

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 March 29, 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 April 26, 2017, there were 25,757,064 shares of Class A common stock outstanding and 10,879,592 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, 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. 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, 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)

	March 29 2017	December 28 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,711	\$ 11,607
Marketable securities	57,840	62,040
Accounts receivable	5,044	6,006
Inventories	903	806
Prepaid expenses and other current assets	4,302	3,485
Total current assets	83,800	83,944
Property and equipment, net	147,485	136,264
Deferred tax asset, non-current	319,530	313,207
Other assets	4,613	4,779
TOTAL ASSETS	\$ 555,428	\$ 538,194
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,663	\$ 6,921
Accrued expenses	7,699	8,538
Accrued wages and related liabilities	4,027	6,084
Other current liabilities	11,427	10,173
Total current liabilities	28,816	31,716
Deemed landlord financing	8,016	2,007
Deferred rent	31,354	31,107
Liabilities under tax receivable agreement, net of current portion	274,259	267,902
Other long-term liabilities	1,512	4,109
Total liabilities	343,957	336,841
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, no par value—10,000,000 shares authorized; none issued and outstanding as of March 29, 2017 and December 28, 2016.	—	—
Class A common stock, \$0.001 par value—200,000,000 shares authorized; 25,681,875 and 25,151,384 shares issued and outstanding as of March 29, 2017 and December 28, 2016, respectively.	26	25
Class B common stock, \$0.001 par value—35,000,000 shares authorized; 10,929,592 and 11,253,592 shares issued and outstanding as of March 29, 2017 and December 28, 2016, respectively.	11	11
Additional paid-in capital	141,940	135,448
Retained earnings	18,986	16,719
Accumulated other comprehensive loss	(19)	(15)
Total stockholders' equity attributable to Shake Shack Inc.	160,944	152,188
Non-controlling interests	50,527	49,165
Total equity	211,471	201,353
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 555,428	\$ 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	
	March 29 2017	March 30 2016
Shack sales	\$ 74,155	\$ 52,153
Licensing revenue	2,594	2,012
TOTAL REVENUE	76,749	54,165
Shack-level operating expenses:		
Food and paper costs	21,174	15,032
Labor and related expenses	20,460	13,162
Other operating expenses	7,665	4,919
Occupancy and related expenses	6,176	4,323
General and administrative expenses	8,470	6,884
Depreciation expense	4,748	3,106
Pre-opening costs	2,415	2,025
Loss on disposal of property and equipment	13	—
TOTAL EXPENSES	71,121	49,451
OPERATING INCOME	5,628	4,714
Other income, net	195	23
Interest expense	(303)	(87)
INCOME BEFORE INCOME TAXES	5,520	4,650
Income tax expense	1,658	1,299
NET INCOME	3,862	3,351
Less: net income attributable to non-controlling interests	1,595	1,889
NET INCOME ATTRIBUTABLE TO SHAKE SHACK INC.	\$ 2,267	\$ 1,462
Earnings per share of Class A common stock:		
Basic	\$ 0.09	\$ 0.07
Diluted	\$ 0.09	\$ 0.07
Weighted-average shares of Class A common stock outstanding:		
Basic	25,376	20,353
Diluted	25,955	20,812

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Thirteen Weeks Ended	
	March 29 2017	March 30 2016
Net income	\$ 3,862	\$ 3,351
Other comprehensive loss, net of tax:		
Available-for-sale securities ⁽¹⁾ :		
Change in net unrealized holding losses	(9)	(2)
Less: reclassification adjustments for net realized losses included in net income	3	—
Net change	(6)	(2)
OTHER COMPREHENSIVE LOSS	(6)	(2)
COMPREHENSIVE INCOME	3,856	3,349
Less: comprehensive income attributable to non-controlling interests	1,593	1,888
COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAKE SHACK INC.	\$ 2,263	\$ 1,461

(1) Net of tax benefit of \$0 for the thirteen weeks ended March 29, 2017 and March 30, 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 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						2,267		1,595	3,862
Other comprehensive loss:									
Net unrealized losses related to available-for-sale securities							(4)	(2)	(6)
Equity-based compensation					1,289				1,289
Activity under stock compensation plans	206,491	1			2,870			1,446	4,317
Redemption of LLC Interests	324,000	—	(324,000)	—	1,322			(1,322)	—
Establishment of liabilities under tax receivable agreement and related changes to deferred tax assets associated with increases in tax basis					1,011				1,011
Distributions paid to non-controlling interest holders								(355)	(355)
BALANCE, MARCH 29, 2017	25,681,875	\$ 26	10,929,592	\$ 11	\$ 141,940	\$ 18,986	\$ (19)	\$ 50,527	\$211,471

