based royalties of our licensing agreements to change from current policy.</p> <p>We are still in the process of assessing whether any sales promotions or discounts we currently offer related to our Shack sales could be considered separate performance obligations.</p> <p>We plan to adopt the standard on December 28, 2017, and we have not yet selected a transition method.</p>	December 28, 2017
Leases	This standard establishes a new lease accounting model, which	We are currently evaluating the impact this standard	December 27,

(ASU 2016-02)

introduces the recognition of lease assets and liabilities for those leases classified as operating leases under previous GAAP. It should be applied using a modified retrospective approach, with the option to elect various practical expedients. Early adoption is permitted. will have on our consolidated financial statements. 2018

NOTE 3 : 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 September 27, 2017 and December 28, 2016 , 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 September 27, 2017 and December 28, 2016 :

	September 27, 2017							
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities		
Cash	\$ 21,862	\$ —	\$ —	\$ 21,862	\$ 21,862	\$ —		
Level 1:								
Money market funds	5,025	—	—	5,025	5,025	—		
Mutual funds	60,769	60	—	60,829	—	60,829		
Level 2:								
Corporate debt securities ⁽¹⁾	2,493	2	(25)	2,470	—	2,470		
Total	\$ 90,149	\$ 62	\$ (25)	\$ 90,186	\$ 26,887	\$ 63,299		

	December 28, 2016							
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities		
Cash	\$ 6,322	\$ —	\$ —	\$ 6,322	\$ 6,322	\$ —		
Level 1:								
Money market funds	5,285	—	—	5,285	5,285	—		
Mutual funds	60,232	—	—	60,232	—	60,232		
Level 2:								
Corporate debt securities ⁽¹⁾	2,473	3	(30)	2,446	—	2,446		
Total	\$ 74,312	\$ 3	\$ (30)	\$ 74,285	\$ 11,607	\$ 62,678		

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

Net unrealized gains on available-for-sale securities totaling \$37 and net unrealized losses on available-for-sale securities totaling \$27 were included in accumulated other comprehensive income (loss) on the Condensed Consolidated Balance Sheet as of September 27, 2017 and December 28, 2016 , respectively.

The following tables summarize the gross unrealized losses and fair values for those investments that were in an unrealized loss position as of September 27, 2017 and December 28, 2016, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	September 27, 2017					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Money market funds	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Mutual funds	—	—	—	—	—	—
Corporate debt securities	1,638	(9)	322	(16)	1,960	(25)
Total	\$ 1,638	\$ (9)	\$ 322	\$ (16)	\$ 1,960	\$ (25)

	December 28, 2016					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Money market funds	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Mutual funds	—	—	—	—	—	—
Corporate debt securities	1,244	(10)	540	(20)	1,784	(30)
Total	\$ 1,244	\$ (10)	\$ 540	\$ (20)	\$ 1,784	\$ (30)

A summary of other income from available-for-sale securities recognized during the thirteen and thirty-nine weeks ended September 27, 2017 and September 28, 2016 is as follows:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27	September 28	September 27	September 28
	2017	2016	2017	2016
Available-for-sale securities:				
Dividend income	\$ 222	\$ 133	\$ 591	\$ 133
Interest income	19	22	58	68
Loss on investments	(12)	(4)	(27)	(4)
Total other income, net	\$ 229	\$ 151	\$ 622	\$ 197

A summary of available-for-sale securities sold and gross realized gains and losses recognized during the thirteen and thirty-nine weeks ended September 27, 2017 and September 28, 2016 is as follows:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27	September 28	September 27	September 28
	2017	2016	2017	2016
Available-for-sale securities:				
Gross proceeds from sales and redemptions	\$ 584	\$ 176	\$ 1,212	\$ 498
Cost basis of sales and redemptions	597	180	1,239	502
Gross realized gains included in net income	1	—	1	1
Gross realized losses included in net income	(13)	(4)	(28)	(5)
Amounts reclassified out of accumulated other comprehensive loss	14	3	28	3

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 .

The estimated fair value of our investments in corporate debt securities that are accounted for as available-for-sale securities are all due within one year and are included within marketable securities on the Condensed Consolidated Balance Sheets.

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. For our debt securities, we also consider whether (i) it is more likely than not that we will be required to sell the debt securities before recovery of their amortized cost basis, and (ii) the amortized cost basis cannot be recovered as a result of credit losses. As of September 27, 2017 and December 28, 2016 , the declines in the market value of our marketable securities investment portfolio were considered to be temporary in nature.

Other Financial Instruments

The carrying value of our other financial instruments, including accounts receivable, accounts payable, and accrued expenses as of September 27, 2017 and December 28, 2016 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 thirty-nine weeks ended September 27, 2017 and September 28, 2016 .

NOTE 4 : INVENTORIES

Inventories as of September 27, 2017 and December 28, 2016 consisted of the following:

	September 27 2017	December 28 2016
Food	\$ 774	\$ 543
Wine	55	47
Beer	75	58
Beverages	102	79
Retail merchandise	121	79
Inventories	\$ 1,127	\$ 806

NOTE 5 : PROPERTY AND EQUIPMENT

Property and equipment as of September 27, 2017 and December 28, 2016 consisted of the following:

	September 27 2017	December 28 2016
Leasehold improvements	\$ 146,939	\$ 120,629
Landlord funded assets	6,555	—
Equipment	28,139	23,194
Furniture and fixtures	9,082	7,342
Computer equipment and software	10,966	8,710
Construction in progress (includes assets under construction from deemed landlord financing)	25,608	13,510
Property and equipment, gross	227,289	173,385
Less: accumulated depreciation	52,600	37,121
Property and equipment, net	\$ 174,689	\$ 136,264

NOTE 6 : SUPPLEMENTAL BALANCE SHEET INFORMATION

The components of other current liabilities as of September 27, 2017 and December 28, 2016 are as follows:

	September 27 2017	December 28 2016
Sales tax payable	\$ 1,539	\$ 1,324
Current portion of liabilities under tax receivable agreement	3,140	4,580
Gift card liability	1,003	1,153
Deferred compensation	2,400	—
Other	1,735	3,116
Other current liabilities	\$ 9,817	\$ 10,173

NOTE 7 : DEBT

In January 2015, we executed a Third Amended and Restated Credit Agreement, which became effective on February 4, 2015 (together with the prior agreements and amendments, and as further amended, the "Revolving Credit Facility"), which provides for a revolving total commitment amount of \$50,000, of which \$20,000 is available immediately. The Revolving Credit Facility will mature and all amounts outstanding will be due and payable five years from the effective date. The Revolving Credit Facility permits the issuance of letters of credit upon our request of up to \$10,000. Borrowings under the Revolving Credit Facility bear interest at either: (i) LIBOR plus a percentage ranging from 2.3% to 3.3% or (ii) the prime rate plus a percentage ranging from 0.0% to 0.8%, depending on the type of borrowing made under the Revolving Credit Facility. As of September 27, 2017 and December 28, 2016, there were no amounts outstanding under the Revolving Credit Facility. As of September 27, 2017, we had \$19,317 of availability under the Revolving Credit Facility, after giving effect to \$683 in outstanding letters of credit.

