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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC 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, 2022**

**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: 001-35987**

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**NOODLES & COMPANY**

(Exact name of registrant as specified in its charter)

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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|  |  |  |  |  |  |  |  |  |
| **Delaware** | | |  | | | **84-1303469** | | |
| (State or other jurisdiction of incorporation or organization) | | |  | | | (I.R.S. Employer Identification No.) | | |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
| **520 Zang Street, Suite D** | | |  | | |  | | |
| **Broomfield, CO** | | |  | | | **80021** | | |
| (Address of principal executive offices) | | |  | | | (Zip Code) | | |

**(720) 214-1900**

(Registrant’s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
| Title of each class | | | Trading Symbol | | | Name of each exchange on which registered | | |
| Class A Common Stock, $0.01 par value per share | | | NDLS | | | Nasdaq Global Select Market | | |

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  ☒ No ☐

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Large accelerated filer | | | ☐ | | |  | | | Accelerated filer | | | ☒ | | |
|  | | |  | | |  | | |  | | |  | | |
| Non-accelerated filer | | | ☐ | | |  | | | Smaller reporting company | | | ☒ | | |
|  | | |  | | |  | | | 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.    ☐

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.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
| **Class** | | |  | | | **Outstanding at October 28, 2022** | | |
| Class A Common Stock, $0.01 par value per share | | |  | | | 46,024,561 shares | | |

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**PART I**

**Item 1. Financial Statements**

**Noodles & Company**

**Condensed Consolidated Balance Sheets**

**(in thousands, except share and per share data)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | | **September 27, 2022** | | |  | | | **December 28, 2021** | | |
|  | | |  | | | **(unaudited)** | | |  | | |  | | |
| **Assets** | | |  | | |  | | |  | | |  | | |
| Current assets: | | |  | | |  | | |  | | |  | | |
| Cash and cash equivalents | | |  | | | $ | 1,840 |  |  | | | $ | 2,255 |  |
| Accounts receivable | | |  | | | 5,122 | |  |  | | | 3,958 | |  |
| Inventories | | |  | | | 10,051 | |  |  | | | 9,404 | |  |
| Prepaid expenses and other assets | | |  | | | 4,411 | |  |  | | | 6,837 | |  |
| Income tax receivable | | |  | | | 227 | |  |  | | | 108 | |  |
| Total current assets | | |  | | | 21,651 | |  |  | | | 22,562 | |  |
| Property and equipment, net | | |  | | | 124,432 | |  |  | | | 119,276 | |  |
| Operating lease assets, net | | |  | | | 188,044 | |  |  | | | 188,440 | |  |
| Goodwill | | |  | | | 7,154 | |  |  | | | 7,154 | |  |
| Intangibles, net | | |  | | | 624 | |  |  | | | 668 | |  |
| Other assets, net | | |  | | | 1,343 | |  |  | | | 3,359 | |  |
| Total long-term assets | | |  | | | 321,597 | |  |  | | | 318,897 | |  |
| Total assets | | |  | | | $ | 343,248 |  |  | | | $ | 341,459 |  |
| **Liabilities and Stockholders’ Equity** | | |  | | |  | | |  | | |  | | |
| Current liabilities: | | |  | | |  | | |  | | |  | | |
| Accounts payable | | |  | | | $ | 15,599 |  |  | | | $ | 15,543 |  |
| Accrued payroll and benefits | | |  | | | 11,379 | |  |  | | | 18,600 | |  |
| Accrued expenses and other current liabilities | | |  | | | 11,537 | |  |  | | | 13,791 | |  |
| Current operating lease liabilities | | |  | | | 27,942 | |  |  | | | 26,617 | |  |
| Current portion of long-term debt | | |  | | | — | |  |  | | | 2,031 | |  |
| Total current liabilities | | |  | | | 66,457 | |  |  | | | 76,582 | |  |
| Long-term debt, net | | |  | | | 36,141 | |  |  | | | 18,931 | |  |
| Long-term operating lease liabilities, net | | |  | | | 195,971 | |  |  | | | 200,243 | |  |
| Deferred tax liabilities, net | | |  | | | 228 | |  |  | | | 269 | |  |
| Other long-term liabilities | | |  | | | 8,070 | |  |  | | | 7,801 | |  |
| Total liabilities | | |  | | | 306,867 | |  |  | | | 303,826 | |  |
|  | | |  | | |  | | |  | | |  | | |
| Stockholders’ equity: | | |  | | |  | | |  | | |  | | |
| Preferred stock—$0.01 par value, 1,000,000 shares authorized and undesignated as of September 27, 2022 and December 28, 2021; no shares issued or outstanding | | |  | | | — | |  |  | | | — | |  |
| Common stock—$0.01 par value, 180,000,000 shares authorized as of September 27, 2022 and December 28, 2021; 48,443,794 issued and 46,019,923 outstanding as of September 27, 2022 and 48,125,151 issued and 45,701,280 outstanding as of December 28, 2021 | | |  | | | 484 | |  |  | | | 481 | |  |
| Treasury stock, at cost, 2,423,871 shares as of September 27, 2022 and December 28, 2021 | | |  | | | (35,000) | |  |  | | | (35,000) | |  |
| Additional paid-in capital | | |  | | | 210,260 | |  |  | | | 207,226 | |  |
| Accumulated deficit | | |  | | | (139,363) | |  |  | | | (135,074) | |  |
| Total stockholders’ equity | | |  | | | 36,381 | |  |  | | | 37,633 | |  |
| Total liabilities and stockholders’ equity | | |  | | | $ | 343,248 |  |  | | | $ | 341,459 |  |

*See accompanying notes to condensed consolidated financial statements.*

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**Noodles & Company**

**Condensed Consolidated Statements of Operations**

**(in thousands, except share and per share data, unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  | | |  | | | **Fiscal Quarter Ended** | | | | | | | | |  | | | **Three Fiscal Quarters Ended** | | | | | | | | |
|  | | |  | | | **September 27, 2022** | | |  | | | **September 28, 2021** | | |  | | | **September 27, 2022** | | |  | | | **September 28, 2021** | | |
| *Revenue:* | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Restaurant revenue | | |  | | | $ | 126,638 |  |  | | | $ | 123,094 |  |  | | | $ | 364,873 |  |  | | | $ | 354,553 |  |
| Franchising royalties and fees, and other | | |  | | | 2,743 | |  |  | | | 2,032 | |  |  | | | 8,137 | |  |  | | | 5,799 | |  |
| Total revenue | | |  | | | 129,381 | |  |  | | | 125,126 | |  |  | | | 373,010 | |  |  | | | 360,352 | |  |
| *Costs and expenses:* | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Restaurant operating costs (exclusive of depreciation and amortization shown separately below): | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Cost of sales | | |  | | | 35,528 | |  |  | | | 30,946 | |  |  | | | 101,963 | |  |  | | | 88,728 | |  |
| Labor | | |  | | | 39,049 | |  |  | | | 36,896 | |  |  | | | 113,370 | |  |  | | | 108,128 | |  |
| Occupancy | | |  | | | 11,135 | |  |  | | | 11,426 | |  |  | | | 33,358 | |  |  | | | 34,594 | |  |
| Other restaurant operating costs | | |  | | | 22,709 | |  |  | | | 21,529 | |  |  | | | 67,367 | |  |  | | | 62,816 | |  |
| General and administrative | | |  | | | 11,596 | |  |  | | | 12,187 | |  |  | | | 36,180 | |  |  | | | 36,094 | |  |
| Depreciation and amortization | | |  | | | 5,826 | |  |  | | | 5,571 | |  |  | | | 17,310 | |  |  | | | 16,734 | |  |
| Pre-opening | | |  | | | 337 | |  |  | | | 125 | |  |  | | | 1,098 | |  |  | | | 346 | |  |
| Restaurant impairments, closure costs and asset disposals | | |  | | | 1,672 | |  |  | | | 1,126 | |  |  | | | 5,032 | |  |  | | | 2,747 | |  |
| Total costs and expenses | | |  | | | 127,852 | |  |  | | | 119,806 | |  |  | | | 375,678 | |  |  | | | 350,187 | |  |
| Income (loss) from operations | | |  | | | 1,529 | |  |  | | | 5,320 | |  |  | | | (2,668) | |  |  | | | 10,165 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Interest expense, net | | |  | | | 735 | |  |  | | | 594 | |  |  | | | 1,661 | |  |  | | | 1,714 | |  |
| Income (loss) before taxes | | |  | | | 794 | |  |  | | | 4,726 | |  |  | | | (4,329) | |  |  | | | 8,451 | |  |
| (Benefit from) provision for income taxes | | |  | | | (1) | |  |  | | | 29 | |  |  | | | (40) | |  |  | | | 48 | |  |
| Net income (loss) | | |  | | | $ | 795 |  |  | | | $ | 4,697 |  |  | | | $ | (4,289) |  |  | | | $ | 8,403 |  |
| Earnings (loss) per Class A and Class B common stock, combined | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Basic | | |  | | | $ | 0.02 |  |  | | | $ | 0.10 |  |  | | | $ | (0.09) |  |  | | | $ | 0.19 |  |
| Diluted | | |  | | | $ | 0.02 |  |  | | | $ | 0.10 |  |  | | | $ | (0.09) |  |  | | | $ | 0.18 |  |
| Weighted average shares of Class A and Class B common stock outstanding, combined: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Basic | | |  | | | 46,010,824 | |  |  | | | 45,635,455 | |  |  | | | 45,872,893 | |  |  | | | 45,414,332 | |  |
| Diluted | | |  | | | 46,197,511 | |  |  | | | 46,382,509 | |  |  | | | 45,872,893 | |  |  | | | 46,134,994 | |  |