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Thirteen Weeks Ended	
	March 29 2017	March 30 2016
OPERATING ACTIVITIES		
Net income (including amounts attributable to non-controlling interests)	\$ 3,862	\$ 3,351
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	4,748	3,106
Equity-based compensation	1,249	1,030
Deferred income taxes	(1,009)	3
Non-cash interest expense	71	70
Excess tax benefits on equity-based compensation	—	(28)
Loss on sale of marketable securities	3	—
Loss on disposal of property and equipment	13	—
Changes in operating assets and liabilities:		
Accounts receivable	2,312	1,019
Inventories	(97)	(78)
Prepaid expenses and other current assets	(505)	345
Other assets	(520)	(234)
Accounts payable	400	561
Accrued expenses	1,029	(89)
Accrued wages and related liabilities	(2,057)	(2,086)
Other current liabilities	62	202
Deferred rent	164	1,354
Other long-term liabilities	(46)	(48)
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,679	8,478
INVESTING ACTIVITIES		
Purchases of property and equipment	(13,132)	(14,128)
Purchases of marketable securities	(325)	—
Sales of marketable securities	5,155	—
NET CASH USED IN INVESTING ACTIVITIES	(8,302)	(14,128)
FINANCING ACTIVITIES		
Proceeds from deemed landlord financing	293	—
Payments on deemed landlord financing	(36)	—
Distributions paid to non-controlling interest holders	(355)	—
Payments under tax receivable agreement	(1,471)	—
Proceeds from stock option exercises	4,296	628
Excess tax benefits from equity-based compensation	—	28
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,727	656
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,104	(4,994)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11,607	70,849
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 15,711	\$ 65,855

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 March 29, 2017 we owned 70.1% of SSE Holdings. Unless the context otherwise requires, "we," "us," "our," "Shake Shack," the "Company," and other similar references, refer to Shake Shack Inc. and, unless otherwise stated, all of its subsidiaries, including SSE Holdings.

We operate and license Shake Shack restaurants ("Shacks"), which serve hamburgers, hot dogs, crinkle-cut fries, shakes, frozen custard, beer, wine and more. As of March 29, 2017, there were 127 Shacks in operation, system-wide, of which 71 were domestic company-operated Shacks, seven were domestic licensed Shacks and 49 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 ("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 March 29, 2017 and December 28, 2016, the net assets of SSE Holdings were \$169,267 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 should be 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
Revenue from Contracts with Customers and related standards (ASU’s 2014-09, 2015-14, 2016-08, 2016-10, 2016-12, 2015-20)	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.	We are currently in the process of evaluating the impact this standard is expected to have on our consolidated financial statements. It is still too early in our process to determine the magnitude of the potential impact. However, based on our preliminary assessment, we believe that further evaluation of the initial territory fees associated with our licensing agreements may reveal differences in the timing of revenue recognition from current policy, but that it is likely that recognition of sales-based royalties will not significantly change. In addition to further evaluating each of our licensing agreements, we are 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. As we continue our evaluation, we will further clarify the expected impact of the adoption of the standard. We plan to adopt the standard on December 28, 2017, and we have not yet selected a transition method.	December 28, 2017
Leases (ASU 2016-02)	This standard establishes a new lease accounting model, which introduces the recognition of lease assets and liabilities for those leases classified as operating leases under previous GAAP. It should be applied using a modified retrospective approach, with the option to elect various practical expedients. Early adoption is permitted.	We are currently evaluating the impact this standard will have on our consolidated financial statements.	December 27, 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 March 29, 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 March 29, 2017 and December 28, 2016 :

	March 29, 2017							
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities		
Cash	\$ 10,683	\$ —	\$ —	\$ 10,683	\$ 10,683	\$ —		
Level 1:								
Money market funds	5,028	—	—	5,028	5,028	—		
Mutual funds	55,393	—	—	55,393	—	55,393		
Level 2:								
Corporate debt securities ⁽¹⁾	2,480	2	(35)	2,447	—	2,447		
Total	\$ 73,584	\$ 2	\$ (35)	\$ 73,551	\$ 15,711	\$ 57,840		

	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 losses on available-for-sale securities totaling \$33 and \$27 were included in accumulated other comprehensive loss on the Condensed Consolidated Balance Sheet as of March 29, 2017 and December 28, 2016 , respectively.

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The following tables summarize the gross unrealized losses and fair values for those investments that were in an unrealized loss position as of March 29, 2017 and December 28, 2016, aggregated by investment category and the length of time that individual securities have been in a continuous loss position:

	March 29, 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	1,117	(6)	637	(29)	1,754	(35)
Total	\$ 1,117	\$ (6)	\$ 637	\$ (29)	\$ 1,754	\$ (35)

	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 weeks ended March 29, 2017 and March 30, 2016 is as follows:

	Thirteen Weeks Ended	
	March 29 2017	March 30 2016
Available-for-sale securities:		
Dividend income	\$ 178	\$ —
Interest income	20	23
Loss on investments	3	—
Total other income, net	\$ 201	\$ 23

A summary of available-for-sale securities sold and gross realized gains and losses recognized during the thirteen weeks ended March 29, 2017 and March 30, 2016 is as follows:

	Thirteen Weeks Ended	
	March 29 2017	March 30 2016
Available-for-sale securities:		
Gross proceeds from sales and redemptions	\$ 155	\$ —
Cost basis of sales and redemptions	158	—
Gross realized gains included in net income	—	—
Gross realized losses included in net income	(3)	—
Amounts reclassified out of accumulated other comprehensive loss	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 March 29, 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 March 29, 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 weeks ended March 29, 2017 and March 30, 2016 .

