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

Form 8-K

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

Date of Report (Date of earliest event reported): May 7, 2019

Potbelly Corporation

(Exact name of registrant as specified in its charter)

Commission File Number: 001-36104

Delaware
(State or other jurisdiction
of incorporation)

36-4466837
(IRS Employer
Identification No.)

111 N. Canal Street, Suite 850
Chicago, Illinois 60606
(Address of principal executive offices, including zip code)
(312) 951-0600
(Registrant's telephone number, including area code)
Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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)

Item 2.02. Results of Operations and Financial Condition.

On May 7, 2019, Potbelly Corporation ("Potbelly") issued a press release disclosing earnings and other financial results for its first fiscal quarter ended March 31, 2019, and that as previously announced, its management would review these results in a conference call at 5:00 p.m. Eastern Time on May 7, 2019. The full text of the press release is furnished hereto as Exhibit 99.1.

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

Sue Collyns, a member of the Board of Directors (the "Board") of Potbelly and a member of the Audit Committee of the Board, resigned from the Board effective as of May 3, 2019 and withdrew as a director nominee for election at Potbelly's Annual Meeting of Shareholders to be held on May 16, 2019 (the "Annual Meeting"). Ms. Collyns indicated that her resignation is not related to any disagreement with Potbelly or with Potbelly's operations, policies, or practices. Effective upon Ms. Collyns's resignation as a director, the size of Potbelly's Board was reduced from nine to eight directors.

Other than Ms. Collyns, the nominees named in Potbelly's Proxy Statement dated April 2, 2019 will stand for election at the Annual Meeting. Notwithstanding Ms. Collyns's resignation and withdrawal as a director nominee, the form of proxy card included in the original distribution of the Proxy Statement remains valid; however, any votes that are submitted with respect to Ms. Collyns's nomination (either voting "For" or "Withhold") will be disregarded.

Item 8.01. Other Events.

As a result of her resignation as a member of the Board, Ms. Collyns will not be a nominee for election as a director at Potbelly's Annual Meeting of Shareholders on May 16, 2019. Any shares represented at the Annual Meeting by proxy cards or voting instructions will not be voted for Ms. Collyns, but otherwise will be voted as authorized pursuant to the voting authority granted to the proxies. The proxy card or voting instruction form distributed with Potbelly's proxy statement remains valid and stockholders who have already returned their proxy card or provided voting instructions do not need to take any action in order for their shares to be voted.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description
99.1	Potbelly Corporation Press Release dated May 7, 2019

SIGNATURES

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

Date: May 7, 2019

Potbelly Corporation

By: /s/ Thomas Fitzgerald

Name: Thomas Fitzgerald

Title: Chief Financial Officer
(Principal Financial Officer)



POTBELLY CORPORATION REPORTS RESULTS

FOR FIRST FISCAL QUARTER 2019

Chicago, IL. May 7, 2019 – Potbelly Corporation (NASDAQ: PBPB) today reported financial results for the first fiscal quarter ended March 31, 2019.

Key highlights for the thirteen weeks ended March 31, 2019 compared to the thirteen weeks ended April 1, 2018 include:

- Total revenues decreased 4.7% to \$98.1 million from \$102.9 million.
- Company-operated comparable store sales decreased 4.7%.
- Three new shops opened, including one new company-operated shop and two franchised shops; eight shops closed, including seven company-operated shops and one franchised shop.
- GAAP net loss attributable to Potbelly Corporation was \$18.4 million, inclusive of a \$13.6 million charge related to a valuation allowance on deferred tax assets, and a \$0.0 million impairment charge compared to a loss of \$2.2 million, inclusive of a \$0.0 million charge related to a valuation allowance on deferred tax assets, and a \$2.0 million impairment charge. GAAP diluted loss per share was \$0.76 compared to a GAAP diluted loss per share of \$0.09.
- Adjusted net loss¹ attributable to Potbelly Corporation was \$3.0 million compared to adjusted net income of \$0.7 million. Adjusted diluted EPS¹ was a loss of \$0.12 compared to adjusted diluted EPS of \$0.03.
- EBITDA¹ decreased to \$0.7 million from \$3.2 million.
- Adjusted EBITDA¹ decreased to \$3.9 million from \$7.6 million.

Alan Johnson, President and Chief Executive Officer of Potbelly Corporation, commented, "Our company-operated same store sales were negatively impacted by the government shutdown and the unseasonably cold temperatures across our key markets during the first half of the first quarter. Consequently, we delivered revenue of \$98.1 million, adjusted EBITDA of \$3.9 million, and adjusted net loss of \$0.12 per share in the first quarter of 2019."