*See accompanying notes to condensed consolidated financial statements.*

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**Noodles & Company**

**Condensed Consolidated Statements of Stockholders’ Equity**

**(in thousands, except share data, unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | | **Fiscal Quarter Ended** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | |  | | | **Common Stock(1)** | | | | | | | | |  | | | **Treasury** | | | | | | | | |  | | | **Additional Paid-In Capital** | | |  | | | **Accumulated Deficit** | | |  | | | **Total Stockholders’ Equity** | | |
|  | | |  | | | **Shares** | | |  | | | **Amount** | | |  | | | **Shares** | | |  | | | **Amount** | | |  | | |
| Balance—June 28, 2022 | | |  | | | 48,384,193 | |  |  | | | $ | 484 |  |  | | | 2,423,871 | |  |  | | | $ | (35,000) |  |  | | | $ | 209,561 |  |  | | | $ | (140,158) |  |  | | | $ | 34,887 |  |
| Stock plan transactions and other | | |  | | | 59,601 | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | (56) | |  |  | | | — | |  |  | | | (56) | |  |
| Stock-based compensation expense | | |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 755 | |  |  | | | — | |  |  | | | 755 | |  |
| Net income | | |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 795 | |  |  | | | 795 | |  |
| Balance—September 27, 2022 | | |  | | | 48,443,794 | |  |  | | | $ | 484 |  |  | | | 2,423,871 | |  |  | | | $ | (35,000) |  |  | | | $ | 210,260 |  |  | | | $ | (139,363) |  |  | | | $ | 36,381 |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Balance—June 29, 2021 | | |  | | | 48,011,761 | |  |  | | | $ | 480 |  |  | | | 2,423,871 | |  |  | | | $ | (35,000) |  |  | | | $ | 204,996 |  |  | | | $ | (135,033) |  |  | | | $ | 35,443 |  |
| Stock plan transactions and other | | |  | | | 54,155 | |  |  | | | 1 | |  |  | | | — | |  |  | | | — | |  |  | | | (203) | |  |  | | | — | |  |  | | | (202) | |  |
| Stock-based compensation expense | | |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 1,164 | |  |  | | | — | |  |  | | | 1,164 | |  |
| Net income | | |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 4,697 | |  |  | | | 4,697 | |  |
| Balance—September 28, 2021 | | |  | | | 48,065,916 | |  |  | | | $ | 481 |  |  | | | 2,423,871 | |  |  | | | $ | (35,000) |  |  | | | $ | 205,957 |  |  | | | $ | (130,336) |  |  | | | $ | 41,102 |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | | **Three Fiscal Quarters Ended** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | |  | | | **Common Stock(1)** | | | | | | | | |  | | | **Treasury** | | | | | | | | |  | | | **Additional Paid-In Capital** | | |  | | | **Accumulated Deficit** | | |  | | | **Total Stockholders’ Equity** | | |
|  | | |  | | | **Shares** | | |  | | | **Amount** | | |  | | | **Shares** | | |  | | | **Amount** | | |  | | |
| Balance—December 28, 2021 | | |  | | | 48,125,151 | |  |  | | | $ | 481 |  |  | | | 2,423,871 | |  |  | | | $ | (35,000) |  |  | | | $ | 207,226 |  |  | | | $ | (135,074) |  |  | | | $ | 37,633 |  |
| Stock plan transactions and other | | |  | | | 318,643 | |  |  | | | 3 | |  |  | | | — | |  |  | | | — | |  |  | | | (376) | |  |  | | | — | |  |  | | | (373) | |  |
| Stock-based compensation expense | | |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 3,410 | |  |  | | | — | |  |  | | | 3,410 | |  |
| Net loss | | |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | (4,289) | |  |  | | | (4,289) | |  |
| Balance—September 27, 2022 | | |  | | | 48,443,794 | |  |  | | | $ | 484 |  |  | | | 2,423,871 | |  |  | | | $ | (35,000) |  |  | | | $ | 210,260 |  |  | | | $ | (139,363) |  |  | | | $ | 36,381 |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Balance—December 29, 2020 | | |  | | | 46,807,587 | |  |  | | | $ | 468 |  |  | | | 2,423,871 | |  |  | | | $ | (35,000) |  |  | | | $ | 202,970 |  |  | | | $ | (138,739) |  |  | | | $ | 29,699 |  |
| *L* Catterton warrants exercised | | |  | | | 975,458 | |  |  | | | 10 | |  |  | | | — | |  |  | | | — | |  |  | | | (10) | |  |  | | | — | |  |  | | | — | |  |
| Stock plan transactions and other | | |  | | | 282,871 | |  |  | | | 3 | |  |  | | | — | |  |  | | | — | |  |  | | | (484) | |  |  | | | — | |  |  | | | (481) | |  |
| Stock-based compensation expense | | |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 3,481 | |  |  | | | — | |  |  | | | 3,481 | |  |
| Net income | | |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 8,403 | |  |  | | | 8,403 | |  |
| Balance—September 28, 2021 | | |  | | | 48,065,916 | |  |  | | | $ | 481 |  |  | | | 2,423,871 | |  |  | | | $ | (35,000) |  |  | | | $ | 205,957 |  |  | | | $ | (130,336) |  |  | | | $ | 41,102 |  |

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(1)Unless otherwise noted, activity relates to Class A common stock.

*See accompanying notes to condensed consolidated financial statements.*

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**Noodles & Company**

**Condensed Consolidated Statements of Cash Flows**

**(in thousands, unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | | **Three Fiscal Quarters Ended** | | | | | | | | |
|  | | |  | | | **September 27, 2022** | | |  | | | **September 28, 2021** | | |
| **Operating activities** | | |  | | |  | | |  | | |  | | |
| Net (loss) income | | |  | | | $ | (4,289) |  |  | | | $ | 8,403 |  |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |  | | |  | | |  | | |  | | |
| Depreciation and amortization | | |  | | | 17,310 | |  |  | | | 16,734 | |  |
| Deferred income taxes | | |  | | | (41) | |  |  | | | 41 | |  |
| Restaurant impairments, closure costs and asset disposals | | |  | | | 1,688 | |  |  | | | 1,441 | |  |
|  | | |  | | |  | | |  | | |  | | |
| Amortization of debt issuance costs | | |  | | | 627 | |  |  | | | 333 | |  |
| Stock-based compensation | | |  | | | 3,354 | |  |  | | | 3,436 | |  |
| Gain on insurance proceeds | | |  | | | — | |  |  | | | (406) | |  |
| Changes in operating assets and liabilities: | | |  | | |  | | |  | | |  | | |
| Accounts receivable | | |  | | | (1,210) | |  |  | | | (431) | |  |
| Inventories | | |  | | | (709) | |  |  | | | (221) | |  |
| Prepaid expenses and other assets | | |  | | | 923 | |  |  | | | (1,893) | |  |
| Accounts payable | | |  | | | (592) | |  |  | | | 3,149 | |  |
| Income taxes | | |  | | | (119) | |  |  | | | (22) | |  |
| Operating lease assets and liabilities | | |  | | | (2,440) | |  |  | | | (649) | |  |
| Accrued expenses and other liabilities | | |  | | | (6,682) | |  |  | | | (19) | |  |
| Net cash provided by operating activities | | |  | | | 7,820 | |  |  | | | 29,896 | |  |
| **Investing activities** | | |  | | |  | | |  | | |  | | |
| Purchases of property and equipment | | |  | | | (22,549) | |  |  | | | (12,965) | |  |
| Insurance proceeds received for property damage | | |  | | | — | |  |  | | | 406 | |  |
| Proceeds from restaurant divestitures | | |  | | | 1,577 | |  |  | | | — | |  |
| Net cash used in investing activities | | |  | | | (20,972) | |  |  | | | (12,559) | |  |
| **Financing activities** | | |  | | |  | | |  | | |  | | |
| Net borrowings from swing line loan | | |  | | | 4,967 | |  |  | | | — | |  |
| Proceeds from borrowings on long-term debt | | |  | | | 43,512 | |  |  | | | — | |  |
| Payments on long-term debt | | |  | | | (32,850) | |  |  | | | (20,118) | |  |
| Payments on finance leases | | |  | | | (1,442) | |  |  | | | (1,429) | |  |
| Debt issuance costs | | |  | | | (1,077) | |  |  | | | — | |  |
| Stock plan transactions and tax withholding on share-based compensation awards | | |  | | | (373) | |  |  | | | (481) | |  |
| Net cash provided by (used in) financing activities | | |  | | | 12,737 | |  |  | | | (22,028) | |  |
| Net decrease in cash and cash equivalents | | |  | | | (415) | |  |  | | | (4,691) | |  |
| **Cash and cash equivalents** | | |  | | |  | | |  | | |  | | |
| Beginning of period | | |  | | | 2,255 | |  |  | | | 7,840 | |  |
| End of period | | |  | | | $ | 1,840 |  |  | | | $ | 3,149 |  |

*See accompanying notes to condensed consolidated financial statements.*

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**NOODLES & COMPANY**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited)**

**1. Business Summary and Basis of Presentation**

***Business***

Noodles & Company (the “Company”), a Delaware corporation, develops and operates fast casual restaurants that serve globally inspired noodle and pasta dishes, soups, salads and appetizers. As of September 27, 2022, the Company had 459 restaurants system-wide in 31 states, comprised of 366 company-owned restaurants and 93 franchise restaurants. The Company operates its business as one operating and reportable segment.

***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements include the accounts of Noodles & Company and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The accompanying interim unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America (“GAAP”) for complete financial statements. In the opinion of the Company, all adjustments considered necessary for the fair presentation of the Company’s results of operations, financial position and cash flows for the periods presented have been included and are of a normal, recurring nature. The preparation of financial statements in conformity with GAAP requires management 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. The results of operations for any interim period are not necessarily indicative of results for the full year. Certain information and footnote disclosures normally included in the Company’s annual consolidated financial statements on Form 10-K have been condensed or omitted. The condensed consolidated balance sheet as of December 28, 2021 was derived from audited financial statements. These financial statements should be read in conjunction with the audited financial statements and the related notes included in the Company’sAnnual Report on Form 10-K for the fiscal year ended December 28, 2021.

***Fiscal Year***

The Company operates on a 52- or 53-week fiscal year ending on the Tuesday closest to December 31. The Company’s fiscal quarters each contain 13 operating weeks, with the exception of the fourth quarter of a 53-week fiscal year, which contains 14 operating weeks. Fiscal year 2022, which ends on January 3, 2023 contains 53 weeks and fiscal year 2021, which ended on December 28, 2021, contained 52 weeks. The Company’s fiscal quarter that ended September 27, 2022 is referred to as the third quarter of 2022, and the fiscal quarter ended September 28, 2021 is referred to as the third quarter of 2021.

***Recent Accounting Pronouncements***

In March 2020, the FASB issued ASU No. 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting* (“ASU 2020-04”). ASU 2020-04 is intended to provide temporary optional expedients and exceptions to the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate (“LIBOR”) and other interbank offered rates to alternative reference rates. The Company may elect to apply the amendments prospectively through December 31, 2022. The Company adopted this pronouncement in the third quarter of 2022. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements and related disclosures.

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**2. Supplemental Financial Information**

Accounts receivable consist of the following (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | | **September 27, 2022** | | |  | | | **December 28, 2021** | | |
| Delivery program receivables | | |  | | | $ | 1,445 |  |  | | | $ | 1,467 |  |
| Vendor rebate receivables | | |  | | | 705 | |  |  | | | 695 | |  |
| Franchise receivables | | |  | | | 1,940 | |  |  | | | 644 | |  |
| Other receivables | | |  | | | 1,032 | |  |  | | | 1,152 | |  |
| Accounts receivable | | |  | | | $ | 5,122 |  |  | | | $ | 3,958 |  |

Prepaid expenses and other assets consist of the following (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | | **September 27, 2022** | | |  | | | **December 28, 2021** | | |
| Prepaid insurance | | |  | | | $ | 1,409 |  |  | | | $ | 853 |  |
| Prepaid occupancy related costs | | |  | | | 91 | |  |  | | | 73 | |  |
| Current assets held for sale (1) | | |  | | | — | |  |  | | | 3,514 | |  |
| Prepaid expenses | | |  | | | 2,789 | |  |  | | | 2,272 | |  |
| Other current assets | | |  | | | 122 | |  |  | | | 125 | |  |
| Prepaid expenses and other assets | | |  | | | $ | 4,411 |  |  | | | $ | 6,837 |  |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(1) Current assets held for sale as of December 28, 2021 included assets held in connection with the divestiture of 15 company-owned restaurants to a franchisee (“Warner Sale”) which closed in January 2022.

