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

FORM 10-Q

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

For the Quarterly Period Ended June 26, 2022

OR

o 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	**36-4466837**
(State or Other Jurisdiction of Incorporation)	**(IRS Employer Identification Number)**
111 N. Canal Street, Suite 325 Chicago, Illinois	**60606**
(Address of Principal Executive Offices)	**(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	PBPB	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 x No o

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 x No o

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	o	Accelerated filer	x
Non-accelerated filer	o	Smaller reporting company	o
Emerging growth company	o		

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. o

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

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 o

As of July 24, 2022, the registrant had 28,701,112 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 par value data, unaudited)

	June 26, 2022	December 26, 2021
Assets		
Current assets		
Cash and cash equivalents	$ 14,657	$ 14,353
Accounts receivable, net of allowances of $30 and $27 as of June 26, 2022 and December 26, 2021, respectively	7,410	6,032
Inventories	3,612	3,491
Prepaid expenses and other current assets	3,885	4,178
Total current assets	29,564	28,054
Property and equipment, net	45,545	49,805
Right-of-use assets for operating leases	161,563	166,084
Indefinite-lived intangible assets	3,404	3,404
Goodwill	2,222	2,222
Deferred expenses, net and other assets	3,470	3,668
Total assets	**$ 245,768**	**$ 253,237**
Liabilities and equity (deficit)		
Current liabilities		
Accounts payable	$ 8,865	$ 8,140
Accrued expenses	31,918	30,859
Short-term operating lease liabilities	27,704	28,548
Current portion of long-term debt	3,333	2,333
Total current liabilities	71,820	69,880
Long-term debt, net of current portion	18,717	17,517
Long-term operating lease liabilities	162,197	166,291
Other long-term liabilities	1,915	1,966
Total liabilities	254,649	255,654
Commitments and contingencies (Note 11)		
Equity (deficit)		
Common stock, $0.01 par value—authorized 200,000 shares; outstanding 28,696 and 28,380 shares as of June 26, 2022 and December 26, 2021, respectively	383	380
Warrants	2,566	2,566
Additional paid-in-capital	454,062	452,570
Treasury stock, held at cost, 9,885 and 9,785 shares as of June 26, 2022, and December 26, 2021, respectively	(115,181)	(114,577)
Accumulated deficit	(350,600)	(343,261)
Total stockholders' equity (deficit)	(8,770)	(2,322)
Non-controlling interest	(111)	(95)
Total equity (deficit)	(8,881)	(2,417)
Total liabilities and equity (deficit)	**$ 245,768**	**$ 253,237**

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	For the Quarter Ended		For the Year to Date Ended	
	June 26, 2022	June 27, 2021	June 26, 2022	June 27, 2021
Revenues				
Sandwich shop sales, net	$ 114,992	$ 96,777	$ 212,423	$ 174,279
Franchise royalties and fees	960	714	1,750	1,277
Total revenues	**115,952**	**97,491**	**214,173**	**175,556**
Expenses				
Sandwich shop operating expenses, excluding depreciation				
Food, beverage and packaging costs	32,830	26,341	60,138	47,810
Labor and related expenses	36,121	31,961	69,374	60,575
Occupancy expenses	13,805	13,562	27,650	27,160
Other operating expenses	19,128	15,570	37,233	29,574
Franchise marketing expenses	126	76	246	120
General and administrative expenses	8,827	8,674	17,345	15,847
Depreciation expense	3,030	4,553	6,167	8,727
Impairment, loss on disposal of property and equipment and shop closures	1,044	257	2,363	3,379
Total expenses	114,911	100,994	220,516	193,192
Income (loss) from operations	1,041	(3,503)	(6,343)	(17,636)
Interest expense, net	357	185	683	472
Income (loss) before income taxes	684	(3,688)	(7,026)	(18,108)
Income tax expense (benefit)	(24)	160	153	214
Net income (loss)	708	(3,848)	(7,179)	(18,322)
Net income attributable to non-controlling interest	134	33	160	31
Net income (loss) attributable to Potbelly Corporation	**$ 574**	**$ (3,881)**	**$ (7,339)**	**$ (18,353)**
Net income (loss) per common share attributable to common stockholders:				
Basic	$ 0.02	$ (0.14)	$ (0.26)	$ (0.68)
Diluted	$ 0.02	$ (0.14)	$ (0.26)	$ (0.68)
Weighted average shares outstanding:				
Basic	28,565	27,978	28,481	26,961
Diluted	29,117	27,978	28,481	26,961

See accompanying notes to the unaudited condensed consolidated financial statements.

Potbelly Corporation and Subsidiaries
Condensed Consolidated Statements of Equity (Deficit)
(amounts and shares in thousands, unaudited)

	Common Stock		Treasury Stock	Warrants	Additional Paid-In-Capital	Accumulated Deficit	Non-Controlling Interest	Total Equity (Deficit)
	Shares	Amount						
Balance at December 27, 2020	24,323	339	(113,266)	—	438,174	(319,477)	(275)	$ 5,495
Net loss	—	—	—	—	—	(14,472)	(2)	(14,474)
Stock-based compensation plans	63	1	—	—	(1)	—	—	—
Issuance of common shares and warrants, net of fees	3,250	32	—	2,566	12,342	—	—	14,940
Contributions from non-controlling interest	—	—	—	—	—	—	136	136
Stock-based compensation expense	—	—	—	—	193	—	—	193
Balance at March 28, 2021	27,636	372	(113,266)	2,566	450,708	(333,949)	(141)	$ 6,290
Net income (loss)	—	—	—	—	—	(3,881)	33	(3,848)
Stock-based compensation plans	535	6	(685)	—	(6)	—	—	(685)
Proceeds from exercise of stock options	—	—	—	—	219	—	—	219
Issuance of common shares and warrants, net of fees	—	—	—	—	(101)	—	—	(101)
Stock-based compensation expense	—	—	—	—	655	—	—	655
Balance at June 27, 2021	**28,171**	**$ 378**	**$ (113,951)**	**$ 2,566**	**$ 451,475**	**$ (337,830)**	**$ (108)**	**$ 2,530**
Balance at December 26, 2021	28,380	$ 380	$ (114,577)	$ 2,566	$ 452,570	$ (343,261)	$ (95)	$ (2,417)
Net income (loss)	—	—	—	—	—	(7,913)	26	(7,887)
Stock-based compensation plans	81	1	(279)	—	—	—	—	(278)
Distributions to non-controlling interest	—	—	—	—	—	—	(120)	(120)
Stock-based compensation expense	—		—	—	675	—	—	675
Balance at March 27, 2022	28,461	381	(114,856)	2,566	453,245	(351,174)	(189)	(10,027)
Net income	—	—	—	—	—	574	134	708
Stock-based compensation plans	235	2	(325)	—	(3)	—	—	(326)
Distributions to non-controlling interest	—	—	—	—	—	—	(56)	(56)
Stock-based compensation expense	—	—	—	—	820	—	—	820
Balance at June 26, 2022	**28,696**	**$ 383**	**$ (115,181)**	**$ 2,566**	**$ 454,062**	**$ (350,600)**	**$ (111)**	**$ (8,881)**

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 Year to Date Ended	
	June 26, 2022	**June 27, 2021**
Cash flows from operating activities:		
Net loss	$ (7,179)	$ (18,322)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	6,167	8,727
Noncash lease expense	13,020	12,662
Deferred income tax	9	9
Stock-based compensation expense	1,495	848
Asset impairment, loss on disposal of property and equipment and shop closures	2,363	2,826
Other operating activities	139	158
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,379)	(2,202)
Inventories	(121)	19
Prepaid expenses and other assets	12	191
Accounts payable	455	2,602
Operating lease liabilities	(14,183)	(17,154)
Accrued expenses and other liabilities	1,180	4,182
Net cash provided by (used in) operating activities:	1,978	(5,454)
Cash flows from investing activities:		
Purchases of property and equipment	$ (3,115)	$ (3,333)
Net cash used in investing activities:	(3,115)	(3,333)
Cash flows from financing activities:		
Borrowings under revolving credit facility	$ 15,000	$ 15,500
Repayments under revolving credit facility	(12,800)	(21,000)
Payment of debt issuance costs	(76)	(195)
Proceeds from issuance of common shares and warrants, net of fees	—	14,839
Proceeds from exercise of stock options	—	219
Employee taxes on certain stock-based payment arrangements	(507)	—
Contributions from non-controlling interest	—	136
Distributions to non-controlling interest	(176)	—
Net cash provided by financing activities:	1,441	9,499
Net increase in cash and cash equivalents	304	712
Cash and cash equivalents at beginning of period	14,353	11,126
Cash and cash equivalents at end of period	$ 14,657	$ 11,838
Supplemental cash flow information:		
Income taxes paid	$ 132	$ 35
Interest paid	236	398
Supplemental non-cash investing and financing activities:		
Unpaid liability for purchases of property and equipment	591	811
Unpaid liability for employee taxes on certain stock-based payment arrangements	97	685

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", "Potbelly", "we", "us" or "our"), through its wholly owned subsidiaries, owns and operates 393 company-owned shops in the United States. Additionally, Potbelly franchisees operate 47 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 our Annual Report on Form 10-K for the year ended December 26, 2021. The unaudited condensed consolidated financial statements included herein have been prepared by us 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 our balance sheet as of June 26, 2022 and December 26, 2021, our statement of operations for the quarter and year to date ended June 26, 2022 and June 27, 2021, the statement of equity for the quarter and year to date ended June 26, 2022 and June 27, 2021, and our statement of cash flows for the year to date ended June 26, 2022 and June 27, 2021 have been included. The condensed consolidated statements of operations for the interim periods presented herein are not necessarily indicative of the results to be expected for the full year.

Beginning in the first quarter of 2022, we reclassified certain advertising and marketing expenses within the condensed consolidated statement of operations. Refer to discussion of the Potbelly Brand Fund in the paragraphs below. These reclassifications had no impact on our results of operations, financial position, or cash flows.

We do not have any components of other comprehensive income recorded within our consolidated financial statements and therefore, do not separately present a statement of comprehensive income in our condensed consolidated financial statements.

COVID-19

On January 30, 2020, the World Health Organization (the "WHO") announced a global health emergency because of COVID-19 and the risks to the international community as the virus spreads globally. On March 11, 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The COVID-19 pandemic significantly impacted economic conditions in the United States where all our shops are located. In response to the pandemic, many states and jurisdictions in which we operate issued stay-at-home orders and other measures aimed at slowing the spread of the coronavirus, resulting in significant changes to our operations and a sudden and drastic decrease in revenues. While the pandemic continues to have an impact on our business, the distribution of COVID-19 vaccines and lifting of local restrictions has resulted in a gradual improvement to our sales during 2021 and 2022. Nearly all of our shops, including those in central business districts, have reopened their dining rooms and are no longer subject to operating restrictions and capacity limits related to COVID-19. We will continue to follow guidance from local authorities in determining the appropriate restrictions to put in place for each shop, including mask mandates, hours of operation, and the suspension or reduction of in-shop dining if required due to changes in the pandemic response in each jurisdiction and restaurant operating protocols, which could result in lower in-shop dining revenue or higher operating costs**.**

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 (“PSW”); seven of PSW’s wholly owned subsidiaries and PSW’s six 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 six joint venture investments. Potbelly has ownership interests ranging from 51-80% in these consolidated joint ventures.