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

The Revolving Credit Facility contains a number of covenants that, among other things, limit our ability to, subject to specified exceptions, incur additional debt; incur additional liens and contingent liabilities; sell or dispose of assets; merge with or acquire other companies; liquidate or dissolve ourselves; pay dividends or make distributions; engage in businesses that are not in a related line of business; make loans, advances or guarantees; engage in transactions with affiliates; and make investments. In addition, the Revolving Credit Facility contains certain cross-default provisions. We are required to maintain a specified consolidated fixed-charge coverage ratio and a specified funded net debt to adjusted EBITDA ratio, both as defined under the Revolving Credit Facility. As of September 27, 2017, we were in compliance with all covenants.

As of September 27, 2017 and December 28, 2016 we had deemed landlord financing liabilities of \$13,162 and \$2,007, respectively, for certain leases where we are involved in the construction of leased assets and are considered the accounting owner of the construction project.

Total interest costs incurred were \$527 and \$1,260 for the thirteen and thirty-nine weeks ended September 27, 2017, respectively, and \$89 and \$267 for the thirteen and thirty-nine weeks ended September 28, 2016, respectively. Total amounts capitalized into property and equipment were \$51 and \$115 for the thirteen and thirty-nine weeks ended September 27, 2017, respectively. No amounts were capitalized for the thirteen and thirty-nine weeks ended September 28, 2016.

NOTE 8 : 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 September 27, 2017 and December 28, 2016.

	September 27, 2017		December 28, 2016	
	LLC Interests	Ownership%	LLC Interests	Ownership %
Number of LLC Interests held by Shake Shack Inc.	26,161,111	71.2%	25,151,384	69.1%
Number of LLC Interests held by non-controlling interest holders	10,567,792	28.8%	11,253,592	30.9%
Total LLC Interests outstanding	36,728,903	100.0%	36,404,976	100.0%

The weighted average ownership percentages for the applicable reporting periods are used to attribute net income and other comprehensive income (loss) to Shake Shack Inc. and the non-controlling interest holders. The non-controlling interest holders' weighted average ownership percentage for the thirteen and thirty-nine weeks ended September 27, 2017 was 29.1% and 29.7%, respectively. The non-controlling interest holders' weighted average ownership percentage for the thirteen and thirty-nine weeks ended September 28, 2016 was 33.9% and 38.5%, respectively.

The following table summarizes the effects of changes in ownership of SSE Holdings on our equity during the thirteen and thirty-nine weeks ended September 27, 2017 and September 28, 2016 .

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27 2017	September 28 2016	September 27 2017	September 28 2016
Net income attributable to Shake Shack Inc.	\$ 4,997	\$ 3,766	\$ 12,143	\$ 8,526
Other comprehensive income (loss):				
Unrealized holding gains (losses) on available-for-sale securities	47	(5)	45	(10)
Transfers (to) from non-controlling interests:				
Increase in additional paid-in capital as a result of the redemption of LLC Interests	841	4,708	2,883	15,086
Increase in additional paid-in capital as a result of activity under stock compensation plans	78	17	3,580	421
Total effect of changes in ownership interest on equity attributable to Shake Shack Inc.	\$ 5,963	\$ 8,486	\$ 18,651	\$ 24,023

During the thirty-nine weeks ended September 27, 2017 and September 28, 2016 , an aggregate of 685,800 and 4,706,663 LLC Interests, respectively, were redeemed by non-controlling interest holders for newly-issued shares of Class A common stock, and we received 685,800 and 4,706,663 LLC Interests in connection with these redemptions for the thirty-nine weeks ended September 27, 2017 and September 28, 2016 , respectively, increasing our total ownership interest in SSE Holdings.

During the thirty-nine weeks ended September 27, 2017 and September 28, 2016 , we received an aggregate of 323,927 and 101,837 LLC Interests, respectively, in connection with the activity under our stock compensation plan.

NOTE 9 : EQUITY-BASED COMPENSATION

A summary of equity-based compensation expense recognized during the thirteen and thirty-nine weeks ended September 27, 2017 and September 28, 2016 is as follows:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27 2017	September 28 2016	September 27 2017	September 28 2016
Stock options	\$ 816	\$ 1,085	\$ 2,643	\$ 3,168
Performance stock units	345	492	1,029	649
Restricted stock units	128	—	151	—
Equity-based compensation expense	\$ 1,289	\$ 1,577	\$ 3,823	\$ 3,817
Total income tax benefit recognized related to equity-based compensation	\$ 47	\$ 53	\$ 142	\$ 117

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

NOTE 10 : 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				Thirty-Nine Weeks Ended			
	September 27 2017		September 28 2016		September 27 2017		September 28 2016	
Expected U.S. federal income taxes at statutory rate	\$ 3,627	35.0 %	\$ 3,139	34.0 %	\$ 9,609	35.0 %	\$ 7,734	34.0 %
State and local income taxes, net of federal benefit	630	6.1 %	533	5.8 %	1,638	6.0 %	1,277	5.6 %
Foreign withholding taxes	292	2.8 %	148	1.6 %	705	2.6 %	505	2.2 %
Tax credits	(399)	(3.8)%	(243)	(2.6)%	(777)	(2.8)%	(369)	(1.6)%
Non-controlling interest	(1,132)	(10.9)%	(1,134)	(12.3)%	(3,114)	(11.3)%	(3,089)	(13.6)%
Other	(524)	(5.1)%	—	— %	(524)	(2.0)%	—	— %
Income tax expense	\$ 2,494	24.1 %	\$ 2,443	26.5 %	\$ 7,537	27.5 %	\$ 6,058	26.6 %

Our effective income tax rates for the thirteen weeks ended September 27, 2017 and September 28, 2016 were 24.1% and 26.5% , respectively. The decrease was driven by a benefit related to an adjustment recognized in connection with the filing of our prior year tax returns and higher tax credits, which were partially offset by the increase in our ownership interest in SSE Holdings, which increases our share of the taxable income of SSE Holdings, and higher foreign withholding taxes. Our weighted-average ownership interest in SSE Holdings was 70.9% and 66.1% for the thirteen weeks ended September 27, 2017 and September 28, 2016 , respectively.

Our effective income tax rates for the thirty-nine weeks ended September 27, 2017 and September 28, 2016 were 27.5% and 26.6% , respectively. The increase in our effective income tax rate for the period is primarily due to 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 was 70.3% and 61.5% for the thirty-nine weeks ended September 27, 2017 and September 28, 2016 , respectively. This increase in ownership interest was partially offset by a benefit related to an adjustment recognized in connection with the filing of our prior year tax returns and higher tax credits.

Deferred Tax Assets and Liabilities

During the thirty-nine weeks ended September 27, 2017 , we acquired an aggregate of 1,009,727 LLC Interests in connection with the redemption of LLC Interests and activity relating to our stock compensation plan. We recognized a deferred tax asset in the amount of \$9,883 associated with the basis difference in our investment in SSE Holdings upon acquisition of these LLC Interests. As of September 27, 2017 , the total deferred tax asset related to the basis difference in our investment in SSE Holdings was \$216,285 . 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 September 27, 2017 , the total valuation allowance established against the deferred tax asset to which this portion relates was \$15,679 .