Property and equipment, net, consists of the following (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | | **September 27, 2022** | | |  | | | **December 28, 2021** | | |
| Leasehold improvements | | |  | | | $ | 206,694 |  |  | | | $ | 197,722 |  |
| Furniture, fixtures and equipment | | |  | | | 144,961 | |  |  | | | 140,698 | |  |
| Construction in progress | | |  | | | 10,354 | |  |  | | | 6,306 | |  |
|  | | |  | | | 362,009 | |  |  | | | 344,726 | |  |
| Accumulated depreciation and amortization | | |  | | | (237,577) | |  |  | | | (225,450) | |  |
| Property and equipment, net | | |  | | | $ | 124,432 |  |  | | | $ | 119,276 |  |

Accrued payroll and benefits consist of the following (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | | **September 27, 2022** | | |  | | | **December 28, 2021** | | |
| Accrued payroll and related liabilities | | |  | | | $ | 7,384 |  |  | | | $ | 9,851 |  |
| Accrued bonus | | |  | | | 981 | |  |  | | | 5,078 | |  |
| Insurance liabilities | | |  | | | 3,014 | |  |  | | | 3,671 | |  |
| Accrued payroll and benefits | | |  | | | $ | 11,379 |  |  | | | $ | 18,600 |  |

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Accrued expenses and other current liabilities consist of the following (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | | **September 27, 2022** | | |  | | | **December 28, 2021** | | |
| Gift card liability | | |  | | | $ | 2,095 |  |  | | | $ | 2,850 |  |
| Occupancy related | | |  | | | 1,242 | |  |  | | | 1,615 | |  |
| Utilities | | |  | | | 1,427 | |  |  | | | 1,302 | |  |
| Current portion of finance lease liability | | |  | | | 2,207 | |  |  | | | 1,956 | |  |
| Liabilities held for sale (1) | | |  | | | — | |  |  | | | 1,671 | |  |
| Accrued interest | | |  | | | 225 | |  |  | | | 271 | |  |
| Insurance liabilities | | |  | | | 400 | |  |  | | | 393 | |  |
| Other restaurant expense accruals | | |  | | | 1,556 | |  |  | | | 995 | |  |
| Other corporate expense accruals | | |  | | | 2,385 | |  |  | | | 2,738 | |  |
| Accrued expenses and other current liabilities | | |  | | | $ | 11,537 |  |  | | | $ | 13,791 |  |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(1) Liabilities held for sale as of December 28, 2021 included liabilities held in connection with the Warner Sale which closed in January 2022.

**3. Long-Term Debt**

On May 9, 2018, the Company entered into a credit facility with U.S. Bank National Association (the “2018 Credit Facility”). The 2018 Credit Facility consisted of a term loan facility in an aggregate principal amount of $25.0 million and a revolving credit facility of $65.0 million, which included a letter of credit subfacility in the amount of $15.0 million and a swingline subfacility in the amount of $10.0 million.

On November 20, 2019, the Company amended its 2018 Credit Facility by entering into the First Amendment to the Credit Agreement (the “Amendment” and the 2018 Credit Facility, as amended, the “First Amended Credit Facility”).

On June 16, 2020, the Company amended its First Amended Credit Facility by entering into the Second Amendment to the Credit Agreement (the “Second Amendment” and the First Amended Credit Facility, as amended, or the “Second Amended Credit Facility”).

On July 27, 2022, the Company amended and restated its Second Amended Credit Facility by entering into the Third Amendment to the Credit Agreement (the “Third Amendment” or the “Third Amended Credit Facility”) which matures on July 27, 2027. Among other things, the Third Amendment: (i) increased the credit facility from $100.0 million to $125.0 million; (ii) eliminated the term loan and principal amortization components of the credit facility; (iii) removed the Company’s capital expenditure covenant; (iv) enhanced flexibility for certain covenants and restrictions; and (v) lowered the spread within the Company’s cost of borrowing and transitioned from LIBOR to the Secured Overnight Financing Rate (“SOFR”) plus a margin of 1.50% to 2.50% per annum, based upon the consolidated total lease-adjusted leverage ratio. In connection with the Third Amendment, the Company wrote off a portion of the unamortized debt issuance costs related to the Second Amended Credit Facility in the amount of $0.3 million in the third quarter of 2022.

As of September 27, 2022, the Company had $37.9 million of indebtedness (excluding $1.7 million of unamortized debt issuance costs) and $3.0 million of letters of credit outstanding under the Third Amended Credit Facility. As of September 27, 2022, the Company had cash on hand of $1.8 million.

The Company’s outstanding indebtedness bore interest at rates between 2.35% to 7.50% during the first three quarters of 2022.

The Company also maintains outstanding letters of credit to secure obligations under its workers’ compensation program and certain lease obligations. The Company was in compliance with all of its debt covenants as of September 27, 2022.

**4. Fair Value Measurements**

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and all other current liabilities approximate their fair values due to their short-term nature. The carrying amounts of borrowings approximate fair value as the line of credit and term borrowings vary with market interest rates and negotiated terms and conditions are consistent with current market rates. The fair value of the Company’s line of credit and term borrowings are measured using Level 2 inputs.

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

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

Adjustments to the fair value of assets measured at fair value on a non-recurring basis as of September 27, 2022 and September 28, 2021 are discussed in Note 7, Restaurant Impairments, Closure Costs and Asset Disposals.

**5. Income Taxes**

The following table presents the Company’s provision for income taxes (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | | **Fiscal Quarter Ended** | | | | | | | | |  | | | **Three Fiscal Quarters Ended** | | | | | | | | |
|  | | |  | | | **September 27, 2022** | | |  | | | **September 28, 2021** | | |  | | | **September 27, 2022** | | |  | | | **September 28, 2021** | | |
| (Benefit from) provision for income taxes | | |  | | | $ | (1) |  |  | | | $ | 29 |  |  | | | $ | (40) |  |  | | | $ | 48 |  |
| Effective tax rate | | |  | | | (0.1) | | % |  | | | 0.6 | | % |  | | | 0.9 | | % |  | | | 0.6 | | % |

The effective tax rate for the third quarter of 2022 and the first three quarters of 2022 reflects the impact of the previously recorded valuation allowance. For the remainder of fiscal 2022, the Company does not anticipate material income tax expense or benefit as a result of the valuation allowance recorded. The Company will maintain the valuation allowance against deferred tax assets until there is sufficient evidence to support a full or partial reversal. The reversal of a previously recorded valuation allowance will generally result in a benefit from income tax.

**6. Stock-Based Compensation**

The Company’s Stock Incentive Plan (the “Plan”), as amended and restated in May of 2013, authorizes the grant of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units (“RSUs”), performance share units and incentive bonuses to employees, officers, non-employee directors and other service providers. As of September 27, 2022, approximately 2.0 million share-based awards were available to be granted under the Plan.

The following table shows total stock-based compensation expense (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **Fiscal Quarter Ended** | | | | | | | | |  | | | **Three Fiscal Quarters Ended** | | | | | | | | |
|  | | | **September 27, 2022** | | |  | | | **September 28, 2021** | | |  | | | **September 27, 2022** | | |  | | | **September 28, 2021** | | |
| Stock-based compensation expense | | | $ | 751 |  |  | | | $ | 1,177 |  |  | | | $ | 3,419 |  |  | | | $ | 3,590 |  |
| Capitalized stock-based compensation expense | | | $ | 18 |  |  | | | $ | 11 |  |  | | | $ | 56 |  |  | | | $ | 45 |  |

**7. Restaurant Impairments, Closure Costs and Asset Disposals**

The following table presents restaurant impairments, closure costs and asset disposals (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **Fiscal Quarter Ended** | | | | | | | | |  | | | **Three Fiscal Quarters Ended** | | | | | | | | |
|  | | | **September 27, 2022** | | |  | | | **September 28, 2021** | | |  | | | **September 27, 2022** | | |  | | | **September 28, 2021** | | |
| Restaurant impairments (1) | | | $ | 412 |  |  | | | $ | 536 |  |  | | | $ | 1,186 |  |  | | | $ | 1,216 |  |
| Closure costs (1) | | | 370 | |  |  | | | 236 | |  |  | | | 1,224 | |  |  | | | 829 | |  |
| Loss on disposal of assets and other | | | 890 | |  |  | | | 354 | |  |  | | | 2,622 | |  |  | | | 702 | |  |
|  | | | $ | 1,672 |  |  | | | $ | 1,126 |  |  | | | $ | 5,032 |  |  | | | $ | 2,747 |  |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(1)Restaurant impairments and closure costs in all periods presented above include amounts related to restaurants previously impaired or closed.

The Company impaired two restaurants during the third quarter of 2022 and four restaurants in the first three quarters of 2022. There was one restaurant impairment in the third quarter of 2021 and two restaurant impairments during the first three quarters of 2021. Impairment is based on management’s current assessment of the expected future cash flows of a restaurant based on recent results and other specific market factors. Impairment expense is a Level 3 fair value measure and is determined by comparing the carrying value of restaurant assets to the estimated fair value of the restaurant assets at resale value and the right-

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of-use asset based on a discounted cash flow analysis utilizing market lease rates. The Company will continue to monitor the impact from the COVID-19 pandemic as it relates to recoverability of long-lived assets.

Closure costs in the third quarter of 2022 include ongoing costs related to restaurants closed in previous years as well as two company-owned restaurant closures during the first three quarters of 2022. The Company did not close any restaurants in the third quarter of 2022. Closure costs in the third quarter of 2021 and the first three quarters of 2021 include ongoing costs related to restaurants closed in previous years as well as eight restaurant closures in the first three quarters of 2021.

Loss on disposal of assets and other for the third quarter and the first three quarters of 2022 includes expenses related to the divestiture of company-owned restaurants related to the Warner Sale as well as lease related costs. Both periods include disposals of assets in the normal course of business. Loss on disposal of assets and other for the first three quarters of 2021 includes a gain on insurance proceeds from property damage.

These expenses are included in the “Restaurant impairments, closure costs and asset disposals” line in the Condensed Consolidated Statements of Operations.

**8. Earnings (Loss) Per Share**

Basic earnings (loss) per share (“EPS”) is calculated by dividing net income (loss) available to common stockholders by the weighted-average number of shares of common stock outstanding during each period. Diluted EPS is calculated using net income (loss) available to common stockholders divided by diluted weighted-average shares of common stock outstanding during each period. Potentially dilutive securities include shares of common stock underlying stock options, warrants and RSUs. Diluted EPS considers the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of the potential common shares would have an anti-dilutive effect.

