

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

For the Quarterly Period Ended September 29, 2019

OR

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-36104

**Potbelly Corporation**

(Exact name of registrant as specified in its charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation)  
  
111 N. Canal Street, Suite 850  
Chicago, Illinois  
(Address of Principal Executive Offices)

36-4466837  
(IRS Employer  
Identification Number)

60606  
(Zip Code)

Registrant's Telephone Number, Including Area Code: (312) 951-0600

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	PPPB	The NASDAQ Stock Market LLC (Nasdaq Global Select Market)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 Exchange Act). Yes  No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

As of October 27, 2019, the registrant had 23,607,518 shares of common stock, \$0.01 par value per share, outstanding.

**Potbelly Corporation and Subsidiaries**  
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**Potbelly Corporation and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
(amounts in thousands, except share and par value data, unaudited)

	September 29, 2019	December 30, 2018
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 15,758	\$ 19,775
Accounts receivable, net of allowances of \$204 and \$113 as of September 29, 2019 and December 30, 2018, respectively	5,084	4,737
Inventories	3,317	3,482
Prepaid expenses and other current assets	7,934	11,426
<b>Total current assets</b>	<b>32,093</b>	<b>39,420</b>
Property and equipment, net	79,626	87,782
Right-of-use assets for operating leases	212,261	—
Indefinite-lived intangible assets	3,404	3,404
Goodwill	2,222	2,222
Deferred income taxes	—	13,385
Deferred expenses, net and other assets	3,957	7,002
<b>Total assets</b>	<b>\$ 333,563</b>	<b>\$ 153,215</b>
<b>Liabilities and Equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 4,607	\$ 3,835
Accrued expenses	19,421	25,029
Short-term operating lease liabilities	28,998	—
Accrued income taxes	177	162
<b>Total current liabilities</b>	<b>53,203</b>	<b>29,026</b>
Deferred rent and landlord allowances	—	22,905
Long-term operating lease liabilities	207,196	—
Other long-term liabilities	2,988	5,751
<b>Total liabilities</b>	<b>263,387</b>	<b>57,682</b>
Commitments and contingencies (Note 10)		
<b>Equity</b>		
Common stock, \$0.01 par value—authorized 200,000,000 shares; outstanding 23,607,518 and 24,142,586 shares as of September 29, 2019 and December 30, 2018, respectively	331	330
Additional paid-in-capital	434,853	432,771
Treasury stock, held at cost, 9,453,894 and 8,801,154 shares as of September 29, 2019, and December 30, 2018, respectively	(112,624)	(108,372)
Accumulated deficit	(252,749)	(229,558)
Total stockholders' equity	69,811	95,171
Non-controlling interest	365	362
<b>Total equity</b>	<b>70,176</b>	<b>95,533</b>
<b>Total liabilities and equity</b>	<b>\$ 333,563</b>	<b>\$ 153,215</b>

*See accompanying notes to the unaudited condensed consolidated financial statements.*

**Potbelly Corporation and Subsidiaries**  
**Condensed Consolidated Statements of Operations**  
(amounts in thousands, except share and per share data, unaudited)

	For the 13 Weeks Ended		For the 39 Weeks Ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
<b>Revenues</b>				
Sandwich shop sales, net	\$ 103,560	\$ 106,238	\$ 305,619	\$ 317,866
Franchise royalties and fees	678	758	2,336	\$ 2,394
<b>Total revenues</b>	<b>104,238</b>	<b>106,996</b>	<b>307,955</b>	<b>320,260</b>
<b>Expenses</b>				
Sandwich shop operating expenses				
Cost of goods sold, excluding depreciation	27,540	28,455	81,782	83,730
Labor and related expenses	32,430	32,376	96,517	96,367
Occupancy expenses	14,850	15,076	44,457	44,787
Other operating expenses	13,274	13,357	37,235	38,650
General and administrative expenses	11,256	10,087	37,808	35,715
Depreciation expense	5,365	5,847	16,486	17,531
Pre-opening costs	16	109	26	245
Impairment and loss on disposal of property and equipment	1,650	4,386	1,978	8,467
Total expenses	106,381	109,693	316,289	325,492
Loss from operations	(2,143)	(2,697)	(8,334)	(5,232)
Interest expense	28	54	95	109
Loss before income taxes	(2,171)	(2,751)	(8,429)	(5,341)
Income tax expense (benefit)	66	(909)	13,931	(1,111)
Net loss	(2,237)	(1,842)	(22,360)	(4,230)
Net income attributable to non-controlling interest	118	119	300	285
<b>Net loss attributable to Potbelly Corporation</b>	<b>\$ (2,355)</b>	<b>\$ (1,961)</b>	<b>\$ (22,660)</b>	<b>\$ (4,515)</b>
<b>Net loss per common share attributable to common stockholders:</b>				
Basic	\$ (0.10)	\$ (0.08)	\$ (0.95)	\$ (0.18)
Diluted	\$ (0.10)	\$ (0.08)	\$ (0.95)	\$ (0.18)
<b>Weighted average shares outstanding:</b>				
Basic	23,740,005	25,369,281	23,927,046	25,355,174
Diluted	23,740,005	25,369,281	23,927,046	25,355,174

*See accompanying notes to the unaudited condensed consolidated financial statements.*

**Potbelly Corporation and Subsidiaries**  
**Condensed Consolidated Statements of Equity**  
(amounts in thousands, except share data, unaudited)

<b>For the 13 weeks ended:</b>	<b>Common Stock</b>		<b>Treasury Stock</b>	<b>Additional Paid-In- Capital</b>	<b>Accumulated Deficit</b>	<b>Non- Controlling Interest</b>	<b>Total Equity</b>
	<b>Shares</b>	<b>Amount</b>					
Balance at July 1, 2018	25,651,953	327	(88,827)	430,643	(223,234)	425	\$ 119,334
Net income (loss)	—	—	—	—	(1,961)	119	(1,842)
Stock-based compensation plans	150,287	2	—	1,421	—	—	1,423
Repurchases of common stock	(699,901)	—	(8,965)	—	—	—	(8,965)
Distributions to non-controlling interest	—	—	—	—	—	(151)	(151)
Contributions from non-controlling interest	—	—	—	—	—	20	20
Stock-based compensation expense	—	—	—	265	—	—	265
<b>Balance at September 30, 2018</b>	<b><u>25,102,339</u></b>	<b><u>\$ 329</u></b>	<b><u>\$ (97,792)</u></b>	<b><u>\$ 432,329</u></b>	<b><u>\$ (225,195)</u></b>	<b><u>\$ 413</u></b>	<b><u>\$ 110,084</u></b>
Balance at June 30, 2019	23,768,375	\$ 331	\$ (111,874)	\$ 434,407	\$ (250,394)	\$ 406	\$ 72,876
Net income (loss)	—	—	—	—	(2,355)	118	(2,237)
Stock-based compensation plans	1,305	—	—	—	—	—	—
Repurchases of common stock	(162,162)	—	(750)	—	—	—	(750)
Distributions to non-controlling interest	—	—	—	—	—	(159)	(159)
Stock-based compensation expense	—	—	—	446	—	—	446
<b>Balance at September 29, 2019</b>	<b><u>23,607,518</u></b>	<b><u>\$ 331</u></b>	<b><u>\$ (112,624)</u></b>	<b><u>\$ 434,853</u></b>	<b><u>\$ (252,749)</u></b>	<b><u>\$ 365</u></b>	<b><u>\$ 70,176</u></b>

*See accompanying notes to the unaudited condensed consolidated financial statements.*

**Potbelly Corporation and Subsidiaries**  
**Condensed Consolidated Statements of Equity**  
(amounts in thousands, except share data, unaudited)

