

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended April 2, 2019

or

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

For the transition period from to

Commission File Number: 001-35987

NOODLES & COMPANY

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

84-1303469

(I.R.S. Employer Identification No.)

520 Zang Street, Suite D

Broomfield, CO

(Address of principal executive offices)

80021

(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 May 3, 2019 |
|--|----------------------------|
| Class A Common Stock, \$0.01 par value per share | 43,947,080 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)

| | April 2, 2019 | January 1, 2019 |
|---|------------------|--------------------|
| | (unaudited) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,800 | \$ 4,655 |
| Accounts receivable | 2,254 | 2,391 |
| Inventories | 9,870 | 9,646 |
| Prepaid expenses and other assets | 3,066 | 6,474 |
| Income tax receivable | 191 | 185 |
| Total current assets | 17,181 | 23,351 |
| Property and equipment, net | 138,381 | 138,774 |
| Operating lease assets, net | 218,311 | — |
| Goodwill | 7,154 | 6,400 |
| Intangibles, net | 1,179 | 1,291 |
| Other assets, net | 2,360 | 2,216 |
| Total long-term assets | 367,385 | 148,681 |
| Total assets | \$ 384,566 | \$ 172,032 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 10,563 | \$ 7,854 |
| Accrued payroll and benefits | 7,833 | 13,391 |
| Accrued expenses and other current liabilities | 8,524 | 11,183 |
| Current operating lease liabilities | 21,528 | — |
| Current portion of long-term debt | 750 | 719 |
| Total current liabilities | 49,198 | 33,147 |
| Long-term debt, net | 47,035 | 44,183 |
| Long-term operating lease liabilities, net | 237,341 | — |
| Deferred rent | — | 37,334 |
| Deferred tax liabilities, net | 133 | 133 |
| Other long-term liabilities | 5,263 | 4,554 |
| Total liabilities | 338,970 | 119,351 |
| Stockholders' equity: | | |
| Preferred stock—\$0.01 par value, 1,000,000 shares authorized and undesignated as of April 2, 2019 and January 1, 2019; no shares issued or outstanding | — | — |
| Common stock—\$0.01 par value, 180,000,000 shares authorized as of April 2, 2019 and January 1, 2019; 46,370,951 issued and 43,947,080 outstanding as of April 2, 2019 and 46,353,309 issued and 43,929,438 outstanding as of January 1, 2019 | 464 | 464 |
| Treasury stock, at cost, 2,423,871 shares as of April 2, 2019 and January 1, 2019 | (35,000) | (35,000) |
| Additional paid-in capital | 199,110 | 198,352 |
| Accumulated deficit | (118,978) | (111,135) |
| Total stockholders' equity | 45,596 | 52,681 |
| Total liabilities and stockholders' equity | \$ 384,566 | \$ 172,032 |

See accompanying notes to condensed consolidated financial statements.

Noodles & Company
Condensed Consolidated Statements of Operations
(in thousands, except share and per share data, unaudited)

| | Fiscal Quarter Ended | |
|---|----------------------|------------------|
| | April 2, 2019 | April 3, 2018 |
| <i>Revenue:</i> | | |
| Restaurant revenue | \$ 108,765 | \$ 109,613 |
| Franchising royalties and fees, and other | 1,281 | 913 |
| Total revenue | 110,046 | 110,526 |
| <i>Costs and expenses:</i> | | |
| Restaurant operating costs (exclusive of depreciation and amortization shown separately below): | | |
| Cost of sales | 29,091 | 29,256 |
| Labor | 37,092 | 36,572 |
| Occupancy | 12,430 | 12,763 |
| Other restaurant operating costs | 16,456 | 16,898 |
| General and administrative | 10,140 | 10,268 |
| Depreciation and amortization | 5,507 | 5,820 |
| Pre-opening | — | 47 |
| Restaurant impairments, closure costs and asset disposals | 420 | 1,580 |
| Total costs and expenses | 111,136 | 113,204 |
| Loss from operations | (1,090) | (2,678) |
| Interest expense, net | 761 | 1,138 |
| Loss before income taxes | (1,851) | (3,816) |
| Provision (benefit) for income taxes | — | (241) |
| Net loss and comprehensive loss | \$ (1,851) | \$ (3,575) |
| Loss per share of Class A and Class B common stock, combined: | | |
| Basic | \$ (0.04) | \$ (0.09) |
| Diluted | \$ (0.04) | \$ (0.09) |
| Weighted average shares of Class A and Class B common stock outstanding, combined: | | |
| Basic | 43,933,235 | 41,128,473 |
| Diluted | 43,933,235 | 41,128,473 |