NOTE 4 : INVENTORIES

Inventories as of March 29, 2017 and December 28, 2016 consisted of the following:

	March 29 2017	December 28 2016
Food	\$ 577	\$ 543
Wine	54	47
Beer	58	58
Beverages	91	79
Retail merchandise	123	79
Inventories	\$ 903	\$ 806

NOTE 5 : PROPERTY AND EQUIPMENT

Property and equipment as of March 29, 2017 and December 28, 2016 consisted of the following:

	March 29 2017	December 28 2016
Leasehold improvements	\$ 131,817	\$ 120,629
Landlord funded assets	3,296	—
Equipment	25,411	23,194
Furniture and fixtures	7,987	7,342
Computer equipment and software	9,582	8,710
Construction in progress (includes assets under construction from deemed landlord financing)	11,465	13,510
Property and equipment, gross	189,558	173,385
Less: accumulated depreciation	42,073	37,121
Property and equipment, net	\$ 147,485	\$ 136,264

NOTE 6 : SUPPLEMENTAL BALANCE SHEET INFORMATION

The components of other current liabilities as of March 29, 2017 and December 28, 2016 are as follows:

	March 29 2017	December 28 2016
Sales tax payable	\$ 1,498	\$ 1,324
Current portion of liabilities under tax receivable agreement	3,110	4,580
Gift card liability	1,083	1,153
Deferred compensation	2,350	—
Other	3,386	3,116
Other current liabilities	\$ 11,427	\$ 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 March 29, 2017 and December 28, 2016, there were no amounts outstanding under the Revolving Credit Facility. As of March 29, 2017, we had \$19,920 of availability under the Revolving Credit Facility, after giving effect to \$80 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 March 29, 2017, we were in compliance with all covenants.

As of March 29, 2017 and December 28, 2016 we had deemed landlord financing liabilities of \$8,016 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 \$324 and \$87 for the thirteen weeks ended March 29, 2017 and March 30, 2016, respectively. During the thirteen weeks ended March 29, 2017 we capitalized \$21 into property and equipment. No amounts were capitalized for the thirteen weeks ended March 30, 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 March 29, 2017 and December 28, 2016.

	March 29, 2017		December 28, 2016	
	LLC Interests	Ownership %	LLC Interests	Ownership %
Number of LLC Interests held by Shake Shack Inc.	25,681,875	70.1%	25,151,384	69.1%
Number of LLC Interests held by non-controlling interest holders	10,929,592	29.9%	11,253,592	30.9%
Total LLC Interests outstanding	36,611,467	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 loss to Shake Shack Inc. and the non-controlling interest holders. The non-controlling interest holders' weighted average ownership percentage for the thirteen weeks ended March 29, 2017 and March 30, 2016 was 30.4% and 43.9%, respectively.

The following table summarizes the effects of changes in ownership in SSE Holdings on our equity during the thirteen weeks ended March 29, 2017 and March 30, 2016 .

	Thirteen Weeks Ended	
	March 29 2017	March 30 2016
Net income attributable to Shake Shack Inc.	\$ 2,267	\$ 1,462
Other comprehensive loss:		
Unrealized holding losses on available-for-sale securities	(4)	(1)
Transfers (to) from non-controlling interests:		
Increase in additional paid-in capital as a result of the redemption of LLC Interests	1,322	4,642
Increase in additional paid-in capital as a result of activity under stock compensation plans	2,870	216
Total effect of changes in ownership interest on equity attributable to Shake Shack Inc.	\$ 6,455	\$ 6,319

During thirteen weeks ended March 29, 2017 , an aggregate of 324,000 LLC Interests were redeemed by non-controlling interest holders for newly-issued shares of Class A common stock, and we received 324,000 LLC Interests in connection with these redemptions, increasing our total ownership interest in SSE Holdings. During the thirteen weeks ended March 30, 2016 an aggregate of 1,877,855 LLC Interests were redeemed by non-controlling interest holders for newly-issued shares of Class A common stock, and we received 1,877,855 LLC Interests in connection with these redemptions, increasing our total ownership interest in SSE Holdings.

During thirteen weeks ended March 29, 2017 and March 30, 2016 , we received an aggregate of 206,491 and 33,070 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 weeks ended March 29, 2017 and March 30, 2016 is as follows:

	Thirteen Weeks Ended	
	March 29 2017	March 30 2016
Stock options	\$ 964	\$ 1,030
Performance stock units	285	—
Equity-based compensation expense	\$ 1,249	\$ 1,030
Total income tax benefit recognized related to equity-based compensation	\$ 51	\$ 31

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			
	March 29 2017		March 30 2016	
Expected U.S. federal income taxes at statutory rate	\$ 1,932	35.0 %	\$ 1,581	34.0 %
State and local income taxes, net of federal benefit	349	6.3 %	272	5.8 %
Foreign withholding taxes	186	3.4 %	240	5.2 %
Tax credits	(130)	(2.4)%	(39)	(0.8)%
Non-controlling interest	(679)	(12.3)%	(755)	(16.3)%
Income tax expense	\$ 1,658	30.0 %	\$ 1,299	27.9 %

Our effective income tax rates for the thirteen weeks ended March 29, 2017 and March 30, 2016 were 30.0% and 27.9% , 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, partially offset by higher tax credits. 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 69.6% and 56.1% for the thirteen weeks ended March 29, 2017 and March 30, 2016 , respectively.