The following table sets forth the computations of basic and diluted EPS (in thousands, except share and per share data):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | | **Fiscal Quarter Ended** | | | | | | | | |  | | | **Three Fiscal Quarters Ended** | | | | | | | | |
|  | | |  | | | **September 27, 2022** | | |  | | | **September 28, 2021** | | |  | | | **September 27, 2022** | | |  | | | **September 28, 2021** | | |
| Net income (loss) | | |  | | | $ | 795 |  |  | | | $ | 4,697 |  |  | | | $ | (4,289) |  |  | | | $ | 8,403 |  |
| Shares: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Basic weighted average shares outstanding | | |  | | | 46,010,824 | |  |  | | | 45,635,455 | |  |  | | | 45,872,893 | |  |  | | | 45,414,332 | |  |
| Effect of dilutive securities | | |  | | | 186,687 | |  |  | | | 747,054 | |  |  | | | — | |  |  | | | 720,662 | |  |
| Diluted weighted average shares outstanding | | |  | | | 46,197,511 | |  |  | | | 46,382,509 | |  |  | | | 45,872,893 | |  |  | | | 46,134,994 | |  |
| Earnings (loss) per share: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Basic earnings (loss) per share | | |  | | | $ | 0.02 |  |  | | | $ | 0.10 |  |  | | | $ | (0.09) |  |  | | | $ | 0.19 |  |
| Diluted earnings (loss) per share | | |  | | | $ | 0.02 |  |  | | | $ | 0.10 |  |  | | | $ | (0.09) |  |  | | | $ | 0.18 |  |

The Company computes the effect of dilutive securities using the treasury stock method and average market prices during the period. Potential common shares are excluded from the computation of diluted earnings (loss) per share when the effect would be anti-dilutive. The shares issuable on the vesting or exercise of share-based awards that were excluded from the calculation of diluted earnings per share because the effect of their inclusion would have been anti-dilutive totaled 1,810,346 and 359,211 for the third quarters of 2022 and 2021, respectively, and totaled 2,364,003 and 479,494 for the first three quarters of 2022 and 2021, respectively.

**9. Leases**

Supplemental balance sheet information related to leases is as follows (in thousands):

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Classification** | | | | | |  | | | **September 27, 2022** | | |  | | | **December 28, 2021** | | |
| **Assets** | | |  | | |  | | |  | | |  | | |  | | |
| Operating | | | Operating lease assets, net | | |  | | | $ | 188,044 |  |  | | | $ | 188,440 |  |
| Finance | | | Property and equipment | | |  | | | 5,792 | |  |  | | | 6,394 | |  |
| Total leased assets | | |  | | |  | | | $ | 193,836 |  |  | | | $ | 194,834 |  |
| **Liabilities** | | |  | | |  | | |  | | |  | | |  | | |
| Current lease liabilities | | |  | | |  | | |  | | |  | | |  | | |
| Operating | | | Current operating lease liabilities | | |  | | | $ | 27,942 |  |  | | | $ | 26,617 |  |
| Finance | | | Accrued expenses and other current liabilities | | |  | | | 2,207 | |  |  | | | 1,956 | |  |
| Long-term lease liabilities | | |  | | |  | | |  | | |  | | |  | | |
| Operating | | | Long-term operating lease liabilities | | |  | | | 195,971 | |  |  | | | 200,243 | |  |
| Finance | | | Other long-term liabilities | | |  | | | 4,026 | |  |  | | | 4,654 | |  |
| Total lease liabilities | | |  | | |  | | | $ | 230,146 |  |  | | | $ | 233,470 |  |

Sublease income recognized in the Condensed Consolidated Statements of Operations was $0.8 million and $0.4 million for the third quarter of 2022 and 2021, and $2.4 million and $1.4 million for the first three quarters of 2022 and 2021, respectively.

Supplemental disclosures of cash flow information related to leases are as follows (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | | **Fiscal Quarter Ended** | | | | | | | | |  | | | **Three Fiscal Quarters Ended** | | | | | | | | |
|  | | |  | | | **September 27, 2022** | | |  | | | **September 28, 2021** | | |  | | | **September 27, 2022** | | |  | | | **September 28, 2021** | | |
| Cash paid for lease liabilities: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Operating leases | | |  | | | $ | 10,459 |  |  | | | $ | 11,285 |  |  | | | $ | 31,318 |  |  | | | $ | 30,880 |  |
| Finance leases | | |  | | | 538 | |  |  | | | 583 | |  |  | | | 1,751 | |  |  | | | 1,807 | |  |
|  | | |  | | | $ | 10,997 |  |  | | | $ | 11,868 |  |  | | | $ | 33,069 |  |  | | | $ | 32,687 |  |
| Right-of-use assets obtained in exchange for lease liabilities: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Operating leases | | |  | | | $ | 9,351 |  |  | | | $ | 4,110 |  |  | | | $ | 17,458 |  |  | | | $ | 10,806 |  |
| Finance leases | | |  | | | 444 | |  |  | | | — | |  |  | | | 1,287 | |  |  | | | 700 | |  |
|  | | |  | | | $ | 9,795 |  |  | | | $ | 4,110 |  |  | | | $ | 18,745 |  |  | | | $ | 11,506 |  |

**10. Supplemental Disclosures to Condensed Consolidated Statements of Cash Flows**

The following table presents the supplemental disclosures to the Condensed Consolidated Statements of Cash Flows for the three quarters ended September 27, 2022 and September 28, 2021 (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | | **September 27, 2022** | | |  | | | **September 28, 2021** | | |
| Interest paid (net of amounts capitalized) | | |  | | | $ | 749 |  |  | | | $ | 1,163 |  |
| Income taxes paid | | |  | | | 123 | |  |  | | | 30 | |  |
| Purchases of property and equipment accrued in accounts payable | | |  | | | 5,970 | |  |  | | | 3,777 | |  |

**11. Revenue Recognition**

***Revenue***

Revenue consists of sales from restaurant operations, franchise royalties and fees, and sublease income. Revenue from the operation of company-owned restaurants is recognized when sales occur. The Company reports revenue net of sales tax collected from customers and remitted to governmental taxing authorities.

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***Gift Cards***

The Company sells gift cards which do not have an expiration date, and it does not deduct non-usage fees from outstanding gift card balances. The Company recognizes revenue from gift cards when the gift card is redeemed by the customer or the Company determines the likelihood of the gift card being redeemed by the customer is remote (“gift card breakage”). The determination of the gift card breakage rate is based upon Company-specific historical redemption patterns. The Company has determined that approximately 13% of gift cards will not be redeemed, and recognizes gift card breakage ratably over the estimated redemption period of the gift card, which is approximately 24 months. Gift card liability balances are typically highest at the end of each calendar year following increased gift card purchases during the holiday season.

As of September 27, 2022 and December 28, 2021, the current portion of the gift card liability, $2.1 million and $2.9 million, respectively, was included in accrued expenses and other current liabilities, and the long-term portion, $0.4 million and $0.6 million, respectively, was included in other long-term liabilities in the Condensed Consolidated Balance Sheets.

Revenue recognized in the Condensed Consolidated Statements of Operations for the redemption of gift cards was $0.8 million and $0.6 million for the third quarters of 2022 and 2021, and $2.6 million and $2.5 million for the first three quarters of 2022 and 2021, respectively.

***Franchise Fees***

Royalties from franchise restaurants are based on a percentage of restaurant revenues and are recognized in the period the related franchised restaurants’ sales occur. Development fees and franchise fees, portions of which are collected in advance, are nonrefundable and are recognized in income ratably over the term of the related franchise agreement or recognized upon the termination of the agreement between the Company and the franchisee. The Company has determined that the initial franchise services are not distinct from the continuing rights or services offered during the term of the franchise agreement and should be treated as a single performance obligation; therefore, initial fees received from franchisees are recognized as revenue over the term of each respective franchise agreement, which is typically 20 years.

***Loyalty Program***

The Company operates the Noodles Rewards program, which is primarily a spend-based loyalty program. With each purchase, Noodles Rewards members earn loyalty points that can be redeemed for rewards, including free products. Using an estimate of the value of reward redemptions, we defer revenue associated with points earned, net of estimated points that will not be redeemed based upon the Company’s historical redemption patterns. Points generally expire after six months. Revenue is recognized in a future period when the reward points are redeemed. As of September 27, 2022 and December 28, 2021, the deferred revenue related to the rewards was $0.5 million and $0.4 million, respectively and is included in accrued expenses and other current liabilities in the Condensed Consolidated Balance Sheets.

**12. Commitments and Contingencies**

In the normal course of business, the Company is subject to other proceedings, lawsuits and claims. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, the Company is unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters as of September 27, 2022. These matters could affect the operating results of any one financial reporting period when resolved in future periods. The Company believes that an unfavorable outcome with respect to these matters is remote or a potential range of loss is not material to its consolidated financial statements. Significant increases in the number of these claims, or one or more successful claims that result in greater liabilities than the Company currently anticipates, could materially and adversely affect its business, financial condition, results of operations or cash flows.

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**NOODLES & COMPANY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS OF**

**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

*Noodles & Company is a Delaware corporation that was organized in 2002. Noodles & Company and its subsidiaries are sometimes referred to as “we,” “us,” “our” and the “Company” in this report. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes in Item 1 and with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for our fiscal year ended December 28, 2021. We operate on a 52- or 53-week fiscal year ending on the Tuesday closest to December 31. Our fiscal quarters each contain 13 operating weeks, with the exception of the fourth quarter of a 53-week fiscal year, which contains 14 operating weeks. Fiscal year 2022 contains 53 weeks and fiscal year 2021 contains 52 weeks.*

***Cautionary Note Regarding Forward-Looking Statements***

*In addition to historical information, this discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties such as the number of restaurants we intend to open, projected capital expenditures and estimates of our effective tax rates. In some cases, you can identify forward-looking statements by terms such as “may,” “might,” “will,” “objective,” “intend,” “should,” “could,” “can,” “would,” “expect,” “believe,” “design,” “estimate,” “predict,” “potential,” “plan” or the negative of these terms and similar expressions intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on currently available operating, financial and competitive information. Examples of forward-looking statements include all matters that are not historical facts, such as statements regarding projected capital expenditures, estimated costs associated with our closure of underperforming restaurants, the implementation and results of strategic initiatives, the impact of the COVID-19 pandemic, including on our revenue and balance sheet and our future financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements due to reasons including, but not limited to, conditions beyond our control such as weather, natural disasters, disease outbreaks, epidemics or pandemics impacting our customers or food supplies; consumer reaction to industry related public health issues and health pandemics, including developments related to the COVID-19 pandemic, and perceptions of food safety, our ability to achieve and maintain increases in comparable restaurant sales and to successfully execute our business strategy, including new restaurant initiatives and operational strategies to improve the performance of our restaurant portfolio; our ability to maintain compliance with debt covenants and continue to access financing necessary to execute our business strategy; the success of our marketing efforts; our ability to open new restaurants on schedule; current economic conditions including any impact from inflation or an economic recession; price and availability of commodities; our ability to adequately staff our restaurants; changes in labor costs; consumer confidence and spending patterns; seasonal factors; and those discussed in “Special Note Regarding Forward-Looking Statements” and “Risk Factors” as filed in our Annual Report on Form 10-K for our fiscal year ended December 28, 2021.*

**Our Ongoing Response to the COVID-19 Pandemic**

The ongoing global pandemic of the COVID-19 virus and its variants (“COVID-19 pandemic”) had a significant impact on the restaurant industry. Our business has been adversely affected by the COVID-19 pandemic in varying degrees through occasional temporarily closed restaurants and reduced operating hours, disruption in our supply chain and shortages in the labor required to operate our restaurants. We believe that we will continue to successfully navigate any residual challenges associated with the COVID-19 pandemic given our investments in our off-premise and digital channels and the consumer demand for our brand.