<b>For the 39 weeks ended:</b>	<b>Common Stock</b>		<b>Treasury Stock</b>	<b>Additional Paid-In- Capital</b>	<b>Accumulated Deficit</b>	<b>Non- Controlling Interest</b>	<b>Total Equity</b>
	<b>Shares</b>	<b>Amount</b>					
Balance at December 31, 2017	24,999,688	318	(85,262)	421,657	(219,990)	515	\$ 117,238
Cumulative impact of Topic 606, net of tax of \$250	—	—	—	—	(690)	—	(690)
Net income (loss)	—	—	—	—	(4,515)	285	(4,230)
Stock-based compensation plans	1,075,662	11	—	8,156	—	—	8,167
Repurchases of common stock	(964,240)	—	(12,414)	—	—	—	(12,414)
Distributions to non-controlling interest	—	—	—	—	—	(407)	(407)
Contributions from non-controlling interest	—	—	—	—	—	20	20
Treasury shares used for stock-based plans	(8,771)	—	(116)	—	—	—	(116)
Stock-based compensation expense	—	—	—	2,516	—	—	2,516
<b>Balance at September 30, 2018</b>	<b><u>25,102,339</u></b>	<b><u>\$ 329</u></b>	<b><u>\$ (97,792)</u></b>	<b><u>\$ 432,329</u></b>	<b><u>\$ (225,195)</u></b>	<b><u>\$ 413</u></b>	<b><u>\$ 110,084</u></b>
Balance at December 30, 2018	24,142,586	\$ 330	\$ (108,372)	\$ 432,771	\$ (229,558)	\$ 362	\$ 95,533
Cumulative impact of Topic 842, net of tax of \$196	—	—	—	—	(531)	—	\$ (531)
Net income (loss)	—	—	—	—	(22,660)	300	(22,360)
Stock-based compensation plans	117,672	1	—	172	—	—	173
Repurchases of common stock	(647,821)	—	(4,217)	—	—	—	(4,217)
Distributions to non-controlling interest	—	—	—	—	—	(336)	(336)
Contributions from non-controlling interest	—	—	—	—	—	39	39
Treasury shares used for stock-based plans	(4,919)	—	(35)	—	—	—	(35)
Stock-based compensation expense	—	—	—	1,910	—	—	1,910
<b>Balance at September 29, 2019</b>	<b><u>23,607,518</u></b>	<b><u>\$ 331</u></b>	<b><u>\$ (112,624)</u></b>	<b><u>\$ 434,853</u></b>	<b><u>\$ (252,749)</u></b>	<b><u>\$ 365</u></b>	<b><u>\$ 70,176</u></b>

*See accompanying notes to the unaudited condensed consolidated financial statements.*

**Potbelly Corporation and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
(amounts in thousands, unaudited)

	For the 39 Weeks Ended	
	September 29, 2019	September 30, 2018
<b>Cash flows from operating activities:</b>		
Net loss	\$ (22,360)	\$ (4,230)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation expense	16,486	17,531
Noncash lease expense	21,246	—
Deferred income tax	13,804	(98)
Stock-based compensation expense	1,910	2,516
Asset impairment, store closure and disposal of property and equipment	2,012	8,666
Other operating activities	33	691
Changes in operating assets and liabilities:		
Accounts receivable, net	(347)	(516)
Inventories	165	65
Prepaid expenses and other assets	3,565	(2,015)
Accounts payable	763	(201)
Operating lease liabilities	(23,046)	—
Accrued expenses and other liabilities	(4,368)	244
<b>Net cash provided by operating activities:</b>	<b>9,863</b>	<b>22,653</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	\$ (9,533)	\$ (16,722)
<b>Net cash used in investing activities:</b>	<b>(9,533)</b>	<b>(16,722)</b>
<b>Cash flows from financing activities:</b>		
Debt issuance costs	\$ (40)	\$ —
Proceeds from exercise of stock options	173	8,167
Employee taxes on certain stock-based payment arrangements	(35)	(116)
Treasury stock repurchases	(4,147)	(12,414)
Distributions to non-controlling interest	(337)	(407)
Contributions from non-controlling interest	39	20
<b>Net cash used in financing activities:</b>	<b>(4,347)</b>	<b>(4,750)</b>
Net increase (decrease) in cash and cash equivalents	(4,017)	1,181
Cash and cash equivalents at beginning of period	19,775	25,530
Cash and cash equivalents at end of period	<u>\$ 15,758</u>	<u>\$ 26,711</u>
<b>Supplemental cash flow information:</b>		
Income taxes paid	\$ 180	\$ 249
Interest paid	66	85
<b>Supplemental non-cash investing and financing activities:</b>		
Unpaid liability for purchases of property and equipment	\$ 433	\$ 1,178

*See accompanying notes to the unaudited condensed consolidated financial statements*

**Potbelly Corporation and Subsidiaries**  
**Notes to Unaudited Condensed Consolidated Financial Statements (unaudited)**

**(1) Organization and Other Matters**

***Business***

Potbelly Corporation (the “Company” or “Potbelly”), through its wholly owned subsidiaries, owns or operates more than 400 company-owned shops in the United States. Additionally, Potbelly franchisees operate over 40 shops in the United States.

***Basis of Presentation***

The unaudited condensed consolidated financial statements and notes herein should be read in conjunction with the audited consolidated financial statements of Potbelly Corporation and its subsidiaries and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 30, 2018. The unaudited condensed consolidated financial statements included herein have been prepared by the Company without audit, pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the “SEC”) regarding interim financial reporting. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to the SEC rules and regulations. In the opinion of management, all adjustments, which are of a normal and recurring nature (except as otherwise noted), that are necessary to present fairly the Company’s balance sheet as of September 29, 2019 and December 30, 2018, its statement of operations for the 13 and 39 weeks ended September 29, 2019 and September 30, 2018, the statement of equity for the 13 and 39 weeks ended September 29, 2019 and September 30, 2018, and its statement of cash flows for the 39 weeks ended September 29, 2019 and September 30, 2018 have been included. The consolidated statements of operations for the interim periods presented herein are not necessarily indicative of the results to be expected for the full year.

The Company does not have any components of other comprehensive income recorded within its consolidated financial statements and therefore, does not separately present a statement of comprehensive income in its condensed consolidated financial statements.

***Principles of Consolidation***

The unaudited condensed consolidated financial statements include the accounts of Potbelly Corporation; its wholly owned subsidiary, Potbelly Illinois, Inc. (“PII”); PII’s wholly owned subsidiaries, Potbelly Franchising, LLC and Potbelly Sandwich Works, LLC (“LLC”); seven of LLC’s wholly owned subsidiaries and LLC’s seven joint ventures, collectively, the “Company.” All intercompany balances and transactions have been eliminated in consolidation. For consolidated joint ventures, non-controlling interest represents a non-controlling partner’s share of the assets, liabilities and operations related to the seven joint venture investments. The Company has ownership interests ranging from 51-80% in these consolidated joint ventures.

***Fiscal Year***

The Company uses a 52/53-week fiscal year that ends on the last Sunday of the calendar period. Approximately every five or six years a 53rd week is added. Fiscal year 2019 and 2018 both consist of 52 weeks. The fiscal quarters ended September 29, 2019 and September 30, 2018 each consisted of 13 weeks.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Significant estimates include amounts for long-lived assets and income taxes. Actual results could differ from those estimates.

***Recent Accounting Pronouncements***

On December 31, 2018, the Company adopted ASU 2016-02, “Leases (Topic 842),” along with related clarifications and improvements. This pronouncement requires lessees to recognize a liability for lease obligations, which represents the discounted obligation to make future lease payments, and a corresponding right-of-use asset on the balance sheet. The guidance requires disclosure of key information about leasing arrangements that is intended to give financial statement users the ability to assess the amount, timing, and potential uncertainty of cash flows related to leases. We elected the optional transition method to apply the standard as of the effective date and therefore, prior period amounts have not been adjusted and continue to be reported in accordance with our historical accounting under previous lease guidance, ASC Topic 840: Leases (Topic 840). The adoption of Topic 842 had a material impact on the consolidated balance sheets and an immaterial impact on the consolidated statements of operations, consolidated statements of equity and consolidated statements of cash flows.



Our practical expedients were as follows:

**Implications as of December 31, 2018**

<b>Practical expedient package</b>	We have not reassessed whether any expired or existing contracts are, or contain, leases. We have not reassessed the lease classification for any expired or existing leases. We have not reassessed initial direct costs for any expired or existing leases.
<b>Hindsight practical expedient</b>	We have not elected the hindsight practical expedient, which permits the use of hindsight when determining lease term and impairment of operating lease assets.