Deferred Tax Assets and Liabilities

During the thirteen weeks ended March 29, 2017 , we acquired an aggregate of 530,491 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 \$5,310 associated with the basis difference in our investment in SSE Holdings upon acquisition of these LLC Interests. As of March 29, 2017 , the total deferred tax asset related to the basis difference in our investment in SSE Holdings was \$216,281 . 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 March 29, 2017 , we established a valuation allowance in the amount of \$16,077 against the deferred tax asset to which this portion relates.

During the thirteen weeks ended March 29, 2017 , we also recognized \$2,567 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 March 29, 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 March 29, 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 2012 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 SSE Holdings member party under the Tax Receivable Agreement are assignable to transferees of its LLC Interests.

During the thirteen weeks ended March 29, 2017, we acquired an aggregate of 324,000 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 \$6,357 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 thirteen weeks ended March 29, 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 thirteen weeks ended March 30, 2016. As of March 29, 2017, the total amount of TRA Payments due under the Tax Receivable Agreement, was \$277,370, of which \$3,110 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 weeks ended March 29, 2017 and March 30, 2016 .

	Thirteen Weeks Ended	
	March 29 2017	March 30 2016
Numerator:		
Net income	\$ 3,862	\$ 3,351
Less: net income attributable to non-controlling interests	1,595	1,889
Net income attributable to Shake Shack Inc.	\$ 2,267	\$ 1,462
Denominator:		
Weighted-average shares of Class A common stock outstanding—basic	25,376	20,353
Effect of dilutive securities:		
Stock options	552	459
Performance stock units	27	—
Weighted-average shares of Class A common stock outstanding—diluted	25,955	20,812
Earnings (loss) per share of Class A common stock—basic	\$ 0.09	\$ 0.07
Earnings (loss) per share of Class A common stock—diluted	\$ 0.09	\$ 0.07

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. Shares of our Class B common stock are, however, considered potentially dilutive shares of Class A common stock. After evaluating the potential dilutive effect under the if-converted and two-class methods, the 10,929,592 shares of Class B common stock outstanding as of March 29, 2017 and the 14,582,886 share of Class B common stock outstanding as of March 30, 2016 were determined to be anti-dilutive and have therefore been excluded from the computations of diluted earnings per share of Class A common stock.

NOTE 12 : SUPPLEMENTAL CASH FLOW INFORMATION

The following table sets forth supplemental cash flow information for the thirteen weeks ended March 29, 2017 and March 30, 2016 :

	Thirteen Weeks Ended	
	March 29 2017	March 30 2016
Cash paid for:		
Income taxes, net of refunds	\$ 1,093	\$ 475
Interest, net of amounts capitalized	19	15
Non-cash investing activities:		
Accrued purchases of property and equipment	4,415	3,133
Capitalized landlord assets for leases where we are deemed the accounting owner	4,545	—
Capitalized equity-based compensation	40	30
Non-cash financing activities:		
Class A common stock issued in connection with the redemption of LLC Interests	—	2
Cancellation of Class B common stock in connection with the redemption of LLC Interests	—	(2)
Establishment of liabilities under tax receivable agreement	6,357	34,920

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 March 29, 2017 . The letters of credit expire on April 23, 2018 and February 28, 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 2017 and renews automatically for one -year periods through September 30, 2019.

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) will be required to release Shake Shack from all federal and/or state wage and hour claims that may exist through the settlement date. On March 11, 2016, as required by the memorandum of understanding, the parties entered into a settlement agreement in the amount of \$750

million. To facilitate the resolution of the matter, the parties coordinated the filing by the plaintiff's counsel of a Complaint on March 17, 2016 with the Supreme Court of the State of New York (the "Court"). On October 25, 2016, the Court granted preliminary approval of the settlement agreement. On December 13, 2016, all eligible class members were mailed the notice of settlement, and the deadline to opt-out or object was January 27, 2017. On March 7, 2017, the Court held a fairness hearing, at which time it determined that the settlement agreement was fair, adequate and equitable, and subsequently issued its order granting final approval of the settlement. As of March 29, 2017, an accrual in the amount of \$770 was recorded for this matter and the related expenses. On May 1, 2017, we paid to the claims administrator \$774 in full satisfaction of the amounts owed by us under the settlement agreement.

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 March 29, 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 thirteen weeks ended March 29, 2017 and March 30, 2016, we recognized liabilities totaling \$6,357 and \$34,920, respectively, relating to our obligations under the Tax Receivable Agreement, after concluding that it was probable that we would have sufficient future taxable income to utilize the related tax benefits. As of March 29, 2017 and December 28, 2016, our total obligations under the Tax Receivable Agreement, including accrued interest, were \$277,370 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 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. Total amounts paid to USHG for general corporate expenses were \$5 and \$6 for the thirteen weeks ended March 29, 2017 and March 30, 2016, respectively. These amounts are included in general and administrative expenses on the Condensed Consolidated Statements of Income.