Fiscal Year

We use 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 2022 and 2021 both consist of 52 weeks. The fiscal quarters ended June 26, 2022 and June 27, 2021 each consisted of 13 weeks. The year to date periods ended June 26, 2022 and June 27, 2021 each consisted of 26 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.

Potbelly Brand Fund

We maintain the Potbelly Brand Fund (the "Brand Fund") for the purpose of collecting and administering funds to be used for advertising, customer research, marketing technology, agencies, and other activities that promote the Potbelly brand in order to deliver sales at our shops. Company-operated and franchised shops both contribute to the Brand Fund based on a percentage of sales.

Beginning in the first quarter of fiscal year 2022, we manage these advertising and marketing expenses through the Brand Fund using the funds contributed by our shops. We manage these funds separately from our general operating expenses, but we are not obligated to maintain the funds in separate accounts or entities. We may spend more or less in any fiscal period than the amounts contributed to the Brand Fund, and we may choose to roll over any unused contributions to the following fiscal period or return them to our shops. Cash held related to the Brand Fund is not considered to be restricted cash as there are no restrictions on the use of the funds.

Brand Fund contributions made by company-operated shops are eliminated from the consolidated financial statements. Franchisee contributions are included within franchise royalties and fees in the condensed consolidated statements of operations.

Expenses incurred by the Brand Fund are allocated to company-operated and franchised shops based on their relative contributions. The allocation of company-operated Brand Fund expense is included within other operating expenses in our condensed consolidated statements of operations. The allocation of franchisee Brand Fund expense is presented as franchise marketing expenses in our condensed consolidated statements of operations. Prior periods have been reclassified to conform to the current presentation of these expenses.

Recent Accounting Pronouncements

We reviewed all recently issued accounting pronouncements and concluded that they were either not applicable or not expected to have a significant impact to the condensed consolidated financial statements.

(2) Revenue

We primarily earn revenue at a point in time for sandwich shop sales, which can occur in person at the shop, over our online or app platform, or through a third-party platform. Sales taxes collected from customers are excluded from revenues and the obligation is included in accrued liabilities until the taxes are remitted to the appropriate taxing authorities. We have other revenue generating activities outlined below.

Franchise Revenue

We earn an initial franchise fee, a franchise development agreement fee and ongoing fees for royalties and Brand Fund contributions under our franchise agreements. Initial franchise fees are considered highly dependent upon and interrelated with the franchise right granted in the franchise agreement. As such, these franchise fees are recognized over the contractual term of the franchise agreement. We record a contract liability for the unearned portion of the initial franchise fees. Franchise development agreement fees represent the exclusivity rights for a geographical area paid by a third party to develop Potbelly shops for a certain period of time. Franchise development agreement fee payments received by us are recorded in the consolidated balance sheets as accrued expenses or other long-term liabilities, and amortized over the life of the franchise development agreement. Royalties and Brand Fund contributions are based on a percentage of sales and are recorded as revenue as they are earned and become receivable from the franchisee.

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 ("breakage"), which is recognized 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. We recognize gift card breakage income within net sandwich shop sales in the consolidated statements of operations.

We recognized gift card breakage income of $0.3 million and $0.1 million for the year to date ended June 26, 2022 and June 27, 2021, respectively, which is recorded within net sandwich shop sales in our condensed consolidated statements of operations.

Loyalty Program

We offer a customer loyalty program for customers using the Potbelly Perks application at the point of sale. The customer will typically earn 10 points for every dollar spent, and the customer will earn a free entrée after earning 1,000 points. We defer revenue associated with the estimated selling price of points earned by Potbelly Perks members towards free entrées as each point is earned, and a corresponding liability is established in deferred revenue. The deferral is based on the estimated value of the product for which the reward is expected to be redeemed, net of estimated unredeemed points. Once a customer earns a free entrée, that entrée reward will expire after 30 days. Any point in a customer’s account that does not go toward earning a full entrée will expire after the customer's account has been inactive for a year. The breakage amount recognized is estimated based on a historical data analysis of loyalty reward redemptions and is recognized in net shop sandwich sales in the consolidated statement of operations. When points are redeemed, we recognize revenue for the redeemed product and reduce accrued expenses.

For the year to date ended June 26, 2022 revenue recognized from all revenue sources on point in time sales was $213.5 million, and revenue recognized from sales over time was $0.7 million. For the year to date ended June 27, 2021, revenue recognized from all revenue sources on point in time sales was $175.3 million and revenue recognized from sales over time was $0.3 million.

Contract Liabilities

We record current and noncurrent contract liabilities in accrued expenses and other long-term liabilities, respectively, for initial franchise fees, gift cards, and loyalty programs. We have no other contract liabilities or contract assets recorded.

The opening and closing balances of our current and noncurrent contract liabilities from contracts with customers were as follows:

	Current Contract Liability (Thousands)	Noncurrent Contract Liability (Thousands)
Beginning balance as of December 26, 2021	$ 6,533	$ 1,428
Ending balance as of June 26, 2022	6,217	1,354
Increase (decrease) in contract liability	$ (316)	$ (74)

The aggregate value of remaining performance obligations on outstanding contracts was $7.6 million as of June 26, 2022. We expect 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:

Years Ending	Amount
2022	$ 5,231
2023	477
2024	351
2025	349
2026	154
Thereafter	1,009
Total revenue recognized	$ 7,571

For the quarter and year to date ended June 26, 2022, the amount of revenue recognized related to the December 26, 2021 liability ending balance was $0.7 million and $1.8 million, respectively. For quarter and year to date ended June 27, 2021, the amount of revenue recognized related to the December 27, 2020 liability ending balance was $0.3 million and $0.9 million, respectively. This revenue is related to the recognition of gift card redemptions and upfront franchise fees. For the year to date ended June 26, 2022 and June 27, 2021, we 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 book value of the long-term debt under the Credit Agreement, subsequently amended most recently as of May 31, 2022 and further discussed in Note 7, is considered to approximate its fair value as of June 26, 2022 as the interest rates are considered in line with current market rates.

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.

We assess potential impairments to our 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. After performing a periodic review of our shops during the quarter and year to date ended June 26, 2022, it was determined that indicators of impairment were present for certain shops as a result of continued underperformance, primarily related to the impacts of COVID-19. We performed an impairment analysis related to these shops and recorded an impairment charge of $0.9 million and $2.0 million for the quarter and year to date ended June 26, 2022. The ultimate severity and longevity of the COVID-19 pandemic is unknown, and therefore, it is possible that impairments could be identified in future periods, and such amounts could be material.

(4) Earnings (Loss) Per Share

Basic and diluted income (loss) per common share attributable to common stockholders are calculated using the weighted average number of common shares outstanding for the period. Diluted income (loss) per common share attributable to common stockholders is computed by dividing the loss 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 year to date ended June 26, 2022 and the quarter and year to date ended June 27, 2021, we 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 Quarter Ended		For the Year to Date Ended	
	June 26, 2022	June 27, 2021	June 26, 2022	June 27, 2021
Net income (loss) attributable to Potbelly Corporation	$ 574	$ (3,881)	$ (7,339)	$ (18,353)
Weighted average common shares outstanding-basic	28,565	27,978	28,481	26,961
Plus: Effect of potentially dilutive stock-based compensation awards	451	—	—	—
Plus: Effect of potential warrant exercise	101	—	—	—
Weighted average common shares outstanding-diluted	29,117	27,978	28,481	26,961
Income (loss) per share available to common stockholders-basic	$ 0.02	$ (0.14)	$ (0.26)	$ (0.68)
Income (loss) per share available to common stockholders-diluted	$ 0.02	$ (0.14)	$ (0.26)	$ (0.68)
Potentially dilutive shares that are considered anti-dilutive:				
Shares	637	2,002	1,906	2,048

(5) Income Taxes

The interim tax provision is determined using an estimated annual effective tax rate and is adjusted for discrete taxable events that occur during the quarter. We regularly assess the need for a valuation allowance related to our 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 our deferred tax assets will not be realized. In our assessment, we consider recent financial operating results, projected future taxable income, the reversal of existing taxable differences, and tax planning strategies. We recorded a full valuation allowance against our net deferred tax assets during the first quarter of 2019, resulting in a non-cash charge to income tax expense of $13.6 million. We continue to maintain a valuation allowance against all of our deferred tax assets as of June 26, 2022. We did not provide for an income tax benefit on our pre-tax income income (loss) for the quarter and year to date ended June 26, 2022 and June 27, 2021. We assess the likelihood of the realization of our deferred tax assets each quarter and the valuation allowance is adjusted accordingly.

(6) Leases

We determine if an arrangement is a lease at inception of the arrangement. We lease retail shops, warehouse, and office space under operating leases. Our leases generally have terms of ten years and most include options to extend the leases for additional five-year periods. For leases with renewal periods at our option, we determine the expected lease period based on whether the renewal of any options are reasonably assured at the inception of the lease.

Operating leases result in the recording a right-of-use asset and lease liability on the consolidated balance sheet. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at the lease commencement date, which is the date we take possession of the property. Operating lease liabilities represent the present value of lease payments not yet paid. Operating right-of-use assets represent the operating lease liability adjusted for prepayments or accrued lease payments, initial direct costs, lease incentives, and impairment of operating lease assets. In determining the present value of lease payments not yet paid, we estimate our incremental secured borrowing rates corresponding to the maturities of our leases. We estimate this rate based on prevailing financial market conditions, comparable company and credit analysis, and management judgment.

Our leases typically contain rent escalations over the lease term and lease expense is recognized on a straight-line basis over the lease term. Tenant incentives used to fund leasehold improvements are recognized when earned and reduce right-of-use assets related to the lease. The tenant incentives are amortized through the right-of-use asset as reductions of rent expense over the lease term.

We elected a short-term lease exception policy, permitting us to not apply the recognition requirements of ASC 842, *Leases*, to short-term leases (i.e. leases with terms of 12 months or less) and an accounting policy to account for lease and non-lease components as a single component for certain classes of assets.

In fiscal year 2020, as a result of COVID-19, we held discussions with landlords regarding restructuring of our leases in light of various contractual and legal defenses, and we subsequently entered into a total of 350 amendments with our respective landlords through December 26, 2021. The vast majority of these lease amendments were completed during fiscal year 2020, and we fully completed the COVID-19-related lease amendments as of December 26, 2021.

We did not terminate any leases during the quarter ended June 26, 2022. During the year to date ended, we terminated 1 lease. The terminated lease had a month-to-month term and, as a result, we did not incur lease termination fees and we did not record a gain or loss for the year to date ended June 26, 2022. We also did not derecognize any ROU assets or lease liabilities related to this lease termination.

Operating lease term and discount rate were as follows:

	June 26, 2022	June 27, 2021
Weighted average remaining lease term (years)	6.89	7.50
Weighted average discount rate	8.11 %	7.90 %

Certain of our 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:

		For the Quarter Ended		For the Year to Date Ended	
	Classification	**June 26, 2022**	**June 27, 2021**	**June 26, 2022**	**June 27, 2021**
Operating lease cost	Occupancy and General and administrative expenses	10,092	10,296	20,397	20,707
Variable lease cost	Occupancy	3,796	3,236	7,258	6,475
Total lease cost		13,888	13,532	27,655	27,182

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

	For the Quarter Ended		For the Year to Date Ended	
	June 26, 2022	**June 27, 2021**	**June 26, 2022**	**June 27, 2021**
Operating cash flows rent paid for operating lease liabilities	10,804	12,137	21,398	25,051
Operating right-of-use assets obtained in exchange for new operating lease liabilities	6,794	2,938	10,176	4,656
Reduction in operating right-of-use assets due to lease terminations and modifications	1,264	846	1,264	4,140

As of June 26, 2022, we had no real estate leases entered into that had not yet commenced.