See accompanying notes to condensed consolidated financial statements.

Noodles & Company
Condensed Consolidated Statements of Stockholders' Equity
(in thousands, except share data, unaudited)

| | Common Stock ⁽¹⁾ | | Treasury | | Additional Paid-In Capital | Accumulated Deficit | Total Stockholders' Equity |
|---|-----------------------------|--------|-----------|-------------|----------------------------|---------------------|----------------------------|
| | Shares | Amount | Shares | Amount | | | |
| Balance—January 1, 2019 | 46,353,309 | \$ 464 | 2,423,871 | \$ (35,000) | \$ 198,352 | \$ (111,135) | \$ 52,681 |
| Proceeds from exercise of stock options and employee stock purchase plan | 17,642 | — | — | — | 21 | — | 21 |
| Stock-based compensation expense | — | — | — | — | 737 | — | 737 |
| Adoption of ASU No. 2016-02, <i>Leases</i> (Topic 842) | — | — | — | — | — | (5,992) | (5,992) |
| Net loss | — | — | — | — | — | (1,851) | (1,851) |
| Balance—April 2, 2019 | 46,370,951 | \$ 464 | 2,423,871 | \$ (35,000) | \$ 199,110 | \$ (118,978) | \$ 45,596 |
| Balance—January 2, 2018 | 43,550,329 | \$ 436 | 2,423,871 | \$ (35,000) | \$ 171,613 | \$ (101,188) | \$ 35,861 |
| Proceeds from exercise of stock options and employee stock purchase plan | 8,983 | — | — | — | 35 | — | 35 |
| Stock-based compensation expense | — | — | — | — | 592 | — | 592 |
| Adoption of ASU No. 2014-09, <i>Revenue from Contracts with Customers</i> (Topic 606) | — | — | — | — | — | (1,506) | (1,506) |
| Net loss | — | — | — | — | — | (3,575) | (3,575) |
| Balance—April 3, 2018 | 43,559,312 | \$ 436 | 2,423,871 | \$ (35,000) | \$ 172,240 | \$ (106,269) | \$ 31,407 |

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

See accompanying notes to condensed consolidated financial statements.

Noodles & Company
Condensed Consolidated Statements of Cash Flows
(in thousands, unaudited)

| | Fiscal Quarter Ended | |
|---|----------------------|------------------|
| | April 2, 2019 | April 3, 2018 |
| Operating activities | | |
| Net loss | \$ (1,851) | \$ (3,575) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 5,507 | 5,820 |
| Deferred income taxes | — | (245) |
| Restaurant impairments, closure costs and asset disposals | 145 | 1,419 |
| Amortization of debt issuance costs | 125 | 210 |
| Stock-based compensation | 726 | 580 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 362 | 745 |
| Inventories | (223) | (44) |
| Prepaid expenses and other assets | 50 | 651 |
| Accounts payable | 2,798 | 539 |
| Deferred rent | 15 | (288) |
| Income taxes | (6) | (26) |
| Operating lease assets and liabilities | (343) | — |
| Accrued expenses and other liabilities | (7,191) | (6,790) |
| Net cash provided by (used in) operating activities | 114 | (1,004) |
| Investing activities | | |
| Purchases of property and equipment | (4,164) | (4,805) |
| Franchise restaurant acquisition, net of cash acquired | (1,387) | — |
| Net cash used in investing activities | (5,551) | (4,805) |
| Financing activities | | |
| Net borrowings from swing line loan | 3,071 | 5,038 |
| Payments on long-term debt | (313) | — |
| Payments on finance leases | (197) | — |
| Proceeds from exercise of stock options and employee stock purchase plan | 21 | 35 |
| Debt issuance costs | — | (1) |
| Net cash provided by financing activities | 2,582 | 5,072 |
| Net decrease in cash and cash equivalents | (2,855) | (737) |
| Cash and cash equivalents | | |
| Beginning of period | 4,655 | 3,361 |
| End of period | \$ 1,800 | \$ 2,624 |