Total amounts payable to USHG as of March 29, 2017 and December 28, 2016 were \$1. These amounts are included in other current liabilities on the Condensed Consolidated Balance Sheets. No amounts were due from USHG as of March 29, 2017 and 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 on December 31, 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 in

the thirteen weeks ended March 29, 2017 were \$20 . These amounts are included in licensing revenue on the Condensed Consolidated Statements of Income . No amounts were paid to us in the thirteen weeks ended March 30, 2016 . Total amounts due from HYSE as of March 29, 2017 and December 28, 2016 were \$24 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 \$195 for the thirteen weeks ended March 29, 2017 and March 30, 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 March 29, 2017 . Total amounts due to MSP Conservancy as of December 28, 2016 were \$1 , which is 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. 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. Amounts paid to us during the thirteen weeks ended March 29, 2017 totaled \$200 and no amounts were paid to us during the thirteen weeks ended March 30, 2016 . As of March 29, 2017 no amounts were due from MSP Conservancy.

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. No amounts have been raised for the thirteen weeks ended March 29, 2017 and March 30, 2016 .

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 weeks ended March 29, 2017 totaled \$18 , which are included in other operating expenses on the Condensed Consolidated Statements of Income . No amounts were paid to Olo for the thirteen weeks ended March 30, 2016 . No amounts were payable to Olo as of March 29, 2017 and December 28, 2016 .

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. During the thirteen weeks ended March 29, 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 thirteen weeks ended March 30, 2016 . As of March 29, 2017 and December 28, 2016 , total amounts due under the Tax Receivable Agreement were \$277,370 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 weeks ended March 29, 2017 distributions paid to non-controlling interest holders were \$355 . No tax distributions were paid to non-controlling interest holders during the thirteen weeks ended March 30, 2016 . As of March 29, 2017 and December 28, 2016 , tax distributions payable to non-controlling interest holders were \$607 .

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") 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, hot dogs, crinkle cut fries, shakes, frozen custard, beer and wine. As of March 29, 2017, there were 127 Shacks in operation, system-wide, of which 71 were domestic company-operated Shacks, seven were domestic licensed Shacks and 49 were international licensed Shacks.

Development Highlights

During the quarter, we opened seven domestic company-operated Shacks, including our first Shack in Detroit, Michigan, a third Shack in Connecticut and a fourth Shack in the California market in Century City. Additionally, we opened seven licensed Shacks, which included Shacks in London at Canary Wharf and Victoria Nova, as well as five additional Shacks in the Middle East.

Financial Highlights for the First Quarter 2017 :

- Total revenue increased 41.7% to \$76.7 million .
- Shack sales increased 42.2% to \$74.2 million .
- Same-Shack sales decreased 2.5% .
- Operating income increased 19.4% to \$5.6 million .
- Shack-level operating profit*, a non-GAAP measure, increased 26.9% to \$18.7 million , or 25.2% of Shack sales.
- Net income increased 15.2% to \$3.9 million and net income attributable to Shake Shack Inc. was \$2.3 million , or \$0.09 per diluted share.
- Adjusted EBITDA*, a non-GAAP measure, increased 28.9% to \$12.2 million .
- Adjusted pro forma net income *, a non-GAAP measure, increased 30.9% to \$3.7 million , or \$0.10 per fully exchanged and diluted share.
- Thirteen net system-wide Shack openings, including seven domestic company-operated Shacks and six net licensed Shacks.

* *Shack-level operating profit, adjusted EBITDA and adjusted pro forma net income are non-GAAP measures. 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, are set forth in the schedules accompanying this release. See "Non-GAAP Financial Measures."*

We continued to execute on our growth strategies in 2017 and the first quarter of 2017 was positively impacted by the approximate 1.5% menu price increase implemented at the end of December 2016 and lower commodity prices, primarily in beef, offset by a decline in same-Shack sales of 2.5% and 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.

Net income attributable to Shake Shack Inc. was \$2.3 million, or \$0.09 per diluted share, for the first quarter of 2017, compared to \$1.5 million, or \$0.07 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 \$3.7 million, or \$ 0.10 per fully exchanged and diluted share, for the first quarter of 2017 compared to \$2.8 million, or \$0.08 per fully exchanged and diluted share for the the first quarter of 2016, an increase of 30.9%.

FISCAL 2017 OUTLOOK

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

	Current Outlook	Previous Outlook
Total revenue	\$351 to \$355 million	\$349 to \$353 million
Same-Shack sales growth (%) ⁽¹⁾	0%	2% to 3% increase
Domestic company-operated Shack openings ⁽²⁾	23 to 24	22 to 23
Licensed Shack openings	12, net	11, net
Shack-level operating profit margin	26.5% to 27.5%	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 \$2.0 million	\$1.6 million to \$2.0 million
Adjusted pro forma effective tax rate (%)	40% to 41%	40% to 41%

(1) Includes approximately 1.5% to 2.0% of menu price increases taken at the end of December 2016.

(2) The average annual sales volume for the domestic company-operated Shacks to be opened in fiscal 2017 is expected to be at least \$ 3.3 million with Shack-level operating profit margins of at least 21 %.