Maturities of lease liabilities were as follows as of June 26, 2022:

	Operating Leases
Remainder of 2022	21,112
2023	40,095
2024	37,905
2025	35,095
2026	31,422
2027	25,884
Thereafter	60,110
Total lease payments	251,623
Less: imputed interest	(61,722)
Present value of lease liabilities	189,901

(7) Debt and Credit Facilities

The components of long-term debt were as follows:

	June 26, 2022	December 26, 2021
Revolving credit facility	$ 12,050	$ 9,850
Paycheck Protection Program loan	10,000	10,000
Less: current portion of long-term debt	(3,333)	(2,333)
Total long-term debt	$ 18,717	$ 17,517

Revolving credit facility

On August 7, 2019, we entered into a second amended and restated revolving credit facility agreement (the "Credit Agreement") with JPMorgan Chase Bank, N.A. ("JPMorgan"). The Credit Agreement amends and restates the revolving credit facility agreement, dated as of December 9, 2015, and amended on May 3, 2019 (collectively, the "Prior Credit Agreement") with JPMorgan. As disclosed in our Annual Report on Form 10-K for the fiscal year ended December 26, 2021, we subsequently amended the Credit Agreement during fiscal years 2020 and 2021. The Credit Agreement provides for a revolving credit facility in a maximum principal amount of $25 million.

On January 28, 2022, we entered into Amendment No. 6 (the "Sixth Amendment") to the Credit Agreement. The Sixth Amendment, among other things, (i) extended the maturity date under the Credit Agreement from January 31, 2023 to May 31, 2023, (ii) changed the benchmark interest rates under the Credit Agreement for borrowings from the London Interbank Offered Rate (LIBOR) to the Secured Overnight Financing Rate (SOFR) subject to certain adjustments in the Sixth Amendment, (iii) increased the interest rate margin by 75 basis points with respect to any CBFR Loan (as defined in the Credit Agreement), (iv) sets the interest rate margin at 600 basis points with respect to any Term Benchmark Loan (as defined in the Credit Agreement), (v) amended certain financial covenant testing levels, and (vi) amended the definition of subsidiary to exclude the Potbelly Employee Relief Fund NFP, an Illinois not-for-profit corporation.

On May 31, 2022, we entered into Amendment No. 7 (the "Seventh Amendment") to the Credit Agreement. The Seventh Amendment, among other things (i) extended the maturity date under the Credit Agreement from May 31, 2023 to August 31, 2023 and (ii) amended certain financial covenant testing levels.

As of June 26, 2022, we had $12.1 million outstanding under the Credit Agreement. As of December 26, 2021, we had $9.9 million outstanding under the Credit Agreement. We are currently in compliance with all financial debt covenants.

Paycheck Protection Program Loan

On August 10, 2020, PSW, an indirect subsidiary of the Company, entered into a loan agreement with Harvest Small Business Finance, LLC in the aggregate amount of $10.0 million (the "Loan"), pursuant to the PPP under the CARES Act.

The Loan was necessary to support our ongoing operations due to the economic uncertainty resulting from the COVID-19 pandemic and lack of access to alternative sources of liquidity.

The Loan is scheduled to mature five years from the date on which PSW applies for loan forgiveness under the CARES Act, bears interest at a rate of 1% per annum and is subject to the terms and conditions applicable to loans administered by the U.S. Small Business Administration ("SBA") under the CARES Act. The PPP provides that the use of the Loan amount shall be limited to certain qualifying expenses and may be partially or wholly forgiven in accordance with the requirements set forth in the CARES Act. We used all of the PPP proceeds toward qualifying expenses and pursued forgiveness of the full Loan amount.

We have recorded the amount of the Loan as long-term debt (current and non-current) in our condensed consolidated balance sheet and the related interest has been recorded to interest expense in our condensed consolidated statement of operations.

On July 12, 2022, we received notification from Harvest Small Business Finance, LLC that the SBA approved our loan forgiveness application for the entire outstanding principal and accrued interest under the Loan equaling $10.2 million, which will be recognized as a gain on extinguishment of debt during the third fiscal quarter.

(8) Restructuring

On November 3, 2020, as part of our COVID-related cost reduction efforts and to better align our general and administrative expenses with future strategy, we made the determination to reorganize and restructure our corporate team. The restructuring plan implemented resulted in general and administrative expense savings in 2021 and 2022. This was accomplished through corporate expense optimization, consolidating our shop support services, and through other expense and staff reductions. As a result, we reduced corporate employment levels by approximately 35 employees in the fourth quarter of 2020. We substantially completed our planned restructuring actions during 2020, but we will continue to evaluate our cost structure and seek opportunities for further efficiencies and cost savings as part of our ongoing strategy.

During the first quarter of 2022, we fully paid our remaining obligations as a result of the restructuring plan implemented in the fourth quarter of 2020.

	Total (Thousands)
Balance as of December 26, 2021	$ 122
Charges incurred	—
Payments made	(122)
Balance at June 26, 2022	$ —

(9) Capital Stock

On May 8, 2018, we announced that our Board of Directors authorized a stock repurchase program for up to $65.0 million of our outstanding common stock. The program permits us, 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 quarter and year to date ended June 26, 2022, we did not repurchase any shares of our common stock under the stock repurchase program. We do not have plans to repurchase any common stock under our stock repurchase program at this time.

On February 9, 2021, we closed on a Securities Purchase Agreement (the "SPA") for the sale by us of 3,249,668 shares of our common stock at a par value of $0.01 per share and the issuance of warrants to purchase 1,299,861 shares of common stock at an exercise price of $5.45 per warrant for gross proceeds of $16.0 million, before deducting placement agent fees and offering expenses of approximately $1.0 million. The warrants are initially exercisable commencing August 13, 2021 through their expiration date of August 12, 2026. The proceeds received from the SPA were allocated between shares and warrants based on their relative fair values at closing. The warrants were valued utilizing the Black-Scholes method.

On November 3, 2021, we entered into a certain Equity Sales Agreement (the "Sales Agreement") with William Blair & Company, L.L.C., as agent ("William Blair") pursuant to which we may sell shares of our common stock having an aggregate offering price of up to $40.0 million (the "Shares"), from time to time, in our sole discretion, through an "at the market" equity offering program under which William Blair will act as sales agent. As of June 26, 2022, we have not sold any shares under the Sales Agreement.

(10) Stock-Based Compensation

Stock options

We have awarded stock options to certain employees including the senior leadership team. The number of options and exercise price of each option is determined by a committee designated by our Board of Directors. The options granted are generally exercisable over a 10-year period from the date of the grant. Outstanding options expire on various dates through the year 2028. The range of exercise prices for the outstanding options as of June 26, 2022 is $9.47 and $20.53 per option, and the options generally vest in one-fourth and one-fifth increments over four and five-year periods, respectively.

A summary of stock option activity is as follows:

Options	Shares (Thousands)	Weighted Average Exercise Price	Aggregate Intrinsic Value (Thousands)	Weighted Average Remaining Term (Years)
Outstanding—December 26, 2021	538	$ 12.03	$ —	2.35
Granted	—	—		
Exercised	—	—		
Canceled	(11)	8.16		
Outstanding—June 26, 2022	527	12.11	$ —	2.05
Exercisable—June 26, 2022	527	$ 12.11	$ —	2.05

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. We did not recognize stock-based compensation expense related to stock options for the quarter ended June 26, 2022. For the year to date ended June 26, 2022, we recognized stock-based compensation expense related to stock options of less than $0.1 million. For the quarter and year to date ended June 27, 2021, we recognized stock-based compensation expense related to stock options of $0.1 million. As of June 26, 2022, we do not have unrecognized stock-based compensation expense related to stock options. We record stock-based compensation expense within general and administrative expenses in the condensed consolidated statements of operations.

Restricted stock units

We award restricted stock units ("RSUs") to certain employees and certain non-employee members of our Board of Directors. Prior to 2021, the Board of Director grants had a vesting schedule of 50% on the first anniversary of the grant date and 50% on the second anniversary of the grant date. Beginning with the annual grant made in the second quarter of 2021, the Board of Director grants fully vest on the first anniversary of the grant date, or upon termination from the Board of Directors for any reason other than for cause, a pro rata portion of the shares vest on the termination date. The employee grants vest in one-third increments over a three-year period.

A summary of RSU activity is as follows:

RSUs	Number of RSUs (Thousands)	Weighted Average Fair Value per Share
Non-vested as of December 26, 2021	1,151	$ 4.87
Granted	506	6.11
Vested	(487)	5.87
Canceled	—	—
Non-vested as of June 26, 2022	1,170	$ 4.34

For the quarter and year to date ended June 26, 2022, we recognized stock-based compensation expense related to RSUs of $0.7 million and $1.3 million, respectively. For the quarter and year to date ended June 27, 2021, we recognized stock-based compensation expense related to RSUs of $0.3 million and $0.4 million, respectively. As of June 26, 2022, unrecognized stock-based compensation expense for RSUs was $5.9 million, which will be recognized through fiscal year 2024.

Performance stock units

We award performance share units ("PSUs") to certain of our employees. The PSUs have certain vesting conditions based upon our stock price and relative stock performance.

Because these PSUs are subject to service and market vesting conditions, we determine the fair market value of each grant using a Monte Carlo simulation model. Participants are entitled to receive a specified number of shares of our common stock contingent on achievement of a stock return on our common stock. For the quarter and year to date ended June 26, 2022, we recognized stock-based compensation expense for PSUs with market vesting conditions of $0.1 million and $0.2 million, respectively.

A summary of activity for PSUs with market vesting conditions for the year to date ended June 26, 2022 is as follows:

PSUs	Number of PSUs (Thousands)	Weighted Average Fair Value per Share
Non-vested as of December 26, 2021	130	8.43
Granted	145	10.15
Vested	—	—
Canceled	—	—
Non-vested as of June 26, 2022	275	9.34

(11) Commitments and Contingencies

We are 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. We accrue for such liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated. Such accruals are based on developments to date, our estimates of the outcomes of these matters and its experience in contesting, litigating and settling other similar matters. In the opinion of management, the amount of ultimate liability with respect to those actions should not have a material adverse impact on our financial position or results of operations and cash flows.

Many of the food products we purchase are subject to changes in the price and availability of food commodities, including, among other things, beef, poultry, grains, dairy and produce. We work with our suppliers and use a mix of forward pricing protocols for certain items including agreements with our supplier on fixed prices for deliveries at a time in the future and agreements on a fixed price with our suppliers for the duration of those protocols. We also utilize formula pricing protocols under which the prices we pay are based on a specified formula related to the prices of the goods, such as spot prices. Our use of any forward pricing arrangements varies substantially from time to time and these arrangements tend to cover relatively short periods (i.e., typically twelve months or less). Such contracts are used in the normal purchases of our food products and not for speculative purposes, and as such are not required to be evaluated as derivative instruments.

(12) Subsequent Events

On July 12, 2022, we received notification from Harvest Small Business Finance, LLC that the SBA approved our loan forgiveness application for the entire outstanding principal and accrued interest under the Loan. See Note 7 for further information.

