

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

FORM 10-Q

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

For the Quarterly Period Ended September 27, 2015

OR

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

For the Transition Period from _____ to _____

Commission File Number: 001-36104

Potbelly Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation)

36-4466837
(IRS Employer
Identification Number)

111 N. Canal Street, Suite 850
Chicago, Illinois 60606
(Address, including Zip Code, of Principal Executive Offices)

Registrant's telephone number, including area code: (312) 951-0600

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common stock, \$0.01 Par Value – 30,297,871 shares as of October 30, 2015

POTBELLY CORPORATION
QUARTERLY REPORT ON FORM 10-Q
TABLE OF CONTENTS

	Page
PART I. <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Operations</u>	4
<u>Condensed Consolidated Statement of Equity</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	18
Item 4. <u>Controls and Procedures</u>	18
PART II. <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	19
Item 1A. <u>Risk Factors</u>	19
Item 2. <u>Unregistered Sale of Equity Securities and Use of Proceeds</u>	19
Item 6. <u>Exhibits</u>	19
<u>Signature</u>	20

POTBELLY CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(amounts in thousands, except share and par value data, unaudited)

	September 27, 2015	December 28, 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 42,768	\$ 63,005
Accounts receivable, net of allowances of \$34 and \$19 as of September 27, 2015 and December 28, 2014, respectively	5,406	4,016
Inventories	2,830	2,768
Deferred income taxes, current	564	507
Prepaid expenses and other current assets	9,793	9,922
Total current assets	61,361	80,218
Property and equipment, net	96,001	85,704
Indefinite-lived intangible assets	3,404	3,404
Goodwill	1,428	1,428
Deferred income taxes, non-current	17,860	17,860
Deferred expenses, net and other assets	3,882	3,333
Total assets	\$ 183,936	\$ 191,947
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$ 3,442	\$ 3,301
Accrued expenses	21,920	16,349
Accrued income taxes	125	226
Current portion of long-term debt	—	1,008
Total current liabilities	25,487	20,884
Deferred rent and landlord allowances	17,083	14,012
Other long-term liabilities	676	726
Total liabilities	43,246	35,622
Equity		
Common stock, \$0.01 par value—authorized, 200,000,000 shares; outstanding 27,366,312 and 28,934,700 shares as of September 27, 2015 and December 28, 2014, respectively	303	298
Warrants	909	909
Additional paid-in-capital	398,416	391,972
Treasury stock, held at cost, 2,921,811 and 827,090 shares as of September 27, 2015, and December 28, 2014, respectively	(37,276)	(10,246)
Accumulated deficit	(222,481)	(226,874)
Total stockholders' equity	139,871	156,059
Non-controlling interest	819	266
Total equity	140,690	156,325
Total liabilities and equity	\$ 183,936	\$ 191,947

See accompanying notes to the unaudited condensed consolidated financial statements.

POTBELLY CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(amounts in thousands, except share and per share data, unaudited)

	For the 13 Weeks Ended		For the 39 Weeks Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Revenues				
Sandwich shop sales, net	\$ 95,564	\$ 84,340	\$ 276,527	\$ 241,131
Franchise royalties and fees	475	335	1,229	1,045
Total revenues	<u>96,039</u>	<u>84,675</u>	<u>277,756</u>	<u>242,176</u>
Expenses				
Sandwich shop operating expenses				
Cost of goods sold, excluding depreciation	27,256	24,044	78,854	69,066
Labor and related expenses	27,663	23,772	79,415	68,637
Occupancy expenses	11,855	10,467	34,741	30,629
Other operating expenses	10,501	8,847	30,128	25,696
General and administrative expenses	9,232	7,623	27,706	24,310
Depreciation expense	5,510	5,039	15,949	14,540
Pre-opening costs	510	314	1,587	839
Impairment and loss on disposal of property and equipment	1,133	1,315	1,965	2,192
Total expenses	<u>93,660</u>	<u>81,421</u>	<u>270,345</u>	<u>235,909</u>
Income from operations	2,379	3,254	7,411	6,267
Interest expense	56	42	180	124
Income before income taxes	2,323	3,212	7,231	6,143
Income tax expense	866	1,260	2,780	2,476
Net income	<u>1,457</u>	<u>1,952</u>	<u>4,451</u>	<u>3,667</u>
Net income attributable to non-controlling interest	56	5	58	11
Net income attributable to Potbelly Corporation	<u>\$ 1,401</u>	<u>\$ 1,947</u>	<u>\$ 4,393</u>	<u>\$ 3,656</u>
Net income per common share attributable to common stockholders:				
Basic	\$ 0.05	\$ 0.07	\$ 0.15	\$ 0.12
Diluted	\$ 0.05	\$ 0.06	\$ 0.15	\$ 0.12
Weighted average shares outstanding:				
Basic	27,850,394	29,358,822	28,450,063	29,284,058
Diluted	28,369,775	30,044,456	29,137,537	30,463,093

See accompanying notes to the unaudited condensed consolidated financial statements.

POTBELLY CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statement of Equity
(amounts in thousands, except share data, unaudited)