RESULTS OF OPERATIONS

The following table summarizes our results of operations for the thirteen weeks ended March 29, 2017 and March 30, 2016 :

<i>(dollar amounts in thousands)</i>	Thirteen Weeks Ended			
	March 29, 2017		March 30, 2016	
Shack sales	\$ 74,155	96.6 %	\$ 52,153	96.3 %
Licensing revenue	2,594	3.4 %	2,012	3.7 %
TOTAL REVENUE	76,749	100.0 %	54,165	100.0 %
Shack-level operating expenses ⁽¹⁾ :				
Food and paper costs	21,174	28.6 %	15,032	28.8 %
Labor and related expenses	20,460	27.6 %	13,162	25.2 %
Other operating expenses	7,665	10.3 %	4,919	9.4 %
Occupancy and related expenses	6,176	8.3 %	4,323	8.3 %
General and administrative expenses	8,470	11.0 %	6,884	12.7 %
Depreciation expense	4,748	6.2 %	3,106	5.7 %
Pre-opening costs	2,415	3.1 %	2,025	3.7 %
Loss on disposal of property and equipment	13	— %	—	— %
TOTAL EXPENSES	71,121	92.7 %	49,451	91.3 %
OPERATING INCOME	5,628	7.3 %	4,714	8.7 %
Other income, net	195	0.3 %	23	— %
Interest expense	(303)	(0.4)%	(87)	(0.2)%
INCOME BEFORE INCOME TAXES	5,520	7.2 %	4,650	8.6 %
Income tax expense	1,658	2.2 %	1,299	2.4 %
NET INCOME	3,862	5.0 %	3,351	6.2 %
Less: net loss attributable to non-controlling interests	1,595	2.1 %	1,889	3.5 %
NET INCOME ATTRIBUTABLE TO SHAKE SHACK INC.	\$ 2,267	3.0 %	\$ 1,462	2.7 %

(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 full fiscal months or longer. Effective March 29, 2017, 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 \$74.2 million for the thirteen weeks ended March 29, 2017 compared to \$52.2 million for the thirteen weeks ended March 30, 2016, an increase of \$22.0 million or 42.2%. The growth in Shack sales was driven by the opening of 24 new domestic company-operated Shacks between March 30, 2016 and March 29, 2017. Same-Shack sales decreased \$1.0 million, or 2.5%. The decrease in same-Shack sales is due to a decrease in guest traffic of 3.4% offset by a combined increase of 0.9% in price and sales mix. For purposes of calculating same-Shack sales growth, Shack sales for 32 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 \$2.6 million for the thirteen weeks ended March 29, 2017 compared to \$2.0 million for the thirteen weeks ended March 30, 2016 , an increase of \$0.6 million or 28.9% . This increase was primarily driven by a net increase of 15 Shacks opening between March 30, 2016 and March 29, 2017 , offset by lower revenue from Shacks primarily located in the Middle East and the unfavorable impact of foreign exchange rate fluctuations.

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 \$21.2 million for the thirteen weeks ended March 29, 2017 compared to \$15.0 million for the thirteen weeks ended March 30, 2016 , an increase of \$6.2 million or 40.9% , primarily due to the opening of 24 new domestic company-operated Shacks between March 30, 2016 and March 29, 2017 . As a percentage of Shack sales, food and paper costs decreased to 28.6% for the thirteen weeks ended March 29, 2017 compared to 28.8% for the thirteen weeks ended March 30, 2016 . This decrease was the result of the menu price increase we took at the end of prior year and lower commodity costs, primarily in beef, offset by non-recurring costs of the mobile app promotion.

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 \$20.5 million for the thirteen weeks ended March 29, 2017 compared to \$13.2 million for the thirteen weeks ended March 30, 2016 , an increase of \$7.3 million or 55.4% . This increase was primarily due to the opening of 24 new domestic company-operated Shacks between March 30, 2016 and March 29, 2017 . As a percentage of Shack sales, labor and related expenses increased to 27.6% for the thirteen weeks ended March 29, 2017 compared to 25.2% for the thirteen weeks ended March 30, 2016 , primarily due to increases to hourly wages across the system in many of our markets, the strategic investment in our management teams to support future growth, deleverage from the negative same-Shack sales and the entry of more target-volume Shacks into the system.

Other Operating Expenses

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

Other operating expenses were \$7.7 million for the thirteen weeks ended March 29, 2017 compared to \$4.9 million for the thirteen weeks ended March 30, 2016 , an increase of \$2.8 million or 55.8% , primarily due to the opening of 24 new domestic company-operated Shacks between March 30, 2016 and March 29, 2017 . As a percentage of Shack sales, other operating expenses increased to 10.3% for the thirteen weeks ended March 29, 2017 compared to 9.4% for the thirteen weeks ended March 30, 2016 . This increase was due to the impact of certain fixed operating expenses, deleverage from negative same-Shack sales and the introduction of more target-volume Shacks 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 \$6.2 million for the thirteen weeks ended March 29, 2017 compared to \$4.3 million for the thirteen weeks ended March 30, 2016 , an increase of \$1.9 million or 42.9% , primarily due to the opening of 24 new domestic company-operated Shacks between March 30, 2016 and March 29, 2017 . As a percentage of Shack sales, occupancy and related expenses remained constant at 8.3% for the thirteen weeks ended March 29, 2017 and March 30, 2016 .

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 \$8.5 million for the thirteen weeks ended March 29, 2017 compared to \$6.9 million for the thirteen weeks ended March 30, 2016, an increase of \$1.6 million or 23.0%. This was primarily due to higher payroll expense from increased headcount at our home office to support our accelerated growth plans. As a percentage of total revenue, general and administrative expenses decreased to 11.0% for the thirteen weeks ended March 29, 2017 from 12.7% for the thirteen weeks ended March 30, 2016, primarily due to increased levels of Shack sales.