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 26, 2021. 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, our ability to grow our brand in new and existing markets, and the implementation and results of strategic initiatives, including our "Traffic-Driven Profitability" 5-pillar strategic plan. 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, the potential future impact of COVID-19 on our business and results of operations; compliance with covenants in our credit facility; 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 26, 2021, 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.

Business

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 owns and operates Potbelly Sandwich Shop concepts in the United States. We also have domestic franchise operations of Potbelly Sandwich Shop concepts. Potbelly's chief operating decision maker is our Chief Executive Officer. Based on how our Chief Executive Officer reviews financial performance and allocates resources on a recurring basis, we have one operating segment and one reportable segment.

We strive to be proactive and deliberate in our efforts to drive profitable growth in our existing business. Our "Traffic-Driven Profitability" 5-pillar strategic plan includes a prioritized set of low-cost strategic investments that we believe will deliver strong returns. The 5 pillars are:

- Craveable Quality Food at a Great Value
- People Creating Good Vibes
- Customer Experiences that Drive Traffic Growth
- Digitally Driven Awareness, Connection and Traffic
- Franchise Focused Development

Our shop model is designed to generate, and has generated, strong cash flow, attractive shop-level financial results and high returns on investment. We operate our shops successfully in a wide range of geographic markets, population densities and real estate settings. We aim to generate average shop-level profit margins, a non-GAAP measure, that range from the mid to high teens. Our ability to achieve such margins and returns depends on a number of factors. For example, we face increasing labor and commodity costs, which we have partially offset by increasing menu prices. Although there is no guarantee that we will be able to maintain these returns, we believe our attractive shop economics support our ability to profitably grow our brand in new and existing markets.

We are actively executing against our Franchise Growth Acceleration Initiative which includes the goal of refranchising approximately 25% of our company units over the next three years and executing area development agreements with franchisees to develop additional Potbelly shops in specific markets.

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

	Company-Operated	Franchise-Operated	Total Company
Shops as of December 27, 2020	400	46	446
Shops opened	—	1	1
Shops closed	(2)	(2)	(4)
Shops as of June 27, 2021	398	45	443
Shops as of December 26, 2021	397	46	443
Shops opened	—	1	1
Shops closed	(4)	—	(4)
Shops as of June 26, 2022	393	47	440

Impact of COVID-19 on Our Business

On January 30, 2020, the WHO announced a global health emergency because of COVID-19 and the risks to the international community as the virus spreads globally. On March 11, 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The COVID-19 pandemic significantly impacted economic conditions in the United States where all our shops are located during portions of 2020 and 2021. In response to the pandemic, many states and jurisdictions in which we operate issued stay-at-home orders and other measures aimed at slowing the spread of the coronavirus, resulting in significant changes to our operations and a sudden and drastic decrease in revenues. While the pandemic continues to have an impact on our business, the distribution of COVID-19 vaccines and lifting of local restrictions has resulted in a gradual improvement to our sales during 2021 and through the first half of 2022. Nearly all of our shops have reopened their dining rooms and are no longer subject to operating restrictions and capacity limits related to COVID-19. We will continue to follow guidance from local authorities in determining the appropriate restrictions to put in place for each shop, including mask mandates, hours of operation, and the suspension or reduction of in-shop dining if required due to changes in the pandemic response in each jurisdiction and restaurant operating protocols, which could result in lower in-shop dining revenue or higher operating costs.

Specifically, COVID-19 has affected our financial results and performance as follows:

- *Revenue* – Many of our shops, specifically those in suburban and urban residential locations are now operating near or above pre-COVID-19 levels. Other shops, especially those in central business districts, are still operating materially below those levels but are continuing to recover. While the majority of our shops have reopened their dining rooms and are operating without mandated restrictions, the pandemic has affected consumer behavior including more significant focus on digital sales. As such, we continue to offer convenient off-premise options for customers. Customers can place off-premise orders through Potbelly.com and the Potbelly app, or through DoorDash, Grubhub, Postmates, Uber Eats and other marketplaces nationwide. We also continue to evaluate our product offerings and service methods to ensure we are aligned with the preferences of our customers as the pandemic evolves.

- *Operating Costs* – We implemented measures to reduce operating costs and general and administrative expenses in response to the negative impact the pandemic has had on our business. We continually adjust shop-level labor and inventory to align with current levels of demand. At the onset of the pandemic, we implemented a strategy to reduce costs and preserve cash, and we continue to be thoughtful and judicious regarding our operating expenses during the uncertainty of the pandemic. We negotiated rent abatements, rent deferrals, and other modified lease terms with the majority of our shop landlords in order to preserve liquidity and reduce ongoing occupancy costs. Additionally, we announced and executed a corporate restructuring plan during the fourth quarter of 2020 which reduced annual general and administrative expenses in 2021 and 2022. The restructuring plan consisted of corporate expense optimization, consolidation of shop support services, and other expense and staff reductions.

As a result of COVID-19, during the quarter ended June 26, 2022, some of our food and paper suppliers have experienced shortages in labor and transportation resources, which in some cases, has resulted in increased costs of our food and paper, which we expect will continue to a certain extent through the remainder of the year. We have worked closely with our suppliers to ensure availability of products and, to date, there has been minimal disruption to the availability of our products, though it is possible that more significant disruptions could occur if the COVID-19 pandemic and labor and supply chain availability challenges continue to worsen.

In addition, during the quarter ended June 26, 2022, we experienced labor availability challenges in certain shops. We are managing the labor availability impact on these restaurants by selectively raising wages and limiting our hours of operation or closing dining rooms, when necessary. We have also expanded the ability for customers to pay tips on their orders to further increase compensation for our shop employees.

Although we have been able to manage costs relating to compliance with our stringent food safety and quality assurance programs and implementation and maintenance of strict sanitation protocols for our shops, to the extent new requirements or actions are mandated or we deem them advisable, we may incur additional costs to comply with such requirements to take such actions.

We have increased, and plan to continue to increase, menu prices as necessary in order to offset additional costs as a result of a higher inflationary economic environment in the U.S. These price increases may not be sufficient to mitigate additional unexpected higher costs and further increases may negatively impact consumer behavior and purchases.

- *Shop Development* – We halted capital investment in new company-owned shops, except for shops that were substantially complete, as well as all non-essential capital expenditures. We currently do not have plans to begin construction on any company-owned shops, and we are pursuing shop growth through our franchising initiatives.

We will continue to actively monitor the evolving situation and may take further actions that alter our business operations as may be required by federal, state or local authorities or that we determine are in the best interests of our employees, customers, franchisees, stakeholders and communities.

Key Performance Indicators

In assessing the performance of our business, we consider a variety of performance and financial measures. The key measures for determining how the business is performing are comparable store sales, shop-level profit margins, and adjusted EBITDA.

Company-Operated Comparable Store Sales

Comparable store sales reflect the change in year-over-year sales for the comparable company-operated store base. We define the comparable store base to include those shops open for 15 months or longer. As of the quarters ended June 26, 2022 and June 27, 2021, there were 379 and 360 shops, respectively, in our comparable company-operated store base. Comparable store sales growth can be generated by an increase in number of transactions and/or by increases in the average check amount resulting from a shift in menu mix and/or increase in price. This measure highlights performance of existing shops as the impact of new shop openings is excluded. For purposes of the comparable store sales calculation, a transaction is defined as an entrée, which includes sandwiches, salads and bowls of soup or mac and cheese.

Number of Company-Operated Shop Openings

The number of company-operated shop openings reflects the number of shops opened during a particular reporting period. Before we open new shops, we incur pre-opening costs. Often, new shops open with an initial start-up period of higher than normal sales volumes, which subsequently decrease to stabilized levels. While sales volumes are generally higher during the initial opening period, new shops typically experience normal inefficiencies in the form of higher cost of sales, labor and other direct operating expenses and as a result, shop-level profit margins are generally lower during the start-up period of operation. The average start-up period is 10 to 13 weeks. The number and timing of shop openings has had, and is expected to continue to have, an impact on our results of operations.

Shop-Level Profit (Loss) Margin

Shop-level profit (loss) margin is defined as net company-operated sandwich shop sales less company-operated sandwich shop operating expenses, excluding depreciation, which consists of food, beverage and packaging costs, labor and related expenses, occupancy expenses, and other operating expenses, as a percentage of net company-operated sandwich shop sales. Other operating expenses include all other shop-level operating costs, excluding depreciation, the major components of which are credit card fees, fees to third-party marketplace partners, marketing and advertising, shop technology and software, supply chain costs, operating supplies, utilities, and repair and maintenance costs. Shop-level profit (loss) margin is not required by, or presented in accordance with U.S. GAAP. Potbelly believes shop-level profit (loss) margin is important in evaluating shop-level productivity, efficiency and performance.

Adjusted EBITDA

Potbelly defines adjusted EBITDA as net income before depreciation and amortization, interest expense and provision for income taxes, adjusted for the impact of the following items that we do not consider representative of ongoing operating performance: stock-based compensation expense, impairment and shop closure expenses, and gain or loss on disposal of property and equipment as well as other one-time, non-recurring charges, such as CEO transition costs. Potbelly believes that adjusted EBITDA is a useful measure of operating performance, as it provides a picture of operating results by eliminating expenses that management does not believe are reflective of underlying business performance.

Quarter Ended June 26, 2022 Compared to Quarter Ended June 27, 2021

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

	For the Quarter Ended					
	June 26, 2022	% of Revenues	June 27, 2021	% of Revenues	Increase (Decrease)	Percent Change
Revenues						
Sandwich shop sales, net	$ 114,992	99.2 %	$ 96,777	99.3 %	$ 18,215	18.8 %
Franchise royalties and fees	960	0.8	714	0.7	246	34.5
Total revenues	**115,952**	**100.0**	**97,491**	**100.0**	**18,461**	**18.9**
Expenses						
(Percentages stated as a percent of sandwich shop sales, net)						
Sandwich shop operating expenses, excluding depreciation						
Food, beverage and packaging costs	32,830	28.5	26,341	27.2	6,489	24.6
Labor and related expenses	36,121	31.4	31,961	33.0	4,160	13.0
Occupancy expenses	13,805	12.0	13,562	14.0	243	1.8
Other operating expenses	19,128	16.6	15,570	16.1	3,558	22.9
(Percentages stated as a percent of total revenues)						
Franchise marketing expenses	126	0.1	76	NM	50	65.8
General and administrative expenses	8,827	7.6	8,674	8.9	153	1.8
Depreciation expense	3,030	2.6	4,553	4.7	(1,523)	(33.5)
Impairment, loss on disposal of property and equipment and shop closures	1,044	0.9	257	0.3	787	306.2
Total expenses	114,911	99.1	100,994	103.6	13,917	13.8
Income (loss) from operations	1,041	0.9	(3,503)	(3.6)	4,544	(129.7)
Interest expense, net	357	0.3	185	0.2	172	93.0
Income (loss) before income taxes	684	0.6	(3,688)	(3.8)	4,372	(118.5)
Income tax expense (benefit)	(24)	NM	160	0.2	(184)	(115.0)
Net income (loss)	708	0.6	(3,848)	(3.9)	4,556	(118.4)
Net income attributable to non-controlling interest	134	0.1	33	NM	101	NM
Net income (loss) attributable to Potbelly Corporation	**$ 574**	**0.5 %**	**$ (3,881)**	**(4.0) %**	**$ 4,455**	**(114.8) %**

	For the Quarter Ended		
Other Key Performance Indicators	June 26, 2022	June 27, 2021	Increase (Decrease)
Comparable store sales	17.2 %	70.0 %	(52.8)%
Shop-level profit margin	11.4 %	9.7 %	1.7 %
Adjusted EBITDA	$ 5,801	$ 1,929	$ 3,872

"NM" - Amount is not meaningful

Revenues

Total revenues increased by $18.5 million, or 18.9%, to $116.0 million during the quarter ended June 26, 2022, from $97.5 million during the quarter ended June 27, 2021. This increase was primarily driven by the sustained recovery of our shops in central business district and airport locations, improved performance of our catering channel, successful marketing programs, and increased prices to offset cost inflation. Company-operated comparable store sales resulted in an increase in revenue of $16.5 million, or 17.2%. The increases in sales during the first quarter of 2022 also included sales of $2.3 million of shops that were temporarily closed in 2021 that have since re-opened. These increases were partially offset by a decrease in sales of $0.5 million due to shops that have permanently closed during the last year. Additionally, revenue from franchise royalties and fees increased by $0.2 million, or 34.5%.