See accompanying notes to condensed consolidated financial statements.

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 April 2, 2019, the Company had 395 company-owned restaurants and 64 franchise restaurants in 29 states and the District of Columbia. 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 January 1, 2019 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’s Annual Report on Form 10-K for the fiscal year ended January 1, 2019.

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 2019, which ends on December 31, 2019, and fiscal year 2018, which ended on January 1, 2019, both contain 52 weeks. The Company’s fiscal quarter that ended April 2, 2019 is referred to as the first quarter of 2019, and the fiscal quarter ended April 3, 2018 is referred to as the first quarter of 2018.

Recent Accounting Pronouncements

The Company reviewed recently issued accounting pronouncements and concluded that they were either not applicable or not expected to have a material impact on the Company’s financial position or results of operations and cash flows.

Recently Adopted Accounting Pronouncements

On January 2, 2019, the Company adopted ASU 2016-02, “Leases (Topic 842),” along with related clarifications and improvements. This pronouncement requires a lessee to recognize a liability for lease obligations, which represents the discounted obligation to make future lease payments, and a corresponding right-of-use asset on the balance sheet. The guidance also requires certain qualitative and quantitative disclosures about the amount, timing and uncertainty of cash flows arising from leases. The Company elected the alternative transition method to apply the standard as of the beginning of the period of adoption; therefore, the Company has not applied the standard to the comparative periods presented on its condensed consolidated financial statements.

The adoption of this lease guidance did have a material impact on the Company’s Consolidated Balance Sheets by materially increasing its non-current assets and current and non-current liabilities due to the recognition of the right-of-use assets and related lease liabilities primarily related to the Company’s restaurant operating leases and corporate office space. Upon adoption, the right-of-use assets were based upon the operating lease liabilities adjusted for prepaid and deferred rent, liabilities associated with lease termination costs and impairment of right-of-use assets. The impairment of right-of-use assets upon adoption was recognized in retained earnings as of January 2, 2019.

The adoption of the standard did not have a material impact on the Company's Condensed Consolidated Statements of Operations in the first quarter of 2019. The adoption also included the enhancement of the Company's disclosures related to leases. See disclosure in Note 9, Leases.

The impact on the Condensed Consolidated Balance Sheet on the date of adoption was as follows:

| | January 1, 2019 | Adjustments Due to the Adoption of Topic 842 (unaudited) | January 2, 2019 (unaudited) |
|--|--------------------|--|--------------------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 4,655 | \$ — | \$ 4,655 |
| Accounts receivable | 2,391 | 225 | 2,616 |
| Inventories | 9,646 | — | 9,646 |
| Prepaid expenses and other assets | 6,474 | (3,243) | 3,231 |
| Income tax receivable | 185 | — | 185 |
| Total current assets | 23,351 | (3,018) | 20,333 |
| Property and equipment, net | 138,774 | 844 | 139,618 |
| Operating lease assets, net | — | 219,883 | 219,883 |
| Goodwill | 6,400 | — | 6,400 |
| Intangibles, net | 1,291 | (67) | 1,224 |
| Other assets, net | 2,216 | — | 2,216 |
| Total long-term assets | 148,681 | 220,660 | 369,341 |
| Total assets | \$ 172,032 | \$ 217,642 | \$ 389,674 |
| Liabilities and Stockholders' Equity | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 7,854 | \$ — | \$ 7,854 |
| Accrued payroll and benefits | 13,391 | — | 13,391 |
| Accrued expenses and other current liabilities | 11,183 | (553) | 10,630 |
| Current operating lease liabilities | — | — | — |
| Current portion of long-term debt | 719 | — | 719 |
| Total current liabilities | 33,147 | (553) | 32,594 |
| Long-term debt, net | 44,183 | — | 44,183 |
| Long-term operating lease liabilities, net | — | 260,931 | 260,931 |
| Deferred rent | 37,334 | (37,186) | 148 |
| Deferred tax liabilities, net | 133 | — | 133 |
| Other long-term liabilities | 4,554 | 442 | 4,996 |
| Total liabilities | 119,351 | 223,634 | 342,985 |
| Stockholders' equity: | | | |
| Preferred stock—\$0.01 par value, 1,000,000 shares authorized and undesignated as of January 1, 2019; no shares issued or outstanding | — | — | — |
| Common stock—\$0.01 par value, 180,000,000 shares authorized as of January 1, 2019; 46,353,309 issued and 43,929,438 outstanding as of January 1, 2019 | 464 | — | 464 |
| Treasury stock, at cost, 2,423,871 shares as of January 1, 2019 | (35,000) | — | (35,000) |
| Additional paid-in capital | 198,352 | — | 198,352 |
| Accumulated deficit | (111,135) | (5,992) | (117,127) |
| Total stockholders' equity | 52,681 | (5,992) | 46,689 |
| Total liabilities and stockholders' equity | \$ 172,032 | \$ 217,642 | \$ 389,674 |

2. Supplemental Financial Information

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

| | April 2, 2019 | January 1, 2019 |
|---|------------------|--------------------|
| Leasehold improvements | \$ 197,812 | \$ 197,571 |
| Furniture, fixtures and equipment | 122,939 | 121,479 |
| Construction in progress | 5,501 | 3,620 |
| | 326,252 | 322,670 |
| Accumulated depreciation and amortization | (187,871) | (183,896) |
| | \$ 138,381 | \$ 138,774 |

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

| | April 2, 2019 | January 1, 2019 |
|---------------------------|------------------|--------------------|
| Gift card liability | \$ 1,906 | \$ 3,284 |
| Occupancy related - other | 1,164 | 2,600 |
| Utilities | 1,491 | 1,582 |
| Other accrued expenses | 3,963 | 3,717 |
| | \$ 8,524 | \$ 11,183 |

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 consists of a term loan facility in an aggregate principal amount of \$25.0 million and a revolving line of credit of \$65.0 million (which may be increased to \$75.0 million), which includes a letter of credit subfacility in the amount of \$15.0 million and a swingline subfacility in the amount of \$10.0 million. The 2018 Credit Facility has a four-year term and matures on May 9, 2022.

Borrowings under the 2018 Credit Facility, including the term loan facility, bear interest annually, at the Company’s option, at either (i) LIBOR plus a margin of 2.25% to 3.25% per annum, based upon the consolidated total lease-adjusted leverage ratio or (ii) the highest of the following base rates plus a margin of 1.25% to 2.25% per annum: (a) the federal funds rate plus 0.50%; (b) the U.S. Bank prime rate or (c) the one-month LIBOR plus 1.00%. The 2018 Credit Facility includes a commitment fee of 0.30% to 0.50% per annum, based upon the consolidated total lease-adjusted leverage ratio, on any unused portion of the revolving credit facility.

As of April 2, 2019, the Company had \$49.3 million of indebtedness (excluding \$1.5 million of unamortized debt issuance costs) and \$3.2 million of letters of credit outstanding under the 2018 Credit Facility. The term loan requires principal payments of \$156,250 per quarter through the first quarter of 2019, \$187,500 per quarter through the first quarter of 2020, \$375,000 per quarter through the first quarter of 2021, and \$531,250 per quarter through maturity in the second quarter of 2022.