Depreciation Expense

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

Depreciation expense was \$4.7 million for the thirteen weeks ended March 29, 2017 compared to \$3.1 million for the thirteen weeks ended March 30, 2016, an increase of \$1.6 million or 52.9%. This increase was primarily due to incremental depreciation of capital expenditures related to the opening of 24 new domestic company-operated Shacks between March 30, 2016 and March 29, 2017. As a percentage of total revenue, depreciation expense increased to 6.2% for the thirteen weeks ended March 29, 2017 compared to 5.7% for the thirteen weeks ended March 30, 2016, primarily due to the deleverage from the negative same-Shack sales and the entry of more target volume Shacks into the system.

Pre-Opening Costs

Pre-opening costs consist primarily of legal fees, rent, managers' salaries, training costs, employee payroll and related expenses, costs to relocate and compensate Shack management teams prior to an opening and wages, travel and lodging costs for our opening training team and other supporting team members. All such costs incurred prior to the opening of a domestic company-operated Shack are expensed in the period in which the expense was incurred. Pre-opening costs can fluctuate significantly from period to period, based on the number and timing of domestic company-operated Shack openings and the specific pre-opening costs incurred for each domestic company-operated Shack. Additionally, domestic company-operated Shack openings in new geographic market areas 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 \$2.4 million for the thirteen weeks ended March 29, 2017 compared to \$2.0 million for the thirteen weeks ended March 30, 2016. The increase of \$0.4 million or 19.3% was due to the timing and total number of new domestic company-operated Shacks that opened during the quarter and are expected to open in the near term.

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, equipment and fixtures that were replaced in the normal course of business.

For all periods presented, the loss on disposal of property and equipment was not material.

Other Income, net

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

Other income, net was \$0.2 million for the thirteen weeks ended March 29, 2017, which primarily consisted of dividend income related to the investments in marketable securities we acquired during fiscal 2016. Amounts for the thirteen weeks ended March 30, 2016 were not material.

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 was \$0.3 million for the thirteen weeks ended March 29, 2017, which primarily consisted of imputed interest on our deemed landlord financing liabilities. Interest expense for the thirteen weeks ended March 30, 2016 was not material.

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 \$1.7 million for the thirteen weeks ended March 29, 2017 compared to \$1.3 million for the thirteen weeks ended March 30, 2016. Our effective income tax rate increased to 30.0% for the thirteen weeks ended March 29, 2017 from 27.9% for the thirteen weeks ended March 30, 2016.

As our ownership interest in SSE Holdings increases, our share of the taxable income of SSE Holdings also increases. 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 69.6% for the thirteen weeks ended March 29, 2017 compared to 56.1% for the thirteen weeks ended March 30, 2016. This increase in ownership interest was the primary driver for the increase in our effective income tax rate for the thirteen week period.

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 reporting a non-controlling interest on our Condensed Consolidated Statements of Income, representing the portion of net income attributable to the other members of SSE Holdings. The Third Amended and Restated Limited Liability Company Agreement of SSE Holdings provides that holders of LLC Interests may, from time to time, require SSE Holdings to redeem all or a portion of their LLC Interests for newly-issued shares of Class A common stock on a one-for-one basis. In connection with any redemption or exchange, we will receive a corresponding number of LLC Interests, increasing our total ownership interest in SSE Holdings.

The weighted average ownership percentages for the applicable reporting periods are used to attribute net income and other comprehensive income to Shake Shack Inc. and the non-controlling interest holders. The non-controlling interest holders' weighted average ownership percentage for the thirteen weeks ended March 29, 2017 and March 30, 2016 was 30.4% and 43.9%, respectively. The decrease in weighted average ownership was the primary driver for the decrease in net income attributable to non-controlling interests for the period.

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 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 are not necessarily equivalent to 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	
	March 29 2017	March 30 2016
<i>(dollar amounts in thousands)</i>		
Operating income	\$ 5,628	\$ 4,714
Less:		
Licensing revenue	2,594	2,012
Add:		
General and administrative expenses	8,470	6,884
Depreciation expense	4,748	3,106
Pre-opening costs	2,415	2,025
Loss on disposal of property and equipment	13	—
Shack-level operating profit	\$ 18,680	\$ 14,717
Total revenue	\$ 76,749	\$ 54,165
Less: licensing revenue	2,594	2,012
Shack sales	\$ 74,155	\$ 52,153
Shack-level operating profit margin	25.2%	28.2%

EBITDA and Adjusted EBITDA

EBITDA is defined as net income before net interest, 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 are not necessarily comparable to 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.

	Thirteen Weeks Ended	
	March 29 2017	March 30 2016 ⁽¹⁾
<i>(in thousands)</i>		
Net income	\$ 3,862	\$ 3,351
Depreciation expense	4,748	3,106
Interest expense, net	283	64
Income tax expense	1,658	1,299
EBITDA	10,551	7,820
Equity-based compensation	1,249	1,030
Deferred rent	225	590
Loss on disposal of property and equipment	13	—
Executive transition costs	134	—
ADJUSTED EBITDA	\$ 12,172	\$ 9,440

(1) The Company no longer excludes pre-opening costs from its computation of Adjusted EBITDA. Adjusted EBITDA for the fiscal quarter ended March 30, 2016 has been restated to conform to the current period computation methodology.