Food, beverage, and packaging costs

Food, beverage, and packaging costs increased by $6.5 million, or 24.6%, to $32.8 million during the quarter ended June 26, 2022, from $26.3 million during the quarter ended June 27, 2021. This increase was primarily driven by an increase in shop sales volume and increased costs of our food and paper as a result of some of our suppliers experiencing shortages in labor and transportation resources. As a percentage of sandwich shop sales, food, beverage, and packaging costs increased to 28.5% during the quarter ended June 26, 2022, from 27.2% during the quarter ended June 27, 2021, primarily driven by commodity inflation partially offset by increased menu prices.

Labor and Related Expenses

Labor and related expenses increased by $4.2 million, or 13.0%, to $36.1 million during the quarter ended June 26, 2022, from $32.0 million for the quarter ended June 27, 2021, primarily driven by an increase in shop sales volumes and higher shop labor wage rates as a result of labor availability challenges in certain restaurants. As a percentage of sandwich shop sales, labor and related expenses decreased to 31.4% during the quarter ended June 26, 2022, from 33.0% for the quarter ended June 27, 2021, primarily driven by sales leverage in certain labor related costs not directly variable with sales.

Occupancy Expenses

Occupancy expenses increased by $0.2 million, or 1.8%, to $13.8 million during the quarter ended June 26, 2022, from $13.6 million during the quarter ended June 27, 2021, primarily due to an increase in variable lease expenses. As a percentage of sandwich shop sales, occupancy expenses decreased to 12.0% for the quarter ended June 26, 2022, from 14.0% for the quarter ended June 27, 2021, primarily due to increased sales leverage in certain occupancy related costs which are not variable with sales, as well as the impact of lease concessions and restructurings over the last year.

Other Operating Expenses

Other operating expenses increased by $3.6 million, or 22.9%, to $19.1 million during the quarter ended June 26, 2022, from $15.6 million during the quarter ended June 27, 2021. The increase was primarily related to an increase in certain items variable with sales, including fees to third-party delivery partners, and increased marketing and advertising spend. Marketing and advertising expenses included in other operating expenses were $1.8 million and $0.9 million as of the quarter ended June 26, 2022 and the quarter ended June 27, 2021, respectively. As a percentage of sandwich shop sales, other operating expenses increased to 16.6% for the quarter ended June 26, 2022, from 16.1% for the quarter ended June 27, 2021, primarily driven by increased marketing and advertising expenses as noted above, partially offset by sales leverage in operating expense items that are not directly variable with sales.

Franchise marketing expenses

Franchise marketing expenses increased by $50 thousand to $126 thousand during the quarter ended June 26, 2022 compared to $76 thousand during the quarter ended June 27, 2021, driven by increased marketing and advertising expenses allocated from the Brand Fund to franchised shops.

General and Administrative Expenses

General and administrative expenses increased by $0.2 million, or 1.8%, to $8.8 million during the quarter ended June 26, 2022, from $8.7 million during the quarter ended June 27, 2021. This increase was primarily driven by an increase in payroll costs and stock-based compensation expense. As a percentage of revenues, general and administrative expenses decreased to 7.6% for the quarter ended June 26, 2022, from 8.9% for the quarter ended June 27, 2021, primarily driven by increased sales leverage.

Depreciation Expense

Depreciation expense decreased by $1.5 million, or 33.5%, to $3.0 million during quarter ended June 26, 2022, from $4.6 million during the quarter ended June 27, 2021. The decrease was driven primarily by a lower depreciable base related to a decrease in the number of company-operated shops and impairment charges taken in prior periods. As a percentage of revenues, depreciation was 2.6% during the quarter ended June 26, 2022 and was 4.7% for the quarter ended June 27, 2021.

Impairment, Loss on Disposal of Property and Equipment and Shop Closures

Impairment, loss on disposal of property and equipment and shop closures decreased by $0.8 million, or 306.2%, to $1.0 million during the quarter ended June 26, 2022, from $0.3 million during the quarter ended June 27, 2021.

After performing a periodic review of our shops during the quarter ended June 26, 2022, it was determined that indicators of impairment were present for certain shops as a result of continued underperformance, primarily related to the impacts of COVID-19. We performed an impairment analysis related to these shops and recorded an impairment charge of $0.9 million for the quarter ended June 26, 2022. The ultimate severity and longevity of the COVID-19 pandemic is unknown, and therefore, it is possible that impairments could be identified in future periods, and such amounts could be material.

During the quarter ended June 26, 2022, we did not incur any lease termination fees.

Interest Expense, Net

Net interest expense was $357 thousand during the quarter ended June 26, 2022 compared to $185 thousand during the quarter ended June 27, 2021, as a result of higher debt balances on our revolving credit facility agreement.

Income Tax Expense

We recognized an income tax benefit of $24 thousand for the quarter ended June 26, 2022. We recognized income tax expense of $0.2 million for the quarter ended June 27, 2021.

Year to Date Ended June 26, 2022 Compared to Year to Date Ended June 27, 2021

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

	For the Year to Date Ended					
	June 26, 2022	% of Revenues	June 27, 2021	% of Revenues	Increase (Decrease)	Percent Change
Revenues						
Sandwich shop sales, net	$ 212,423	99.2 %	$ 174,279	99.3 %	$ 38,144	21.9 %
Franchise royalties and fees	$ 1,750	0.8	$ 1,277	0.7	473	37.0
Total revenues	**214,173**	**100.0**	$ 175,556	**100.0**	**38,617**	**22.0**
Expenses						
(Percentages stated as a percent of sandwich shop sales, net)						
Sandwich shop operating expenses, excluding depreciation						
Food, beverage and packaging costs	60,138	28.3	47,810	27.4	12,328	25.8
Labor and related expenses	69,374	32.7	60,575	34.8	8,799	14.5
Occupancy expenses	27,650	13.0	27,160	15.6	490	1.8
Other operating expenses	37,233	17.5	29,574	17.0	7,659	25.9
(Percentages stated as a percent of total revenues)						
Franchise marketing expenses	246	0.1	120	NM	126	105.0
General and administrative expenses	17,345	8.1	15,847	9.0	1,498	9.5
Depreciation expense	6,167	2.9	8,727	5.0	(2,560)	(29.3)
Impairment, loss on disposal of property and equipment and shop closures	2,363	1.1	3,379	1.9	(1,016)	(30.1)
Total expenses	220,516	103.0	193,192	110.0	27,324	14.1
Income (loss) from operations	(6,343)	(3.0)	(17,636)	(10.0)	11,293	(64.0)
Interest expense, net	683	0.3	472	0.3	211	44.7
Income (loss) before income taxes	(7,026)	(3.3)	(18,108)	(10.3)	11,082	(61.2)
Income tax expense (benefit)	153	NM	214	0.1	(61)	(28.5)
Net income (loss)	(7,179)	(3.4)	(18,322)	(10.4)	11,143	(60.8)
Net income attributable to non-controlling interest	160	NM	31	NM	129	416.1
Net income (loss) attributable to Potbelly Corporation	**$ (7,339)**	**(3.4) %**	**$ (18,353)**	**(10.5) %**	**$ 11,014**	**(60.0) %**

	For the Year to Date Ended		
Other Key Performance Indicators	June 26, 2022	June 27, 2021	Increase (Decrease)
Comparable store sales	20.4 %	26.6 %	(6.2)%
Shop-level profit margin	8.5 %	5.3 %	3.2 %
Adjusted EBITDA	$ 3,522	$ (4,713)	$ 8,235

"NM" - Amount is not meaningful

Revenues

Total revenues increased by $38.6 million, or 22.0%, to $214.2 million during the year to date ended June 26, 2022, from $175.6 million during the year to date ended June 27, 2021. This increase was primarily driven by the sustained recovery of our shops in central business district and airport locations, improved performance of our catering channel, successful marketing programs, and increased prices to offset cost inflation. Company-operated comparable store sales resulted in an increase of $35.3 million, or 20.4% for the year to date ended June 26, 2022. The increases in sales during the first two quarters of 2022 also included sales of $4.0 million of shops that were temporarily closed in 2021 that have since re-opened. These increases were partially offset by a decrease in sales of $0.9 million due to shops that have permanently closed during the last year. Additionally, revenue from franchise royalties and fees increased by $0.5 million, or 37.0%.

Food, beverage, and packaging costs

Food, beverage, and packaging costs increased by $12.3 million, or 25.8%, to $60.1 million during the year to date ended June 26, 2022, from $47.8 million during the year to date ended June 27, 2021. This increase was primarily driven by an increase in shop sales volume and increased costs of our food and paper as a result of some of our suppliers experiencing shortages in labor and transportation resources. As a percentage of sandwich shop sales, food, beverage, and packaging costs increased to 28.3% during the year to date ended June 26, 2022, from 27.4% during the year to date ended June 27, 2021, primarily driven by commodity inflation partially offset by increased menu prices.

Labor and Related Expenses

Labor and related expenses increased by $8.8 million, or 14.5%, to $69.4 million during the year to date ended June 26, 2022, from $60.6 million for the year to date ended June 27, 2021, primarily driven by an increase in shop sales volumes and higher shop labor wage rates as a result of labor availability challenges in certain restaurants. As a percentage of sandwich shop sales, labor and related expenses decreased to 32.7% during the year to date ended June 26, 2022, from 34.8% for the year to date ended June 27, 2021, primarily driven by sales leverage in certain labor related costs not directly variable with sales.

Occupancy Expenses

Occupancy expenses increased by $0.5 million, or 1.8%, to $27.7 million during the year to date ended June 26, 2022, from $27.2 million during the year to date ended June 27, 2021, primarily due to an increase in variable lease expenses. As a percentage of sandwich shop sales, occupancy expenses decreased to 13.0% for the year to date ended June 26, 2022, from 15.6% for the year to date ended June 27, 2021, primarily due to increased sales leverage in certain occupancy related costs which are not variable with sales, as well as the impact of lease concessions and restructurings over the last year.