Johnson continued, "Despite the soft start to the year, we maintain our relentless focus on executing our strategic initiatives to turn around the business. We are encouraged by the many initiatives that are working, led by our menu optimization initiative which has exceeded our expectations, consistent growth in our off-premise business, growth in our Potbelly Perks registrants and greater customer engagement and loyalty, and the significant progress we have made in the development of our Shop of the Future concept. We are encouraged by the positive momentum in our franchise pipeline in the first quarter, where we signed two new franchisees with plans to open over 20 new shops over the next few years, which is about half the number of domestic units we have today. Unfortunately, the incremental advertising investment that we launched in the second quarter has not generated the expected returns. As a result, we are taking a step back to assess our marketing effort, and we expect to take our learnings and apply them with a fresh approach to drive a more productive outcome."

2019 Outlook

For the full fiscal year of 2019, management currently expects:

- 12-18 total shop openings, including 6-8 company-operated shop openings;
- 15-22 total shop closures, including 9-12 company-operated shop closures;

- Flat to low-single digit decrease in company-operated comparable store sales; and
- Adjusted EBITDA between \$25.0-\$30.0 million, excluding the impact of ASC 842.

Projected adjusted EBITDA set forth above is a measure not recognized under GAAP. Please see “Non-GAAP Financial Measures” below.

Conference Call

A conference call and audio webcast has been scheduled for 5:00 p.m. Eastern Time today to discuss these results. Details of the conference call are as follows:

Date: Tuesday, May 7, 2019
 Time: 5:00 p.m. Eastern Time
 Dial-In #: 877-407-0784 U.S. & Canada
 201-689-8560 International
 Confirmation code: 13689666

Alternatively, the conference call will be webcast at www.potbelly.com on the “Investor Relations” webpage. For those unable to participate, an audio replay will be available from 8:00 p.m. Eastern Time on Tuesday, May 7, 2019 through midnight Tuesday, May 14, 2019. To access the replay, please call 844-512-2921 (U.S. & Canada) or 412-317-6671 (International) and enter confirmation code 13689666. A web-based archive of the conference call will also be available at the above website.

About Potbelly

Potbelly Corporation is a neighborhood sandwich concept that has been feeding customers’ smiles with warm, toasty sandwiches, signature salads, hand-dipped shakes and other fresh menu items, customized just the way customers want them, for more than 40 years. Potbelly promises Fresh, Fast & Friendly service in an environment that reflects the local neighborhood. Since opening its first shop in Chicago in 1977, Potbelly has expanded to neighborhoods across the country - with more than 400 company-owned shops in the United States. Additionally, Potbelly franchisees operate approximately 50 shops domestically and in the Middle East. For more information, please visit our website at www.potbelly.com.

Definitions

The following definitions apply to these terms as used throughout this press release:

- **Revenues** – represents net company-operated sandwich shop sales and our franchise operations. Net company-operated shop sales consist of food and beverage sales, net of promotional allowances and employee meals. Franchise royalties and fees consist of an initial franchise fee, a franchise development agreement fee and royalty income from the franchisee.
- **Company-operated comparable store sales** – represents the change in year-over-year sales for the comparable company-operated store base open for 15 months or longer.
- **EBITDA** – represents income before depreciation and amortization expense, interest expense and the provision for income taxes.
- **Adjusted EBITDA** – represents income before depreciation and amortization expense, interest expense and the provision for income taxes, adjusted to eliminate the impact of other items, including certain non-cash as well as other items that we do not consider representative of our ongoing operating performance.
- **Adjusted net income (loss)** – represents net income (loss), excluding impairment, gain or loss on the disposal of property and equipment and store closure expense, as well as other items that we do not consider representative of our ongoing operating performance.
- **Shop-level profit** – represents income (loss) from operations less franchise royalties and fees, general and administrative expenses, depreciation expense, pre-opening costs and impairment and loss on the disposal of property and equipment.
- **Shop-level profit margin** – represents shop-level profit expressed as a percentage of net company-operated sandwich shop sales.

- **Adjusted diluted earnings per share** – represents net income (loss), excluding impairment, gain or loss on the disposal of property and equipment and store closure expense on a fully diluted per share basis as well as other items that we do not consider representative of our ongoing operating performance.

1Non-GAAP Financial Measures

We prepare our financial statements in accordance with Generally Accepted Accounting Principles (“GAAP”). Within this press release, we make reference to EBITDA, adjusted EBITDA, adjusted net income, shop-level profit and shop-level profit margin, which are non-GAAP financial measures. The Company includes these non-GAAP financial measures because management believes they are useful to investors in that they provide for greater transparency with respect to supplemental information used by management in its financial and operational decision making.