(2) Represents costs incurred during the thirteen weeks ended March 29, 2017 relating to the Company's executive search.

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 are not necessarily comparable to 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	
	March 29 2017	March 30 2016
<i>(in thousands, except per share amounts)</i>		
Numerator:		
Net income attributable to Shake Shack Inc.	\$ 2,267	\$ 1,462
Adjustments:		
Reallocation of net income attributable to non-controlling interests from the assumed exchange of LLC Interests ⁽¹⁾	1,595	1,889
Executive transition costs ⁽²⁾	134	—
Income tax expense ⁽³⁾	(321)	(543)
Adjusted pro forma net income	\$ 3,675	\$ 2,808
Denominator:		
Weighted-average shares of Class A common stock outstanding—diluted	25,955	20,812
Adjustments:		
Assumed exchange of LLC Interests for shares of Class A common stock ⁽¹⁾	11,084	15,900
Adjusted pro forma fully exchanged weighted-average shares of Class A common stock outstanding—diluted	37,039	36,712
Adjusted pro forma earnings per fully exchanged share—diluted	\$ 0.10	\$ 0.08

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

(2) Represents costs incurred in connection with our executive search, including fees paid to an executive recruiting firm.

(3) Represents the tax effect of the aforementioned adjustments and pro forma adjustments to reflect corporate income taxes at assumed effective tax rates of 35.0% and 39.6% for the thirteen weeks ended March 29, 2017 and March 30, 2016, respectively.

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 March 29, 2017, we maintained a cash and cash equivalents balance of \$15.7 million, a short-term investments balance of \$57.8 million and had \$19.9 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 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 March 29, 2017, such obligations totaled \$277.4 million. Amounts payable under the Tax Receivable Agreement are contingent upon, among other things, (i) generation of future taxable income over the term of the Tax Receivable Agreement and (ii) future changes in tax laws. If we do not generate sufficient taxable income in the aggregate over the term of the Tax Receivable Agreement to utilize the tax benefits, then we would not be required to make the related TRA Payments. Although the amount of any payments that must be made under the Tax Receivable Agreement may be significant, the timing of these payments will vary and will generally be limited to one payment per member per year. The amount of such payments are also limited to the extent we utilize the related deferred tax assets. The payments that we are required to make will generally reduce the amount of overall cash flow that might have otherwise been available to us or to SSE Holdings, but we expect the cash tax savings we will realize from the utilization of the related deferred tax assets to fund the required payments.

We believe that cash provided by operating activities, cash on hand and availability under the Revolving Credit Facility will be sufficient to fund our operating lease obligations, capital expenditures 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.

	Thirteen Weeks Ended	
	March 29 2017	March 30 2016
<i>(in thousands)</i>		
Net cash provided by operating activities	\$ 9,679	\$ 8,478
Net cash used in investing activities	(8,302)	(14,128)
Net cash provided by financing activities	2,727	656
Increase (decrease) in cash	4,104	(4,994)
Cash at beginning of period	11,607	70,849
Cash at end of period	\$ 15,711	\$ 65,855

Operating Activities

For the thirteen weeks ended March 29, 2017 net cash provided by operating activities was \$9.7 million compared to \$8.5 million for the thirteen weeks ended March 30, 2016, an increase of \$1.2 million. This increase was primarily driven by the opening of 24 new domestic company-operated Shacks.

Investing Activities

For the thirteen weeks ended March 29, 2017 net cash used in investing activities was \$8.3 million compared to \$14.1 million for the thirteen weeks ended March 30, 2016, a decrease of \$5.8 million. This decrease was primarily due to proceeds from sales of marketable securities, which partially offset the capital expenditures for the period.

Financing Activities

For the thirteen weeks ended March 29, 2017, net cash provided by financing activities was \$2.7 million compared to \$0.7 million for the thirteen weeks ended March 30, 2016, an increase of \$ 2.0 million. This increase is primarily due to an increase of \$3.7 million in proceeds from employee stock option exercises, 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 March 29, 2017, there were no amounts outstanding under the Revolving Credit Facility. We had \$19.9 million of availability, as of March 29, 2017, after giving effect to \$0.1 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 March 29, 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, other than those made in the ordinary course of business.

OFF-BALANCE SHEET ARRANGEMENTS

There have been no 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.

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 .

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 .

Item 4. Controls and Procedures.

DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including the Chief Executive Officer (in his capacity as principal executive officer and principal 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 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, 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 March 29, 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 .

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	
10.1	Employment Agreement, dated April 28, 2017, but effective as of a date to be agreed upon by the parties, no later than July 31, 2017, by and among Tara Comonte, Shake Shack Inc. and SSE Holdings, LLC	8-K	10.1	5/1/2017	
31	Certification of the Principal Executive Officer and 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				*
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: May 5, 2017

By: /s/ Randy Garutti

Randy Garutti

Chief Executive Officer

(Principal Executive 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 March 29, 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. I am 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. I have disclosed, based on my 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: May 5, 2017

/s/ Randy Garutti

Randy Garutti
Chief Executive Officer
(Principal Executive Officer, Principal Financial
Officer and Duly Authorized 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 March 29, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer 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: May 5, 2017

/s/ Randy Garutti

Randy Garutti

Chief Executive Officer

(Principal Executive Officer, Principal Financial
Officer and Duly Authorized Officer)