The impact on the consolidated balance sheet is as follows:

	December 30, 2018	Adjustments Due to the Adoption of Topic 842	December 31, 2018
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 19,775	\$ —	\$ 19,775
Accounts receivable, net of allowances of \$113 as of December 30, 2018	4,737	—	4,737
Inventories	3,482	—	3,482
Prepaid expenses and other current assets	11,426	—	11,426
<b>Total current assets</b>	<u>39,420</u>	<u>—</u>	<u>39,420</u>
Property and equipment, net	87,782	—	87,782
Right-of-use assets for operating leases	—	232,477	232,477
Indefinite-lived intangible assets	3,404	—	3,404
Goodwill	2,222	—	2,222
Deferred income taxes, noncurrent	13,385	195	13,580
Deferred expenses, net and other assets	7,002	—	7,002
<b>Total assets</b>	<u>\$ 153,215</u>	<u>\$ 232,672</u>	<u>\$ 385,887</u>
<b>Liabilities and Equity</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 3,835	\$ —	\$ 3,835
Accrued expenses <sup>(1)</sup>	25,029	(1,124)	23,905
Short-term operating lease liabilities	—	28,826	28,826
Accrued income taxes	162	—	162
<b>Total current liabilities</b>	<u>29,026</u>	<u>27,702</u>	<u>56,728</u>
Deferred rent and landlord allowances <sup>(1)</sup>	22,905	(22,905)	—
Long-term operating lease liabilities	—	228,406	228,406
Other long-term liabilities	5,751	—	5,751
<b>Total liabilities</b>	<u>57,682</u>	<u>233,203</u>	<u>290,885</u>
<b>Stockholders' equity</b>			
Common stock, \$0.01 par value—authorized 200,000,000 shares; outstanding 24,142,586 shares as of December 30, 2018	330	—	330
Additional paid-in-capital	432,771	—	432,771
Treasury stock, held at cost, 8,801,154 shares as of December 30, 2018	(108,372)	—	(108,372)
Accumulated deficit <sup>(2)</sup>	(229,558)	(531)	(230,089)
<b>Total stockholders' equity</b>	<u>95,171</u>	<u>(531)</u>	<u>94,640</u>
Non-controlling interest	362	—	362
<b>Total stockholders' equity</b>	<u>95,533</u>	<u>(531)</u>	<u>95,002</u>
<b>Total liabilities and equity</b>	<u>\$ 153,215</u>	<u>\$ 232,672</u>	<u>\$ 385,887</u>

- (1) Adjustment to reclassify deferred rent and tenant improvement allowance to right-of-use assets for operating leases upon the adoption of Topic 842.  
(2) The Company recorded a net reduction of \$0.5 million to opening accumulated deficit as of December 31, 2018, due to the cumulative impact of adopting Topic 842.

## (2) Revenue

Potbelly primarily earns revenue at a point in time through sales at our sandwich shop locations and records such revenue net of sales-related taxes collected from customers. The payment on these sales is due at the time of the customer's purchase. The Company also receives royalties from franchisees on their respective sales, which are recognized at the point in time the sale is made and invoiced weekly. Potbelly also records revenue from sales over time related to upfront franchise fees, gift card redemptions and breakage. For the 13 and 39 weeks ended September 29, 2019, revenue recognized from all revenue sources on point in time sales was \$103.9 million and \$307.2 million, respectively, and revenue recognized from sales over time was \$0.4 million and \$0.8 million, respectively. For the 13 and 39 weeks ended September 30, 2018, revenue recognized from all revenue sources on point in time sales was \$106.9 million and \$319.8 million, respectively, and revenue recognized from sales over time was \$0.1 million and \$0.5 million, respectively.

### *Franchise Revenue*

Potbelly licenses intellectual property and trademarks to franchisees through franchise agreements. As part of these franchise agreements, Potbelly receives an upfront payment from the franchisee, which the Company recognizes over the term of the franchise agreement. The Company records a contract liability for the unearned portion of the upfront franchise payments.

### *Gift Card Redemptions / Breakage Revenue*

Potbelly sells gift cards to customers, records the sale as a contract liability and recognizes the associated revenue as the gift card is redeemed. A portion of these gift cards are not redeemed by the customer, which is recognized by the Company as revenue as a percentage of customers gift card redemptions. The expected breakage amount recognized is determined by a historical data analysis on gift card redemption patterns.

### *Contract Liabilities*

As described above, the Company records current and noncurrent contract liabilities for upfront franchise fees and gift cards. There are no other contract liabilities or contract assets recorded by the Company. The opening and closing balances of the Company's current and noncurrent contract liabilities from contracts with customers were as follows:

	<b>Current Contract Liability (Thousands)</b>	<b>Noncurrent Contract Liability (Thousands)</b>
Beginning balance as of December 31, 2018	\$ (2,184)	\$ (1,631)
Ending balance as of September 29, 2019	(1,632)	(1,755)
Increase (decrease) in contract liability	<u>\$ (552)</u>	<u>\$ 124</u>

The aggregate value of remaining performance obligations on outstanding contracts was \$3.4 million as of September 29, 2019. The Company expects to recognize revenue related to contract liabilities as follows (in thousands), which may vary based upon franchise activity as well as gift card redemption patterns:

<b>Years Ending</b>	<b>Amount</b>
2019	\$ 481
2020	581
2021	266
2022	211
2023	204
Thereafter	1,644
Total revenue recognized	<u>\$ 3,387</u>

For the 13 and 39 weeks ended September 29, 2019, the amount of revenue recognized related to the December 31, 2018 liability ending balance was \$0.2 million and \$1.7 million, respectively. For the 13 and 39 weeks ended September 30, 2018, the amount of revenue recognized related to the January 1, 2018 liability ending balance was \$0.3 million and \$1.8 million, respectively. This revenue related to the recognition of gift card redemptions and upfront franchise fees. For the 39 weeks ended September 29, 2019 and the 39 weeks ended September 30, 2018, the Company did not recognize any revenue from obligations satisfied (or partially satisfied) in prior periods.

### (3) Fair Value Measurement

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

The Company assesses potential impairments to its long-lived assets, which includes property and equipment and lease right-of-use assets, on a quarterly basis or whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Shop-level assets and right-of-use assets are grouped at the individual shop-level for the purpose of the impairment assessment. Recoverability of an asset group is measured by a comparison of the carrying amount of an asset group to its estimated undiscounted future cash flows expected to be generated by the asset group. If the carrying amount of the asset group exceeds its estimated undiscounted future cash flows, an impairment charge is recognized as the amount by which the carrying amount of the asset group exceeds the fair value of the asset group. The fair value of the shop assets is determined using the discounted future cash flow method of anticipated cash flows through the shop's lease-end date using fair value measurement inputs classified as Level 3. The fair value of right-of-use assets is estimated using market comparative information for similar properties. Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. At transition of adoption to ASC 842, the Company impaired \$0.7 million of pre-tax right-of-use assets related to previously impaired shops. This amount is recorded, net of tax, as an opening reduction to retained earnings. After performing a periodic review of the Company's shops during the 13 and 39 weeks ended September 29, 2019, it was determined that indicators of impairment were present for certain shops as a result of continued underperformance. The Company performed an impairment analysis related to these shops and recorded an impairment charge of \$1.5 million and \$1.7 million for the 13 and 39 weeks ended September 29, 2019. The Company recorded an impairment charge of \$4.4 million and \$8.5 million for the 13 and 39 weeks ended September 30, 2018, respectively.

#### *Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis*

Assets recognized or disclosed at fair value on the consolidated financial statements on a nonrecurring basis include items such as leasehold improvements, property and equipment, operating lease assets, goodwill, and other intangible assets. These assets are measured at fair value if determined to be impaired.

### (4) Loss Per Share

Basic and diluted income per common share attributable to common stockholders are calculated using the weighted average number of common shares outstanding for the period. Diluted income per common share attributable to common stockholders is computed by dividing the income allocated to common stockholders by the weighted average number of fully diluted common shares outstanding. In periods of a net loss, no potential common shares are included in diluted shares outstanding as the effect is anti-dilutive. For the 13 and 39 weeks ended September 29, 2019, and September 30, 2018, the Company had a loss per share, and therefore potentially dilutive shares were excluded from the calculation.

The following table summarizes the loss per share calculation:

	For the 13 Weeks Ended		For the 39 Weeks Ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Net loss attributable to Potbelly Corporation	\$ (2,355)	\$ (1,961)	\$ (22,660)	\$ (4,515)
Weighted average common shares outstanding-basic	23,740,005	25,369,281	23,927,046	25,355,174
Plus: Effect of potential stock options exercise	—	—	—	—
Weighted average common shares outstanding-diluted	<u>23,740,005</u>	<u>25,369,281</u>	<u>23,927,046</u>	<u>25,355,174</u>
Loss per share available to common stockholders-basic	\$ (0.10)	\$ (0.08)	\$ (0.95)	\$ (0.18)
Loss per share available to common stockholders-diluted	\$ (0.10)	\$ (0.08)	\$ (0.95)	\$ (0.18)
<u>Potentially dilutive shares that are considered anti-dilutive:</u>				
Common share options	2,333,340	2,050,503	2,365,624	2,569,808

## (5) Income Taxes

Our interim tax provision is determined using an estimated annual effective tax rate and adjusted for discrete taxable events that occur during the quarter. The difference between the effective tax rate in 2019 and 2018 is the recording of the valuation allowance in the first quarter of 2019.