**Recent Trends, Risks and Uncertainties**

*Revenue.* During 2022, we have implemented greater menu price increases relative to historical years as a result of ongoing inflation in our cost of food, wages and general restaurant expenses. Our price increases have been implemented through our owned channels in addition to applying a pricing premium for third party delivery. If we continue to see inflationary pressures on our cost of operations, we may continue to further increase menu price in the future. In addition, our revenue is highly dependent on our customers’ future willingness to order from restaurants given consumer inflationary and pressures and recessionary market dynamics.

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Revenue has also been favorably impacted by recent restaurant openings not in the Company’s comparable restaurant base, many of which offer order ahead drive-thru pickup windows. Our new restaurants continue to perform as a group at the highest sales level of any class of new restaurants in the Company’s history.

*Cost of Sales.* We have incurred incremental costs of sales driven by historical and ongoing volatility in the commodity and food ingredients markets, particularly with our chicken products, in addition to an increase in packaging costs and distribution. We have seen a shortage in labor at some of our food suppliers, which in some cases has resulted in increased costs of food or transportation. However, throughout the third quarter of 2022, the commodity markets underlying our cost of food began to improve materially, particularly in regards to the price of chicken, which is expected to be realized in the fourth quarter of 2022 and 2023. Throughout these periods of volatility, we have continued to work with our suppliers for ongoing supply chain efficiencies, including managing food waste and adding additional suppliers as necessary. To date, there has been minimal disruption in maintaining adequate food supply, packaging and other ingredients to our restaurants, though it is possible that more significant disruptions could occur if volatility in the labor and commodity markets continue.

*Labor Costs.* During the third quarter of 2022, we saw sustained improvement in the availability of labor in many of the markets where we operate. However, we continued to see wage inflation within the industry driven in part by high competition for restaurant workers in many jurisdictions in which we operate. We were able to partially mitigate the impact of these market factors through a continued focus on our hiring process and retaining existing employees, in addition to maximizing efficiencies of labor hour usage per restaurant. Significant government-imposed wage increases and continued market factors could materially affect our labor costs.

*Other Restaurant Operating Costs.* We have incurred and expect to continue to incur third-party delivery fees resulting from significant usage of third-party delivery services as well as increased utility costs driven by volatility in the energy markets reflecting an increase in utility rates.

*Restaurant Development.* In the first three quarters of 2022, we opened eleven new company-owned restaurants and three franchise restaurants and we sold 15 company-owned restaurants to a franchisee connected to the Warner Sale. Included in the refranchise deal, in January 2022 we entered into a twelve-year growth plan commitment with a new franchise partner, which will operate in California under this agreement and includes development of 40 new locations throughout the state. As of September 27, 2022, we had 366 company-owned restaurants and 93 franchise restaurants in 31 states. We have incorporated increased unit development into our strategic growth plan for 2022 and beyond with a plan to develop a pipeline to support an annual long term unit growth rate of approximately 5% in 2022 and 7% in 2023.

*Certain Restaurant Closures.* We permanently closed two company-owned restaurants in the first three quarters of 2022. We currently do not anticipate a significant number of permanent restaurant closures in the foreseeable future; however, we may from time to time permanently close certain restaurants, including permanent closures at, or near, the expiration of the leases for these restaurants.

**Key Measures We Use to Evaluate Our Performance**

To evaluate the performance of our business, we utilize a variety of financial and performance measures. These key measures include revenue, average unit volume, comparable restaurant sales, restaurant contribution, restaurant contribution margin, EBITDA and adjusted EBITDA.

***Revenue***

Revenue includes both restaurant revenue and franchise royalties and fees. Restaurant revenue represents sales of food and beverages in company-owned restaurants. Several factors affect our restaurant revenue in any period, including the number of restaurants in operation and per-restaurant sales. Franchise royalties and fees represent royalty income and initial franchise fees. While we expect that the majority of our revenue and net income growth will be driven by company-owned restaurants, our franchise restaurants remain an important factor impacting our revenue and financial performance.

Seasonal factors cause our revenue to fluctuate from quarter to quarter. Our revenue per restaurant is typically lower in the first and fourth quarters, due to reduced winter and holiday traffic, and is typically higher in the second and third quarters. As a result of these factors, as well as the magnitude of the COVID-19 pandemic, our quarterly operating results and comparable restaurant sales may fluctuate significantly.

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***Comparable Restaurant Sales***

Comparable restaurant sales refer to year-over-year sales comparisons for the comparable restaurant base. We define the comparable restaurant base to include restaurants open for at least 18 full periods. This measure highlights performance of existing restaurants, as the impact of new restaurant openings is excluded. Changes in comparable restaurant sales are generated by changes in traffic, which we calculate as the number of entrées sold and changes in per-person spend, calculated as sales divided by traffic. Per-person spend can be influenced by changes in menu prices and the mix and number of items sold per person. Restaurants that were temporarily closed or operating at reduced hours or dining capacity due to the COVID-19 pandemic remained in comparable restaurant sales.

Measuring our comparable restaurant sales allows us to evaluate the performance of our existing restaurant base. Various factors impact comparable restaurant sales, including:

•consumer recognition of our brand and our ability to respond to changing consumer preferences;

•overall economic trends, particularly those related to consumer spending;

•our ability to operate restaurants effectively and efficiently to meet consumer expectations;

•pricing;

•the number of restaurant transactions, per-person spend and average check amount;

•marketing and promotional efforts;

•abnormal weather patterns;

•food safety and foodborne illness concerns;

•the impact of the COVID-19 pandemic;

•local competition;

•trade area dynamics;

•introduction of new and seasonal menu items and limited time offerings; and

•opening new restaurants in the vicinity of existing locations.

Consistent with common industry practice, we present comparable restaurant sales on a calendar-adjusted basis that aligns current year sales weeks with comparable periods in the prior year, regardless of whether they belong to the same fiscal period or not. Since opening new company-owned and franchise restaurants is a part of our long-term growth strategy and we anticipate new restaurants will be a component of our long-term revenue growth, comparable restaurant sales is only one measure of how we evaluate our performance.

***Average Unit Volumes***

AUVs consist of the average annualized sales of all company-owned restaurants for a given time period. AUVs are calculated by dividing restaurant revenue by the number of operating days within each time period and multiplying by the number of operating days we have in a typical year. Based on this calculation, temporarily closed restaurants are excluded from the definition of AUV, however restaurants with temporarily reduced operating hours are included. This measurement allows management to assess changes in consumer traffic and per person spending patterns at our restaurants. In addition to the factors that impact comparable restaurant sales, AUVs can be further impacted by effective real estate site selection and maturity and trends within new markets.

***Restaurant Contribution and Restaurant Contribution Margin***

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Restaurant contribution represents restaurant revenue less restaurant operating costs which are cost of sales, labor, occupancy and other restaurant operating costs. Restaurant contribution margin represents restaurant contribution as a percentage of restaurant revenue. We expect restaurant contribution to increase in proportion to the number of new restaurants we open, our comparable restaurant sales growth and cost reduction initiatives.

We believe that restaurant contribution and restaurant contribution margin are important tools for investors and other interested parties because they are widely-used metrics within the restaurant industry to evaluate restaurant-level productivity, efficiency and performance. We also use restaurant contribution and restaurant contribution margin as metrics to evaluate the profitability of incremental sales at our restaurants, restaurant performance across periods and restaurant financial performance compared with competitors. Restaurant contribution and restaurant contribution margin are supplemental measures of the operating performance of our restaurants and are not reflective of the underlying performance of our business because corporate-level expenses are excluded from these measures.

***EBITDA and Adjusted EBITDA***

We define EBITDA as net income (loss) before interest expense, provision (benefit) for income taxes and depreciation and amortization. We define adjusted EBITDA as net income (loss) before interest expense, provision (benefit) for income taxes, depreciation and amortization, restaurant impairments, closure costs and asset disposals, acquisition costs and stock-based compensation.

We believe that EBITDA and adjusted EBITDA provide clear pictures of our operating results by eliminating certain non-recurring and non-cash expenses that may vary widely from period to period and are not reflective of the underlying business performance.

The presentation of restaurant contribution, restaurant contribution margin, EBITDA and adjusted EBITDA is not intended to be considered in isolation or as a substitute for, or to be superior to, the financial information prepared and presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”). We use these non-GAAP financial measures for financial and operational decision making and as a means to evaluate period-to-period comparisons. We believe that they provide useful information to management and investors about operating results, enhance the overall understanding of past financial performance and future prospects and allow for greater transparency with respect to key metrics used by management in its financial and operational decision making.

**Results of Operations**

The following table presents a reconciliation of net income (loss) to EBITDA and adjusted EBITDA:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | | **Fiscal Quarter Ended** | | | | | | | | |  | | | **Three Fiscal Quarters Ended** | | | | | | | | |
|  | | |  | | | **September 27, 2022** | | |  | | | **September 28, 2021** | | |  | | | **September 27, 2022** | | |  | | | **September 28, 2021** | | |
|  | | |  | | | **(in thousands, unaudited)** | | | | | | | | | | | | | | | | | | | | |
| Net income (loss) | | |  | | | $ | 795 |  |  | | | $ | 4,697 |  |  | | | $ | (4,289) |  |  | | | $ | 8,403 |  |
| Depreciation and amortization | | |  | | | 5,826 | |  |  | | | 5,571 | |  |  | | | 17,310 | |  |  | | | 16,734 | |  |
| Interest expense, net | | |  | | | 735 | |  |  | | | 594 | |  |  | | | 1,661 | |  |  | | | 1,714 | |  |
| (Benefit from) provision for income taxes | | |  | | | (1) | |  |  | | | 29 | |  |  | | | (40) | |  |  | | | 48 | |  |
| EBITDA | | |  | | | $ | 7,355 |  |  | | | $ | 10,891 |  |  | | | $ | 14,642 |  |  | | | $ | 26,899 |  |
| Restaurant impairments, closure costs and asset disposals (1) | | |  | | | 1,672 | |  |  | | | 1,126 | |  |  | | | 5,032 | |  |  | | | 2,747 | |  |
| Stock-based compensation expense | | |  | | | 751 | |  |  | | | 1,177 | |  |  | | | 3,419 | |  |  | | | 3,590 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Fees and costs related to transactions and other acquisition/disposition costs | | |  | | | 7 | |  |  | | | — | |  |  | | | 70 | |  |  | | | — | |  |
| Adjusted EBITDA | | |  | | | $ | 9,785 |  |  | | | $ | 13,194 |  |  | | | $ | 23,163 |  |  | | | $ | 33,236 |  |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(1)Restaurant impairments and closure costs in all periods presented above include amounts related to restaurants previously impaired or closed. See Note 7, Restaurant Impairments, Closure Costs and Asset Disposals.