During the thirty-nine weeks ended September 27, 2017, we also recognized \$5,216 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 September 27, 2017, 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 September 27, 2017. Shake Shack Inc. was formed in September 2014 and did not engage in any operations prior to the IPO and related organizational transactions. Shake Shack Inc. first filed tax returns for tax year 2014, which is the first tax year subject to examination by taxing authorities for U.S. federal and state income tax purposes. Additionally, although SSE Holdings is treated as a partnership for U.S. federal and state income taxes purposes, it is still required to file an annual U.S. Return of Partnership Income, which is subject to examination by the Internal Revenue Service ("IRS"). The statute of limitations has expired for tax years through 2013 for SSE Holdings.

Tax Receivable Agreement

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

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

During the thirty-nine weeks ended September 27, 2017, we acquired an aggregate of 685,800 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 \$12,918 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 thirty-nine weeks ended September 27, 2017, payments of \$1,471, inclusive of interest, were made to the members of SSE Holdings pursuant to the Tax Receivable Agreement. No amounts were paid to the members during the thirty-nine weeks ended September 28, 2016. As of September 27, 2017, the total amount of TRA Payments due under the Tax Receivable Agreement, was \$283,961, of which \$3,140 was included in other current liabilities on the Condensed Consolidated Balance Sheet. See Note 13 for more information relating to our liabilities under the Tax Receivable Agreement.

NOTE 11 : EARNINGS PER SHARE

Basic earnings per share of Class A common stock is computed by dividing net income available 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 available 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 thirty-nine weeks ended September 27, 2017 and September 28, 2016 .

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27 2017	September 28 2016	September 27 2017	September 28 2016
Numerator:				
Net income	\$ 7,870	\$ 6,789	\$ 19,916	\$ 16,689
Less: net income attributable to non-controlling interests	2,873	3,023	7,773	8,163
Net income attributable to Shake Shack Inc.	\$ 4,997	\$ 3,766	\$ 12,143	\$ 8,526
Denominator:				
Weighted-average shares of Class A common stock outstanding—basic	26,024	24,023	25,733	22,310
Effect of dilutive securities:				
Stock options	411	531	486	495
Performance stock units	26	—	24	—
Restricted stock units	16	—	5	—
Weighted-average shares of Class A common stock outstanding—diluted	26,477	24,554	26,248	22,805
Earnings per share of Class A common stock—basic	\$ 0.19	\$ 0.16	\$ 0.47	\$ 0.38
Earnings per share of Class A common stock—diluted	\$ 0.19	\$ 0.15	\$ 0.46	\$ 0.37

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 excluded from the computations of diluted earnings per share of Class A common stock for the thirteen and thirty-nine weeks ended September 27, 2017 and September 28, 2016 .

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27 2017	September 28 2016	September 27 2017	September 28 2016
Stock options ⁽¹⁾	18,676 (2)	—	18,676 (2)	—
Performance stock units ⁽¹⁾	86,396 (3)	62,800 (3)	86,396 (3)	62,800 (3)
Shares of Class B common stock	10,567,792 (4)	11,754,078 (4)	10,567,792 (4)	11,754,078 (4)

- (1) Represents the number of instruments outstanding at the end of the period. Application of the treasury stock method would reduce this amount if they had a dilutive effect and were included in the computation of diluted earnings per share.
- (2) Excluded from the computation of diluted earnings per share of Class A common stock because the exercise price of the stock options exceeded the average market price of our Class A common stock during the period ("out-of-the-money").
- (3) 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.
- (4) Shares of our Class B common stock are considered potentially dilutive shares of Class A common stock. Amounts have been excluded from the computations of diluted earnings per share of Class A common stock because the effect would have been anti-dilutive under the if-converted and two-class methods.

NOTE 12 : SUPPLEMENTAL CASH FLOW INFORMATION

The following table sets forth supplemental cash flow information for the thirty-nine weeks ended September 27, 2017 and September 28, 2016 :

	Thirty-Nine Weeks Ended	
	September 27 2017	September 28 2016
Cash paid for:		
Income taxes, net of refunds	\$ 1,936	\$ 1,292
Interest, net of amounts capitalized	684	40
Non-cash investing activities:		
Accrued purchases of property and equipment	10,138	5,792
Capitalized landlord assets for leases where we are deemed the accounting owner	9,095	—
Accrued purchases of marketable securities	307	51
Capitalized equity-based compensation	86	107
Non-cash financing activities:		
Class A common stock issued in connection with the redemption of LLC Interests	—	5
Cancellation of Class B common stock in connection with the redemption of LLC Interests	—	(5)
Establishment of liabilities under tax receivable agreement	12,918	90,776
Accrued distributions payable to non-controlling interest holders	—	607

NOTE 13 : COMMITMENTS AND CONTINGENCIES

Lease Commitments

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

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

Purchase Commitments

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

Legal Contingencies

In November 2015, we participated in a voluntary mediation with counsel representing two former Shake Shack managers, who alleged that we improperly classified our restaurant managers as exempt from overtime protections. At the conclusion of the mediation, the parties mutually agreed to fully and finally resolve the matter by settling, rather than litigating. In connection with the settlement, the parties entered into a memorandum of understanding, pursuant to which we agreed to create a settlement fund in the amount of \$750 and, in exchange for their participation in the settlement fund, all participating employees (current and former) were required to release Shake Shack from all federal and/or state wage and hour claims that may have existed through the settlement date. In March 2016, the parties entered into a settlement agreement in the amount of \$750. In May 2017, we paid to the claims administrator \$774 in full satisfaction of the amounts owed by us under the settlement agreement and related expenses.

We are subject to various legal and regulatory proceedings, claims and liabilities, such as employment-related claims and slip and fall cases, which arise in the ordinary course of business and are generally covered by insurance. As of September 27, 2017, the amount of ultimate liability with respect to these matters was not material.

Liabilities under Tax Receivable Agreement

As described in Note 10, 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 thirty-nine weeks ended September 27, 2017 and September 28, 2016, we recognized liabilities totaling \$12,918 and \$90,776, 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 September 27, 2017 and December 28, 2016, our total obligations under the Tax Receivable Agreement, including accrued interest, were \$283,961 and \$272,482, 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 14 : 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 provides reduced management services to SSE Holdings comprised of executive leadership from members of its senior management, advisory and development services and limited leadership development and human resources services. The initial term of the Amended and Restated Management Services Agreement is through December 31, 2019, with renewal periods.

No amounts were paid to USHG for general corporate expenses during the thirteen weeks ended September 27, 2017 and \$1 was paid to USHG during the thirteen weeks ended September 28, 2016 . Total amounts paid to USHG for general corporate expenses during the thirty-nine weeks ended September 27, 2017 and September 28, 2016 were \$6 and \$7 , respectively. These amounts are included in general and administrative expenses on the Condensed Consolidated Statements of Income .

No amounts were payable to USHG as of September 27, 2017 . Total amounts payable to USHG as of December 28, 2016 were \$1 , which is included in other current liabilities on the Condensed Consolidated Balance Sheets. No amounts were due from USHG as of September 27, 2017 and December 28, 2016 .