	Common Stock		Treasury Stock	Warrants	Additional Paid-In-Capital	Accumulated Deficit	Non-Controlling Interest	Total Equity
	Shares	Amount						
Balance at December 29, 2013	29,148,029	\$ 291	\$ —	\$ 909	\$ 383,077	\$ (231,232)	\$ 228	\$ 153,273
Net income	—	—	—	—	—	3,656	11	3,667
Issuance of unrestricted common stock	28,240	—	—	—	432	—	—	432
Exercise of stock options	338,946	4	—	—	2,964	—	—	2,968
Repurchases of common stock	(471,290)	—	(5,797)	—	—	—	—	(5,797)
Distribution to non-controlling interest	—	—	—	—	—	—	(34)	(34)
Amortization of stock-based compensation	—	—	—	—	1,590	—	—	1,590
Balance at September 28, 2014	29,043,925	\$ 295	\$ (5,797)	\$ 909	\$ 388,063	\$ (227,576)	\$ 205	\$ 156,099
Balance at December 28, 2014	28,934,700	\$ 298	\$ (10,246)	\$ 909	\$ 391,972	\$ (226,874)	\$ 266	\$ 156,325
Net income	—	—	—	—	—	4,393	58	4,451
Exercise of stock options	526,333	5	—	—	4,315	—	—	4,320
Excess tax benefits associated with exercise of stock options	—	—	—	—	334	—	—	334
Repurchases of common stock	(2,094,721)	—	(27,030)	—	—	—	—	(27,030)
Distribution to non-controlling interest	—	—	—	—	—	—	(85)	(85)
Contributions from non-controlling interest	—	—	—	—	—	—	580	580
Amortization of stock-based compensation	—	—	—	—	1,795	—	—	1,795
Balance at September 27, 2015	27,366,312	\$ 303	\$ (37,276)	\$ 909	\$ 398,416	\$ (222,481)	\$ 819	\$ 140,690

See accompanying notes to the unaudited condensed consolidated financial statements.

POTBELLY CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(amounts in thousands, unaudited)

	For the 39 Weeks Ended	
	September 27, 2015	September 28, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 4,451	\$ 3,667
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	15,949	14,540
Deferred income tax	(57)	116
Deferred rent and landlord allowances	3,071	1,086
Amortization of stock compensation expense	1,795	2,022
Excess tax benefit from stock-based compensation	(334)	—
Asset impairment, store closure and disposal of property and equipment	2,160	2,192
Amortization of debt issuance costs	53	53
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,259)	(1,572)
Inventories	(56)	(184)
Prepaid expenses and other assets	(646)	(2,125)
Accounts payable	136	1,235
Accrued and other liabilities	5,060	2,264
Net cash provided by operating activities	<u>30,323</u>	<u>23,294</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of franchise shop	(333)	—
Purchases of property and equipment	(27,324)	(20,544)
Net cash (used in) investing activities	<u>(27,657)</u>	<u>(20,544)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on note payable	(1,022)	(63)
Proceeds from exercise of stock options	5,291	3,780
Payment of payroll taxes related to stock-based compensation awards	(971)	(812)
Treasury stock repurchase	(27,030)	(5,797)
Excess tax benefit from stock-based compensation	334	—
Contributions from non-controlling interest	580	—
Distribution to non-controlling interest	(85)	(34)
Net cash (used in) financing activities	<u>(22,903)</u>	<u>(2,926)</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(20,237)	(176)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	63,005	69,579
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 42,768</u>	<u>\$ 69,403</u>
Supplemental cash flow information :		
Income taxes paid	\$ 2,301	\$ 867
Interest paid	155	124
Supplemental non-cash investing and financing activities :		
Unpaid liability for purchases of property and equipment	\$ 3,364	\$ 3,059

See accompanying notes to the unaudited condensed consolidated financial statements

POTBELLY CORPORATION AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

(1) Organization and Other Matters

Business

Potbelly Corporation (the “Company” or “Potbelly”), through its wholly-owned subsidiaries, operates Potbelly Sandwich Works sandwich shops in 28 states and the District of Columbia. The Company also sells and administers franchises of Potbelly Sandwich Works sandwich shops. The first domestic and international franchise locations administered by the Company opened during February 2011, and in July 2015, the Company opened its first franchise shop in the United Kingdom. Additionally, during July 2015, the Company transitioned a franchise shop to a company-operated shop at a cost of \$0.3 million. The Company did not record any goodwill related to the transaction.

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

	Company- Operated	Franchise-Operated		Total	Total Company
		Domestic	International		
Shops as of December 29, 2013	296	11	12	23	319
Shops opened	23	3	1	4	27
Shop closed ⁽¹⁾	—	—	(1)	(1)	(1)
Shops as of September 28, 2014	<u>319</u>	<u>14</u>	<u>12</u>	<u>26</u>	<u>345</u>
Shops as of December 28, 2014	334	17	12	29	363
Shops opened	28	2	2	4	32
Shop purchased from franchisee	1	(1)	—	(1)	—
Shops closed ⁽²⁾	(5)	—	(1)	(1)	(6)
Shops as of September 27, 2015	<u>358</u>	<u>18</u>	<u>13</u>	<u>31</u>	<u>389</u>

⁽¹⁾ Shop closure during the 39 weeks ended September 28, 2014 was driven by an underperforming shop.

⁽²⁾ Shop closures during the 39 weeks ended September 27, 2015 were related to planned shop closures in airport terminal locations as well as planned closures for underperforming shops with expiring leases.

Basis of Presentation

The unaudited condensed consolidated financial statements and notes herein should be read in conjunction with the audited consolidated financial statements of Potbelly Corporation and its subsidiaries and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 28, 2014. The unaudited condensed consolidated financial statements included herein have been prepared by the Company without audit, pursuant to the rules and regulations of the SEC regarding interim financial reporting. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to the SEC’s rules and regulations. In the opinion of management, all adjustments, which are of a normal and recurring nature (except as otherwise noted), that are necessary to present fairly the Company’s financial position as of September 27, 2015 and December 28, 2014, its statement of operations for the 13 and 39 weeks ended September 27, 2015 and September 28, 2014 and its statement of cash flows for the 39 weeks ended September 27, 2015 and September 28, 2014 have been included. The consolidated statements of operations for the interim periods presented herein are not necessarily indicative of the results to be expected for the full year.

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

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of Potbelly Corporation; its wholly owned subsidiary, Potbelly Illinois, Inc. (“PII”); PII’s wholly owned subsidiaries, Potbelly Franchising, LLC and Potbelly Sandwich Works LLC (“LLC”) and 17 of LLC’s wholly owned subsidiaries and the LLC’s 4 joint ventures, collectively, the “Company.” All significant 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 4 joint venture investments. The Company has ownership interests ranging from 65-80% in these consolidated joint ventures.