The Company regularly assesses the need for a valuation allowance related to its deferred tax assets, which includes consideration of both positive and negative evidence related to the likelihood of realization of such deferred tax assets to determine, based on the weight of the available evidence, whether it is more-likely-than-not that some or all of its deferred tax assets will not be realized. In its assessment, the Company considered recent financial operating results, the change in projected future taxable income for fiscal year 2019, the reversal of existing taxable temporary differences, and tax planning strategies. As a result of the changes in projected taxable income for 2019, the Company estimated it would be in a cumulative loss position as of December 29, 2019. Therefore, the Company determined that the negative evidence outweighed the positive evidence and, therefore, recorded a full valuation allowance against its net deferred tax assets during the 13 weeks ended March 31, 2019. The Company recorded a non-cash charge to income tax expense of \$13.6 million related to the recognition of the valuation allowance during the first quarter of 2019 and continues to record a valuation allowance against all of our deferred tax assets as of September 29, 2019. The Company did not provide for an income tax benefit on the pre-tax loss recorded for the 13 weeks and 39 weeks ended September 29, 2019. This accounting treatment has no effect on the Company's ability to utilize deferred tax assets to reduce future cash tax payments. The Company will continue to assess the likelihood of the realization of its deferred tax assets at the end of each reporting period and the valuation allowance will be adjusted accordingly.

## (6) Leases

We determine if a contract contains a lease at inception. The Company leases retail shops, warehouse and office space under operating leases. For leases with renewal periods at the Company's option, the Company determines the expected lease period based on whether the renewal of any options are reasonably assured at the inception of the lease.

Operating lease assets and liabilities are recognized at the lease commencement date. Operating lease liabilities represent the present value of lease payments not yet paid. Operating lease assets represent our right to use an underlying asset and are based upon the operating lease liabilities adjusted for prepayments or accrued lease payments, initial direct costs, lease incentives, and impairment of operating lease assets. To determine the present value of lease payments not yet paid, we estimate incremental secured borrowing rates corresponding to the maturities of the leases. As we have no outstanding debt nor committed credit facilities, secured or otherwise, we estimate this rate based on prevailing financial market conditions, comparable company and credit analysis, and management judgment.

We recognize expense for these leases on a straight-line basis over the lease term. Additionally, tenant incentives used to fund leasehold improvements are recognized when earned and reduce our right-of-use asset related to the lease. These are amortized through the right-of-use asset as reductions of expense over the lease term.

Related to the adoption of Topic 842, our policy elections were as follows:

<b>Separation of lease and non-lease components</b>	We elected this expedient to account for lease and non-lease components as a single component for our entire population of operating lease assets.
<b>Short-term policy</b>	We have elected the short-term lease recognition exemption for all applicable classes of underlying assets. Short-term disclosures include only those leases with a term greater than one month and 12 months or less, and expense is recognized on a straight-line basis over the lease term. Leases with an initial term of 12 months or less, that do not include an option to purchase the underlying asset that we are reasonably certain to exercise, are not recorded on the balance sheet.

Supplemental balance sheet information related to leases was as follows:

	Classification	September 29, 2019
Operating Leases		
Right-of-use assets	Right-of-use assets for operating leases	\$ 212,261
Short-term lease liabilities	Short-term operating lease liabilities	28,998
Long-term lease liabilities	Long-term operating lease liabilities	207,196
Total lease liabilities		<u>236,194</u>

Operating lease term and discount rate were as follows:

	September 29, 2019
Weighted average remaining lease term (years)	8.59
Weighted average discount rate	8.00%

Certain of the Company's operating lease agreements include variable payments that are passed through by the landlord, such as common area maintenance and real estate taxes, as well as variable payments based on percentage rent for certain of our shops. Pass-through charges and payments based on percentage rent are included within variable lease cost.

The components of lease cost were as follows:

	Classification	13 weeks ending September 29, 2019	39 weeks ending September 29, 2019
Operating lease cost	Occupancy and General and administrative expenses	11,187	33,793
Variable lease cost	Occupancy	3,277	10,430
Total lease cost		<u>\$ 14,464</u>	<u>\$ 44,223</u>

Supplemental disclosures of cash flow information related to leases were as follows:

	13 weeks ending September 29, 2019	39 weeks ending September 29, 2019
Operating cash flows rent paid for operating lease liabilities	11,762	35,488
Operating right-of-use assets obtained in exchange for new operating lease liabilities	4,745	8,402
Reduction in operating right-of-use assets due to lease terminations	(659)	(6,506)

As of September 29, 2019, the Company has additional operating lease payments related to shops not yet open of \$4.3 million. These operating leases will commence during the next fiscal year with an average lease term of 12 years.

Maturities of lease liabilities were as follows as of September 29, 2019:

	Operating Leases
Remainder of 2019	11,123
2020	46,672
2021	42,581
2022	37,033
2023	32,309
2024	29,207
Thereafter	137,063
Total lease payments	335,988
Less: imputed interest	(99,794)
Present value of lease liabilities	<u>\$ 236,194</u>

As previously disclosed in our 2018 Annual Report on Form 10-K and under the previous lease accounting, maturities of lease liabilities were as follows as of December 30, 2018:

	<u>Operating Leases</u>
2019	47,918
2020	45,828
2021	41,497
2022	36,120
2023	31,060
Thereafter	138,928
Total minimum lease payments	<u>341,351</u>

#### **(7) Debt and Credit Facilities**

On August 7, 2019, the Company entered into a second amended and restated revolving credit facility agreement (the "Credit Agreement") with JPMorgan Chase Bank, N.A. ("JPMorgan") that expires in July 2022. The Credit Agreement amends and restates that certain amended and restated revolving credit facility agreement, dated as of December 9, 2015, and amended on May 3, 2019 (collectively, the "Prior Credit Agreement") with JPMorgan. The Credit Agreement provides, among other things, for a revolving credit facility in a maximum principal amount \$40 million, with possible future increases of up to \$20 million under an expansion feature. Borrowings under the credit facility generally bear interest at the Company's option at either (i) a eurocurrency rate determined by reference to the applicable LIBOR rate plus a margin ranging from 1.25% to 1.75% or (ii) a prime rate as announced by JP Morgan plus a margin ranging from 0.00% to 0.50%. The applicable margin is determined based upon the Company's consolidated total leverage ratio. On the last day of each calendar quarter, the Company is required to pay a commitment fee of 0.20% per annum in respect of any unused commitments under the credit facility. So long as certain total leverage ratios, EBITDA thresholds and minimum liquidity requirements are met and no default or event of default has occurred or would result, there is no limit on the "restricted payments" (primarily distributions and equity repurchases) that the Company may make, provided that proceeds of the loans under the Credit Agreement may not be used for purposes of making restricted payments. As of the 39 weeks ended September 29, 2019, the Company had no amounts outstanding under the Credit Agreement.

#### **(8) Capital Stock**

On May 8, 2018, the Company announced that its Board of Directors authorized a stock repurchase program for up to \$65.0 million of its outstanding common stock. The program permits the Company, from time to time, to purchase shares in the open market (including in pre-arranged stock trading plans in accordance with the guidelines specified in Rule 10b5-1 under the Securities and Exchange Act of 1934, as amended) or in privately negotiated transactions. The number of common shares actually repurchased, and the timing and price of repurchases, will depend upon market conditions, SEC requirements and other factors. Purchases may be started or stopped at any time without prior notice depending on market conditions and other factors. For the 13 weeks ended September 29, 2019, the Company repurchased 162,162 shares of its common stock for approximately \$0.7 million under the stock repurchase program, including cost and commission, in open market transactions. For the 39 weeks ended September 29, 2019, the Company repurchased 647,821 shares of its common stock for approximately \$4.2 million under the stock repurchase program, including cost and commission, in open market transactions. Repurchased shares are included as treasury stock in the condensed consolidated balance sheets and the condensed consolidated statements of equity.

#### **(9) Stock-Based Compensation**

##### *Stock options*

On May 16, 2019, the Company's stockholders approved the Potbelly Corporation 2019 Long-Term Incentive Plan (the "2019 Plan") and, in connection therewith, all equity awards made after that date were made under the 2019 Plan. On June 10, 2019, the Company registered 1,200,000 shares of its common stock reserved for issuance under the 2019 Plan. All remaining shares of common stock reserved for issuance under the previous Amended and Restated 2013 Long-Term Incentive Plan (the "2013 Plan") are available for issuance under the 2019 Plan and no future awards will be made under the 2013 Plan. The fair value of stock options is determined using the Black-Scholes option pricing model. There were no stock options granted during the 13 weeks and 39 weeks ended September 29, 2019.