Daily Provisions

In May 2017 we began purchasing coffee cake from the restaurant Daily Provisions to offer as a breakfast item at our Madison Square Park Shack. Amounts paid to Daily Provisions during the thirteen and thirty-nine weeks ended September 27, 2017 were \$4 . No amounts were paid to Daily Provisions during the thirteen and thirty-nine weeks ended September 28, 2016 . Total amounts payable to Daily Provisions as of September 27, 2017 were \$1 , which are included in accounts payable on the Condensed Consolidated Balance Sheets. No amounts were payable to Daily provisions as of December 28, 2016 .

Hudson Yards Sports and Entertainment

In fiscal 2011, we entered into a Master License Agreement (as amended, "MLA") with Hudson Yards Sports and Entertainment LLC ("HYSE") to operate Shake Shack branded limited menu concession stands in sports and entertainment venues within the United States. The agreement expires in January 2027 and includes five consecutive five -year renewal options at HYSE's option. As consideration for these rights, HYSE pays us a license fee based on a percentage of net food sales, as defined in the MLA. HYSE also pays us a percentage of profits on sales of branded beverages, as defined in the MLA. Amounts paid to us by HYSE for the thirteen and thirty-nine weeks ended September 27, 2017 were \$193 and \$328 , respectively. For the thirteen and thirty-nine weeks ended September 28, 2016 amounts paid to us by HYSE were \$174 and \$277 , respectively. These amounts are included in licensing revenue on the Condensed Consolidated Statements of Income . Total amounts due from HYSE as of September 27, 2017 and December 28, 2016 were \$75 and \$11 , which are included in prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets .

Madison Square Park Conservancy

The Chairman of our Board of Directors serves as a director of the Madison Square Park Conservancy ("MSP Conservancy"), with which we have a license agreement and pay license fees to operate our Madison Square Park Shack. Amounts paid to Madison Square Park Conservancy as rent amounted to \$199 and \$531 for the thirteen and thirty-nine weeks ended September 27, 2017 , respectively. Amounts paid to Madison Square Park Conservancy as rent amounted to \$195 and \$585 for the thirteen and thirty-nine weeks ended September 28, 2016 , respectively. These amounts are included in occupancy and related expenses on the Condensed Consolidated Statements of Income . No amounts were due to MSP Conservancy as of September 27, 2017 . Total amounts due to MSP Conservancy were \$1 as of December 28, 2016 . These amounts are included in accrued expenses on the Condensed Consolidated Balance Sheets.

Additionally, we received tenant improvement allowances from MSP Conservancy related to a reconstruction project which ended in 2015. No amounts were paid to us from MSP Conservancy during the thirteen weeks ended September 27, 2017 . During the

thirty-nine weeks ended September 27, 2017 amounts paid to us from MSP Conservancy totaled \$200 . No amounts were paid to us during the thirteen and thirty-nine weeks ended September 28, 2016 . No amounts were due to us from MSP Conservancy as of September 27, 2017 . Total amounts due from MSP Conservancy as of December 28, 2016 were \$200 , which are included in accounts receivable on the Condensed Consolidated Balance Sheets.

Share Our Strength

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

During the thirty-nine weeks ended September 27, 2017 and September 28, 2016 the Great American Shake Sale raised \$631 and \$587 , respectively, for Share Our Strength. No amounts were raised for both the thirteen weeks ended September 27, 2017 and September 28, 2016 . All proceeds were remitted to Share Our Strength in the respective years. We incurred costs of approximately \$29 and \$148 for the thirteen and thirty-nine weeks ended September 27, 2017 , respectively, and \$17 and \$115 for the thirteen and thirty-nine weeks ended September 28, 2016 , respectively, which represent the cost of the free shakes redeemed. These costs are included in general and administrative expenses on the Condensed Consolidated Statements of Income.

Mobo Systems, Inc.

The Chairman of our Board of Directors serves as a director of Mobo Systems, Inc. (also known as "Olo"), a platform we use in connection with our mobile ordering application. Amounts paid to Olo during the thirteen and thirty-nine weeks ended September 27, 2017 were \$19 and \$57 , respectively, which are included in other operating expenses on the Condensed Consolidated Statements of Income . No amounts were paid to Olo for the thirteen and thirty-nine weeks ended September 28, 2016 . No amounts were payable to Olo as of September 27, 2017 and December 28, 2016 .

Square, Inc.

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

Tax Receivable Agreement

As described in Note 10 , we entered into a tax receivable agreement with certain members of SSE Holdings that provides for the payment by us of 85% of the amount of tax benefits, if any, that Shake Shack actually realizes or in some cases is deemed to realize as a result of certain transactions. No payments were made to the members of SSE Holdings pursuant to the Tax Receivable Agreement during the thirteen weeks ended September 27, 2017 . During the thirty-nine weeks ended September 27, 2017 , payments of \$1,471 , inclusive of interest, were made to the members. No amounts were paid to the members during the thirteen and thirty-nine weeks ended September 28, 2016 . As of September 27, 2017 and December 28, 2016 , total amounts due under the Tax Receivable Agreement were \$283,961 and \$272,482 , respectively.

Distributions to Members of SSE Holdings

Under the terms of the SSE Holdings LLC Agreement, SSE Holdings is obligated to make tax distributions to its members . During the thirteen and thirty-nine weeks ended September 27, 2017 distributions paid to non-controlling interest holders were \$13 and \$2,392 , respectively. No distributions were paid to non-controlling interest holders for the thirteen weeks ended September 28, 2016 . For the thirty-nine weeks ended September 28, 2016 tax distributions of \$1,602 were paid to non-controlling interest holders. No tax distributions were payable to non-controlling interest holders as of September 27, 2017 . As of December 28, 2016 tax distributions of \$607 were payable to non-controlling interest holders.

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 2017, 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. All forward-looking statements are expressly qualified in their entirety by these cautionary statements, except that the safe harbor provisions of the PSLRA do not apply to any forward-looking statements relating to the operations of any of our partnerships or limited liability companies. Forward-looking statements are not guarantees of future performance and actual results may differ materially from the results discussed in the forward-looking 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 28, 2016, as amended, ("2016 Form 10-K"), subsequent Quarterly Reports on Form 10-Q and Part II, Item 1A of this Form 10-Q. The following discussion should be read in conjunction with our 2016 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 September 27, 2017, there were 143 Shacks in operation, system-wide, of which 79 were domestic company-operated Shacks, 10 were domestic licensed Shacks and 54 were international licensed Shacks.

Development Highlights

During the quarter, we opened four domestic company-operated Shacks, including our first Shack in San Antonio, Texas, as well as additional Shacks in Nevada, New Jersey and New York City. Additionally, we opened a domestic licensed Shack at M&T Bank Stadium in Baltimore and four international licensed Shacks, which is comprised of the fourth Shack in Japan in the Shinjuku area and a fifth Shack in South Korea, as well as additional Shacks in Turkey and the Middle East. Also during the quarter, we announced plans to enter Hong Kong, Macau and Shanghai, through a new partnership with Maxim's Caterers Limited.