Fiscal Year

The Company uses a 52/53-week fiscal year that ends on the last Sunday of the calendar period. Approximately every five or six years a 53rd week is added. Fiscal years 2015 and 2014 each consist of 52 weeks. The fiscal quarters ended September 27, 2015 and September 28, 2014 each consisted of 13 weeks.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions, primarily related to long-lived assets and income taxes, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New and Revised Financial Accounting Standards

We qualify as an “emerging growth company” pursuant to the provisions of the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, enacted on April 5, 2012. Section 102 of the JOBS Act provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. However, we have chosen to “opt out” of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Our decision to opt out of the extended transition period is irrevocable.

In April 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-08, “Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.” The pronouncement changes the criteria for reporting discontinued operations while enhancing disclosures in this area. Pursuant to ASU 2014-08, only disposals representing a strategic shift, such as a major line of business, a major geographical area or a major equity investment, which were not expected to have continuing cash flows should be presented as a discontinued operation. If the disposal does qualify as a discontinued operation under ASU 2014-08, the entity will be required to provide expanded disclosures. ASU 2014-08 is effective for fiscal and interim periods beginning on or after December 15, 2014. Early adoption is permitted. The adoption of ASU 2014-08 is not expected to have a significant impact on our consolidated financial statements or disclosures.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers.” The pronouncement was issued to clarify the principles for recognizing revenue and to develop a common revenue standard and disclosure requirements for U.S. GAAP and IFRS. The FASB has approved a one-year deferral of the effective date of ASU 2014-09, such that it will become effective for the annual period ending after December 15, 2017. We are evaluating the expected adoption method of ASU 2014-09 and the adoption is not expected to have a significant impact on our consolidated balance sheet or consolidated statement of operations.

In August 2014, the FASB issued ASU No. 2014-15, “Presentation of Financial Statements – Going Concern (Subtopic 205-40) – Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern.” The pronouncement requires our management to evaluate whether there is substantial doubt about our ability to continue as a going concern. The pronouncement is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early adoption is permitted. The adoption of ASU 2014-15 is not expected to have a material effect on our consolidated balance sheet or consolidated statement of operations.

In July 2015, the FASB issued ASU No. 2015-11, “Inventory (Topic 330)”. The pronouncement was issued to simplify the measurement of inventory and changes the measurement from lower of cost or market to lower of cost and net realizable value. This pronouncement is effective for reporting periods beginning after December 15, 2016. The adoption of ASU 2015-11 is not expected to have a significant impact on our consolidated balance sheet or consolidated statement of operations.

(2) Fair Value Measurement

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

The Company assesses potential impairments to its long-lived assets, which includes property and equipment, whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Shop-level assets are grouped at the individual

POTBELLY CORPORATION AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

shop-level for the purpose of the impairment assessment. Recoverability of an asset is measured by a comparison of the carrying amount of an asset to its estimated undiscounted future cash flows expected to be generated by the asset. 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 exceeds the fair value of the asset. After performing a periodic review of our shops during each quarter of 2015, it was determined that indicators of impairment were present for certain shops as a result of continued underperformance of shop profitability. We performed an impairment analysis related to these shops and recorded impairment charges of \$1.0 million and \$1.6 million for the 13 and 39 weeks ended September 27, 2015, respectively, related to the excess of the carrying amounts recorded on our balance sheet over the identified shops' estimated fair values. The fair value of the shop assets was 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. Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

In fiscal 2014, the Company established a non-qualified deferred compensation plan, "Potbelly Non-Qualified Deferred Compensation Plan," which allows highly compensated employees to defer a portion of their base salary and variable compensation each plan year. The Company maintains a rabbi trust to fund obligations under the deferred compensation plan. Amounts in the rabbi trust are invested in mutual funds. The investments in the rabbi trust are designated as trading securities and carried at fair value. Fair market value of investments in the rabbi trust is measured using Level 1 inputs (quoted prices for identical assets in active markets). As of September 27, 2015, the fair value of the investments in the rabbi trust was \$97 thousand, which is included in other assets in the condensed consolidated balance sheet. The associated liability is recorded within other long-term liabilities in the condensed consolidated balance sheet. The Company records trading gains and losses in general and administrative expenses in the condensed consolidated statement of operations, along with the offsetting amount related to the increase or decrease in deferred compensation to reflect its exposure to liabilities for payment under the deferred plan. For the three months ended September 27, 2015, the Company recorded an immaterial amount of unrealized losses on investments held in the rabbi trust.

(3) Earnings per share

Basic and diluted income per share are calculated using the weighted average number of shares outstanding for the period as follows:

	<u>For the 13 Weeks Ended</u>		<u>For the 39 Weeks Ended</u>	
	<u>September 27, 2015</u>	<u>September 28, 2014</u>	<u>September 27, 2015</u>	<u>September 28, 2014</u>
Net income attributable to Potbelly Corporation	\$ 1,401	\$ 1,947	\$ 4,393	\$ 3,656
Weighted average common shares outstanding-basic	27,850,394	29,358,822	28,450,063	29,284,058
Plus: Effect of potential stock options exercise	471,579	602,982	630,043	1,054,632
Plus: Effect of potential warrant exercise	47,802	82,652	57,431	124,403
Weighted average common shares outstanding-diluted	28,369,775	30,044,456	29,137,537	30,463,093
Income per share available to common stockholders-basic	\$ 0.05	\$ 0.07	\$ 0.15	\$ 0.12
Income per share available to common stockholders-diluted	\$ 0.05	\$ 0.06	\$ 0.15	\$ 0.12
<u>Potentially dilutive shares that are considered anti-dilutive:</u>				
Common share options	1,192,579	869,317	803,582	537,318
Warrants	—	—	—	—

(4) Income Taxes

The Company recognized income tax expense of \$2.8 million on pre-tax income of \$7.2 million, or an effective tax rate of 38.4%, for the 39 weeks ended September 27, 2015, compared to income tax expense of \$2.5 million on pre-tax income of \$6.1 million, or an effective tax rate of 40.3%, for the 39 weeks ended September 28, 2014. The difference between the statutory rate and the effective tax rate is primarily attributable to state income taxes offset by certain federal and state tax credits.