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***Restaurant Openings, Closures and Relocations***

The following table shows restaurants opened or closed during the periods indicated:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | | **Fiscal Quarter Ended** | | | | | | | | |  | | | **Three Fiscal Quarters Ended** | | | | | | | | |
|  | | |  | | | **September 27, 2022** | | |  | | | **September 28, 2021** | | |  | | | **September 27, 2022** | | |  | | | **September 28, 2021** | | |
| **Company-Owned Restaurant Activity** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Beginning of period | | |  | | | 363 | |  |  | | | 374 | |  |  | | | 372 | |  |  | | | 378 | |  |
| Openings | | |  | | | 3 | |  |  | | | 2 | |  |  | | | 11 | |  |  | | | 4 | |  |
| Closures | | |  | | | — | |  |  | | | (2) | |  |  | | | (2) | |  |  | | | (8) | |  |
| Divestitures (1) | | |  | | | — | |  |  | | | — | |  |  | | | (15) | |  |  | | | — | |  |
| Restaurants at end of period | | |  | | | 366 | |  |  | | | 374 | |  |  | | | 366 | |  |  | | | 374 | |  |
| **Franchise Restaurant Activity** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Beginning of period | | |  | | | 93 | |  |  | | | 77 | |  |  | | | 76 | |  |  | | | 76 | |  |
| Openings | | |  | | | 1 | |  |  | | | — | |  |  | | | 3 | |  |  | | | 1 | |  |
| Acquisitions (1) | | |  | | | — | |  |  | | | — | |  |  | | | 15 | |  |  | | | — | |  |
| Closures | | |  | | | (1) | |  |  | | | (1) | |  |  | | | (1) | |  |  | | | (1) | |  |
| Restaurants at end of period | | |  | | | 93 | |  |  | | | 76 | |  |  | | | 93 | |  |  | | | 76 | |  |
| Total restaurants | | |  | | | 459 | |  |  | | | 450 | |  |  | | | 459 | |  |  | | | 450 | |  |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(1)Represents fifteen company-owned restaurants sold to a franchisee in 2022.

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***Statement of Operations as a Percentage of Revenue***

The following table summarizes key components of our results of operations for the periods indicated as a percentage of our total revenue, except for the components of restaurant operating costs, which are expressed as a percentage of restaurant revenue.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | | **Fiscal Quarter Ended** | | | | | | | | |  | | | **Three Fiscal Quarters Ended** | | | | | | | | |
|  | | |  | | | **September 27, 2022** | | |  | | | **September 28, 2021** | | |  | | | **September 27, 2022** | | |  | | | **September 28, 2021** | | |
|  | | |  | | | **(unaudited)** | | | | | | | | | | | | | | | | | | | | |
| *Revenue:* | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Restaurant revenue | | |  | | | 97.9 | | % |  | | | 98.4 | | % |  | | | 97.8 | | % |  | | | 98.4 | | % |
| Franchising royalties and fees, and other | | |  | | | 2.1 | | % |  | | | 1.6 | | % |  | | | 2.2 | | % |  | | | 1.6 | | % |
| Total revenue | | |  | | | 100.0 | | % |  | | | 100.0 | | % |  | | | 100.0 | | % |  | | | 100.0 | | % |
| *Costs and expenses:* | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Restaurant operating costs (exclusive of depreciation and amortization shown separately below): | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Cost of sales | | |  | | | 28.1 | | % |  | | | 25.1 | | % |  | | | 27.9 | | % |  | | | 25.0 | | % |
| Labor | | |  | | | 30.8 | | % |  | | | 30.0 | | % |  | | | 31.1 | | % |  | | | 30.5 | | % |
| Occupancy | | |  | | | 8.8 | | % |  | | | 9.3 | | % |  | | | 9.1 | | % |  | | | 9.8 | | % |
| Other restaurant operating costs | | |  | | | 17.9 | | % |  | | | 17.5 | | % |  | | | 18.5 | | % |  | | | 17.7 | | % |
| General and administrative | | |  | | | 9.0 | | % |  | | | 9.7 | | % |  | | | 9.7 | | % |  | | | 10.0 | | % |
| Depreciation and amortization | | |  | | | 4.5 | | % |  | | | 4.5 | | % |  | | | 4.6 | | % |  | | | 4.6 | | % |
| Pre-opening | | |  | | | 0.3 | | % |  | | | 0.1 | | % |  | | | 0.3 | | % |  | | | 0.1 | | % |
| Restaurant impairments, closure costs and asset disposals | | |  | | | 1.3 | | % |  | | | 0.9 | | % |  | | | 1.3 | | % |  | | | 0.8 | | % |
| Total costs and expenses | | |  | | | 98.8 | | % |  | | | 95.7 | | % |  | | | 100.7 | | % |  | | | 97.2 | | % |
| Income (loss) from operations | | |  | | | 1.2 | | % |  | | | 4.3 | | % |  | | | (0.7) | | % |  | | | 2.8 | | % |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Interest expense, net | | |  | | | 0.6 | | % |  | | | 0.5 | | % |  | | | 0.4 | | % |  | | | 0.5 | | % |
| Income (loss) before taxes | | |  | | | 0.6 | | % |  | | | 3.8 | | % |  | | | (1.2) | | % |  | | | 2.3 | | % |
| (Benefit from) provision for income taxes | | |  | | | — | | % |  | | | — | | % |  | | | — | | % |  | | | — | | % |
| Net income (loss) | | |  | | | 0.6 | | % |  | | | 3.8 | | % |  | | | (1.2) | | % |  | | | 2.3 | | % |

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**Third Quarter Ended September 27, 2022 Compared to Third Quarter Ended September 28, 2021**

The table below presents our unaudited operating results for the third quarters of 2022 and 2021, and the related quarter-over-quarter changes.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | | **Fiscal Quarter Ended** | | | | | | | | |  | | | **Increase / (Decrease)** | | | | | | | | |
|  | | |  | | | **September 27, 2022** | | |  | | | **September 28, 2021** | | |  | | | **$** | | |  | | | **%** | | |
|  | | |  | | |  | | |  | | |
|  | | |  | | | **(in thousands, unaudited)** | | | | | | | | | | | | | | | | | | | | |
| *Revenue:* | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Restaurant revenue | | |  | | | $ | 126,638 |  |  | | | $ | 123,094 |  |  | | | $ | 3,544 |  |  | | | 2.9 | | % |
| Franchising royalties and fees, and other | | |  | | | 2,743 | |  |  | | | 2,032 | |  |  | | | 711 | |  |  | | | 35.0 | | % |
| Total revenue | | |  | | | 129,381 | |  |  | | | 125,126 | |  |  | | | 4,255 | |  |  | | | 3.4 | | % |
| *Costs and expenses:* | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Restaurant operating costs (exclusive of depreciation and amortization shown separately below): | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Cost of sales | | |  | | | 35,528 | |  |  | | | 30,946 | |  |  | | | 4,582 | |  |  | | | 14.8 | | % |
| Labor | | |  | | | 39,049 | |  |  | | | 36,896 | |  |  | | | 2,153 | |  |  | | | 5.8 | | % |
| Occupancy | | |  | | | 11,135 | |  |  | | | 11,426 | |  |  | | | (291) | |  |  | | | (2.5) | | % |
| Other restaurant operating costs | | |  | | | 22,709 | |  |  | | | 21,529 | |  |  | | | 1,180 | |  |  | | | 5.5 | | % |
| General and administrative | | |  | | | 11,596 | |  |  | | | 12,187 | |  |  | | | (591) | |  |  | | | (4.8) | | % |
| Depreciation and amortization | | |  | | | 5,826 | |  |  | | | 5,571 | |  |  | | | 255 | |  |  | | | 4.6 | | % |
| Pre-opening | | |  | | | 337 | |  |  | | | 125 | |  |  | | | 212 | |  |  | | | 169.6 | | % |
| Restaurant impairments, closure costs and asset disposals | | |  | | | 1,672 | |  |  | | | 1,126 | |  |  | | | 546 | |  |  | | | 48.5 | | % |
| Total costs and expenses | | |  | | | 127,852 | |  |  | | | 119,806 | |  |  | | | 8,046 | |  |  | | | 6.7 | | % |
| Income from operations | | |  | | | 1,529 | |  |  | | | 5,320 | |  |  | | | (3,791) | |  |  | | | (71.3) | | % |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Interest expense, net | | |  | | | 735 | |  |  | | | 594 | |  |  | | | 141 | |  |  | | | 23.7 | | % |
| Income before income taxes | | |  | | | 794 | |  |  | | | 4,726 | |  |  | | | (3,932) | |  |  | | | (83.2) | | % |
| (Benefit from) provision for income taxes | | |  | | | (1) | |  |  | | | 29 | |  |  | | | (30) | |  |  | | | (103.4) | | % |
| Net income | | |  | | | $ | 795 |  |  | | | $ | 4,697 |  |  | | | $ | (3,902) |  |  | | | (83.1) | | % |
| Company-owned: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Average unit volume | | |  | | | $ | 1,387 |  |  | | | $ | 1,377 |  |  | | | $ | 10 |  |  | | | 0.7 | | % |
| Comparable restaurant sales | | |  | | | 3.4 | | % |  | | | 15.3 | | % |  | | |  | | |  | | |  | | |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

\*Not meaningful.

***Revenue***

Total revenue increased $4.3 million in the third quarter of 2022, or 3.4%, to $129.4 million, compared to $125.1 million in the third quarter of 2021. This increase was primarily due to sales growth in the comparable restaurant base in addition to an incremental $3.5 million benefit from new restaurant openings since the beginning of the third quarter of 2021. This increase was partially offset by the refranchising of 15 company-owned restaurants in January of 2022, which equated to an approximate $4.5 million decline in sales in the third quarter of 2022. System-wide comparable restaurant sales increased 2.1% in the third quarter of 2022 compared to the same period of 2021, comprised of a 3.4% increase at company-owned restaurants and a 3.8% decrease at franchise-owned restaurants. The decline in comparable restaurant sales for franchise restaurants is due to a challenging comparison of year over year growth due to strong franchise performance in 2021. The comparable restaurant sales increase in the third quarter of 2022 reflects momentum in our in-person channels, in addition to price increases in our core menu.

AUV increased year-over-year due to pricing increases for our core menu offering, in addition to growth in off-premise sales, including digital, and growth in dine-in sales.

***Cost of Sales***

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Cost of sales increased by $4.6 million, or 14.8%, in the third quarter of 2022 compared to the same period of 2021, due to the increase in restaurant revenue as well as increased commodity costs. As a percentage of restaurant revenue, cost of sales increased to 28.1% in the third quarter of 2022 compared to 25.1% in third quarter of 2021 primarily due to overall higher food and ingredient commodity pricing, particularly with our protein costs, in addition to higher promotional discounts, partially offset by supply chain savings initiatives.

***Labor Costs***

Labor costs increased by $2.2 million, or 5.8%, in the third quarter of 2022 compared to the same period of 2021, due primarily to the increase in restaurant revenue as well as wage inflation. As a percentage of restaurant revenue, labor costs increased to 30.8% in the third quarter of 2022 from 30.0% in the third quarter of 2021 as a result of increases in base wage inflation and health insurance costs, which were partially offset by labor efficiencies and lower incentive pay.