A summary of stock option activity for the 39 weeks ended September 29, 2019 is as follows:

<b>Options</b>	<b>Shares (Thousands)</b>	<b>Weighted Average Exercise Price</b>	<b>Aggregate Intrinsic Value (Thousands)</b>	<b>Weighted Average Remaining Term (Years)</b>
Outstanding—December 30, 2018	2,150	\$ 11.49	\$ 378	5.13
Granted	—	—	—	—
Exercised	(22)	7.93	—	—
Canceled	(260)	13.15	—	—
Outstanding—September 29, 2019	1,868	\$ 11.30	\$ —	4.78
Exercisable—September 29, 2019	1,489	\$ 11.03	\$ —	3.89

Stock-based compensation related to stock options is measured at the grant date based on the calculated fair value of the award, and is recognized as expense over the requisite employee service period, which is generally the vesting period of the grant with a corresponding increase to additional paid-in capital. For the 13 weeks and 39 weeks ended September 29, 2019, the Company recognized stock-based compensation expense related to stock options of \$0.1 million and \$0.7 million, respectively. For the 13 weeks and 39 weeks ended September 30, 2018, the Company recognized stock-based compensation expense related to stock options of \$0.1 million and \$1.1 million, respectively. As of September 29, 2019, unrecognized stock-based compensation expense for stock options was \$1.1 million, which will be recognized through fiscal year 2022. The Company records stock-based compensation expense within general and administrative expenses in the condensed consolidated statements of operations.

#### *Restricted stock units*

The Company awards restricted stock units (“RSUs”) to certain employees of the Company and certain non-employee members of its Board of Directors. The Board of Director grants have a vesting schedule of 50% on the first anniversary of the grant date and 50% on the second anniversary of the grant date. The employee grants vest in one-third increments over a three-year period. For the 13 weeks and 39 weeks ended September 29, 2019, the Company recognized stock-based compensation expense related to RSUs of \$0.3 million and \$1.2 million, respectively. For the 13 weeks and 39 weeks ended September 30, 2018, the Company recognized stock-based compensation expense related to RSUs of \$0.1 million and \$1.4 million, respectively. As of September 29, 2019, unrecognized stock-based compensation expense for RSUs was \$1.8 million, which will be recognized through fiscal year 2022.

A summary of RSU activity for the 39 weeks ended September 29, 2019 is as follows:

<b>RSUs</b>	<b>Number of RSUs (Thousands)</b>	<b>Weighted Average Fair Value per Share</b>
Non-vested as of December 30, 2018	247	\$ 11.99
Granted	331	6.80
Vested	(94)	6.10
Canceled	(23)	7.55
Non-vested as of September 29, 2019	461	\$ 8.48

#### *Performance stock units*

The Company awards performance share units (“PSUs”) to eligible employees; the PSUs are subject to service and performance vesting conditions. In March of 2019 the Company issued 188,414 PSUs with a grant date fair value of \$8.46 per share. The PSUs will vest based on the Company’s achievement of certain targets related to adjusted EBITDA and same store sales goals. The PSUs will vest fully on the third anniversary of the grant date. The quantity of shares that will vest ranges from 0% to 200% of the targeted number of shares. If the defined minimum targets are not met, then no shares will vest. For the 13 weeks and 39 weeks ended September 29, 2019, the expense associated with the PSUs was not material.

**(10) Commitments and Contingencies**

The Company is subject to legal proceedings, claims and liabilities, such as employment-related claims and slip and fall cases, which arise in the ordinary course of business and are generally covered by insurance. In the opinion of management, the amount of ultimate liability with respect to those actions should not have a material adverse impact on the Company's financial position or results of operations and cash flows.

In October 2017, plaintiffs filed a purported collective and class action lawsuit (the "Complaint") in the United States District Court for the Southern District of New York against the Company alleging violations of the Fair Labor Standards Act (FLSA) and New York Labor Law (NYLL). The plaintiffs allege that the Company violated the FLSA and NYLL by not paying overtime compensation to our assistant managers and violated NYLL by not paying spread-of-hours pay. The Complaint was brought as a nationwide "collective action" under the FLSA and as a "class action" under NYLL. Since the filing of the Complaint, the plaintiffs filed a proposed amended complaint removing the NYLL class claim, but adding a proposed Illinois state law class action. In May 2019, the parties participated in a mediation and resolved the claims, subject to court approval. All charges related to the claims are reflected in the statement of operations.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Forward-Looking Statements

The following discussion of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q and with our audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 30, 2018. This discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Private Securities Litigation Reform Act of 1995, and involves numerous risks and uncertainties. Forward-looking statements may include, among others, statements relating to: our future financial position and results of operations, estimated costs associated with our closure of underperforming shops, and the implementation and results of strategic initiatives. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts and generally contain words such as "believes," "expects," "may," "will," "should," "seeks," "intends," "plans," "strives," "goal," "estimates," "forecasts," "projects" or "anticipates" and the negative of these terms or similar expressions. Our forward-looking statements are subject to risks and uncertainties, which may cause actual results to differ materially from those projected or implied by the forward-looking statement, due to reasons including, but not limited to, competition; general economic conditions; our ability to successfully implement our business strategy; the success of our initiatives to increase sales and traffic; changes in commodity, energy and other costs; our ability to attract and retain management and employees; consumer reaction to industry-related public health issues and perceptions of food safety; our ability to manage our growth; reputational and brand issues; price and availability of commodities; consumer confidence and spending patterns; and weather conditions. Forward-looking statements are based on current expectations and assumptions and currently available data and are neither predictions nor guarantees of future events or performance. You should not place undue reliance on forward-looking statements, which speak only as of the date hereof. See "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" included in our Annual Report on Form 10-K for the fiscal year ended December 30, 2018, for a discussion of factors that could cause our actual results to differ from those expressed or implied by forward-looking statements. 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.

### Overview

Potbelly Corporation is a neighborhood sandwich concept that has been feeding customers' smiles with warm, toasty sandwiches, signature salads, hand-dipped shakes and other fresh menu items, customized just the way customers want them, for more than 40 years. Potbelly promises Fresh, Fast & Friendly service in an environment that reflects the local neighborhood. Our employees are trained to engage with our customers in a genuine way to provide a personalized experience. Our shops feature vintage design elements and locally-themed décor inspired by the neighborhood that we believe create a lively atmosphere. Through this combination, we believe we are creating a devoted base of Potbelly fans that return again and again.

We believe that a key to our past and future success is our culture. It is embodied in The Potbelly Advantage, which is an expression of our Vision, Mission and Values, and the foundation of everything we do. Our Vision is to create an experience people love to share thanks to our craveable food, quirky personality and amazing people. Our Mission is to help people love lunch again. Our Values embody both how we lead and how we behave and form the cornerstone of our culture. We use simple language that resonates from the frontline associate to the most senior levels of the organization, creating shared expectations and accountabilities in how we approach our day-to-day activities. We strive to be a fun, friendly and hardworking group of people who enjoy taking care of our customers, while at the same time taking care of each other.

The table below sets forth a rollforward of company-operated and franchise operated activities:

	Company-Operated	Franchise-Operated		Total	Total Company
		Domestic	International		
Shops as of December 31, 2017	437	39	16	55	492
Shops opened	6	2	2	4	10
Shops closed	(8)	(2)	(4)	(6)	(14)
Shops as of September 30, 2018	435	39	14	53	488
Shops as of December 30, 2018	437	41	8	49	486
Shops opened	1	6	—	6	7
Shops closed	(11)	(2)	(8)	(10)	(21)
Shops as of September 29, 2019	427	45	—	45	472

### 13 Weeks Ended September 29, 2019 Compared to 13 Weeks Ended September 30, 2018

The following table presents information comparing the components of net income for the periods indicated (dollars in thousands):

	For the 13 Weeks Ended		For the 13 Weeks Ended		Increase (Decrease)	Percent Change
	September 29, 2019	% of Revenues	September 30, 2018	% of Revenues		
<b>Revenues</b>						
Sandwich shop sales, net	\$ 103,560	99.3%	\$ 106,238	99.3%	\$ (2,678)	(2.5)%
Franchise royalties and fees	678	0.7	758	0.7	(80)	(10.6)
<b>Total revenues</b>	<b>104,238</b>	<b>100.0</b>	<b>106,996</b>	<b>100.0</b>	<b>(2,758)</b>	<b>(2.6)</b>
<b>Expenses</b>						
<i>(Percentages stated as a percent of sandwich shop sales, net)</i>						
Sandwich shop operating expenses						
Cost of goods sold, excluding depreciation	27,540	26.6	28,455	26.8	(915)	(3.2)
Labor and related expenses	32,430	31.3	32,376	30.5	54	0.2
Occupancy expenses	14,850	14.3	15,076	14.2	(226)	(1.5)
Other operating expenses	13,274	12.8	13,357	12.6	(83)	(0.6)
<i>(Percentages stated as a percent of total revenues)</i>						
General and administrative expenses	11,256	10.8	10,087	9.4	1,169	11.6
Depreciation expense	5,365	5.1	5,847	5.5	(482)	(8.2)
Pre-opening costs	16	*	109	0.1	(93)	(85.3)
Impairment and loss on disposal of property and equipment	1,650	1.6	4,386	4.1	(2,736)	(62.4)
Total expenses	106,381	>100	109,693	>100	(3,312)	(3.0)
Loss from operations	(2,143)	(2.1)	(2,697)	(2.5)	554	(20.5)
Interest expense	28	*	54	*	(26)	(48.1)
Loss before income taxes	(2,171)	(2.1)	(2,751)	(2.6)	580	(21.1)
Income tax benefit (expense)	66	*	(909)	(0.8)	975	>(100)
Net loss	(2,237)	(2.1)	(1,842)	(1.7)	(395)	21.4
Net income attributable to non-controlling interest	118	0.1	119	0.1	(1)	(0.8)
<b>Net loss attributable to Potbelly Corporation</b>	<b>\$ (2,355)</b>	<b>(2.3)%</b>	<b>\$ (1,961)</b>	<b>(1.8)%</b>	<b>\$ (394)</b>	<b>20.1%</b>

\* Amount is less than 0.1%

#### Revenues

Total revenues decreased by \$2.8 million, or 2.6%, to \$104.2 million during the 13 weeks ended September 29, 2019, from \$107.0 million during the 13 weeks ended September 30, 2018. The revenue decrease was driven by a \$3.1 million, or 3.0%, decrease in sales from company-operated comparable store shops and a decrease in sales of \$1.6 million from shops that have closed. These decreases were partially offset by an increase in sales from shops not yet in our company-operated comparable store sales base and shops that opened in 2019.