(5) Capital Stock

On September 8, 2015, the Company's Board of Directors authorized a share repurchase program of up to \$35.0 million of the Company's common stock. This program replaces the previously authorized share repurchase program, which was completed in the third quarter of 2015. Under the current program, the Company may, from time to time, purchase shares in the open market (including

POTBELLY CORPORATION AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

in pre-arranged stock trading plans in accordance with the guidelines specified in Rule 10b5-1 under the Securities Exchange Act of 1934, as amended) or in privately negotiated transactions. During the 39 weeks ended September 27, 2015, the Company repurchased 2,094,721 shares of its common stock for approximately \$27.0 million in open market transactions, which includes shares purchased under both the new plan and the completed plan. As of September 27, 2015, the remaining dollar value of authorization under the new share repurchase program was \$32.7 million. Repurchased shares are included as treasury stock in the condensed consolidated balance sheets and the condensed consolidated statement of equity.

(6) Stock-Based Compensation

Throughout the 39 weeks ended September 27, 2015, the Company issued 558,479 stock options under the 2013 Long-Term Incentive Plan to eligible employees and key executives. The fair value of the options was determined using the Black-Scholes option pricing model. The weighted average fair value of options granted during the 39 weeks ended September 27, 2015 was \$6.45 per share, as estimated using the following weighted average assumptions: expected life of options –seven years; volatility –45.25%; risk-free interest rate –1.90%; and dividend yield –0.00%. The Company used the simplified method for determining the expected life of the options. Due to the lack of historical data as a newly public company, the Company calculated the specific stock price volatility using a blended volatility rate based on comparable publicly traded companies.

A summary of activity for the 39 weeks ended September 27, 2015 is as follows:

<u>Options</u>	<u>Shares (Thousands)</u>	<u>Weighted Average Exercise Price</u>	<u>Aggregate Intrinsic Value (Thousands)</u>	<u>Weighted Average Remaining Term (Years)</u>
Outstanding—December 28, 2014	4,613	\$ 10.10	\$ 12,731	5.62
Granted	558	13.23		
Exercised	(526)	8.21		
Canceled	(197)	14.24		
Outstanding—September 27, 2015	<u>4,448</u>	10.53	<u>\$ 6,326</u>	5.38
Exercisable—September 27, 2015	<u>3,207</u>	9.46	<u>\$ 5,884</u>	4.12

In accordance with ASC Topic 718, *Compensation—Stock Compensation*, stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite employee service period, which is generally the vesting period of the grant, with a corresponding increase to additional paid-in-capital. For the 13 and 39 weeks ended September 27, 2015, the Company recognized \$0.7 million and \$1.8 million, respectively. For the 13 and 39 weeks ended September 28, 2014, the Company recognized \$0.6 million and \$2.0 million, respectively, which includes \$32 thousand and \$0.4 million related to the May 2014 unrestricted common stock grants, respectively. As of September 27, 2015, the unrecognized stock-based compensation expense was \$6.8 million, which will be recognized through fiscal year 2019. The Company records stock-based compensation expense within general and administrative expenses in the consolidated statements of operations.

In May 2015, the Company issued 30,856 shares of restricted stock units (“RSUs”) to certain non-employee members of its Board of Directors. The RSUs had a grant-date fair value of \$14.26 upon issuance and have a vesting schedule of 50% on the first anniversary of the grant date and 50% on the second anniversary of the grant date. In August 2015, the Company issued 5,221 shares of RSUs to the new non-employee member of its Board of Directors. The RSUs had a grant-date fair value of \$11.88 upon issuance and have a vesting schedule of 50% on the first anniversary of the grant date and 50% on the second anniversary of the grant date. The Company recorded an immaterial amount of stock-based compensation expense related to the issuance of all of these RSUs.

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 28, 2014. This discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and involves numerous risks and uncertainties. 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" 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. 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 28, 2014, for a discussion of factors that could cause our actual results to differ from those expressed or implied by forward-looking statements.

Overview

Potbelly is a fast-growing neighborhood sandwich concept offering toasty warm sandwiches, signature salads and other fresh menu items served by engaging people in an environment that reflects the Potbelly brand. Our combination of product, people and place is how we deliver on our passion to be "The Best Place for Lunch." Our sandwiches, salads and hand-dipped milkshakes are all made fresh to order and our cookies are baked fresh each day. Our employees are trained to engage with our customers in a genuine way to provide a personalized experience. Our shops feature vintage design elements and locally-themed décor inspired by the neighborhood that we believe create a lively atmosphere. Through this combination, we believe we are creating a devoted base of Potbelly fans that return again and again and that we are expanding one sandwich shop at a time.

We believe that a key to our past and future success is our culture. It is embodied in *The Potbelly Advantage*, which is an expression of our Vision, Mission, Passion and Values, and the foundation of everything we do. Our Vision is for our customers to feel that we are their "Neighborhood Sandwich Shop" and to tell others about their great experience. Our Mission is to make people really happy, to make more money and to improve every day. Our Passion is to be "The Best Place for Lunch." Our Values embody both how we lead and how we behave, and form the cornerstone of our culture. We use simple language that resonates from the frontline associate to the most senior levels of the organization, creating shared expectations and accountabilities in how we approach our day-to-day activities. We strive to be a fun, friendly and hardworking group of people who enjoy taking care of our customers, while at the same time taking care of each other.