Management uses adjusted EBITDA and adjusted net income to evaluate the Company’s performance and in order to have comparable financial results to analyze changes in our underlying business from quarter to quarter. Adjusted EBITDA and adjusted net income exclude the impact of certain non-cash charges and other special items that affect the comparability of results in past quarters. Management uses shop-level profit and shop-level profit margin as key metrics to evaluate the profitability of incremental sales at our shops, to evaluate our shop performance across periods and to evaluate our shop financial performance against our competitors.

Accordingly, the Company believes the presentation of these non-GAAP financial measures, when used in conjunction with GAAP financial measures, is a useful financial analysis tool that can assist investors in assessing the Company’s operating performance and underlying prospects. This analysis should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. This analysis, as well as the other information in this press release, should be read in conjunction with the Company’s financial statements and footnotes contained in the documents that the Company files with the U.S. Securities and Exchange Commission. The non-GAAP financial measures used by the Company in this press release may be different from the methods used by other companies. For more information on the non-GAAP financial measures, please refer to the table, “Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures.”

This press release includes certain non-GAAP forward-looking information (including, but not limited to under the heading “2018 Outlook”), namely adjusted net income and adjusted diluted earnings per share. The Company believes that a quantitative reconciliation of such forward-looking information to the most comparable financial measure calculated and presented in accordance with GAAP cannot be made available without unreasonable efforts. A reconciliation of these non-GAAP financial measures would require the Company to predict the timing and likelihood of outcomes that determine future impairments and the tax benefit of any such future impairments. Neither of these measures, nor their probable significance, can be reliably quantified due to the inability to forecast future impairments.

Forward-Looking Statements

In addition to historical information, this press release 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 and the Private Securities Litigation Reform Act of 1995. Forward-looking statements, written, oral or otherwise made, represent the Company's expectation or belief concerning future events. Without limiting the foregoing, the words "believes," "expects," "may," "will," "should," "seeks," "intends," "plans," "strives," "goal," "estimates," "forecasts," "projects" or "anticipates" or the negative of these terms and similar expressions are intended to identify forward-looking statements. Forward-looking statements may include, among others, statements relating to: our future financial position and results of operations, business strategy, budgets, projected costs and plans and objectives of management for future operations. By nature, forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected or implied by the forward-looking statement, due to reasons including, but not limited to, competition; general economic conditions; our ability to successfully implement our business strategy; the success of our initiatives to increase sales and traffic; changes in commodity, energy and other costs; our ability to attract and retain management and employees; consumer reaction to industry-related public health issues and perceptions of food safety; our ability to manage our growth; reputational and brand issues; price and availability of commodities; consumer confidence and spending patterns; and weather conditions. In addition, there may be other factors of which we are presently unaware or that we currently deem immaterial that could cause our actual results to be materially different from the results referenced in the forward-looking statements. All forward-looking statements contained in this press release are qualified in their entirety by this cautionary statement. Although we believe that our plans, intentions and expectations are reasonable, we may not achieve our plans, intentions or expectations. 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 Statement on Forward-Looking Statements" included in our most recent annual report on Form 10-K and other risk factors described from time to time in subsequent quarterly reports on Form 10-Q, all of which are available on our website at www.potbelly.com. The Company undertakes 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.

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Contact: **Investor Relations**
Investors@Potbelly.com
312-428-2950

Potbelly Corporation
Consolidated Statements of Operations and Margin Analysis – Unaudited
(Amounts in thousands, except share and per share data)

	For the 13 Weeks Ended			
	March 31, 2019	% of Revenue	April 1, 2018	% of Revenue
Revenues				
Sandwich shop sales, net	\$ 97,258	99.2%	\$ 102,247	99.3%
Franchise royalties and fees	829	0.8	670	0.7
Total revenues	98,087	100.0	102,917	100.0
Expenses				
Sandwich shop operating expenses				
Cost of goods sold, excluding depreciation	25,978	26.5	26,636	25.9
Labor and related expenses	31,973	32.6	31,579	30.7
Occupancy expenses	14,377	14.7	14,726	14.3
Other operating expenses	12,145	12.4	12,500	12.1
General and administrative expenses	12,709	13.0	12,188	11.8
Depreciation expense	5,536	5.6	5,826	5.7
Pre-opening costs	10	*	68	*
Impairment and loss on disposal of property and equipment	82	*	2,024	2.0
Total expenses	102,810	>100	105,547	>100
Loss from operations	(4,723)	(4.8)	(2,630)	(2.6)
Interest expense	32	*	27	*
Loss before income taxes	(4,755)	(4.8)	(2,657)	(2.6)
Income tax expense (benefit)	13,619	13.9	(504)	(0.5)
Net loss	(18,374)	(18.7)	(2,153)	(2.1)
Net income attributable to non-controlling interest	65	*	41	*
Net loss attributable to Potbelly Corporation	\$ (18,439)	(18.8)%	\$ (2,194)	(2.1)%
Net loss per common share attributable to common shareholders:				
Basic	\$ (0.76)		\$ (0.09)	
Diluted	\$ (0.76)		\$ (0.09)	
Weighted average common shares outstanding:				
Basic	24,133,038		25,144,855	
Diluted	24,133,038		25,144,855	