***Occupancy Costs***

Occupancy costs decreased by $0.3 million, or 2.5%, in the third quarter of 2022 compared to the third quarter of 2021, primarily due to refranchising 15 company-owned restaurants in January of 2022, as well as the impact of restaurants closed since the beginning of the third quarter of 2021. As a percentage of revenue, occupancy costs decreased to 8.8% in the third quarter of 2022, compared to 9.3% in the third quarter of 2021 as a result of sales leverage as well as the impact of the refranchising.

***Other Restaurant Operating Costs***

Other restaurant operating costs increased by $1.2 million, or 5.5%, in the third quarter of 2022 compared to the third quarter of 2021, due to the increase in third-party delivery fees as well as increases in utilities. As a percentage of restaurant revenue, other restaurant operating costs increased to 17.9% in the third quarter of 2022 compared to 17.5% in the third quarter of 2021. Third-party delivery fees were 5.5% and 5.3% of total revenue for the third quarters of 2022 and 2021, respectively.

***General and Administrative Expense***

General and administrative expense decreased by $0.6 million, or 4.8% in the third quarter of 2022 compared to the third quarter of 2021, due primarily to a reduction in employee related costs including incentive related costs offset by increases in expenses related to the Company’s return to normal business operations. As a percentage of revenue, general and administrative expense decreased to 9.0% in the third quarter of 2022 from 9.7% in the third quarter of 2021.

***Depreciation and Amortization***

Depreciation and amortization increased by $0.3 million or 4.6% in the third quarter of 2022 compared to the third quarter of 2021, due primarily to new asset additions for restaurants opened partially offset by restaurant closures since the third quarter of 2021.

***Restaurant Impairments, Closure Costs and Asset Disposals***

Restaurant impairments, closure costs and asset disposals increased $0.5 million in the third quarter of 2022 compared to the third quarter of 2021 due to expenses related to the divestiture of company-owned restaurants to franchisees in connection with the Warner Sale and restaurant impairments. There were two restaurants impaired in the third quarter of 2022 and one restaurant impaired in the third quarter of 2021. Both periods include disposals of assets in the normal course of business.

***Interest Expense***

Interest expense increased $0.1 million in the third quarter of 2022 compared to the third quarter of 2021, due to higher interest rates and the write off of a portion of the unamortized debt issuance costs related to the Second Amended Credit Facility, partially offset by higher capitalized interest in the third quarter of 2022 as compared to the third quarter of 2021.

***Provision for Income Taxes***

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The effective tax rate for the third quarter of 2022 and for the third quarter of 2021 reflect the impact of the previously recorded valuation allowance. For the remainder of fiscal 2022, we do not anticipate material income tax expense or benefit as a result of the valuation allowance recorded. We will maintain a valuation allowance against deferred tax assets until there is sufficient evidence to support a full or partial reversal. The reversal of a previously recorded valuation allowance will generally result in a benefit from income tax.

**Three Quarters Ended September 27, 2022 Compared to Three Quarters Ended September 28, 2021**

The table below presents our unaudited operating results for the first three quarters of 2022 and 2021, and the related period-over-period changes.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | | **Three Fiscal Quarters Ended** | | | | | | | | |  | | | **Increase / (Decrease)** | | | | | | | | |
|  | | |  | | | **September 27, 2022** | | |  | | | **September 28, 2021** | | |  | | | **$** | | |  | | | **%** | | |
|  | | |  | | |  | | |  | | |
|  | | |  | | | **(in thousands, except percentages)** | | | | | | | | | | | | | | | | | | | | |
| *Revenue:* | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Restaurant revenue | | |  | | | $ | 364,873 |  |  | | | $ | 354,553 |  |  | | | $ | 10,320 |  |  | | | 2.9 | | % |
| Franchising royalties and fees, and other | | |  | | | 8,137 | |  |  | | | 5,799 | |  |  | | | 2,338 | |  |  | | | 40.3 | | % |
| Total revenue | | |  | | | 373,010 | |  |  | | | 360,352 | |  |  | | | 12,658 | |  |  | | | 3.5 | | % |
| *Costs and expenses:* | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Restaurant operating costs (exclusive of depreciation and amortization shown separately below): | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Cost of sales | | |  | | | 101,963 | |  |  | | | 88,728 | |  |  | | | 13,235 | |  |  | | | 14.9 | | % |
| Labor | | |  | | | 113,370 | |  |  | | | 108,128 | |  |  | | | 5,242 | |  |  | | | 4.8 | | % |
| Occupancy | | |  | | | 33,358 | |  |  | | | 34,594 | |  |  | | | (1,236) | |  |  | | | (3.6) | | % |
| Other restaurant operating costs | | |  | | | 67,367 | |  |  | | | 62,816 | |  |  | | | 4,551 | |  |  | | | 7.2 | | % |
| General and administrative | | |  | | | 36,180 | |  |  | | | 36,094 | |  |  | | | 86 | |  |  | | | 0.2 | | % |
| Depreciation and amortization | | |  | | | 17,310 | |  |  | | | 16,734 | |  |  | | | 576 | |  |  | | | 3.4 | | % |
| Pre-opening | | |  | | | 1,098 | |  |  | | | 346 | |  |  | | | 752 | |  |  | | | \* | | |
| Restaurant impairments, closure costs and asset disposals | | |  | | | 5,032 | |  |  | | | 2,747 | |  |  | | | 2,285 | |  |  | | | 83.2 | | % |
| Total costs and expenses | | |  | | | 375,678 | |  |  | | | 350,187 | |  |  | | | 25,491 | |  |  | | | 7.3 | | % |
| (Loss) income from operations | | |  | | | (2,668) | |  |  | | | 10,165 | |  |  | | | (12,833) | |  |  | | | \* | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Interest expense, net | | |  | | | 1,661 | |  |  | | | 1,714 | |  |  | | | (53) | |  |  | | | (3.1) | | % |
| (Loss) income before taxes | | |  | | | (4,329) | |  |  | | | 8,451 | |  |  | | | (12,780) | |  |  | | | \* | | |
| (Benefit from) provision for income taxes | | |  | | | (40) | |  |  | | | 48 | |  |  | | | (88) | |  |  | | | \* | | |
| Net (loss) income | | |  | | | $ | (4,289) |  |  | | | $ | 8,403 |  |  | | | $ | (12,692) |  |  | | | \* | | |
| Company-owned: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Average unit volumes | | |  | | | $ | 1,353 |  |  | | | $ | 1,298 |  |  | | | $ | 55 |  |  | | | 4.2 | | % |
| Comparable restaurant sales | | |  | | | 4.6 | | % |  | | | 25.4 | | % |  | | |  | | |  | | |  | | |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

\*Not meaningful.

***Revenue***

Total revenue increased by $12.7 million, or 3.5%, in the first three quarters of 2022, to $373.0 million compared to $360.4 million in the same period of 2021. This increase was primarily due to the increase in comparable restaurant sales and an incremental benefit of $8.6 million in sales for new restaurant openings since the beginning of the third quarter of 2021. This increase was partially offset by the impact of refranchising 15 company-owned restaurants of approximately $12.6 million.

Comparable restaurant sales increased 4.6% at company-owned restaurants, increased 4.0% at franchise-owned restaurants and increased 4.5% system-wide in the first three quarters of 2022. The comparable restaurant sales improvement in the first three

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quarters of 2022 was primarily driven by continued momentum in both digital and in-person channels, as well as several price increases implemented on our core menu.

AUV, which normalizes for the impact of temporary restaurant closures, increased year-over-year due to pricing increases for our core menu offerings, in addition to strong off-premise sales, including digital, and growth in dine-in sales.

***Cost of Sales***

Cost of sales increased by $13.2 million, or 14.9%, in the first three quarters of 2022 compared to the same period of 2021, due primarily to the increase in restaurant sales and commodity inflation. As a percentage of restaurant revenue, cost of sales increased to 27.9% in the first three quarters of 2022 compared to 25.0% in the first three quarters of 2021, primarily due to increases in certain commodity costs, particularly with our protein costs, and higher discounts partially offset by supply chain savings initiatives.

***Labor Costs***

Labor costs increased by $5.2 million, or 4.8%, in the first three quarters of 2022 compared to the same period of 2021, due primarily to the increase in restaurant sales in addition to wage inflation. As a percentage of restaurant revenue, labor costs increased to 31.1% in the first three quarters of 2022 compared to 30.5% in the first three quarters of 2021. The increase as a percentage of restaurant revenue was primarily due to accelerating wage inflation partially offset by labor initiatives and lower incentive pay.

***Occupancy Costs***

Occupancy costs decreased by $1.2 million, or 3.6%, in the first three quarters of 2022 compared to the first three quarters of 2021, due primarily to refranchising 15 company-owned restaurants in January of 2022, as well as the impact of restaurants closed or impaired since the beginning of the third quarter of 2021. As a percentage of revenue, occupancy costs decreased to 9.1% in first three quarters of 2022, compared to 9.8% in the first three quarters of 2021, primarily due to sales leverage.

***Other Restaurant Operating Costs***

Other restaurant operating costs increased by $4.6 million, or 7.2%, in the first three quarters of 2022 compared to the first three quarters of 2021. As a percentage of restaurant revenue, other restaurant operating costs increased to 18.5% in the first three quarters of 2022, compared to 17.7% in the first three quarters of 2021, due primarily to higher third-party delivery fees and increases in utility rates. Third-party delivery fees were 5.7% and 5.4% of total revenue for the first three quarters of 2022 and 2021, respectively.

***General and Administrative Expense***

General and administrative expense increased by $0.1 million, or 0.2%, in the first three quarters of 2022 compared to the first three quarters of 2021, primarily due to increases in software maintenance, recruiting costs and travel related expenses, partially offset by a reduction in bonus expense. As a percentage of revenue, general and administrative expense decreased to 9.7% in the first three quarters of 2022 from 10.0% in the first three quarters of 2021.

***Depreciation and Amortization***

Depreciation and amortization increased by $0.6 million, or 3.4%, in the first three quarters of 2022 compared to the first three quarters of 2021, primarily due to new asset additions. As a percentage of revenue, depreciation and amortization remained relatively flat in the first three quarters of 2022 compared to the first three quarters of 2021.

***Restaurant Impairments, Closure Costs and Asset Disposals***

Restaurant impairments, closure costs and asset disposals increased by $2.3 million in the first three quarters of 2022 compared to the first three quarters of 2021. The increase was largely due to the expenses from the divestiture of company-owned restaurants in January 2022 as well as other lease related costs. Additionally, expenses in the prior comparable period were partially offset by a gain on insurance proceeds from a property damage. There were four restaurant impairments in the first three quarters of 2022 compared to two restaurant impairments in the first three quarters of 2021.

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***Interest Expense***

Interest expense decreased by $0.1 million in the first three quarters of 2022 compared to the same period of 2021. The decrease was mainly due to lower average borrowings in the first three quarters of 2022 compared to the first three quarters of 2021.

***Provision for Income Taxes***

The effective tax rate for the first three quarters of 2022 and for the first three quarters of 2021 reflect the impact of the previously recorded valuation allowance. For the remainder of fiscal 2022, we do not anticipate material income tax expense or benefit as a result of the valuation allowance recorded. We will maintain a valuation allowance against deferred tax assets until there is sufficient evidence to support a full or partial reversal. The reversal of a previously recorded valuation allowance will generally result in a benefit from income tax. We estimate the annual effective tax rate for 2022 to be between 0.25% and 1.25%.