13 Weeks Ended September 27, 2015 Compared to 13 Weeks Ended September 28, 2014

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

	For the 13 Weeks Ended				Increase (Decrease)	Percent Change
	September 27, 2015	% of Revenues	September 28, 2014	% of Revenues		
Revenues						
Sandwich shop sales, net	\$ 95,564	99.5%	\$ 84,340	99.6%	\$ 11,224	13.3%
Franchise royalties and fees	475	0.5	335	0.4	140	41.8
Total revenues	<u>96,039</u>	<u>100.0</u>	<u>84,675</u>	<u>100.0</u>	<u>11,364</u>	<u>13.4</u>
Expenses						
Sandwich shop operating expenses						
Cost of goods sold, excluding depreciation	27,256	28.4	24,044	28.4	3,212	13.4
Labor and related expenses	27,663	28.8	23,772	28.1	3,891	16.4
Occupancy expenses	11,855	12.3	10,467	12.4	1,388	13.3
Other operating expenses	10,501	10.9	8,847	10.4	1,654	18.7
General and administrative expenses	9,232	9.6	7,623	9.0	1,609	21.1
Depreciation expense	5,510	5.7	5,039	6.0	471	9.3
Pre-opening costs	510	0.5	314	0.4	196	62.4
Impairment and loss on disposal of property and equipment	1,133	1.2	1,315	1.6	(182)	(13.8)
Total expenses	<u>93,660</u>	<u>97.5</u>	<u>81,421</u>	<u>96.2</u>	<u>12,239</u>	<u>15.0</u>
Income from operations	2,379	2.5	3,254	3.8	(875)	(26.9)
Interest expense, net	56	0.1	42	*	14	33.3
Income before income taxes	2,323	2.4	3,212	3.8	(889)	(27.7)
Income tax expense	866	0.9	1,260	1.5	(394)	(31.3)
Net income	1,457	1.5	1,952	2.3	(495)	(25.4)
Net income attributable to non-controlling interests	56	0.1	5	*	51	1,020.0
Net income attributable to Potbelly Corporation	<u>\$ 1,401</u>	<u>1.5%</u>	<u>\$ 1,947</u>	<u>2.3%</u>	<u>\$ (546)</u>	<u>(28.0)%</u>

* Amount is less than 0.1%

Revenues

Total revenues increased by \$11.4 million, or 13.4%, to \$96.0 million during the 13 weeks ended September 27, 2015, from \$84.7 million during the 13 weeks ended September 28, 2014. The increase in revenues primarily consisted of an increase of \$8.3 million in sales from shops not yet in our company-operated comparable store sales base, \$0.1 million increase in franchise revenues and a \$3.0 million, or 3.7%, increase in company-operated comparable store sales. The increase in company-operated comparable store sales resulted from increases in average check from certain menu price increases and menu mix, as well as traffic.

Cost of Goods Sold

Cost of goods sold increased by \$3.2 million, or 13.4%, to \$27.3 million during the 13 weeks ended September 27, 2015, compared to \$24.0 million during the 13 weeks ended September 28, 2014, primarily due to the increase in revenues. As a percentage of revenues, cost of goods sold remained consistent at 28.4% during the 13 weeks ended September 27, 2015 and the 13 weeks ended September 28, 2014.

Labor and Related Expenses

Labor and related expenses increased by \$3.9 million, or 16.4%, to \$27.7 million during the 13 weeks ended September 27, 2015, from \$23.8 million during the 13 weeks ended September 28, 2014, primarily due to new shop openings, wage inflation in certain states as a result of statutory minimum wage increases, as well as an increase in an existing incentive program and an additional incentive program to reward employees for tenure and development which began in fiscal year 2015. As a percentage of

revenues, labor and related expenses increased to 28.8% during the 13 weeks ended September 27, 2015, from 28.1% during the 13 weeks ended September 28, 2014, primarily driven by higher labor costs, wage inflation in certain states as a result of statutory minimum wage increases, as well as an increase in an existing incentive program and an additional incentive program to reward employees for tenure and development, which began in fiscal year 2015.

Occupancy Expenses

Occupancy expenses increased by \$1.4 million, or 13.3%, to \$11.9 million during the 13 weeks ended September 27, 2015, from \$10.5 million during the 13 weeks ended September 28, 2014, primarily due to new shop openings. As a percentage of revenues, occupancy expenses decreased to 12.3% during the 13 weeks ended September 27, 2015, from 12.4% during the 13 weeks ended September 28, 2014, primarily due to sales leverage (*i.e.*, the ability to spread certain expenses over a higher revenue base) partially offset by increases in certain occupancy related costs.

Other Operating Expenses

Other operating expenses increased by \$1.7 million, or 18.7%, to \$10.5 million during the 13 weeks ended September 27, 2015, from \$8.8 million during the 13 weeks ended September 28, 2014. The increase is attributable to new shop openings, as well as increased fees associated with credit card usage in our shops, and other operating expense increases in line with revenue growth. As a percentage of revenues, other operating expenses increased to 10.9% during the 13 weeks ended September 27, 2015, from 10.4% during the 13 weeks ended September 28, 2014, primarily driven by increased fees associated with credit card usage in our shops, various increases in other operating expenses as well as the \$0.2 million cumulative adjustment recorded during the 13 weeks ended September 28, 2014, for the change in accounting estimate related to gift card breakage.

General and Administrative Expenses

General and administrative expenses increased by \$1.6 million, or 21.1%, to \$9.2 million during the 13 weeks ended September 27, 2015, from \$7.6 million during the 13 weeks ended September 28, 2014. The increase is driven primarily by increases in performance-based incentives, stock-based compensation as well as rent associated with our new office and costs associated with improving our technological infrastructure. As a percentage of revenues, general and administrative expenses increased to 9.6% during the 13 weeks ended September 27, 2015, from 9.0% during the 13 weeks ended September 28, 2014, driven by items referenced above, partially offset by sales leverage (*i.e.*, the ability to spread certain costs over a higher revenue base).