* Amount is less than 0.1%

Potbelly Corporation
Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures – Unaudited
(Amounts in thousands, except share and per share data)

	For the 13 Weeks Ended	
	March 31,	April 1,
	2019	2018
Net loss attributable to Potbelly Corporation, as reported	\$ (18,439)	\$ (2,194)
Impairment, loss on disposal of property and equipment and shop closures(1)	2,438	2,598
CEO transition costs(2)	—	342
Proxy related costs(3)	(127)	608
Restructuring costs(4)	345	—
Income tax valuation allowance(5)	13,385	—
Tax impact(6)	(611)	(694)
Adjusted net income (loss) attributable to Potbelly Corporation	<u>\$ (3,009)</u>	<u>\$ 660</u>
Net loss attributable to Potbelly Corporation per share, basic	\$ (0.76)	\$ (0.09)
Net loss attributable to Potbelly Corporation per share, diluted	\$ (0.76)	\$ (0.09)
Adjusted net income (loss) attributable to Potbelly Corporation per share, basic	\$ (0.12)	\$ 0.03
Adjusted net income (loss) attributable to Potbelly Corporation per share, diluted	\$ (0.12)	\$ 0.03
Shares used in computing adjusted net income attributable to Potbelly Corporation:		
Basic	24,133,038	25,144,855
Diluted	24,133,038	25,874,763

	For the 13 Weeks Ended	
	March 31,	April 1,
	2019	2018
Net loss attributable to Potbelly Corporation, as reported	\$ (18,439)	\$ (2,194)
Depreciation expense	5,536	5,826
Interest expense	32	27
Income tax expense (benefit)	13,619	(504)
EBITDA	<u>\$ 748</u>	<u>\$ 3,155</u>
Impairment, loss on disposal of property and equipment and shop closures(1)	2,438	2,598
Stock-based compensation	459	862
CEO transition costs(2)	—	342
Proxy related costs(3)	(127)	608
Restructuring costs(4)	345	—
Adjusted EBITDA	<u>\$ 3,863</u>	<u>\$ 7,565</u>

Potbelly Corporation
Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures – Unaudited
(Amounts in thousands, except selected operating data)

	For the 13 Weeks Ended	
	March 31, 2019	April 1, 2018
Loss from operations	\$ (4,723)	\$ (2,630)
Less: Franchise royalties and fees	829	670
General and administrative expenses	12,709	12,188
Depreciation expense	5,536	5,826
Pre-opening costs	10	68
Impairment and loss on disposal of property and equipment	82	2,024
Shop-level profit [Y]	<u>\$ 12,785</u>	<u>\$ 16,806</u>
Total revenues	\$ 98,087	\$ 102,917
Less: Franchise royalties and fees	829	670
Sandwich shop sales, net [X]	<u>\$ 97,258</u>	<u>\$ 102,247</u>
Shop-level profit margin [Y÷X]	13.1%	16.4%

	For the 13 Weeks Ended	
	March 31, 2019	April 1, 2018
Selected Operating Data		
Shop Activity:		
Company-operated shops, end of period	431	438
Franchise shops, end of period	50	57
Revenue Data:		
Company-operated comparable store sales	(4.7)%	(3.6)%

**Footnotes to the Press Release, Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures
& Selected Operating Data**

- (1) This adjustment includes costs related to impairment of long-lived assets, loss on disposal of property and equipment and shop closure expenses. Shop closure expenses are recorded in general and administrative expenses in the consolidated statement of operations.
- (2) The Company incurred certain costs related to the transition between the current and former CEO in 2018. Transition costs were included in general and administrative expenses in the consolidated statements of operations and were related to the accelerated vesting of share-based compensation awards, salary related charges in accordance with the former CEO's employment agreement, relocation related charges, and various other transition costs.
- (3) The Company incurred certain professional and other costs and associated benefits related to the shareholder proxy matter. These costs and benefits were included in general and administrative expenses in the consolidated statements of operations.
- (4) The Company incurred certain restructuring costs related to severance and other costs that were included in general and administrative expenses in the consolidated statements of operations.
- (5) The Company recorded a valuation allowance on its deferred tax assets during the first quarter of 2019.
- (6) For the thirteen weeks ended March 31, 2019 and April 1, 2018, the tax impact associated with adjustments to net income is based on effective tax rate, before valuation allowance, of 23.0%, partially offset by the impact of ASU 2016-09.