Financial Highlights for the Third Quarter 2017 :

- Total revenue increased 26.9% to \$94.6 million .
- Shack sales increased 26.8% to \$91.1 million .
- Same-Shack sales decreased 1.6% .
- Operating income increased 15.7% to \$10.6 million , or 11.2% of total revenue.
- Shack-level operating profit*, a non-GAAP measure, increased 19.9% to \$24.8 million , or 27.2% of Shack sales.
- Net income increased 15.9% to \$7.9 million and net income attributable to Shake Shack Inc. was \$5.0 million , or \$0.19 per diluted share.
- Adjusted EBITDA*, a non-GAAP measure, increased 19.9% to \$18.2 million .
- Adjusted pro forma net income *, a non-GAAP measure, increased 13.1% to \$6.2 million , or \$0.17 per fully exchanged and diluted share.
- Nine system-wide Shack openings, including four domestic company-operated Shacks and five 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 on our growth strategies in 2017 and the third quarter of 2017 was positively impacted by the incremental sales from the 21 new domestic company-operated Shacks opened between September 28, 2016 and September 27, 2017 and the approximate 1.5% menu price increase implemented in mid-December 2016, offset by (1) a decline in same-Shack sales of 1.6% ; (2) increased labor and related expenses resulting from increases in hourly wages that were implemented at the end of fiscal 2016 and investments in our management team to support future growth; and (3) the introduction of more Shacks of various volumes into the system.

Net income attributable to Shake Shack Inc. was \$5.0 million, or \$0.19 per diluted share, for the third quarter of 2017, compared to \$3.8 million, or \$0.15 per diluted share, for the same period last year. On an adjusted pro forma basis, which excludes certain non-recurring items and assumes that all outstanding LLC Interests were exchanged for shares of Class A common stock as of the beginning of the period, we would have recognized net income of \$6.2 million, or \$0.17 per fully exchanged and diluted share, for the third quarter of 2017 compared to \$5.5 million, or \$0.15 per fully exchanged and diluted share for the the third quarter of 2016, an increase of 13.1%.

FISCAL 2017 OUTLOOK

For the fiscal year ending December 27, 2017, we have revised our financial outlook to the following:

	Current Outlook	Previous Outlook
Total revenue	\$354 to \$355 million	\$351 to \$355 million
Same-Shack sales growth (%)	-1.5% to -2%	-2% to -3%
Domestic company-operated Shack openings	24 to 26	23 to 24
Licensed Shack openings	18, net	15, net
Shack-level operating profit margin	26.5% to 27.0%	26.5% to 27.5%
General and administrative expenses	\$38 to \$40 million	\$38 to \$40 million
Depreciation expense	\$22 million	\$22 million
Interest expense	\$1.6 to \$1.8 million	\$1.6 to \$2.0 million
Adjusted pro forma effective tax rate (%)	40% to 41%	40% to 41%

PRELIMINARY 2018 OUTLOOK

For the fiscal year ending December 26, 2018, we are providing the following preliminary financial outlook:

	Current Outlook
Domestic company-operated Shack openings	32 to 35
Licensed Shack openings	16 to 18, net

RESULTS OF OPERATIONS

The following table summarizes our results of operations for the thirteen and thirty-nine weeks ended September 27, 2017 and September 28, 2016 :

	Thirteen Weeks Ended				Thirty-Nine Weeks Ended			
	September 27 2017		September 28 2016		September 27 2017		September 28 2016	
<i>(dollar amounts in thousands)</i>								
Shack sales	\$ 91,100	96.3 %	\$ 71,871	96.4 %	\$ 253,258	96.4 %	\$ 188,430	96.5 %
Licensing revenue	3,509	3.7 %	2,696	3.6 %	9,416	3.6 %	6,774	3.5 %
TOTAL REVENUE	94,609	100.0 %	74,567	100.0 %	262,674	100.0 %	195,204	100.0 %
Shack-level operating expenses ⁽¹⁾ :								
Food and paper costs	25,760	28.3 %	20,393	28.4 %	71,646	28.3 %	53,529	28.4 %
Labor and related expenses	23,806	26.1 %	18,216	25.3 %	66,692	26.3 %	46,640	24.8 %
Other operating expenses	9,229	10.1 %	6,577	9.2 %	25,380	10.0 %	17,475	9.3 %
Occupancy and related expenses	7,522	8.3 %	6,009	8.4 %	20,741	8.2 %	15,541	8.2 %
General and administrative expenses	9,204	9.7 %	7,885	10.6 %	27,352	10.4 %	22,265	11.4 %
Depreciation expense	5,604	5.9 %	3,719	5.0 %	15,610	5.9 %	10,229	5.2 %
Pre-opening costs	2,670	2.8 %	2,598	3.5 %	6,961	2.7 %	6,708	3.4 %
Loss on disposal of property and equipment	204	0.2 %	—	— %	317	0.1 %	—	— %
TOTAL EXPENSES	83,999	88.8 %	65,397	87.7 %	234,699	89.3 %	172,387	88.3 %
OPERATING INCOME	10,610	11.2 %	9,170	12.3 %	27,975	10.7 %	22,817	11.7 %
Other income, net	229	0.2 %	151	0.2 %	622	0.2 %	197	0.1 %
Interest expense	(475)	(0.5)%	(89)	(0.1)%	(1,144)	(0.4)%	(267)	(0.1)%
INCOME BEFORE INCOME TAXES	10,364	11.0 %	9,232	12.4 %	27,453	10.5 %	22,747	11.7 %
Income tax expense	2,494	2.6 %	2,443	3.3 %	7,537	2.9 %	6,058	3.1 %
NET INCOME	7,870	8.3 %	6,789	9.1 %	19,916	7.6 %	16,689	8.5 %
Less: net income attributable to non-controlling interests	2,873	3.0 %	3,023	4.1 %	7,773	3.0 %	8,163	4.2 %
NET INCOME ATTRIBUTABLE TO SHAKE SHACK INC.	\$ 4,997	5.3 %	\$ 3,766	5.1 %	\$ 12,143	4.6 %	\$ 8,526	4.4 %

(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. Effective December 29th, 2016, we changed our methodology for calculating same-Shack sales whereby Shacks enter the comparable base at the beginning of their 25th full fiscal month, whereas previously they entered at the beginning of their 105th full fiscal week.

Shack sales were \$91.1 million for the thirteen weeks ended September 27, 2017 compared to \$71.9 million for the thirteen weeks ended September 28, 2016, an increase of \$19.2 million or 26.8%. The growth in Shack sales was primarily driven by the opening of 21 new domestic company-operated Shacks between September 28, 2016 and September 27, 2017, partially offset by lost revenue due to hurricane-related Shack closures, which we estimate to be approximately \$0.3 million. Same-Shack sales decreased \$0.9 million, or 1.6% during the thirteen weeks ended September 27, 2017, which excludes comparable period sales during hurricane-related closures. The decrease in same-Shack sales is due to a decrease in guest traffic of 3.8%, partially offset by a combined increase of 2.2% in price and sales mix. For purposes of calculating same-Shack sales growth, Shack sales for 39 Shacks were included in the comparable Shack base.

Shack sales were \$253.3 million for the thirty-nine weeks ended September 27, 2017 compared to \$188.4 million for the thirty-nine weeks ended September 28, 2016, an increase of \$64.9 million or 34.4%. The increase is primarily due to the opening of 21 new domestic company-operated Shacks between September 28, 2016 and September 27, 2017. Same-Shack sales decreased \$2.7 million, or 1.9%. The decrease in same-Shack sales is primarily due to decreased guest traffic of 3.8%, partially offset by a combined increase of 1.9% in price and sales mix. For purposes of calculating same-Shack sales growth, Shack sales for 39 Shacks were included in the comparable Shack base.