### ***Cost of Goods Sold***

Cost of goods sold decreased by \$0.9 million, or 3.2%, to \$27.5 million during the 13 weeks ended September 29, 2019, from \$28.5 million during the 13 weeks ended September 30, 2018. This decrease was primarily driven by a decrease in shop revenue. As a percentage of sandwich shop sales, cost of goods sold decreased to 26.6% during the 13 weeks ended September 29, 2019, from 26.8% during the 13 weeks ended September 30, 2018, primarily driven by menu price increases, partially offset by cost inflation in certain products.

### ***Labor and Related Expenses***

Labor and related expenses remained at \$32.4 million during the 13 weeks ended September 29, 2019, compared to the 13 weeks ended September 30, 2018, primarily due to inflationary wage increases in certain states which was offset by a decrease in expense from closed shops. As a percentage of sandwich shop sales, labor and related expenses increased to 31.3% during the 13 weeks ended September 29, 2019, from 30.5% during the 13 weeks ended September 30, 2018, primarily driven by inflationary wage increases in certain states and sales deleverage in certain labor related costs not directly variable with sales, partially offset by a decrease in expense from closed shops.

### ***Occupancy Expenses***

Occupancy expenses decreased by \$0.2 million, or 1.5%, to \$14.9 million during the 13 weeks ended September 29, 2019, from \$15.1 million during the 13 weeks ended September 30, 2018 primarily due to shop closures, partially offset by inflation in certain occupancy related costs, including lease renewals, real estate taxes and common area maintenance. As a percentage of sandwich shop sales, occupancy expenses increased to 14.3% during the 13 weeks ended September 29, 2019, from 14.2% during the 13 weeks ended September 30, 2018, primarily due to sales deleverage and inflation in certain occupancy related costs, including lease renewals, real estate taxes and common area maintenance.

### ***Other Operating Expenses***

Other operating expenses decreased by \$0.1 million, or 0.6%, to \$13.3 million during the 13 weeks ended September 29, 2019, from \$13.4 million during the 13 weeks ended September 30, 2018. The decrease was primarily attributable to a decrease in music and certain items variable with sales, partially offset by higher expenses related to third-party delivery partnerships driven by increased sales in that channel. As a percentage of sandwich shop sales, other operating expenses increased slightly to 12.8% during the 13 weeks ended September 29, 2019, from 12.6% during the 13 weeks ended September 30, 2018, primarily driven by sales deleverage in operating expense items such as utilities and other expenses not directly variable with sales.

### ***General and Administrative Expenses***

General and administrative expenses increased by \$1.2 million, or 11.6%, to \$11.3 million during the 13 weeks ended September 29, 2019, from \$10.1 million during the 13 weeks ended September 30, 2018. The increase was driven primarily by an increase in nonrecurring professional services fees, share-based compensation expense, and lease exit costs, partially offset by a decrease in advertising expenses. Regarding the nonrecurring professional service fees, \$2.3 million was incurred during the 13 weeks ended September 29, 2019, and \$0.8 million will be recognized in the following quarter. As a percentage of revenues, general and administrative expenses increased to 10.8% during the 13 weeks ended September 29, 2019, from 9.4% during the 13 weeks ended September 30, 2018, primarily due to an increase in professional services as well as sales deleverage and lease exit costs, partially offset by a decrease in advertising expenses.

### ***Depreciation Expense***

Depreciation expense decreased by \$0.5 million, or 8.2%, to \$5.4 million during the 13 weeks ended September 29, 2019, from \$5.8 million during the 13 weeks ended September 30, 2018. The decrease was driven primarily by a lower depreciable base related to impairment charges taken subsequent to the 13 weeks ended September 30, 2018, as well as lower depreciation associated with longer expected useful lives for leasehold improvements at new shops and leasehold improvements at legacy shops with shorter expected useful lives being fully depreciated. These decreases were partially offset by existing shop capital investments and investments in technology such as the mobile application, which increased the depreciable base. As a percentage of revenues, depreciation was 5.1% during the 13 weeks ended September 29, 2019 and was 5.5% for the 13 weeks ended September 30, 2018.

### ***Pre-Opening Costs***

Pre-opening costs were \$16 thousand during the 13 weeks ended September 29, 2019 and \$109 thousand during the 13 weeks ended September 30, 2018. The decrease was due to no new company-owned shop openings in the third quarter of 2019.

***Impairment and Loss on Disposal of Property and Equipment and Right-of-Use Lease Assets***

Impairment and loss on disposal of property and equipment and right-of-use lease assets decreased to \$1.7 million during the 13 weeks ended September 29, 2019, from \$4.4 million during the 13 weeks ended September 30, 2018. After performing periodic reviews of Company shops during the third quarter of 2019, it was determined that indicators of impairment were present for certain shops. The Company performed impairment analyses related to these shops and recorded an impairment charge of \$1.7 million for the excess of the carrying amount recorded on the balance sheet over the shops' estimated fair value. The Company performs impairment analyses on a quarterly basis, which involves significant judgment by management including estimates of future cash flows and future growth rates, among other assumptions. Based on the Company's current projections, no impairment beyond what has already been recorded has been identified. However, given the current challenges facing the industry and our business, future evaluations could result in additional impairment charges.

***Interest Expense***

Interest expense was \$28 thousand during the 13 weeks ended September 29, 2019 and \$54 thousand during the 13 weeks ended September 30, 2018.

***Income Tax Expense***

Income tax expense was \$66 thousand for the 13 weeks ended September 29, 2019, compared to an income tax benefit of \$0.9 million for the 13 weeks ended September 30, 2018.

### 39 Weeks Ended September 29, 2019 Compared to 39 Weeks Ended September 30, 2018

The following table presents information comparing the components of net income for the periods indicated (dollars in thousands):

	For the 39 Weeks Ended				Increase (Decrease)	Percent Change
	September 29, 2019	% of Revenues	September 30, 2018	% of Revenues		
<b>Revenues</b>						
Sandwich shop sales, net	\$ 305,619	99.2%	\$ 317,866	99.3%	\$ (12,247)	(3.9)%
Franchise royalties and fees	2,336	0.8	2,394	0.7	(58)	(2.4)
<b>Total revenues</b>	<b>307,955</b>	<b>100.0</b>	<b>320,260</b>	<b>100.0</b>	<b>(12,305)</b>	<b>(3.8)</b>
<b>Expenses</b>						
<i>(Percentages stated as a percent of sandwich shop sales, net)</i>						
Sandwich shop operating expenses						
Cost of goods sold, excluding depreciation	81,782	26.8	83,730	26.3	(1,948)	(2.3)
Labor and related expenses	96,517	31.6	96,367	30.3	150	0.2
Occupancy expenses	44,457	14.5	44,787	14.1	(330)	(0.7)
Other operating expenses	37,235	12.2	38,650	12.2	(1,415)	(3.7)
<i>(Percentages stated as a percent of total revenues)</i>						
General and administrative expenses	37,808	12.3	35,715	11.2	2,093	5.9
Depreciation expense	16,486	5.4	17,531	5.5	(1,045)	(6.0)
Pre-opening costs	26	*	245	*	(219)	(89.4)
Impairment and loss on disposal of property and equipment	1,978	0.6	8,467	2.6	(6,489)	(76.6)
Total expenses	316,289	>100	325,492	>100	(9,203)	(2.8)
Loss from operations	(8,334)	(2.7)	(5,232)	(1.6)	(3,102)	59.3
Interest expense	95	*	109	*	(14)	(12.8)
Loss before income taxes	(8,429)	(2.7)	(5,341)	(1.7)	(3,088)	57.8
Income tax expense (benefit)	13,931	4.5	(1,111)	(0.3)	15,042	>(100)
Net loss	(22,360)	(7.3)	(4,230)	(1.3)	(18,130)	>100
Net income attributable to non-controlling interests	300	*	285	*	15	5.3
<b>Net loss attributable to Potbelly Corporation</b>	<b>\$ (22,660)</b>	<b>(7.4)%</b>	<b>\$ (4,515)</b>	<b>(1.4)%</b>	<b>\$ (18,145)</b>	<b>&gt;100</b>

\* Amount is less than 0.1%

#### Revenues

Total revenues decreased by \$12.3 million, or 3.8%, to \$308.0 million during the 39 weeks ended September 29, 2019, from \$320.3 million during the 39 weeks ended September 30, 2018. The revenue decrease was driven by a \$12.2 million, or 3.9%, decrease in sales from company-operated comparable store shops and a decrease in sales of \$5.5 million from shops that have closed. These decreases were partially offset by an increase in sales from shops not yet in our company-operated comparable store sales base and shops that opened in 2019.

