

Potbelly Corporation

Audit Committee Charter

October 2013

Audit Committee Charter

This Audit Committee Charter was adopted by the Board of Directors (the “Board”) of Potbelly Corporation (“Potbelly”), effective as of October 2013.

1. PURPOSE OF THE AUDIT COMMITTEE

The Audit Committee (the “Committee”) was created by the Board to discharge the responsibilities set forth in this charter. The Committee shall assist the Board in its oversight responsibilities relating to financial and accounting matters, including:

- a. the integrity of Potbelly’s financial statements, financial reporting process and systems of internal accounting and financial controls;
- b. Potbelly’s compliance with legal and regulatory requirements;
- c. the qualifications and independence of Potbelly’s independent auditor;
- d. the evaluation of enterprise risk issues;
- e. the performance of Potbelly’s internal audit function and independent auditor;
- f. the preparation of an audit committee report as required by the Securities and Exchange Commission (the “SEC”) to be included in Potbelly’s annual proxy statement; and
- g. Potbelly’s systems of disclosure controls and procedures and ethical standards.

2. ORGANIZATION OF THE AUDIT COMMITTEE

- a. Committee Members. The Committee shall consist of two or more directors as determined by the Board. The members and the Chairman of the Committee shall be appointed by the full Board on an annual basis and may be reappointed or replaced at the Board’s discretion at any time.
- b. Qualifications. Each Committee member shall be financially literate, as determined by the Board in its business judgment, or must become financially literate within a reasonable period of time after his or her appointment to the Committee. At least one member of the Committee shall have accounting or related financial management expertise, as determined by the Board in its business judgment. In addition, at least one member of the Committee shall be an “audit committee financial expert” as defined by the SEC or Potbelly shall disclose in its periodic reports required pursuant to the Securities Exchange Act of 1934 (the “Exchange Act”) the reasons why at least one member of the Committee is not an “audit committee financial expert.” If the Board has determined that a member of the Committee is an audit committee financial expert, it may presume that such member has accounting or related financial management expertise.

- c. Independence. Each Committee member shall satisfy the independence requirements of The NASDAQ Stock Market LLC (“Nasdaq”) and Rule 10A-3 of the Exchange Act, unless Potbelly wishes to avail itself of any applicable exemption allowed under such rules and regulations. Potbelly shall make any required disclosures relating to the use of any such exemptions.
- d. Other Services. No Committee member may serve on the audit committee of more than three public companies unless the Board has determined that such simultaneous service would not impair the ability of such member to effectively serve on the Committee.

3. PROCEDURE

- a. The Committee shall meet at least four times a year. Meetings may be in person or by conference call or other similar communications equipment by means of which all persons participating in the meeting can hear each other. A majority of the Committee members must be in attendance for a quorum. The Committee may also act by unanimous written consent.
- b. The Committee shall meet periodically with management, the internal auditor (or others responsible for the internal audit function, including contracted non-employee or audit or accounting firms engaged to provide internal audit services (the “internal auditor”)) and the independent auditor in separate executive sessions.
- c. The Chairman of the Committee shall be responsible for calling meetings of the Committee, developing the meeting agenda, providing pre-reading materials to Committee members relative to agenda items and chairing the meetings.
- d. The Committee shall keep minutes of its proceedings. To the extent practicable, the meeting agenda, draft minutes from the prior meeting and supporting materials shall be provided to members of the Committee prior to each meeting to allow time for review.
- e. The Committee shall report to the Board on such matters that are specifically identified in this charter and otherwise periodically on such other matters as the Committee deems appropriate.

4. AUTHORITY OF THE AUDIT COMMITTEE

- a. The Committee shall have the authority to retain any other independent counsel, experts or advisors (accounting, financial, legal or otherwise) that the Committee believes to be necessary or appropriate to carry out its duties. The Committee may also use the services of Potbelly’s regular advisors.

- b. Potbelly shall provide for appropriate funding, as determined by the Committee, for payment of:
 - (i) compensation to the independent auditor and any other registered public accounting firm engaged for the purposes of preparing or issuing an audit report or performing other audit, review or attestation services for Potbelly,
 - (ii) compensation to any advisors employed by the Committee; and
 - (iii) ordinary and administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.
- c. The Committee may form and delegate authority to subcommittees and management when appropriate, provided such delegation complies with any SEC and Nasdaq rules that may be applicable.
- d. The Committee is empowered to conduct its own investigations into issues related to its responsibilities.

5. DUTIES AND RESPONSIBILITIES OF THE AUDIT COMMITTEE

In addition to any other responsibilities which may be assigned from time to time by the Board, the Committee is responsible for the following matters:

- a. Independent Auditors.
 - (i) *Appointment and Oversight of Independent Auditor.* The Committee shall be directly responsible for the appointment, determination of compensation, retention and oversight of the work of the independent auditor (including resolution of any disagreements between Potbelly management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work or performing other audit, review or attestation services for Potbelly, and the independent auditor shall report directly to the Committee.
 - (ii) *Appointment and Oversight of Additional Audit Firm.* The Committee shall be directly responsible for the appointment, determination of compensation, retention and oversight work of any other registered public accounting firm engaged for the purpose of preparing or issuing an audit report or related work or performing other audit, review or attestation services for Potbelly and such firm shall also report directly to the Committee.
 - (iii) *Preapproval of Services.* Before the independent auditor is engaged by Potbelly or its subsidiaries to render audit or non-audit services, the Committee shall pre-approve the engagement. The Committee may delegate to one or more members of the Committee the authority to grant

pre-approvals, provided such approvals are presented to the Committee at a subsequent meeting.