Licensing Revenue

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

Licensing revenue was \$3.5 million for the thirteen weeks ended September 27, 2017 compared to \$2.7 million for the thirteen weeks ended September 28, 2016, an increase of \$0.8 million or 30.2%. Licensing revenue was \$9.4 million for the thirty-nine weeks ended September 27, 2017 compared to \$6.8 million for the thirty-nine weeks ended September 28, 2016, an increase of \$2.6 million or 39.0%. The increase for the thirteen week period was primarily driven by 17 net new licensed Shacks opened between September 28, 2016 and September 27, 2017. The increase for the thirty-nine week period was primarily driven by 17 net new licensed Shacks opened between September 28, 2016 and September 27, 2017 as well as \$0.5 million of previously deferred royalty revenue recognized in connection with the initial publication of the *Shake Shack* book, partially offset by lower revenue from Shacks in the Middle East as a result of macroeconomic and geopolitical volatile conditions.

Food and Paper Costs

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

Food and paper costs were \$25.8 million for the thirteen weeks ended September 27, 2017 compared to \$20.4 million for the thirteen weeks ended September 28, 2016, an increase of \$5.4 million or 26.3%. Food and paper costs were \$71.6 million for the thirty-nine weeks ended September 27, 2017 compared to \$53.5 million for the thirty-nine weeks ended September 28, 2016, an increase of \$18.1 million or 33.8%. The increases for the thirteen and thirty-nine week periods were primarily due to the opening of 21 new domestic company-operated Shacks between September 28, 2016 and September 27, 2017.

As a percentage of Shack sales, food and paper costs decreased to 28.3% for the thirteen weeks ended and thirty-nine weeks ended September 27, 2017 from 28.4% for the thirteen weeks ended and thirty-nine weeks ended September 28, 2016. This decrease was primarily the result of menu price increases implemented in December 2016, partially offset by increased promotional activity and food waste associated with hurricane-related Shack closures.

Labor and Related Expenses

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

Labor and related expenses were \$23.8 million for the thirteen weeks ended September 27, 2017 compared to \$18.2 million for the thirteen weeks ended September 28, 2016, an increase of \$5.6 million or 30.7%. Labor and related expenses were \$66.7 million for the thirty-nine weeks ended September 27, 2017 compared to \$46.6 million for the thirty-nine weeks ended September 28, 2016, an increase of \$20.1 million or 43.0%. These increases for the thirteen and thirty-nine week periods were primarily due to the opening of 21 new domestic company-operated Shacks between September 28, 2016 and September 27, 2017.

As a percentage of Shack sales, labor and related expenses increased to 26.1% and 26.3% for the thirteen and thirty-nine weeks ended September 27, 2017, respectively, compared to 25.3% and 24.8% for the thirteen and thirty-nine weeks ended September 28, 2016, respectively. The increases for the thirteen and thirty-nine week periods were primarily due to increases in hourly wages that were implemented at the end of fiscal 2016, investments in our management team to support future growth and the opening of Shacks at various volumes.

Other Operating Expenses

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

Other operating expenses were \$9.2 million for the thirteen weeks ended September 27, 2017 compared to \$6.6 million for the thirteen weeks ended September 28, 2016, an increase of \$2.6 million or 40.3%. Other operating expenses were \$25.4 million for the thirty-nine weeks ended September 27, 2017 compared to \$17.5 million for the thirty-nine weeks ended September 28, 2016, an increase of \$7.9 million or 45.2%. The increases for the thirteen and thirty-nine week periods were primarily due to the opening of 21 new domestic company-operated Shacks between September 28, 2016 and September 27, 2017.

As a percentage of Shack sales, other operating expenses increased to 10.1% and 10.0% for the thirteen and thirty-nine weeks ended September 27, 2017, respectively, compared to 9.2% and 9.3% for the thirteen and thirty-nine weeks ended September 28, 2016. The increase was primarily due to certain higher fixed operating expenses, deleverage from same-Shack sales and the introduction of Shacks at various volumes into the system.

Occupancy and Related Expenses

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

Occupancy and related expenses were \$7.5 million for the thirteen weeks ended September 27, 2017 compared to \$6.0 million for the thirteen weeks ended September 28, 2016, an increase of \$1.5 million or 25.2%. Occupancy and related expenses were \$20.7 million for the thirty-nine weeks ended September 27, 2017 compared to \$15.5 million for the thirty-nine weeks ended September 28, 2016, an increase of \$5.2 million or 33.5%. The increases for the thirteen and thirty-nine week periods were primarily due to the opening of 21 new domestic company-operated Shacks between September 28, 2016 and September 27, 2017.

As a percentage of Shack sales, occupancy and related expenses decreased to 8.3% for the thirteen weeks ended September 27, 2017 from 8.4% for the thirteen weeks ended September 28, 2016, primarily due to the increased number of leases where we are deemed to be the accounting owner and for which less rent expense is recognized. This was partially offset by the introduction of Shacks at various volumes into the system. For the thirty-nine weeks ended September 27, 2017 and September 28, 2016, occupancy and related expenses as a percentage of Shack sales remained constant at 8.2%.

General and Administrative Expenses

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

General and administrative expenses were \$9.2 million for the thirteen weeks ended September 27, 2017 compared to \$7.9 million for the thirteen weeks ended September 28, 2016, an increase of \$1.3 million or 16.7%. General and administrative expenses were \$27.4 million for the thirty-nine weeks ended September 27, 2017 compared to \$22.3 million for the thirty-nine weeks ended September 28, 2016, an increase of \$5.1 million or 22.8%. The increase for the thirteen week period was primarily driven by higher payroll expenses from increased headcount at our home office to support our growth plans and developer costs related to our digital platforms. The increase for the thirty-nine week period was primarily driven by the aforementioned costs as well as costs incurred in connection with our executive transition and the recognition of previously deferred costs related to the initial publication of the *Shake Shack* book.

As a percentage of total revenue, general and administrative expenses decreased to 9.7% and 10.4% for the thirteen and thirty-nine weeks ended September 27, 2017, respectively, from 10.6% and 11.4% for the thirteen and thirty-nine weeks ended September 28, 2016, respectively. These decreases were primarily due to the increased level of Shack sales.

Depreciation Expense

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

Depreciation expense was \$5.6 million for the thirteen weeks ended September 27, 2017 compared to \$3.7 million for the thirteen weeks ended September 28, 2016, an increase of \$1.9 million or 50.7%. Depreciation expense was \$15.6 million for the thirty-nine weeks ended September 27, 2017 compared to \$10.2 million for the thirty-nine weeks ended September 28, 2016, an increase of \$5.4 million or 52.6%. The increases for the thirteen and thirty-nine week periods were due primarily to incremental depreciation of

property and equipment related to the opening of 21 new domestic company-operated Shacks between September 28, 2016 and September 27, 2017 .

As a percentage of total revenue, depreciation expense increased to 5.9% for both the thirteen and thirty-nine weeks ended September 27, 2017 compared to 5.0% and 5.2% for the thirteen and thirty-nine weeks ended September 28, 2016 , respectively, primarily due to the deleverage from same-Shack sales and 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, as well as travel and lodging costs for our opening training team. 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 will initially experience higher pre-opening costs than our established geographic market areas, such as the New York City metropolitan area, where we have greater economies of scale and incur lower travel and lodging costs for our training team.