Other Operating Expenses

Other operating expenses increased by $7.7 million, or 25.9%, to $37.2 million during the year to date ended June 26, 2022, from $29.6 million during the year to date ended June 27, 2021. The increase was primarily related to an increase in certain items variable with sales, including fees to third-party delivery partners, and increased marketing and advertising spend. Marketing and advertising expenses included in other operating expenses were $3.7 million and $1.5 million as of the year to date ended June 26, 2022 and the year to date ended June 27, 2021, respectively. As a percentage of sandwich shop sales, other operating expenses increased to 17.5% for the year to date ended June 26, 2022, from 17.0% for the year to date ended June 27, 2021, primarily driven by increased marketing and advertising expenses as noted above, partially offset by sales leverage in operating expense items that are not directly variable with sales.

Franchise marketing expenses

Franchise marketing expenses increased by $0.1 million to $0.2 million during the year to date ended June 26, 2022 compared to $0.1 million during the year to date ended June 27, 2021, driven by increased marketing and advertising expenses allocated from the Brand Fund to franchised shops.

General and Administrative Expenses

General and administrative expenses increased by $1.5 million, or 9.5%, to $17.3 million during the year to date ended June 26, 2022, from $15.8 million during the year to date ended June 27, 2021. This increase was primarily driven by an increase in payroll costs and stock-based compensation expense. As a percentage of revenues, general and administrative expenses decreased to 8.1% for the year to date ended June 26, 2022, from 9.0% for the year to date ended June 27, 2021, primarily driven by increased sales leverage.

Depreciation Expense

Depreciation expense decreased by $2.6 million, or 29.3%, to $6.2 million during year to date ended June 26, 2022, from $8.7 million during the quarter ended June 27, 2021. The decrease was driven primarily by a lower depreciable base related to a decrease in the number of company-operated shops and impairment charges taken in prior periods. As a percentage of revenues, depreciation was 2.9% during the year to date ended June 26, 2022 and was 5.0% for the year to date ended June 27, 2021.

Impairment, Loss on Disposal of Property and Equipment and Shop Closures

Impairment, loss on disposal of property and equipment and shop closures decreased by $1.0 million, or 30.1%, to $2.4 million during the year to date ended June 26, 2022, from $3.4 million during the year to date ended June 27, 2021.

After performing a periodic review of our shops during the year to date ended June 26, 2022, it was determined that indicators of impairment were present for certain shops as a result of continued underperformance, primarily related to the impacts of COVID-19. We performed an impairment analysis related to these shops and recorded an impairment charge of $2.0 million for the year to date ended June 26, 2022. The ultimate severity and longevity of the COVID-19 pandemic is unknown, and therefore, it is possible that impairments could be identified in future periods, and such amounts could be material. During the first quarter of 2021, we amended the lease for our corporate Support Center office in Chicago to relocate to a different office space. As a result of this relocation, the leasehold improvements of the original office space were disposed, resulting in a loss on disposal of $2.5 million.

During the year to date ended June 26, 2022, we did not incur any lease termination fees.

Interest Expense, Net

Net interest expense was $0.7 million during the year to date ended June 26, 2022 compared to $0.5 million during the year to date ended June 27, 2021, as a result of higher debt balances on our revolving credit facility agreement.

Income Tax Expense

We recognized income tax expense of $0.2 million for the year to date ended June 26, 2022 compared to expense of $0.2 million for the year to date ended June 27, 2021.

Non-GAAP Financial Measures

Shop-Level Profit (Loss) Margin

Shop-level profit (loss) margin was 11.4% and 8.5% for the quarter and year to date ended June 26, 2022. Shop-level profit (loss) margin is not required by, or presented in accordance with U.S. GAAP. We believe shop-level profit (loss) margin is important in evaluating shop-level productivity, efficiency and performance.

	For the Quarter Ended		For the Year to Date Ended	
	June 26, 2022	June 27, 2021	June 26, 2022	June 27, 2021
	($ in thousands)		($ in thousands)	
Income (loss) from operations	$ 1,041	$ (3,503)	$ (6,343)	$ (17,636)
Less: Franchise royalties and fees	960	714	1,750	1,277
Franchise marketing expenses	126	76	246	120
General and administrative expenses	8,827	8,674	17,345	15,847
Depreciation expense	3,030	4,553	6,167	8,727
Impairment, loss on disposal of property and equipment and shop closures	1,044	257	2,363	3,379
Shop-level profit (loss) [Y]	$ 13,108	$ 9,343	$ 18,028	$ 9,160
Total revenues	$ 115,952	$ 97,491	$ 214,173	$ 175,556
Less: Franchise royalties and fees	960	714	1,750	1,277
Sandwich shop sales, net [X]	$ 114,992	$ 96,777	$ 212,423	$ 174,279
Shop-level profit (loss) margin [Y÷X]	**11.4 %**	**9.7 %**	**8.5 %**	**5.3 %**

Adjusted EBITDA

Adjusted EBITDA was $5.8 million and $3.5 million for the quarter and year to date ended June 26, 2022. Adjusted EBITDA is not required by, or presented in accordance with U.S. GAAP. We believe that adjusted EBITDA is a useful measure of operating performance, as it provides a picture of operating results by eliminating expenses that management does not believe are reflective of underlying business performance.

	For the Quarter Ended		For the Year to Date Ended	
	June 26, 2022	June 27, 2021	June 26, 2022	June 27, 2021
	($ in thousands)		($ in thousands)	
Net income (loss) attributable to Potbelly Corporation	$ 574	$ (3,881)	$ (7,339)	$ (18,353)
Depreciation expense	3,030	4,553	6,167	8,727
Interest expense	357	185	683	472
Income tax expense (benefit)	(24)	160	153	214
EBITDA	$ 3,937	$ 1,017	$ (336)	$ (8,940)
Impairment, loss on disposal of property and equipment, and shop closures [(a)]	1,044	257	2,363	3,379
Stock-based compensation	820	655	1,495	848
Less: Gain on forgiveness of debt	—	—	—	—
Adjusted EBITDA	**$ 5,801**	**$ 1,929**	**$ 3,522**	**$ (4,713)**

(a) This adjustment includes costs related to impairment of long-lived assets, loss on disposal of property and equipment and shop closure expenses.

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 our revolving credit facility. In the short term, Potbelly's primary requirements for liquidity and capital are existing shop capital investments, maintenance, lease obligations, working capital and general corporate needs. Potbelly's requirement for working capital is not significant since our 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 we need to pay our suppliers for such items. Company shops do not require significant inventories or receivables.

The COVID-19 pandemic's impact on our operations and revenues had significantly affected our ability to generate cash from operations in 2020. To preserve financial flexibility, we have utilized our revolving credit facility to fund operations.

We ended the quarter ended June 26, 2022 with a cash balance of $14.7 million and total liquidity (cash plus amounts available under our committed Revolving Credit Facility, which is further described in the section below) of $26.9 million compared to a cash balance of $9.5 million and total liquidity of $19.5 million at the end of the previous quarter. We believe that cash from our operations and borrowings under our revolving credit facility will be able to provide sufficient liquidity for at least the next twelve months (cash plus amounts available under our committed revolving credit facility, which is further described in the section below).

Cash Flows

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

	For the Year to Date Ended	
	June 26, 2022	June 27, 2021
Net cash provided by (used in):		
Operating activities	$ 1,978	(5,454)
Investing activities	(3,115)	(3,333)
Financing activities	1,441	9,499
Net increase (decrease) in cash	$ 304	$ 712

Operating Activities

Net cash provided by operating activities increased to $2.0 million for the year to date ended June 26, 2022, from cash used in operating activities of $5.5 million for the year to date ended June 27, 2021. The $7.4 million change in operating cash was primarily driven by a decrease in loss from operations compared to the prior year. This was partially offset by the timing of payment for certain accrued liabilities.

Investing Activities

Net cash used in investing activities decreased to $3.1 million for the year to date ended June 26, 2022, from $3.3 million for the year to date ended June 27, 2021. The $0.2 million decrease was primarily due to an increase in capital expenditures. Capital expenditures consist primarily of ongoing investment in our company-owned shops and investment in digital technology. No new company shop construction is currently planned.

Financing Activities

Net cash provided by financing activities decreased to $1.4 million for the year to date ended June 26, 2022, from $9.5 million for the year to date ended June 27, 2021. The $8.1 million decrease in financing cash was primarily driven by net proceeds from the SPA in 2021.

Revolving Credit Facility

On August 7, 2019, we entered into a second amended and restated revolving credit facility agreement (the "Credit Agreement") with JPMorgan Chase Bank, N.A. ("JPMorgan"). The Credit Agreement amends and restates the revolving credit facility agreement, dated as of December 9, 2015, and amended on May 3, 2019 (collectively, the "Prior Credit Agreement") with JPMorgan. As disclosed in our Annual Report on Form 10-K for the fiscal year ended December 26, 2021, we subsequently amended the Credit Agreement during fiscal years 2020 and 2021. The Credit Agreement provides for a revolving credit facility in a maximum principal amount of $25 million.

On January 28, 2022, we entered into Amendment No. 6 (the "Sixth Amendment") to the Credit Agreement. The Sixth Amendment, among other things, (i) extended the maturity date under the Credit Agreement from January 31, 2023 to May 31, 2023, (ii) changed the benchmark interest rates under the Credit Agreement for borrowings from the London Interbank Offered Rate (LIBOR) to the Secured Overnight Financing Rate (SOFR) subject to certain adjustments in the Sixth Amendment, (iii) increased the interest rate margin by 75 basis points with respect to any CBFR Loan (as defined in the Credit Agreement), (iv) sets the interest rate margin at 600 basis points with respect to any Term Benchmark Loan (as defined in the Credit Agreement), (v) amended certain financial covenant testing levels, and (vi) amended the definition of subsidiary to exclude the Potbelly Employee Relief Fund NFP, an Illinois not-for-profit corporation.

On May 31, 2022, we entered into Amendment No. 7 (the "Seventh Amendment") to the Credit Agreement. The Seventh Amendment, among other things (i) extended the maturity date under the Credit Agreement from May 31, 2023 to August 31, 2023 and (ii) amended certain financial covenant testing levels.

As of June 26, 2022, we had $12.1 million outstanding under the Credit Agreement. As of December 26, 2021, we had $9.9 million outstanding under the Credit Agreement. We are currently in compliance with all financial debt covenants.

Paycheck Protection Program Loan

On August 10, 2020, PSW, an indirect subsidiary of the Company, entered into a loan agreement with Harvest Small Business Finance, LLC in the aggregate amount of $10.0 million (the "Loan"), pursuant to the PPP under the CARES Act. The Loan was necessary to support our ongoing operations due to the economic uncertainty resulting from the COVID-19 pandemic and lack of access to alternative sources of liquidity.

The Loan is scheduled to mature five years from the date on which PSW applies for loan forgiveness under the CARES Act, bears interest at a rate of 1% per annum and is subject to the terms and conditions applicable to loans administered by the U.S. Small Business Administration ("SBA") under the CARES Act. The PPP provides that the use of the Loan amount shall be limited to certain qualifying expenses and may be partially or wholly forgiven in accordance with the requirements set forth in the CARES Act. We used all of the PPP proceeds toward qualifying expenses and pursued forgiveness of the full Loan amount.

On July 12, 2022, we received notification from Harvest Small Business Finance, LLC that the SBA approved our loan forgiveness application for the entire outstanding principal and accrued interest under the Loan equaling $10.2 million, which will be recognized as a gain on extinguishment of debt during the third fiscal quarter.