- (1) Committee pre-approval of audit and non-audit services will not be required if the engagement for the services is entered into pursuant to pre-approval policies and procedures established by the Committee regarding Potbelly's engagement of the independent auditor, provided the policies and procedures are detailed as to the particular service, the Committee is informed of each service provided and such policies and procedures do not include delegation of the Committee's responsibilities under the Exchange Act to Potbelly's management.
 - (2) Committee pre-approval of non-audit services (other than review and attestation services) also will not be required if such services fall within available exceptions established by the SEC.
- (iv) *Independence.* The Committee shall, at least annually, evaluate the independent auditor's qualifications, performance and independence. The Committee shall present its conclusions with respect to the independent auditor to the full Board. In conducting its evaluation, the Committee shall take the following steps:
- (1) The Committee shall obtain and review a report prepared by the independent auditor describing (a) the independent auditing firm's internal quality-control procedures, (b) any material issues raised by the most recent internal quality-control review or peer review of the independent auditing firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent auditing firm, and any steps taken to deal with any such issues and (c) all relationships between the independent auditor and Potbelly.
 - (2) The Committee shall obtain and review a formal written statement prepared by the independent auditor describing the fees billed in each of the last two fiscal years in each of the categories required to be disclosed in Potbelly's annual proxy statement.
 - (3) The Committee shall discuss with the independent auditor its independence from Potbelly, and obtain and review a written statement prepared by the independent auditor describing all relationships between the independent auditor and Potbelly, consistent with PCAOB Independence and Ethics Rule 3526, and consider the impact that any relationships or services may have on the objectivity and independence of the independent auditor.

- (4) The Committee shall review and evaluate the qualifications, performance and independence of the lead partner of the independent auditor.
 - (5) The Committee shall consider whether, in order to assure continuing auditor independence, Potbelly should adopt a regular rotation of the independent audit firm.
 - (6) The Committee shall, if applicable, consider whether the independent auditor's provision of any permitted non-audit services to Potbelly is compatible with maintaining the independence of the independent auditor.
- b. Internal Auditors. The Committee shall meet periodically with Potbelly's internal auditor to discuss the performance, responsibilities, budget and staffing of Potbelly's internal audit function and any issues that the internal auditor believes warrant audit committee attention.
- c. Financial Statements and Disclosures.
 - (i) *Audit Resources.* In connection with each annual audit, the Committee shall discuss with management, the independent auditor and the internal auditor the overall scope and plans for such audits, including the adequacy of staffing and other factors that may affect the effectiveness and timeliness of such audits.
 - (ii) *Audit Principles.* The Committee shall review and discuss with management and the independent auditor: (i) major issues regarding accounting principles and financial statement presentations, including any significant changes in Potbelly's selection or application of accounting principles, and major issues as to the adequacy of Potbelly's internal controls and any special audit steps adopted in light of material control deficiencies; (ii) any analyses prepared by management or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of Potbelly's financial statements, including analyses of the effects of alternative GAAP methods on Potbelly's financial statements; (iii) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on Potbelly's financial statements and (iv) management's and/or the independent auditor's judgment about the quality, not just acceptability, of accounting principles, the reasonableness of significant judgments, the clarity of the disclosures in the financial statements and the adequacy of internal controls.
 - (iii) *Review of Reports.* The Committee shall review and discuss the annual audited financial statements and quarterly financial statements with management and the independent auditor, including a review of relevant

reports or financial information submitted by Potbelly to any governmental body or the public, including management certifications under the Sarbanes-Oxley Act of 2002 and Potbelly's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations."

- (iv) *Communication with Independent Auditors.*
 - (1) The Committee shall discuss with the independent auditor the matters required to be discussed by PCAOB Auditing Standard No. 16, "Communications With Audit Committees" or any superseding provision.
 - (2) The Committee shall review with the independent auditor any problems or difficulties the independent auditor may have encountered during the course of the audit work, including any restrictions on the scope of activities or access to required information or any significant disagreements with management and management's responses to such matters. Among the items that the Committee should consider reviewing with the independent auditor are: (a) any accounting adjustments that were noted or proposed by the auditor but were "passed" (as immaterial or otherwise); (b) any communications between the audit team and the independent auditor's national office respecting auditing or accounting issues presented by the engagement; and (c) any "management" or "internal control" letter issued, or proposed to be issued, by the independent auditor to Potbelly.
- (v) *Review of Independent Auditor Report to Audit Committee.* The Committee shall review the report that the independent auditor is required to make to the Committee regarding: (i) all accounting policies and practices to be used that the independent auditor identifies as critical; (ii) all alternative treatments within GAAP for policies and practices related to material items that have been discussed among management and the independent auditor, including the ramifications of the use of such alternative treatments, and the treatment preferred by the independent auditor; and (iii) all other material written communications between the independent auditor and management of Potbelly, such as any management letter, management representation letter, reports on observations and recommendations on internal controls, independent auditor's engagement letter, independent auditor's independence letter, schedule of unadjusted audit differences and a listing of adjustments and reclassifications not recorded, if any.
- (vi) *Recommendation to Include Financial Statements in Annual Report.* The Committee shall, based on its review and discussions outlined in this Section 3(c), determine whether to recommend to the Board that the