Pre-opening costs were \$2.7 million for the thirteen weeks ended September 27, 2017 compared to \$2.6 million for the thirteen weeks ended September 28, 2016 , an increase of \$0.1 million or 2.8% . Pre-opening costs were \$7.0 million for the thirty-nine weeks ended September 27, 2017 compared to \$6.7 million for the thirty-nine weeks ended September 28, 2016 , an increase of \$0.3 million or 3.8% . The variances for the thirteen and thirty-nine week periods were due to the timing and total number of new domestic company-operated Shacks expected to open.

Loss on Disposal of Property and Equipment

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

The loss on disposal of property and equipment for the thirteen and thirty-nine weeks ended September 27, 2017 was \$0.2 million and \$0.3 million , respectively. The loss on disposal of property and equipment for the thirteen and thirty-nine weeks ended September 28, 2016 was not material.

Other Income, Net

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

Other income, net for the thirteen and thirty-nine weeks ended September 27, 2017 was \$0.2 million and \$0.6 million , respectively. Other income, net for both the thirteen and thirty-nine weeks ended September 28, 2016 was \$0.2 million. The increase for the thirty-nine week period was primarily due to increased dividend income in the period.

Interest Expense

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

Interest expense for the thirteen and thirty-nine weeks ended September 27, 2017 was \$0.5 million and \$1.1 million , respectively, compared to \$0.1 million and \$0.3 million for the thirteen and thirty-nine weeks ended September 28, 2016 . These increases were primarily due to the increased number of leases where we are deemed to be the accounting owner.

Income Tax Expense

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

Income tax expense was \$2.5 million for the thirteen weeks ended September 27, 2017 compared to \$2.4 million for the thirteen weeks ended September 28, 2016 . Our effective income tax rate decreased to 24.1% for the thirteen weeks ended September 27, 2017 from 26.5% for the thirteen weeks ended September 28, 2016 . The decrease was driven by a benefit related to an adjustment recognized in connection with the filing of our prior year tax returns and higher tax credits, which were partially offset by the increase in our ownership interest in SSE Holdings and higher foreign withholding taxes.

Income tax expense was \$7.5 million for the thirty-nine weeks ended September 27, 2017 compared to \$6.1 million for the thirty-nine weeks ended September 28, 2016 . Our effective income tax rate increased to 27.5% for the thirty-nine weeks ended September 27, 2017 from 26.6% for the thirty-nine weeks ended September 28, 2016 .

As our ownership interest in SSE Holdings increases, our share of the taxable income of SSE Holdings will also increase. When compared to consolidated pre-tax income, this will result in increases to our effective income tax rate. Our weighted-average ownership interest in SSE Holdings increased to 70.9% and 70.3% for the thirteen and thirty-nine weeks ended September 27, 2017 , respectively, compared to 66.1% and 61.5% for the thirteen and thirty-nine weeks ended September 28, 2016 , respectively. This increase in ownership interest was the primary driver for the increase in our effective income tax rate for the thirty-nine week period, partially offset by a benefit related to an adjustment recognized in connection with the filing of our prior year tax returns and higher tax credits.

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 Consolidated Statements of Income, representing the portion of net income attributable to the other members of SSE Holdings. 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. The weighted average ownership percentages for the applicable reporting periods are used to attribute net income and other comprehensive income to Shake Shack Inc. and the non-controlling interest holders.

Net income attributable to non-controlling interests was \$2.9 million and \$3.0 million for the thirteen weeks ended September 27, 2017 and September 28, 2016 , respectively, a decrease of \$0.1 million or 5.0% . This decrease was driven by the decrease in the non-controlling interest holders' weighted average ownership, which was 29.1% and 33.9% , for the thirteen weeks ended September 27, 2017 and September 28, 2016 , respectively.

Net income attributable to non-controlling interests was \$7.8 million and \$8.2 million for the thirty-nine weeks ended September 27, 2017 and September 28, 2016 , respectively, a decrease of \$0.4 million or 4.8% . This decrease was primarily driven by a decrease in the non-controlling interest holders' weighted average ownership, which was 29.7% and 38.5% for thirty-nine weeks ended September 27, 2017 and September 28, 2016 , 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.

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27 2017	September 28 2016	September 27 2017	September 28 2016
<i>(dollar amounts in thousands)</i>				
Operating income	\$ 10,610	\$ 9,170	\$ 27,975	\$ 22,817
Less:				
Licensing revenue	3,509	2,696	9,416	6,774
Add:				
General and administrative expenses	9,204	7,885	27,352	22,265
Depreciation expense	5,604	3,719	15,610	10,229
Pre-opening costs	2,670	2,598	6,961	6,708
Loss on disposal of property and equipment	204	—	317	—
Shack-level operating profit	\$ 24,783	\$ 20,676	\$ 68,799	\$ 55,245
Total revenue	\$ 94,609	\$ 74,567	\$ 262,674	\$ 195,204
Less: licensing revenue	3,509	2,696	9,416	6,774
Shack sales	\$ 91,100	\$ 71,871	\$ 253,258	\$ 188,430
Shack-level operating profit margin	27.2%	28.8%	27.2%	29.3%

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.

<i>(in thousands)</i>	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27 2017	September 28 2016	September 27 2017	September 28 2016
Net income	\$ 7,870	\$ 6,789	\$ 19,916	\$ 16,689
Depreciation expense	5,604	3,719	15,610	10,229
Interest expense, net	456	66	1,086	198
Income tax expense	2,494	2,443	7,537	6,058
EBITDA	16,424	13,017	44,149	33,174
Equity-based compensation	1,289	1,577	3,823	3,817
Deferred rent	240	560	767	1,807
Loss on disposal of property and equipment	204	—	317	—
Executive transition costs ⁽¹⁾	13	—	664	—
ADJUSTED EBITDA	\$ 18,170	\$ 15,154	\$ 49,720	\$ 38,798

(1) Represents fees paid to an executive recruiting firm, a non-recurring signing bonus and certain other benefits paid upon the hiring of our chief financial officer.