Stock Repurchase Program

On May 8, 2018, we announced that our Board of Directors authorized a stock repurchase program for up to $65.0 million of our outstanding common stock. The program permits us, 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 quarter ended June 26, 2022, we did not repurchase any shares of our common stock under the stock repurchase program. We do not have plans to repurchase any common stock under our stock repurchase program at this time.

Equity Offering Program

On November 3, 2021, we entered into a certain Equity Sales Agreement (the "Sales Agreement") with William Blair & Company, L.L.C., as agent ("William Blair") pursuant to which we may sell shares of our common stock having an aggregate offering price of up to $40.0 million (the "Shares"), from time to time, in our sole discretion, through an "at the market" equity offering program under which William Blair will act as sales agent. As of June 26, 2022, we have not sold any shares under the Sales Agreement.

Critical Accounting Estimates

Our discussion and analysis of the 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. Actual results could differ from those estimates. Critical accounting estimates 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. We base our 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. We have made no significant changes in our critical accounting estimates since the last annual report. Our critical accounting estimates are identified and described in our annual consolidated financial statements and related notes.

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 26, 2021. Our exposures to market risk have not changed materially since December 26, 2021.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief 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 June 26, 2022. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of June 26, 2022, 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 Chief 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 quarter ended June 26, 2022 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 11 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 26, 2021. There have been no material changes to our Risk Factors as previously reported.

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

Issuer Purchases of Equity Securities

The following table contains information regarding purchases of our common stock made by or on behalf of Potbelly Corporation during the year to date ended June 26, 2022 (in thousands, except per share data):

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (2)	Maximum Value of Shares that May Yet be Purchased Under the Program (2)
December 26, 2021 - January 23, 2022	3	$ 5.65	—	$ 37,982
January 24, 2022 - February 20, 2022	3	$ 5.54	—	$ 37,982
February 21, 2022 - March 27, 2022	41	$ 6.11	—	$ 37,982
March 28, 2022 - April 24, 2022	6	$ 6.62	—	$ 37,982
April 25, 2022 - May 22, 2022	29	$ 6.42	—	$ 37,982
May 23, 2022 - June 26, 2022	18	$ 5.15	—	$ 37,982
Total number of shares purchased:	100		—	

(1) Represents shares of our common stock surrendered by employees to satisfy withholding obligations resulting from the vesting of equity awards.

(2) On May 8, 2018, we announced that our Board of Directors authorized a stock repurchase program for up to $65.0 million of our outstanding common stock. The program permits us, 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. Due to the COVID-19 pandemic, we do not have plans to repurchase any common stock under our stock repurchase program at this time. See Note 9 for further information regarding our 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.

Exhibit No.	Description
10.1	Amendment No. 7 dated May 31, 2022, to the 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, and JPMorgan Chase Bank N.A., as Administrative Agent and J.P. Morgan Chase Bank, N.A., as Sole Bookrunner and Sole Lead Arranger.
10.2	Notice from the Small Business Administration, dated July 12, 2022, notifying Potbelly Sandwich Works, LLC, of approval for forgiveness of the Payment Protection loan.
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL 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: August 4, 2022	By:	/s/ Steven Cirulis
		Steven Cirulis
		Chief Financial Officer
		(Principal Financial Officer)

Execution Version

AMENDMENT NO. 7
TO
SECOND AMENDED AND RESTATED CREDIT AGREEMENT

THIS AMENDMENT NO. 7 TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT (this "Amendment") is entered into as of May 31, 2022 among **POTBELLY SANDWICH WORKS, LLC**, an Illinois limited liability company ("Borrower"), the other Loan Parties (as such term is defined in the Credit Agreement), the financial institutions listed on the signature pages hereto as lenders (the "Lenders"), and **JPMORGAN CHASE BANK, N.A.**, as administrative agent for the Lenders (in such capacity, the "Administrative Agent").

W I T N E S S E T H:

WHEREAS, the Loan Parties, the Lenders and the Administrative Agent have entered into that certain Second Amended and Restated Credit Agreement dated as of August 7, 2019 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement", and as amended hereby, the "Amended Credit Agreement"); and

WHEREAS, the Loan Parties desire to amend the Credit Agreement as set forth herein, and the Administrative Agent and the Lenders are willing to do so on the terms and subject to the conditions set forth herein;

NOW, THEREFORE, in consideration of the premises set forth above, the terms and conditions contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. **Definitions**. Terms defined in the Amended Credit Agreement that are used herein shall have the same meanings as are set forth in the Amended Credit Agreement for such terms unless otherwise defined herein.

2. **Amendments to Credit Agreement**. Subject to the satisfaction of the conditions set forth in Section 3 of this Amendment:

(a) The following defined terms set forth in Section 1.01 of the Credit Agreement are amended and restated in their entirety as follows:

> "Maturity Date" means August 31, 2023 or any earlier date on which the Commitments are reduced to zero or otherwise terminated pursuant to the terms hereof.
>
> "Sanctioned Country" means, at any time, a country, region or territory which is itself the subject or target of any Sanctions (as of May 31, 2022, the so-called Donetsk People's Republic, the so-called Luhansk People's Republic, the Crimea Region of Ukraine, Cuba, Iran, North Korea and Syria).

(b) Section 6.12 of the Credit Agreement is amended and restated in its entirety as follows:

SECTION 6.12. Financial Covenants.

(a) EBITDA. The Loan Parties shall not permit EBITDA for any Computation Period set forth below to be less than the applicable amount set forth below for such Computation Period:

Computation Periods ending on or about (all dates are inclusive):	Minimum EBITDA:
May 31, 2022	$ 2,200,000
June 30, 2022	3,280,000
July 31, 2022	3,880,000
August 31, 2022	4,560,000
September 30, 2022	4,160,000
October 31, 2022	5,360,000
November 30, 2022	6,480,000
December 31, 2022	7,680,000
January 31, 2023	8,580,000
February 28, 2023	9,240,000
March 31, 2023	10,540,000
April 30, 2023	12,140,000
May 31, 2023	13,000,000
June 30, 2023	14,820,000
July 31, 2023 and thereafter	16,020,000

(b) Liquidity. The Loan Parties shall not permit Liquidity on the last day of any month set forth below to be less than the applicable amount set forth below for such month:

Months (all dates are inclusive):	Minimum Liquidity:
May 2022	$11,900,000
June 2022	15,800,000
July 2022	14,400,000
August 2022	15,300,000
September 2022	13,100,000
October 2022	12,500,000
November 2022	14,300,000
December 2022	14,100,000
January 2023	11,700,000
February 2023	12,600,000
March 2023	10,000,000
April 2023	10,000,000
May 2023	12,100,000
June 2023	16,900,000
July 2023 and thereafter	16,900,000

As used herein, the term "Liquidity" means, at any time, the sum of (i) the Available Revolving Commitment at such time, plus (ii) the Consolidated Cash Balance maintained with Chase at such time (excluding the aggregate amount of the Consolidated Cash Balance of non-wholly owned Subsidiaries and Permitted J/Vs in excess of $2,500,000).

3. **Conditions**. When each of the following conditions has been completely satisfied as determined by the Administrative Agent in its reasonable discretion on the date of this Amendment (the "Effective Date"), the amendments to the Credit Agreement described in Section 2 of this Amendment shall be deemed to have become effective as of the date hereof:

(a) **Documents**. The Administrative Agent shall have received each of the following agreements, instruments and other documents, in each case in form and substance reasonably satisfactory to the Administrative Agent:

(i) this Amendment duly executed and delivered by the Loan Parties, the Lenders and the Administrative Agent; and

(ii) such other documents, agreements, instruments, certificates, opinions and other items as the Administrative Agent may reasonably request in connection with this Amendment, including the documents, agreements, instruments, certificates, opinions and other items listed on the document checklist attached hereto as Exhibit A.

(b) **Representations and Warranties; No Default**. As of the date hereof (and, if different, also as of the Effective Date): (i) the representations and warranties contained herein, in the Amended Credit Agreement (other than with respect to the second sentence of Section 3.05(a) therein) and in each other Loan Document shall be true and correct in all material respects (both immediately before and after giving effect to consummation of the amendments and other transactions contemplated hereby), except to the extent any such representation and warranty expressly refers to an earlier date, in which case such representation and warranty shall be true and correct in all material respects as of such earlier date; provided, however, that, solely for the purposes of the representation and warranty set forth in Section 3.04(b) of the Credit Agreement, the term "Material Adverse Effect" will exclude the known and reasonably foreseeable effects, as reflected in financial statements and projections delivered to the Administrative Agent prior to the Effective Date on the Loan Parties and their Subsidiaries (including, without limitation, on the business, assets, operations or condition, financial or otherwise, thereof) of the COVID-19 epidemic, pandemic and disease; and (ii) no Default or Event of Default shall exist (after giving effect hereto and consummation of the transactions contemplated hereby).

(c) **Proceedings**. All resolutions, consents and other corporate or limited liability company proceedings taken or to be taken in connection with the transactions contemplated hereby, and all agreements, instruments, certificates and other documents relating thereto, shall be in form and substance satisfactory to the Administrative Agent, as determined in its sole and absolute discretion, and shall be in full force and effect.

(d) **Fees**. The Borrower shall have paid to the Administrative Agent, for the account of Lenders in accordance with their respective Applicable Percentages, a non-refundable amendment fee in the aggregate amount of $50,000 and all reasonable, out-of-pocket expenses required to be paid to the Administrative Agent's special counsel on or prior to the Effective Date pursuant to Section 9.03 of the Amended Credit Agreement shall have been paid in full.

4. **Release**. The Borrower and each other Loan Party hereby release, discharge, and agree to hold harmless the Administrative Agent, each Lender and their respective representatives, agents, employees, attorneys, directors, officers, parents, affiliates, assigns, insurers, subsidiaries, and their successors and assigns (collectively, the "Released Parties") from any and all claims, defenses, affirmative defenses, setoffs, counterclaims, actions, causes of action, suits, controversies, agreements, provisions, liabilities and demands in law or in equity or under statute, whether known or unknown (collectively, the "Claims") which any one or more of the Borrower and the other Loan Parties ever had, now has, or may hereafter have against or related to the Released Parties through the date of this Amendment relating to or arising out of (i) this Amendment, the Credit Agreement, the Amended Credit Agreement, the other Loan Documents or the transactions described herein or therein, (ii) any proposal letter, commitment letter or term sheet, (iii) the Secured Obligations, (iv) the Administrative Agent's or any Lender's administration of this Amendment, the Credit Agreement, the Amended Credit Agreement or the other Loan Documents, or (v) the banking relationship of any one or more of the Borrower and the other Loan Parties with the Administrative Agent or any Lender.