### ***Cost of Goods Sold***

Cost of goods sold decreased by \$1.9 million, or 2.3%, to \$81.8 million during the 39 weeks ended September 29, 2019, from \$83.7 million during the 39 weeks ended September 30, 2018. This decrease was primarily driven by a decrease in shop revenue. As a percentage of sandwich shop sales, cost of goods sold increased to 26.8% during the 39 weeks ended September 29, 2019, from 26.3% during the 39 weeks ended September 30, 2018, primarily driven by higher discounting and cost inflation in certain products, partially offset by certain menu price increases.

### ***Labor and Related Expenses***

Labor and related expenses increased by \$0.2 million, or 0.2%, to \$96.5 million during the 39 weeks ended September 29, 2019, from \$96.4 million during the 39 weeks ended September 30, 2018. As a percentage of sandwich shop sales, labor and related expenses increased to 31.6% during the 39 weeks ended September 29, 2019, from 30.3% during the 39 weeks ended September 30, 2018. These increases were primarily driven by inflationary wage increases in certain states and sales deleverage in certain labor related costs not directly variable with sales, which were partially offset by a decrease in expense from closed shops and labor management.

### ***Occupancy Expenses***

Occupancy expenses decreased by \$0.3 million, or 0.7%, to \$44.5 million during the 39 weeks ended September 29, 2019, from \$44.8 million during the 39 weeks ended September 30, 2018, primarily due to a decrease in occupancy expenses related to closed shops. This decrease was partially offset by inflation in certain occupancy related costs, including lease renewals, real estate taxes and common area maintenance. As a percentage of sandwich shop sales, occupancy expenses increased to 14.5% during the 39 weeks ended September 29, 2019, from 14.1% during the 39 weeks ended September 30, 2018, primarily due to sales deleverage and inflation in certain occupancy related costs, including lease renewals, real estate taxes and common area maintenance.

### ***Other Operating Expenses***

Other operating expenses decreased by \$1.4 million, or 3.7%, to \$37.2 million during the 39 weeks ended September 29, 2019, from \$38.7 million during the 39 weeks ended September 30, 2018. The decrease was primarily attributable to items such as music and certain items variable with sales, partially offset by higher expenses related to third-party delivery partnerships driven by increased sales in that channel. As a percentage of sandwich shop sales, other operating expenses were unchanged at 12.2% during both the 39 weeks ended September 29, 2019 and the 39 weeks ended September 30, 2018.

### ***General and Administrative Expenses***

General and administrative expenses increased by \$2.1 million, or 5.9%, to \$37.8 million during the 39 weeks ended September 29, 2019, from \$35.7 million during the 39 weeks ended September 30, 2018. As a percentage of revenues, general and administrative expenses increased to 12.3% during the 39 weeks ended September 29, 2019, from 11.2% during the 39 weeks ended September 30, 2018. These increases were driven primarily by an increase in advertising, nonrecurring professional services fees, and lease exit costs, partially offset by a decrease in restructuring costs, stock-based compensation expense and performance-based incentive expenses. Regarding the nonrecurring professional service fees, \$2.3 million was incurred during the 39 weeks ended September 29, 2019, and \$0.8 million will be recognized in the following quarter.

### ***Depreciation Expense***

Depreciation expense decreased by \$1.0 million, or 6.0%, to \$16.5 million during the 39 weeks ended September 29, 2019, from \$17.5 million during the 39 weeks ended September 30, 2018, driven primarily by a lower depreciable base related to impairment charges taken subsequent to the 39 weeks ended September 30, 2018, as well as lower depreciation associated with longer expected useful lives for leasehold improvements and leasehold improvements at legacy shops with shorter expected useful lives being fully depreciated. These decreases were partially offset by existing shop capital investments and investments in technology such as the mobile application, which increased the depreciable base. As a percentage of revenues, depreciation was 5.4% during the 39 weeks ended September 29, 2019, and 5.5% for the 39 weeks ended September 30, 2018.

### ***Pre-Opening Costs***

Pre-opening costs decreased to \$26 thousand during the 39 weeks ended September 29, 2019, from \$245 thousand during the 39 weeks ended September 30, 2018. The decrease was driven primarily by fewer shops opened during the 39 weeks ended September 29, 2019 compared to the 39 weeks ended September 30, 2018.

### ***Impairment and Loss on Disposal of Property and Equipment***

Impairment and loss on disposal of property and equipment decreased to \$2.0 million during the 39 weeks ended September 29, 2019, compared to \$8.5 million during the 39 weeks ended September 30, 2018. After performing periodic reviews of Company shops during the first, second, and third quarter of 2019, it was determined that indicators of impairment were present for certain shops as a result of continued underperformance. We performed impairment analyses related to these shops and recorded impairment charges of \$2.0 million for the excess of the carrying amount recorded on our balance sheet over the shops' estimated fair value. We perform impairment analyses on a quarterly basis, which involve significant judgment by management including estimates of future cash flows and future growth rates, among other assumptions. Based on our current projections, no impairment beyond what has already been recorded has been identified. However, given the current challenges facing the industry and our business, future evaluations could result in additional impairment charges.

### ***Interest Expense***

Interest expense was \$95 thousand for the 39 weeks ended September 29, 2019 and \$109 thousand for the 39 weeks ended September 30, 2018.

### ***Income Tax Expense (Benefit)***

Income tax expense increased by \$15.0 million to \$13.9 million for the 39 weeks ended September 29, 2019, from a benefit of \$1.1 million for the 39 weeks ended September 30, 2018. The change was primarily attributable to the valuation allowance on deferred tax assets recorded by the Company during the first quarter of 2019, as a result of the changes in projected taxable income for 2019. The Company estimated it would be in a cumulative loss position as of December 29, 2019. Therefore, the Company determined that the negative evidence outweighed the positive evidence and, therefore, recorded a full valuation allowance against its net deferred tax assets. The Company recorded a non-cash charge to income tax expense of \$13.6 million related to the recognition of the valuation allowance and did not provide for an income tax benefit on the pre-tax loss recorded for the 39 weeks ended September 29, 2019. This accounting treatment has no effect on the Company's ability to utilize deferred tax assets to reduce future cash tax payments. The Company will continue to assess the likelihood of the realization of its deferred tax assets at the end of each reporting period and the valuation allowance will be adjusted accordingly.

### ***Liquidity and Capital Resources***

#### ***General***

Potbelly's ongoing primary sources of liquidity and capital resources are cash provided from operating activities, existing cash and cash equivalents and the Company's credit facility. Potbelly's primary requirements for liquidity and capital are new shop openings, existing shop capital investments, maintenance, repurchases of Company common stock, lease obligations, working capital and general corporate needs. Potbelly's requirement for working capital is not significant since the Company's customers pay for their food and beverage purchases in cash or payment cards (credit or debit) at the time of sale. Thus, Potbelly is able to sell certain inventory items before the Company needs to pay its suppliers for such items. Company shops do not require significant inventories or receivables. Potbelly believes that these sources of liquidity and capital will be sufficient to finance the Company's continued operations and expansion plans for at least the next twelve months.

The following table presents summary cash flow information for the periods indicated (in thousands):

	For the 39 Weeks Ended	
	September 29, 2019	September 30, 2018
Net cash provided by (used in):		
Operating activities	\$ 9,863	\$ 22,653
Investing activities	(9,533)	(16,722)
Financing activities	(4,347)	(4,750)
Net increase (decrease) in cash	<u>\$ (4,017)</u>	<u>\$ 1,181</u>

#### ***Operating Activities***

Net cash provided by operating activities decreased to \$9.9 million for the 39 weeks ended September 29, 2019, from \$22.7 million for the 39 weeks ended September 30, 2018. The \$12.8 million decrease was primarily driven by an increase in loss from operations, as well as timing of payment for certain liabilities.