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

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

How These Measures Are Useful

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

Limitations of the Usefulness of These Measures

Adjusted pro forma net income and adjusted pro forma earnings per fully exchanged and diluted share may differ from similarly titled measures used by other companies due to different methods of calculation. Presentation of adjusted pro forma net income and adjusted pro forma earnings per fully exchanged and diluted share should not be considered alternatives to net income and earnings per share, as determined under GAAP. While these measures are useful in evaluating our performance, it does not account for the earnings attributable to the non-controlling interest holders and therefore does not provide a complete understanding of the net income attributable to Shake Shack Inc. Adjusted pro forma net income and adjusted pro forma earnings per fully exchanged 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		Thirty-Nine Weeks Ended	
	September 27 2017	September 28 2016	September 27 2017	September 28 2016
<i>(in thousands, except per share amounts)</i>				
Numerator:				
Net income attributable to Shake Shack Inc.	\$ 4,997	\$ 3,766	\$ 12,143	\$ 8,526
Adjustments:				
Reallocation of net income attributable to non-controlling interests from the assumed exchange of LLC Interests ⁽¹⁾	2,873	3,023	7,773	8,163
Executive transition costs ⁽²⁾	13	—	664	—
Income tax expense ⁽³⁾	(1,695)	(1,318)	(3,448)	(3,171)
Adjusted pro forma net income	\$ 6,188	\$ 5,471	\$ 17,132	\$ 13,518
Denominator:				
Weighted-average shares of Class A common stock outstanding—diluted	26,477	24,554	26,248	22,805
Adjustments:				
Assumed exchange of LLC Interests for shares of Class A common stock ⁽¹⁾	10,693	12,314	10,882	13,988
Adjusted pro forma fully exchanged weighted-average shares of Class A common stock outstanding—diluted	37,170	36,868	37,130	36,793
Adjusted pro forma earnings per fully exchanged share—diluted	\$ 0.17	\$ 0.15	\$ 0.46	\$ 0.37

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

(2) Represents fees paid to an executive recruiting firm, a non-recurring signing bonus and certain other benefits paid upon the hiring of our chief financial officer.

(3) Represents the tax effect of the aforementioned adjustments and pro forma adjustments to reflect corporate income taxes at assumed effective tax rates of 40.4% and 39.1% for the thirteen and thirty-nine weeks ended September 27, 2017, respectively, and 40.7% and 40.6% for the and thirteen and thirty-nine weeks ended September 28, 2016, respectively. Amounts include provisions for U.S. federal and certain state and local income taxes, assuming the highest statutory rates apportioned to each applicable state and local jurisdiction, and exclude the effect of any adjustments related to the filing of prior year tax returns.

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 September 27, 2017, we maintained a cash and cash equivalents balance of \$26.9 million, a short-term investments balance of \$63.3 million and had \$19.3 million of availability under our Revolving Credit Facility.

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

In addition, we are obligated to make payments to certain members of SSE Holdings under the Tax Receivable Agreement. As of September 27, 2017, such obligations totaled \$284.0 million. Amounts payable under the Tax Receivable Agreement are contingent upon, among other things, (i) generation of future taxable income over the term of the Tax Receivable Agreement and (ii) future changes in tax laws. If we do not generate sufficient taxable income in the aggregate over the term of the Tax Receivable Agreement to utilize the tax benefits, then we would not be required to make the related TRA Payments. Although the amount of any payments that must be made under the Tax Receivable Agreement may be significant, the timing of these payments will vary and will generally be limited to one payment per member per year. The amount of such payments are also limited to the extent we utilize the related deferred tax assets. The payments that we are required to make will generally reduce the amount of overall cash flow that might have otherwise been available to us or to SSE Holdings, but we expect the cash tax savings we will realize from the utilization of the related deferred tax assets to fund the required payments.

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

Summary of Cash Flows

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

	Thirty-Nine Weeks Ended	
	September 27 2017	September 28 2016
<i>(in thousands)</i>		
Net cash provided by operating activities	\$ 53,971	\$ 40,522
Net cash used in investing activities	(41,455)	(99,336)
Net cash provided by financing activities	2,764	192
Increase (decrease) in cash	15,280	(58,622)
Cash at beginning of period	11,607	70,849
Cash at end of period	\$ 26,887	\$ 12,227

Operating Activities

For the thirty-nine weeks ended September 27, 2017 net cash provided by operating activities was \$54.0 million compared to \$40.5 million for the thirty-nine weeks ended September 28, 2016, an increase of \$13.5 million. This increase was primarily driven by the opening of 21 new domestic company-operated Shacks.

Investing Activities

For the thirty-nine weeks ended September 27, 2017 net cash used in investing activities was \$41.5 million compared to \$99.3 million for the thirty-nine weeks ended September 28, 2016, a decrease of \$57.8 million. This decrease was primarily due to a decrease in net purchases of marketable securities.

Financing Activities

For the thirty-nine weeks ended September 27, 2017 net cash provided by financing activities was \$2.8 million compared to \$0.2 million for the thirty-nine weeks ended September 28, 2016 , an increase of \$ 2.6 million . This increase is primarily due to an increase of \$4.5 million in proceeds from the exercise of employee stock options, offset by \$ 1.5 million in payments made under the Tax Receivable Agreement.

Revolving Credit Facility

We maintain a Revolving Credit Facility that provides for a revolving total commitment amount of \$50.0 million , of which \$20.0 million is available immediately. The Revolving Credit Facility will mature and all amounts outstanding will be due and payable in February 2020. The Revolving Credit Facility permits the issuance of letters of credit upon our request of up to \$10.0 million . Borrowings under the Revolving Credit Facility bear interest at either: (i) LIBOR plus a percentage ranging from 2.3% to 3.3% or (ii) the prime rate plus a percentage ranging from 0.0% to 0.8% , depending on the type of borrowing made under the Revolving Credit Facility. As of September 27, 2017 , there were no amounts outstanding under the Revolving Credit Facility. We had \$19.3 million of availability, as of September 27, 2017 , after giving effect to \$0.7 million in outstanding letters of credit.

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

The Revolving Credit Facility contains a number of covenants that, among other things, restrict our ability to, subject to specified exceptions, incur additional debt; incur additional liens and contingent liabilities; sell or dispose of assets; merge with or acquire other companies; liquidate or dissolve ourselves; pay dividends or make distributions; engage in businesses that are not in a related line of business; make loans, advances or guarantees; engage in transactions with affiliates; and make investments. In addition, the Revolving Credit Facility contains certain cross-default provisions. We are required to maintain a specified consolidated fixed-charge coverage ratio and a specified funded net debt to adjusted EBITDA ratio, both as defined under the Revolving Credit Facility. As of September 27, 2017 , we were in compliance with all covenants.

CONTRACTUAL OBLIGATIONS

There have been no material changes to the contractual obligations as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 28, 2016 , as amended, other than those made in the ordinary course of business and a lease entered into for a new home office. See "—Off-Balance Sheet Arrangements" for further details.

OFF-BALANCE SHEET ARRANGEMENTS

In August 2017, we entered into a lease for a new home office, with a term of 15 years and two five-year renewal options. Total minimum lease payments of over the initial term of the lease amount to \$34.6 million.

There have been no other material changes to our off-balance sheet arrangements as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 28, 2016 , as amended.

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 28, 2016, as amended.

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 28, 2016, as amended.

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 September 27, 2017 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 13 : 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 28, 2016, as amended.

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 Shake Shack 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	
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				*

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: November 2, 2017

By: /s/ Randy Garutti
Randy Garutti
Chief Executive Officer
(Principal Executive Officer and Duly Authorized Officer)

Date: November 2, 2017

By: /s/ Tara Comonte
Tara Comonte
Chief Financial Officer
(Principal Financial Officer and Duly Authorized Officer)

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 September 27, 2017 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: November 2, 2017

/s/ Randy Garutti

Randy Garutti

Chief Executive Officer

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 September 27, 2017 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: November 2, 2017

/s/ Tara Comonte

Tara Comonte

Chief Financial Officer

**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 September 27, 2017, 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: November 2, 2017

/s/ Randy Garutti

Randy Garutti

Chief Executive Officer

Date: November 2, 2017

/s/ Tara Comonte

Tara Comonte

Chief Financial Officer