Depreciation Expense

Depreciation expense increased by \$0.5 million, or 9.3%, to \$5.5 million during the 13 weeks ended September 27, 2015, from \$5.0 million during the 13 weeks ended September 28, 2014, primarily due to a higher depreciable base related to new shops and existing shop capital investments. As a percentage of revenues, depreciation decreased to 5.7% during the 13 weeks ended September 27, 2015, from 6.0% during the 13 weeks ended September 28, 2014, driven by lower depreciation associated with new shops with lower build-out costs and longer expected useful lives for leasehold improvements, as well as leasehold improvements at legacy shops with higher build-out costs and shorter expected useful lives being fully depreciated.

Pre-Opening Costs

Pre-opening costs increased by \$0.2 million, or 62.4%, to \$0.5 million during the 13 weeks ended September 27, 2015, from \$0.3 million during the 13 weeks ended September 28, 2014, primarily due to timing of new shop openings during the 13 weeks ended September 27, 2015 compared to the 13 weeks ended September 28, 2014.

Impairment and Loss on Disposal of Property and Equipment

Impairment and loss on disposal of property and equipment decreased to \$1.1 million during the 13 weeks ended September 27, 2015, from \$1.3 million during the 13 weeks ended September 28, 2014. After performing a periodic review of our shops during the third quarter of 2015, it was determined that indicators of impairment were present for certain shops as a result of continued underperformance of shop profitability. We performed an impairment analysis related to these shops and recorded an impairment charge of \$1.0 million related to the excess of the carrying amounts recorded on our balance sheet over the identified shops' estimated fair values.

Interest Expense, net

Interest expense increased by \$14 thousand, or 33.3%, to \$56 thousand during the 13 weeks ended September 27, 2015, from \$42 thousand during the 13 weeks ended September 28, 2014, primarily due to the accretion of certain occupancy-related interest costs. Interest expense for the 13 weeks ended September 27, 2015 is attributable to interest on the note payable, unused commitment fees, occupancy-related interest costs and deferred financing fees, partially offset by interest income related to money market funds.

Income Tax Expense

Income tax expense decreased by \$0.4 million to \$0.9 million for the 13 weeks ended September 27, 2015, from \$1.3 million for the 13 weeks ended September 28, 2014. For the 13 weeks ended September 27, 2015, our effective tax rate was 37.3%, compared to 39.2% for the 13 weeks ended September 28, 2014. The decrease in the effective tax rate primarily relates to the Company recognizing certain federal tax credits, which were not recognized in the comparable prior period.

39 weeks ended September 27, 2015 Compared to 39 weeks ended September 28, 2014

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

	For the 39 Weeks Ended				Increase (Decrease)	Percent Change
	September 27, 2015	% of Revenues	September 28, 2014	% of Revenues		
Revenues						
Sandwich shop sales, net	\$ 276,527	99.6%	\$ 241,131	99.6%	\$ 35,396	14.7%
Franchise royalties and fees	1,229	0.4	1,045	0.4	184	17.6
Total revenues	<u>277,756</u>	<u>100.0</u>	<u>242,176</u>	<u>100.0</u>	<u>35,580</u>	<u>14.7</u>
Expenses						
Sandwich shop operating expenses						
Cost of goods sold, excluding depreciation	78,854	28.4	69,066	28.5	9,788	14.2
Labor and related expenses	79,415	28.6	68,637	28.3	10,778	15.7
Occupancy expenses	34,741	12.5	30,629	12.6	4,112	13.4
Other operating expenses	30,128	10.8	25,696	10.6	4,432	17.2
General and administrative expenses	27,706	10.0	24,310	10.0	3,396	14.0
Depreciation expense	15,949	5.7	14,540	6.0	1,409	9.7
Pre-opening costs	1,587	0.6	839	0.3	748	89.2
Impairment and loss on disposal of property and equipment	1,965	0.7	2,192	0.9	(227)	(10.4)
Total expenses	<u>270,345</u>	<u>97.3</u>	<u>235,909</u>	<u>97.4</u>	<u>34,436</u>	<u>14.6</u>
Income from operations	7,411	2.7	6,267	2.6	1,144	18.3
Interest expense, net	180	0.1	124	0.1	56	45.2
Income before income taxes	7,231	2.6	6,143	2.5	1,088	17.7
Income tax expense	2,780	1.0	2,476	1.0	304	12.3
Net income	4,451	1.6	3,667	1.5	784	21.4
Net income attributable to non-controlling interests	58	0.0	11	*	47	427.3
Net income attributable to Potbelly Corporation	<u>\$ 4,393</u>	<u>1.6%</u>	<u>\$ 3,656</u>	<u>1.5%</u>	<u>\$ 737</u>	<u>20.2%</u>

* Amount is less than 0.1%

Revenues

Total revenues increased by \$35.6 million, or 14.7%, to \$277.8 million during the 39 weeks ended September 27, 2015, from \$242.2 million during the 39 weeks ended September 28, 2014. The increase in revenues primarily consisted of an increase of \$24.6 million in sales from shops not yet in our company-operated comparable store sales base and a \$10.8 million, or 4.6%, increase in company-operated comparable store sales. The increase in company-operated comparable store sales resulted from increases in average check from certain menu price increases and menu mix, as well as traffic.

Cost of Goods Sold

Cost of goods sold increased by \$9.8 million, or 14.2%, to \$78.9 million during the 39 weeks ended September 27, 2015, compared to \$69.1 million during the 39 weeks ended September 28, 2014, primarily due to the increase in revenues. As a percentage of revenues, cost of goods sold decreased to 28.4% during the 39 weeks ended September 27, 2015, from 28.5% during the 39 weeks ended September 28, 2014, primarily driven by certain menu price increases.

Labor and Related Expenses

Labor and related expenses increased by \$10.8 million, or 15.7%, to \$79.4 million during the 39 weeks ended September 27, 2015, from \$68.6 million during the 39 weeks ended September 28, 2014, primarily due to new shop openings. As a percentage of revenues, labor and related expenses increased to 28.6% during the 39 weeks ended September 27, 2015, from 28.3% during the 39 weeks ended September 28, 2014, primarily driven by higher labor costs, wage inflation in certain states as a result of statutory minimum wage increases, performance-based manager bonuses as well as an increase in an existing incentive program and an additional incentive program to reward employees for tenure and development, which began in fiscal year 2015.