### ***Investing Activities***

Net cash used in investing activities decreased to \$9.5 million for the 39 weeks ended September 29, 2019, from \$16.7 million for the 39 weeks ended September 30, 2018. The decrease was primarily due to fewer shops opened and under construction during the 39 weeks ended September 29, 2019 compared to the 39 weeks ended September 30, 2018.

### ***Financing Activities***

Net cash used in financing activities decreased to \$4.3 million for the 39 weeks ended September 29, 2019, from \$4.8 million for the 39 weeks ended September 30, 2018. The change in financing cash was primarily driven by an \$8.3 million decrease in repurchases of treasury stock offset by an \$8.0 million decrease in proceeds from the exercise of stock options during the 39 weeks ended September 29, 2019.

### ***Stock Repurchase Program***

On May 8, 2018, the Company announced that its Board of Directors authorized a stock repurchase program for up to \$65.0 million of its outstanding common stock. The program permits the Company, from time to time, to purchase shares in the open market (including in pre-arranged stock trading plans in accordance with the guidelines specified in Rule 10b5-1 under the Exchange Act) or in privately negotiated transactions. Under the program, for the 39 weeks ended September 29, 2019, the Company repurchased 647,821 shares of its common stock for approximately \$4.2 million under the stock repurchase program, including cost and commission, in open market transactions. The number of shares of common stock repurchased in the future, and the timing and price of repurchases, will depend upon market conditions, liquidity needs and other factors. Purchases may be started or stopped at any time without prior notice depending on market conditions and other factors. Repurchased shares are included as treasury stock in the condensed consolidated balance sheets and the condensed consolidated statements of equity.

### ***Credit Facility***

On August 7, 2019, the Company entered into a second amended and restated revolving credit facility agreement (the "Credit Agreement") with JPMorgan Chase Bank, N.A. ("JPMorgan") that expires in July 2022. The Credit Agreement amends and restates that certain amended and restated revolving credit facility agreement, dated as of December 9, 2015, and amended on May 3, 2019 (collectively, the "Prior Credit Agreement") with JPMorgan. The Credit Agreement provides, among other things, for a revolving credit facility in a maximum principal amount of \$40 million, with possible future increases of up to \$20 million under an expansion feature. Borrowings under the credit facility generally bear interest at the Company's option at either (i) a eurocurrency rate determined by reference to the applicable LIBOR rate plus a margin ranging from 1.25% to 1.75% or (ii) a prime rate as announced by JPMorgan plus a margin ranging from 0.00% to 0.50%. The applicable margin is determined based upon the Company's consolidated total leverage ratio. On the last day of each calendar quarter, the Company is required to pay a commitment fee of 0.20% per annum in respect of any unused commitments under the credit facility. So long as certain total leverage ratios, EBITDA thresholds and minimum liquidity requirements are met and no default or event of default has occurred or would result, there is no limit on the "restricted payments" (primarily distributions and equity repurchases) that the Company may make, provided that proceeds of the loans under the Credit Agreement may not be used for purposes of making restricted payments. As of the 39 weeks ended September 29, 2019, the Company had no amounts outstanding under the Credit Agreement.

### ***Critical Accounting Policies and Estimates***

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Significant estimates include amounts for long-lived assets and income taxes. Actual results could differ from those estimates. Critical accounting policies are those that management believes are both most important to the portrayal of our financial condition and operating results and require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company bases estimates on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Judgments and uncertainties affecting the application of those policies may result in materially different amounts being reported under different conditions or using different assumptions. Potbelly had no significant changes in our critical accounting estimates since the last annual report. The Company's critical accounting estimates are identified and described in our annual consolidated financial statements and related notes.



**Off-Balance Sheet Arrangements**

As of September 29, 2019, the Company does not have any off-balance sheet arrangements, synthetic leases, investments in special purpose entities or undisclosed borrowings or debt that would be required to be disclosed pursuant to Item 303 of Regulation S-K under the Exchange Act.

**New and Revised Financial Accounting Standards**

See Note 1 to the Consolidated Financial Statements for a description of recently issued Financial Accounting Standards.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

For quantitative and qualitative disclosures about market risk, see Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” of our Annual Report on Form 10-K for the fiscal year ended December 30, 2018. Our exposures to market risk have not changed materially since December 30, 2018.

**ITEM 4. CONTROLS AND PROCEDURES****Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Principal Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 29, 2019. Based upon that evaluation, our Chief Executive Officer and Principal Financial Officer have concluded that, as of September 29, 2019, our disclosure controls and procedures were effective in ensuring that information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and is accumulated and communicated to our management, including our Chief Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the third quarter ended September 29, 2019 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Information pertaining to legal proceedings is provided in Note 10 to the Condensed Consolidated Financial Statements and is incorporated by reference herein.

### ITEM 1A. RISK FACTORS

A description of the risk factors associated with our business is contained in Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 30, 2018. There have been no material changes to our Risk Factors as previously reported.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table contains information regarding purchases of our common stock made by or on behalf of Potbelly Corporation during the 13 weeks ended September 29, 2019:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share (1)</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Program (2)</u>	<u>Maximum Value of Shares that May Yet be Purchased Under the Program (2)</u>
July 1, 2019 - July 28, 2019	—	\$ —	—	\$ 38,728,687
July 29, 2019 - August 25, 2019	—	\$ —	—	\$ 38,728,687
August 26, 2019 - September 29, 2019	162,162	\$ 4.60	162,162	\$ 37,981,933
Total:	<u>162,162</u>	<u>—</u>	<u>162,162</u>	<u>—</u>

(1) Average price paid per share excludes commissions.

(2) On May 8, 2018, the Company announced that its Board of Directors authorized a stock repurchase program for up to \$65.0 million of its outstanding common stock. The program permits the Company, from time to time, to purchase shares in the open market (including in pre-arranged stock trading plans in accordance with the guidelines specified in Rule 10b5-1 under the Exchange Act or in privately negotiated transactions). No time limit has been set for the completion of the repurchase program and the program may be suspended or discontinued at any time. See Note 8 for further information regarding the Company's stock repurchase program.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

Not applicable.

**ITEM 6. EXHIBITS**

The following exhibits are either provided with this Quarterly Report on Form 10-Q or are incorporated herein by reference.

<b>Exhibit No.</b>	<b>Description</b>
<b>10.1</b>	<a href="#"><u>Second Amended and Restated Credit Agreement, dated as of August 7, 2019, among Potbelly Sandwich Works, LLC, the other Loan Parties party thereto, the Lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and J.P. Morgan Chase Bank, N.A., as Sole Bookrunner and Sole Lead Arranger (filed as Exhibit 10.1 to Form 10-Q filed on August 8, 2019 and incorporated by reference).</u></a>
<b>31.1</b>	<a href="#"><u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
<b>31.2</b>	<a href="#"><u>Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
<b>32.1</b>	<a href="#"><u>Certification of Chief Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
<b>101.INS</b>	XBRL Instance Document
<b>101.SCH</b>	XBRL Taxonomy Extension Schema Document
<b>101.CAL</b>	XBRL Taxonomy Extension Calculation Linkbase Document
<b>101.LAB</b>	XBRL Taxonomy Extension Label Linkbase Document
<b>101.PRE</b>	XBRL Taxonomy Extension Presentation Linkbase Document
<b>101.DEF</b>	XBRL Taxonomy Extension Definition Linkbase Document

**SIGNATURE**

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.

POTBELLY CORPORATION

Date: November 5, 2019

By: /s/ Thomas Fitzgerald  
Thomas Fitzgerald  
Chief Financial Officer  
(Principal Financial Officer)

Certification of Chief Executive Officer  
pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Alan Johnson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Potbelly Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2019

By: /s/ Alan Johnson  
Alan Johnson  
Chief Executive Officer and President  
(Principal Executive Officer)

Certification of Principal Financial Officer  
pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Thomas Fitzgerald, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Potbelly Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2019

By: /s/ Thomas Fitzgerald  
Thomas Fitzgerald  
Chief Financial Officer  
(Principal Financial Officer)

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

In accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Alan Johnson, Chief Executive Officer and President of Potbelly Corporation (the "Registrant"), and Thomas Fitzgerald, Chief Financial Officer of the Registrant, each hereby certifies that, to the best of his knowledge on the date hereof:

1. the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 29, 2019, to which this Certification is attached as Exhibit 32.1 (the "Quarterly Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: November 5, 2019

By: /s/ Alan Johnson  
Alan Johnson  
Chief Executive Officer and President

Date: November 5, 2019

By: /s/ Thomas Fitzgerald  
Thomas Fitzgerald  
Chief Financial Officer  
(Principal Financial Officer)

This certification accompanies the Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Registrant specifically incorporates it by reference.