audited financial statements be included in Potbelly's Annual Report on Form 10-K.

d. Compliance Oversight.

- (i) *Risk Management.* The Committee shall discuss with management and the independent auditor Potbelly's policies with respect to risk assessment and risk management, Potbelly's significant financial risk exposures, and the processes management has established to identify, measure, monitor, manage and limit such exposures.
- (ii) *Communication with Board.* The Committee shall report regularly to, and review with, the Board any issues that arise with respect to the quality or integrity of Potbelly's financial statements, Potbelly's compliance with legal or regulatory requirements, the performance and independence of Potbelly's independent auditor, the performance of Potbelly's internal audit function or any other matter the Committee determines is necessary or advisable to report to the Board.
- (iii) *Hiring Practices.* The Committee shall approve guidelines for Potbelly's hiring of former employees of the independent auditor who participated in any capacity in the audit of Potbelly.
- (iv) *Section 10A(b) Implications.* The Committee shall obtain from the independent auditor assurances that the independent auditor is not aware of any matters required to be reported under Section 10A(b) of the Exchange Act.
- (v) *Complaints.* The Committee shall establish procedures for the receipt, retention and treatment of complaints received by Potbelly regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of Potbelly of concerns regarding questionable accounting or auditing matters.
- (vi) *Related Party Transactions.* Potbelly's management shall report to the Committee any proposed related party transaction that might be considered material to Potbelly or the related party, or required to be disclosed pursuant to SEC regulations, and the Committee shall review any such reported transactions in accordance with Potbelly's Related Party Transactions Policy.
- (vii) *Press Releases and Analyst Communications.* The Committee shall discuss with management and the independent auditor Potbelly's earnings press releases (with particular focus on any "pro forma" or "adjusted" non-GAAP information), as well as financial information and earnings guidance provided to analysts and rating agencies. The Committee's discussion in this regard may be general in nature (i.e., discussion of the types of information to be disclosed and the type of presentation to be

made) and need not take place in advance of each earnings release or each instance in which Potbelly may provide earnings guidance.

- (viii) *Disclosure Controls and Procedures.* The Committee shall, in conjunction with Potbelly's Chief Executive Officer and Chief Financial Officer, review Potbelly's disclosure controls and procedures and internal control over financial reporting. The review of internal control over financial reporting shall include whether there are any significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to affect Potbelly's ability to record, process, summarize and report financial information and any fraud involving management or other employees with a significant role in internal control over financial reporting. The Committee shall also review any special audit steps adopted in light of material control deficiencies.
 - (ix) *Preparation of Audit Committee Report.* The Committee shall provide Potbelly with the report of the Committee with respect to the audited financial statements for inclusion in each of Potbelly's annual proxy statements.
 - (x) *Compliance with Law.* The Committee shall review Potbelly's compliance with laws and regulations, including major legal and regulatory initiatives. The Committee shall also review any major litigation or investigations against Potbelly that may have a material impact on Potbelly's financial statements.
 - (xi) *Attorney Reporting.* The Committee shall review and discuss any reports concerning material violations submitted to the Committee by Potbelly's attorneys pursuant to SEC attorney professional responsibility rules or otherwise.
- e. Committee Self-Assessment. The Committee is responsible for developing and conducting an annual self-assessment of its performance. The Committee will work with the Corporate Governance and Nominating Committee to design and coordinate the annual self-assessment in conjunction with the overall Board assessment process. The Committee shall report to the full Board on the results of its assessment each year and shall make any appropriate recommendations to further enhance the Committee's performance.

6. MISCELLANEOUS

- a. This charter shall be posted on Potbelly's website in compliance with applicable SEC rules.
- b. The Committee shall review this charter regularly and may recommend to the Board from time to time any proposed changes to the charter and to any other documents related to the responsibilities of the Committee.

7. LIMITATIONS INHERENT IN THE AUDIT COMMITTEE'S ROLE

In discharging its responsibilities, the Committee is not itself responsible for the planning or conduct of audits, or for any determination that Potbelly's financial statements and disclosures are complete and accurate or are in accordance with generally accepted accounting principles and applicable rules and regulations. This is the responsibility of Potbelly's management, internal auditor and Potbelly's independent auditor. Furthermore, while the Committee is responsible for reviewing Potbelly's policies with respect to risk assessment and risk management, it is the responsibility of Potbelly's management to determine the appropriate level of risk exposure.

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