Occupancy Expenses

Occupancy expenses increased by \$4.1 million, or 13.4%, to \$34.7 million during the 39 weeks ended September 27, 2015, from \$30.6 million during the 39 weeks ended September 28, 2014, primarily due to new shop openings. As a percentage of revenues, occupancy expenses decreased to 12.5% during the 39 weeks ended September 27, 2015, from 12.6% during the 39 weeks ended September 28, 2014, primarily due to sales leverage (*i.e.*, the ability to spread certain expenses over a higher revenue base).

Other Operating Expenses

Other operating expenses increased by \$4.4 million, or 17.2%, to \$30.1 million during the 39 weeks ended September 27, 2015, from \$25.7 million during the 39 weeks ended September 28, 2014. The increase is attributable to new shop openings, increased marketing spend as well as increased fees associated with credit card usage in our shops. As a percentage of revenues, other operating expenses increased to 10.8% during the 39 weeks ended September 27, 2015, from 10.6% during the 39 weeks ended September 28, 2014, primarily due to the \$0.2 million cumulative adjustment recorded during the 39 weeks ended September 28, 2014, for the change in accounting estimate related to gift card breakage.

General and Administrative Expenses

General and administrative expenses increased by \$3.4 million, or 14.0%, to \$27.7 million during the 39 weeks ended September 27, 2015, from \$24.3 million during the 39 weeks ended September 28, 2014. The net increase is driven primarily by increases in our performance-based incentives, advertising, and rent associated with our new office, as well as costs associated with improving our technological infrastructure. As a percentage of revenues, general and administrative expenses remained consistent at 10.0% during the 39 weeks ended September 27, 2015, and the 39 weeks ended September 28, 2014.

Depreciation Expense

Depreciation expense increased by \$1.4 million, or 9.7%, to \$15.9 million during the 39 weeks ended September 27, 2015, from \$14.5 million during the 39 weeks ended September 28, 2014, primarily due to a higher depreciable base related to new shops and existing shop capital investments. As a percentage of revenues, depreciation decreased to 5.7% during the 39 weeks ended September 27, 2015, from 6.0% during the 39 weeks ended September 28, 2014, driven by lower depreciation associated with new shops with lower build-out costs and longer expected useful lives for leasehold improvements, as well as leasehold improvements at legacy shops with higher build-out costs and shorter expected useful lives being fully depreciated.

Pre-Opening Costs

Pre-opening costs increased by \$0.8 million, or 89.2%, to \$1.6 million during the 39 weeks ended September 27, 2015, from \$0.8 million during the 39 weeks ended September 28, 2014, primarily due to timing of new shop openings during the 39 weeks ended September 27, 2015 compared to the 39 weeks ended September 28, 2014.

Impairment and Loss on Disposal of Property and Equipment

Impairment and loss on disposal of property and equipment decreased to \$2.0 million during the 39 weeks ended September 27, 2015, from \$2.2 million during the 39 weeks ended September 28, 2014. After performing a periodic review of our shops during each

of the three completed fiscal quarters of 2015, it was determined that indicators of impairment were present for certain shops as a result of continued underperformance of shop profitability. We performed an impairment analysis related to these shops and recorded an impairment charge of \$1.6 million related to the excess of the carrying amounts recorded on our balance sheet over the identified shops' estimated fair values.

Interest Expense, net

Interest expense increased by \$0.1 million, or 45.2%, to \$0.2 million during the 39 weeks ended September 27, 2015, from \$0.1 million during the 39 weeks ended September 28, 2014, primarily due to the accretion of certain occupancy-related interest costs. Interest expense for the 39 weeks ended September 27, 2015 is attributable to interest on the note payable, unused commitment fees, occupancy-related interest costs and deferred financing fees, partially offset by interest income related to money market funds.

Income Tax Expense

Income tax expense increased by \$0.3 million to \$2.8 million for the 39 weeks ended September 27, 2015, from \$2.5 million for the 39 weeks ended September 28, 2014. For the 39 weeks ended September 27, 2015, our effective tax rate was 38.4%, compared to 40.3% for the 39 weeks ended September 28, 2014. The decrease in the effective tax rate primarily relates to the Company recognizing certain federal tax credits, which were not recognized in the comparable prior period.

Liquidity and Capital Resources

General

Our primary sources of liquidity and capital resources are cash provided from operating activities, existing cash and cash equivalents and our credit facility. Our primary requirements for liquidity and capital are new shop openings, existing shop capital investments (maintenance and improvements), purchasing existing franchise-operated shops, principal and interest payments on our debt, lease obligations, repurchases of our common stock and working capital and general corporate needs. Our 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, we are able to sell certain inventory items before we have to pay our suppliers for such items. Our shops do not require significant inventories or receivables. We believe that these sources of liquidity and capital will be sufficient to finance our continued operations and expansion plans for at least the next twelve months.

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

	For the 39 Weeks Ended	
	September 27, 2015	September 28, 2014
Net cash provided by (used in):		
Operating activities	\$ 30,323	\$ 23,294
Investing activities	(27,657)	(20,544)
Financing activities	(22,903)	(2,926)
Net (decrease) in cash	<u>\$ (20,237)</u>	<u>\$ (176)</u>

Operating Activities

Net cash provided by operating activities increased to \$30.3 million for the 39 weeks ended September 27, 2015, from \$23.3 million for the 39 weeks ended September 28, 2014. The \$7.0 million increase is primarily attributable to an increase of \$6.3 million in net shop-level profits as well as changes in certain working capital accounts.