5. **Representations and Warranties of the Loan Parties**. Each Loan Party represents and warrants that: (a) the execution and delivery by such Loan Party of this Amendment, each other document, instrument and agreement to be executed and delivered by such Loan Party in connection herewith (this Amendment and such other documents, instruments and agreements are referred to herein, collectively, as the "Amendment Documents") and the performance of such Loan Party's obligations hereunder, thereunder and under the Amended Credit Agreement: (i) are within the corporate or limited liability company powers of such Loan

Party, (ii) are duly authorized by the board of directors or managers of such Loan Party, and, if necessary, the shareholders or members of such Loan Party, (iii) are not in contravention of the terms of such Loan Party's articles or certificate of incorporation or formation, by-laws, operating, management or partnership agreement or other organizational documents, (iv) are not in (x) contravention of the terms of the provisions of any indenture, instrument or agreement to which such Loan Party is a party or is subject, or by which it, or its property, is bound, or (y) conflict therewith, nor will constitute a default thereunder, or result in, or require, the creation or imposition of any Lien in, of or on the property of such Loan Party pursuant to the terms of any such indenture, instrument or agreement (other than Liens in favor of the Administrative Agent, for the benefit of itself and the Lenders, under the Security Agreement and any other Permitted Encumbrances), (v) will not violate any Requirement of Law applicable to any Loan Party or any of its Subsidiaries, which individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect; and (vi) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except (i) such as have been obtained or made and are in full force and effect, (ii) for filings necessary to perfect Liens created pursuant to the Loan Documents or (iii) those that individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect; (b) each of this Amendment and the other Amendment Documents has been duly executed and delivered by such Loan Party and constitutes the legal, valid and binding obligation of such Loan Party, enforceable against such Loan Party in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law; (c) the Amended Credit Agreement, and each other Loan Document, after giving effect hereto, constitutes the legal, valid and binding obligation of such Loan Party, enforceable against such Loan Party in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law; (d) as of the date hereof, and (after giving effect hereto and consummation of the transactions contemplated hereby) as of the Effective Date, there exists no Default or Event of Default; (e) no Domestic Subsidiaries have been formed or acquired after August 7, 2019 (except for Permitted J/Vs, if any); and (f) all conditions set forth in Section 3 of this Amendment have been satisfied in full (provided that no representation or warranty is made as to the Administrative Agent's or any Lender's acceptance or satisfaction with any matter). All representations and warranties contained in this Amendment shall survive the execution and delivery of this Amendment.

6. **Consent of Loan Guarantor**. Each Loan Party (other than Borrower), in its capacity as a Loan Guarantor under Article X of the Credit Agreement, hereby consents to this Amendment and the amendments contained herein and confirms and agrees that, notwithstanding this Amendment and the effectiveness of the amendments contained herein, the Loan Guaranty is, and shall continue to be, in full force and effect and is hereby confirmed and ratified in all respects notwithstanding the terms of this Amendment or any other amendment to the Credit Agreement. Nothing herein is intended or shall be deemed to limit the Administrative Agent's or any Lender's rights under the Loan Guaranty to take actions without the consent of any Loan Guarantor.

7. **Reference to/Effect on the Credit Agreement, Etc**.

(a) On and after the Effective Date: (i) each reference in the Credit Agreement to "this Agreement," "hereunder," "hereof," "herein," or words of like import shall mean and be a reference to the Amended Credit Agreement, and (ii) each reference to the Credit Agreement in all other Loan Documents shall mean and be a reference to the Amended Credit Agreement.

(b) Except as otherwise provided herein, the Credit Agreement, all other Loan Documents, all covenants, representations and warranties made therein, and all other documents, instruments and agreements executed and/or delivered in connection therewith, shall remain in full force and effect, and are hereby reaffirmed, ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment and the other Amendment Documents shall not (i) except as specifically stated herein, amend the Credit Agreement or any other Loan Document, (ii) operate as a waiver of any right, power or remedy of the Administrative Agent or any Lender, or (iii) except as specifically stated herein, constitute a waiver of, or consent to any departure from, any provision of the Credit Agreement or any other Loan Document or any other documents, instruments and agreements executed or delivered in connection therewith.

(d) Each Loan Party acknowledges and agrees that: (i) as of the date hereof (and, if different, also as of the Effective Date), such Loan Party has no defenses, claims or set-offs to the payment of the Secured Obligations or to the enforcement of the Secured Obligations, the Amended Credit Agreement or any of the other Loan Documents; and (ii) the Liens granted to the Administrative Agent, for the benefit of itself and the Lenders, by such Loan Party are and remain valid perfected Liens in the assets of such Loan Party securing the payment and performance of the Secured Obligations.

(e) This Amendment and the other Amendment Documents shall each be deemed a Loan Document for the purposes of the Amended Credit Agreement.

8. **Miscellaneous**.

(a) **Choice of Law**. This Amendment shall be governed by and construed in accordance with the internal laws of the State of Illinois, but giving effect to federal laws applicable to national banks.

(b) **Severability**. Any provision of any Amendment Document held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions thereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

(c) **WAIVER OF JURY TRIAL**. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AMENDMENT, ANY OTHER AMENDMENT DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE OR OTHER

AGENT (INCLUDING ANY ATTORNEY) OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AMENDMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

(d) **Headings**. Section headings used herein are for convenience of reference only, are not part of this Amendment and shall not affect the construction of, or be taken into consideration in interpreting, this Amendment.

(e) **Counterparts**. This Amendment may be executed and accepted in any number of counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page of this Amendment and any Amendment Document that is an Electronic Signature transmitted by telecopy, emailed pdf. or any other electronic means that reproduces an image of an actual executed signature page shall be effective as delivery of a manually executed counterpart of this Agreement and such Amendment Document. The words "execution," "signed," "signature," "delivery," and words of like import in or relating to this Amendment and any Amendment Document shall be deemed to include Electronic Signatures, deliveries or the keeping of records in any electronic form (including deliveries by telecopy, emailed pdf. or any other electronic means that reproduces an image of an actual executed signature page), each of which shall be of the same legal effect, validity or enforceability as a manually executed signature, physical delivery thereof or the use of a paper-based recordkeeping system, as the case may be; provided that nothing herein shall require the Administrative Agent or any Lender to accept Electronic Signatures in any form or format without its prior written consent and pursuant to procedures approved by it. If the Administrative Agent or any Lender agrees to accept any Electronic Signature, it shall be entitled to rely on such Electronic Signature purportedly given by or on behalf of the signers without further verification thereof and without any obligation to review the appearance or form of any such Electronic Signature and any Electronic Signature shall be promptly followed by a manually executed counterpart. Without limiting the generality of the foregoing, the signers hereby (a) agree that, for all purposes, including without limitation, in connection with any workout, restructuring, enforcement of remedies, bankruptcy proceedings or litigation among any one or more of the Administrative Agent, the Lenders and signers of the Credit Agreement, this Amendment or any Amendment Document, Electronic Signatures transmitted by telecopy, emailed pdf. or any other electronic means that reproduces an image of an actual executed signature page and/or any electronic images of the Credit Agreement, any Loan Document, this Amendment and any Amendment Document shall have the same legal effect, validity and enforceability as any paper original, (b) agree that the Administrative Agent and each Lender may, at its option, create one or more copies of the Credit Agreement, any Loan Document, this Amendment and any Amendment Document in the form of an imaged electronic record in any format, which shall be deemed created in the ordinary course of such Person's business, and destroy the original paper document (and all such electronic records shall be considered an original for all purposes and shall have the same legal effect, validity and enforceability as a paper record), (c) waives any argument, defense or right to contest the legal effect, validity or enforceability of the Credit Agreement, any Loan Document, this Amendment and any

Amendment Document based solely on the lack of paper original copies of the Credit Agreement, any Loan Document, this Amendment and any Amendment Document, respectively, including with respect to any signature pages thereto and (d) waives any claim against the Administrative Agent and each Lender for any liabilities arising solely from the Administrative Agent's or such Lender's reliance on or use of Electronic Signatures and/or transmissions by telecopy, emailed pdf. or any other electronic means that reproduces an image of an actual executed signature page, including any liabilities arising as a result of the failure of the signers hereto to use any available security measures in connection with the execution, delivery or transmission of any Electronic Signature.

[signature page(s) follow]

EXHIBIT A

Document Checklist

See Attached

AMENDMENT NO. 7 TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT

among

POTBELLY SANDWICH WORKS, LLC,
as Borrower and as a Loan Party

THE OTHER LOAN PARTIES PARTY THERETO,

THE LENDERS PARTY THERETO

and

JPMORGAN CHASE BANK, N.A.,
as Administrative Agent

May 31, 2022

Definitions

Borrower	Potbelly Sandwich Works, LLC, an Illinois limited liability company
Loan Parties	Borrower Potbelly Corporation, a Delaware corporation Potbelly Illinois, Inc., an Illinois corporation Potbelly Franchising, LLC, an Illinois limited liability company Potbelly Sandwich Works DC-1, LLC, an Illinois limited liability company PSW West Jackson, LLC, an Illinois limited liability company PSW 555 Twelfth Street, LLC, an Illinois limited liability company PSW Rockville Center, LLC, an Illinois limited liability company PSW DC Acquisition LLC, an Illinois limited liability company PSW PBD Acquisition LLC, an Illinois limited liability company
Administrative Agent	JPMorgan Chase Bank, N.A.
Lender	JPMorgan Chase Bank, N.A. ("Chase")
SH	Schiff Hardin LLP
SA	Sidley Austin LLP

Facility Information

Potbelly Sandwich Works, LLC
UCN: 790278964000
Facility ID: 198731685

Contact Information for Counsel for Administrative Agent

ArentFox Schiff LLP
233 S. Wacker Drive - Suite 7100
Chicago, Illinois 60606
Attention: Scott E. Pickens
Electronic Mail: scott.pickens@afslaw.com
Telephone: 312.258.5515

Signed by: ______________________
Scott E. Pickens

	Document Checklist	Responsible Party
1.	Amendment No. 7 to Second Amended and Restated Credit Agreement by and among the Loan Parties, the Lenders and the Administrative Agent Exhibit A Document Checklist	SH
2.	Secretary's Certificate of each Loan Party certifying as to (a) no change to the certificate or articles of formation or incorporation, as applicable, of such Loan Party since August 7, 2019, (b) no change to the by-laws or limited liability company agreement, as applicable, of such Loan Party since August 7, 2019, (c) the names and true signatures of the officers of such Loan Party authorized to execute, deliver and perform the Amendment, and (d) the resolutions of the applicable governing body of such Loan Party authorizing the execution, delivery and performance of the Amendment	SA

<table>
<tr><td>3.</td><td>Certificate of good standing of each Loan Party from the applicable office set forth below for such Loan Party

<u>Loan Party</u> — <u>Office</u>

Potbelly Sandwich Works, LLC — Secretary of State of Illinois
Potbelly Corporation — Secretary of State of Delaware
Potbelly Illinois, Inc. — Secretary of State of Illinois
Potbelly Franchising, LLC — Secretary of State of Illinois
Potbelly Sandwich Works DC-1, LLC — Secretary of State of Illinois
PSW West Jackson, LLC — Secretary of State of Illinois
PSW 555 Twelfth Street, LLC — Secretary of State of Illinois
PSW Rockville Center, LLC — Secretary of State of Illinois
PSW DC Acquisition LLC — Secretary of State of Illinois
PSW PBD Acquisition LLC — Secretary of State of Illinois</td><td>SA</td></tr>
</table>

Exhibit 31.1

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

I, Robert D. Wright, 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; and

   d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 4, 2022

By: /s/ Robert D. Wright
Robert D. Wright
Chief Executive Officer and President
(Principal Executive Officer)

Exhibit 31.2

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

I, Steven Cirulis, 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; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2022

By: /s/ Steven Cirulis
Steven Cirulis
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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, Robert D. Wright, Chief Executive Officer and President of Potbelly Corporation (the "Registrant"), and Steven Cirulis, 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 June 26, 2022, 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: August 4, 2022	By:	/s/ Robert D. Wright
		Robert D. Wright
		Chief Executive Officer and President
		(Principal Executive Officer)
Date: August 4, 2022	By:	/s/ Steven Cirulis
		Steven Cirulis
		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.