**Liquidity and Capital Resources**

***Summary of Cash Flows***

We have historically used cash and our revolving credit facility to fund capital expenditures for new restaurant openings, reinvest in our existing restaurants, invest in infrastructure and information technology and maintain working capital. Our working capital position benefits from the fact that we generally collect cash from sales to customers the same day, or in the case of credit or debit card transactions, within several days of the related sale, and we typically have up to 30 days to pay our vendors.

We believe that we will be in compliance with our debt covenants and have sufficient sources of cash to meet our liquidity needs and capital resource requirements for at least the next twelve months, primarily through currently available cash and cash equivalents and cash flows from operations.

Cash flows from operating, investing and financing activities are shown in the following table (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | | **Three Fiscal Quarters Ended** | | | | | | | | |
|  | | |  | | | **September 27, 2022** | | |  | | | **September 28, 2021** | | |
| Net cash provided by operating activities | | |  | | | $ | 7,820 |  |  | | | $ | 29,896 |  |
| Net cash used in investing activities | | |  | | | (20,972) | |  |  | | | (12,559) | |  |
| Net cash provided by (used in) financing activities | | |  | | | 12,737 | |  |  | | | (22,028) | |  |
| Net decrease in cash and cash equivalents | | |  | | | $ | (415) |  |  | | | $ | (4,691) |  |

***Operating Activities***

Net cash provided by operating activities was $7.8 million in the three quarters of 2022 compared to $29.9 million in the three quarters of 2021. The decrease in operating cash flows resulted primarily from a decrease in net income, as well as working capital changes during the first three quarters of 2022 compared to the prior period of 2021. Working capital variance includes uses of cash related to payroll timing, decreases in liabilities held for sale related to the Warner Sale and changes in other accrued expenses.

***Investing Activities***

Net cash used in investing activities increased $8.4 million in the three quarters of 2022 from $12.6 million in the three quarters of 2021. This increase was primarily due to investments in eleven new restaurant openings in the first three quarters of 2022 compared to four new restaurant openings in 2021.

***Financing Activities***

Net cash provided by financing activities was $12.7 million in the three quarters of 2022 related to draws on our revolving credit facility to fund new restaurant openings partially offset by debt issuance costs and payments on finance leases.

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***Capital Resources***

*Future Capital Expenditure Requirements.* Our capital expenditure requirements are primarily dependent upon the pace of our real estate development program and resulting new restaurant openings, costs for maintenance and remodeling of our existing restaurants as well as information technology expenses and other general corporate capital expenditures.

We estimate capital expenditures will be approximately $30.0 million to $33.0 million for fiscal year 2022, including $7.0 million to $10.0 million in the fourth quarter, primarily for the opening of company-owned restaurants before any reductions for landlord reimbursements, reinvestment in existing restaurants and investments in technology. We expect such capital expenditures to be funded by currently available cash and cash equivalents, cash flows from operations and if necessary, undrawn capacity under our revolving credit line.

*Current Resources.* Our operations have not historically required significant working capital and, like many restaurant companies, we operate with negative working capital. Restaurant sales are primarily paid for in cash or by credit or debit card, and restaurant operations do not require significant inventories or receivables. In addition, we receive trade credit for the purchase of food, beverages and supplies, therefore reducing the need for incremental working capital to support growth.

*Liquidity*. As of September 27, 2022, we had a cash balance of $1.8 million compared to $2.3 million as of December 28, 2021. The amount available for future borrowings under our Third Amended Credit Facility was $84.2 million compared to $60.9 million under our Second Amended Credit Facility as of June 28, 2022. We believe that our current cash and cash equivalents, the expected cash flows from company-owned restaurant operations, the expected franchise fees and royalties and available borrowings under the credit facility will be sufficient to fund our cash requirements for working capital needs, new restaurant openings, and capital improvements and maintenance of existing restaurants for at least the next twelve months.

***Credit Facility***

On May 9, 2018, we entered into a credit facility with U.S. Bank National Association (the “2018 Credit Facility”). The 2018 Credit Facility consisted of a term loan facility in an aggregate principal amount of $25.0 million and a revolving credit facility of $65.0 million, which included a letter of credit subfacility in the amount of $15.0 million and a swingline subfacility in the amount of $10.0 million.

In November of 2019, we amended our 2018 Credit Facility by entering into that certain First Amendment to Credit Agreement (the “Amendment” and the 2018 Credit Facility, as amended, the “First Amended Credit Facility”).

On June 16, 2020, we amended our First Amended Credit Facility by entering into the Second Amendment to the Credit Agreement (the “Second Amendment” and the First Amended Credit Facility, as amended, the “Second Amended Credit Facility”).

On July 27, 2022, we amended and restated our Second Amended Credit Facility by entering into the Third Amendment to the Credit Agreement (the “Third Amendment” or the “Third Amended Credit Facility”) which matures on July 27, 2027. Among other things, the Third Amendment: (i) increased the credit facility from $100.0 million to $125.0 million; (ii) eliminated the term loan and principal amortization components of the credit facility; (iii) removed the our capital expenditure covenant; (iv) enhanced flexibility for certain covenants and restrictions; and (v) lowered the spread within our cost of borrowing and transitioned to the SOFR plus a margin of 1.50% to 2.50% per annum, based upon the consolidated total lease-adjusted leverage ratio. Our Third Amended Credit Facility is secured by a pledge of stock of substantially all of our subsidiaries and a lien on substantially all of our and our subsidiaries’ personal property assets.

As of September 27, 2022, we had $37.9 million of indebtedness (excluding $1.7 million of unamortized debt issuance costs) and $3.0 million of letters of credit outstanding under the Third Amended Credit Facility.

***Off-Balance Sheet Arrangements***

We had no off-balance sheet arrangements or obligations as of September 27, 2022.

**Critical Accounting Policies and Estimates**

Our condensed consolidated financial statements and accompanying notes are prepared in accordance with GAAP. Preparing consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by the application of our accounting policies.

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Our significant accounting policies are described in our Annual Report on Form 10-K for the year ended December 28, 2021. Critical accounting estimates are those that require application of management’s most difficult, subjective or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods. While we apply our judgment based on assumptions believed to be reasonable under the circumstances, actual results could vary from these assumptions. It is possible that materially different amounts would be reported using different assumptions. Our critical accounting estimates are identified and described in our annual consolidated financial statements and the related notes included in our Annual Report on Form 10-K for our fiscal year ended December 28, 2021.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

***Interest Rate Risk***

We are exposed to market risk from changes in interest rates on debt. Our exposure to interest rate fluctuations is limited to our outstanding bank debt, which bears interest at variable rates. As of September 27, 2022, we had $37.9 million of outstanding borrowings under our credit facility with an average interest rate during the third quarter of 2022 of 4.97%, compared to 3.42% during the third quarter of 2021, driven by an increase in market base rates. An increase or decrease of 1.0% in the effective interest rate applied on these loans would have resulted in a pre-tax interest expense fluctuation of approximately $0.4 million on an annualized basis.

***Commodity Price Risk***

We purchase certain products that are affected by commodity prices and are, therefore, subject to price volatility caused by weather, market conditions and other factors which are not considered predictable or within our control. Although these products are subject to changes in commodity prices, certain purchasing contracts or pricing arrangements contain risk management techniques designed to minimize price volatility. However, during the first three quarters of 2022, due to the volatility in several commodity markets and driven by vendor availability, many of our contracts were shorter duration than typical and, in some cases, were based on floating rate prices rather than fixed rate. As a result, we saw higher cost of food in the first three quarters than in prior periods. Despite these increases, we believe we have material pricing power with our guests that allows us to adjust our menu pricing or change our product delivery strategy without impact to the demand for our brand. Although the overall cost of food remains high, throughout the third quarter of 2022 the commodity markets underlying our cost of food began to improve materially, particularly in regards to the price of chicken which is expected to be realized in fourth quarter 2022 and 2023. However, increases in commodity prices, without adjustments to our menu prices, have and could continue to increase restaurant operating costs as a percentage of restaurant revenue.

***Inflation***

The primary inflationary factors affecting our operations are food, labor costs, energy costs and materials used in the construction of new restaurants. Increases in the minimum wage requirements directly affect our labor costs. Many of our leases require us to pay taxes, maintenance, repairs, insurance and utilities, all of which are generally subject to inflationary increases. Finally, the cost of constructing our restaurants is subject to inflationary increases in the costs of labor and material which we experienced in the first three quarters of 2022. Inflation has more significantly impacted our operating results during the first three quarters of 2022 than compared to prior years, particularly in our commodity and construction markets, in addition to increased wage inflation that affected our results from 2017 through the first three quarters of 2022. We expect inflation may continue to affect our results in the near future.

**Item 4. Controls and Procedures**

Our management carried out an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 27, 2022, pursuant to Rule 13a-15 under the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules

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and forms, and that such information 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) of the Exchange Act) that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II**

**Item 1. Legal Proceedings**

We are currently not a party to any material legal proceedings. From time to time, we may become involved in legal proceedings arising in the ordinary course of our business. Regardless of outcome, litigation can have an adverse impact on us due to defense and settlement costs, diversion of management resources, negative publicity, reputational harm and other factors, and there can be no assurances that favorable outcomes will be obtained.

**Item 1A. Risk Factors**

A description of the risk factors associated with our business is contained in the “Risk Factors” section of ourAnnual Report on Form 10-K for our fiscal year ended December 28, 2021. There have been no material changes to our Risk Factors as previously reported in our Annual Report on Form 10-K for our fiscal year ended December 28, 2021.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

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**Item 6. Exhibit Index**

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| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
| **Exhibit Number** | | |  | | | **Description of Exhibit** | | |
| 10.1 | |  |  | | | [Form of Restricted Stock Unit Agreement For General Manager Equity Partner Plan](ex101rsuagreement-gmequity.htm) | | |
| 31.1 | |  |  | | | [Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](a2022q3exhibit311.htm) | | |
| 31.2 | |  |  | | | [Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](a2022q3exhibit312.htm) | | |
| 32.1 | |  |  | | | [Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](a2022q3exhibit321.htm) (furnished herewith) | | |
| 101.INS | | |  | | | Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document | | |
| 101.SCH | | |  | | | Inline XBRL Taxonomy Extension Schema Document | | |
| 101.CAL | | |  | | | Inline XBRL Taxonomy Extension Calculation Linkbase Document | | |
| 101.DEF | | |  | | | Inline XBRL Taxonomy Extension Definition Linkbase Document | | |
| 101.LAB | | |  | | | Inline XBRL Taxonomy Extension Label Linkbase Document | | |
| 101.PRE | | |  | | | Inline XBRL Taxonomy Extension Presentation Linkbase Document | | |
| 104.0 | |  |  | | | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) | | |

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**SIGNATURES**

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |
| **NOODLES & COMPANY** | | | | | |
| By: | | | /s/  CARL LUKACH | | |
|  | | | Carl Lukach  *Chief Financial Officer (principal financial officer and duly authorized signatory for the registrant)* | | |
| Date | | | November 4, 2022 | | |

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