Investing Activities

Net cash used in investing activities increased to \$27.7 million for the 39 weeks ended September 27, 2015, from \$20.5 million for the 39 weeks ended September 28, 2014. The increase was primarily due to capital expenditures for future shop openings, maintaining our existing shops and certain other projects, including costs associated with the move of our Company headquarters during the 39 weeks ended September 27, 2015 as compared to the same period in 2014. In addition, in July 2015, the Company transitioned a franchise shop to a company-operated shop at a cost of \$0.3 million.

Financing Activities

Net cash used in financing activities was \$22.9 million for the 39 weeks ended September 27, 2015, compared to \$2.9 million for the 39 weeks ended September 28, 2014. The increase in net cash used was mainly driven by \$27.0 million of treasury stock repurchased during the 39 weeks ended September 27, 2015 compared to \$5.8 million during the 39 weeks ended September 28, 2014. The net increase of \$21.2 million in treasury stock repurchases is partially offset by \$4.3 million in cash proceeds received by us related to the exercise of stock options, net of payroll taxes paid, during the 39 weeks ended September 27, 2015, compared to \$3.0 million in cash proceeds received during the 39 weeks ended September 28, 2014.

Stock Repurchase Program

On September 8, 2015, our Board of Directors authorized a share repurchase program of up to \$35.0 million of the Company's common stock. This program replaces the previously authorized share repurchase program, which was completed in the third quarter of 2015. Under this program, we may, from time to time, 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. During the 39 weeks ended September 27, 2015, we repurchased 2,094,721 shares of our common stock for approximately \$27.0 million in open market transactions, which includes shares purchased under both the new plan and the completed plan. As of September 27, 2015, the remaining dollar value of authorization under the new share repurchase program was \$32.7 million. Repurchased shares are included as treasury stock in the condensed consolidated balance sheets and the condensed consolidated statement of equity.

Credit Facility

On September 21, 2012, we entered into a five-year revolving credit facility agreement with JPMorgan Chase Bank, N.A. that expires in September 2017 and provides for borrowings up to \$35.0 million to fund capital expenditures for new shops, renovations and maintenance of existing shops, and to provide ongoing working capital for other general and corporate purposes. We will be entitled to incur additional incremental increases in the revolving credit facility of up to \$25.0 million that will be included in the credit facility if no event of default exists and certain other requirements are met. The credit facility contains customary representations, warranties, negative and affirmative covenants, including a requirement to maintain a maximum leverage ratio, as defined, of 2.25:1 and a minimum debt service coverage ratio, as defined, of 1.5:1. The credit facility also limits the restricted payments (primarily distributions and equity repurchases) that we may make, unless we obtain certain waivers or amendments from our lender. We were in compliance with these restrictions and conditions as of September 27, 2015. The credit facility is secured by substantially all assets of the Company. Borrowings under the credit facility bear interest at our option at either (i) a Eurocurrency rate determined by reference to the applicable LIBOR rate plus an applicable margin or (ii) a prime rate as announced by JPMorgan Chase plus an applicable margin. As of September 27, 2015, we had no amounts outstanding under the credit facility.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Critical accounting policies are those that management believes are both most important to the portrayal of our financial condition and operating results, and require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. 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 had no significant changes in our critical accounting estimates since our last annual report. Our critical accounting estimates are identified and described in our annual consolidated financial statements and related notes.

Off-Balance Sheet Arrangements

As of September 27, 2015, we do not have any off-balance sheet arrangements, synthetic leases, investments in special purpose entities or undisclosed borrowings or debt that would be required to be disclosed pursuant to Item 303 of Regulation S-K under the Exchange Act.

New and Revised Financial Accounting Standards

For a description of recently issued Financial Accounting Standards, see Note 1 — “Organization and Other Matters” of the Notes to Unaudited Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

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 28, 2014. Our exposures to market risk have not changed materially since December 28, 2014.

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 Securities Exchange Act of 1934, as amended (“Exchange Act”)) as of September 27, 2015. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 27, 2015, 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 (the “SEC”) 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 our fiscal quarter ended September 27, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 are filed as exhibits 31.1 and 31.2 to this Quarterly Report on Form 10-Q.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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. 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.

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 28, 2014. There have been no material changes to our Risk Factors as previously reported.

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

The following table contains information regarding purchases of our common stock made by or on behalf of Potbelly Corporation during the 13 weeks ended September 27, 2015:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share (1)</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Programs (2)</u>	<u>Maximum Value of Shares that May Yet be Purchased Under the Programs (2)</u>
June 29, 2015 – July 26, 2015	380,000	\$12.98	380,000	\$7,311,398
July 27, 2015 – August 23, 2015	431,491	\$12.80	431,491	\$1,812,778
August 24, 2015 – September 27, 2015	360,914	\$11.14	360,914	\$32,728,165
Total:	<u>1,172,405</u>		<u>1,172,405</u>	

(1) Average price paid per share excludes commissions.

(2) On September 8, 2015, we announced that our Board of Directors approved a new share repurchase program, authorizing us to repurchase up to \$35.0 million of our common stock. This program replaced the previously authorized share repurchase program, which was completed during the third quarter of 2015. Such repurchases may take place from time to time 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.

ITEM 6. EXHIBITS

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

<u>Exhibit No.</u>	<u>Description</u>
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

POTBELLY CORPORATION

Date: November 4, 2015

By: /s/ Michael Coyne

Michael Coyne
Chief Financial Officer
(Principal Financial Officer)

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

I, Aylwin Lewis, certify that:

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

Date: November 4, 2015

By: /s/ Aylwin Lewis

Aylwin Lewis
Chief Executive Officer and President
(Principal Executive Officer)

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

I, Michael Coyne, certify that:

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

Date: November 4, 2015

By: /s/ Michael Coyne

Michael Coyne
Chief Financial Officer
(Principal Financial Officer)

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

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

1. the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 27, 2015, to which this Certification is attached as Exhibit 32.1 (the "Quarterly Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: November 4, 2015

By: /s/ Aylwin Lewis
Aylwin Lewis
Chief Executive Officer and President

Date: November 4, 2015

By: /s/ Michael Coyne
Michael Coyne
Chief 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.