Aggregate maturities for debt outstanding as of April 2, 2019 are as follows (in thousands):

| | |
|--------|-----------|
| Year 1 | \$ 750 |
| Year 2 | 1,500 |
| Year 3 | 2,125 |
| Year 4 | 44,959 |
| Total | \$ 49,334 |

The Company’s outstanding indebtedness bore interest at rates between 5.59% to 7.25% during the first quarter of 2019.

Upon execution of the 2018 Credit Facility, the Company repaid in full its outstanding indebtedness under its existing credit facility using funds drawn on its 2018 Credit Facility. Upon repayment, the existing credit facility and all related agreements were terminated.

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 April 2, 2019.

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 borrowings is measured using Level 2 inputs.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Assets recognized or disclosed at fair value in the 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 April 2, 2019 and April 3, 2018 are discussed in Note 7, Restaurant Impairments, Closure Costs and Asset Disposals.

5. Income Taxes

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

| | Fiscal Quarter Ended | |
|--------------------------------------|----------------------|------------------|
| | April 2, 2019 | April 3, 2018 |
| Provision (benefit) for income taxes | \$ — | \$ (241) |
| Effective tax rate | —% | 6.3% |

The effective tax rate for the first quarter of 2019 reflects the impact of the previously recorded valuation allowance. For the remainder of fiscal 2019, 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. The effective tax rate for the first quarter of 2018 reflected changes made by the Tax Cuts and Jobs Act ("Tax Act"), which was signed into law in December 2017.

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") and incentive bonuses to employees, officers, non-employee directors and other service providers. As of April 2, 2019, approximately 3.5 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 | |
|--|----------------------|------------------|
| | April 2, 2019 | April 3, 2018 |
| Stock-based compensation expense | \$ 726 | \$ 580 |
| Capitalized stock-based compensation expense | \$ 11 | \$ 12 |

7. Restaurant Impairments, Closure Costs and Asset Disposals

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

| | Fiscal Quarter Ended | |
|---------------------------------------|----------------------|------------------|
| | April 2, 2019 | April 3, 2018 |
| Restaurant impairments ⁽¹⁾ | \$ 189 | \$ 598 |
| Closure costs ⁽¹⁾ | (39) | 554 |
| Loss on disposal of assets and other | 270 | 428 |
| | <u>\$ 420</u> | <u>\$ 1,580</u> |

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

During the first quarter of 2019, there were no restaurants identified as impaired, compared to one restaurant impairment during the first quarter of 2018. Both periods include ongoing equipment costs for restaurants previously impaired. 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 market value of the restaurant assets at resale value.

Closure costs in the first quarter of 2019 were comprised of a \$0.3 million gain primarily relating to changes in the Company's assessment of remaining operating lease terms, offset by \$0.3 million of ongoing costs related to restaurants closed in previous years. The first quarter of 2018 included \$0.6 million related to the ongoing costs of restaurants closed in previous years. These ongoing costs include adjustments to the liabilities to landlords as lease terminations occur.

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

8. 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 | |
|---|----------------------|------------------|
| | April 2, 2019 | April 3, 2018 |
| Net loss | \$ (1,851) | \$ (3,575) |
| Shares: | | |
| Basic weighted average shares outstanding | 43,933,235 | 41,128,473 |
| Effect of dilutive securities | — | — |
| Diluted weighted average shares outstanding | 43,933,235 | 41,128,473 |
| Loss per share: | | |
| Basic loss per share | \$ (0.04) | \$ (0.09) |
| Diluted loss per share | \$ (0.04) | \$ (0.09) |

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 per share when the effect would be anti-dilutive. The shares issuable on the vesting or exercise of share-based awards or exercise of outstanding warrants that were excluded from the calculation of diluted loss per share because the effect of their inclusion would have been anti-dilutive totaled 3,245,418 and 3,106,710 for the first quarter of 2019 and 2018, respectively.

9. Leases

The Company leases restaurant facilities, office space and certain equipment that expire on various dates through September 2034. Lease terms for restaurants in traditional shopping centers generally include a base term of 10 years, with options to extend these leases for additional periods of five to 15 years. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term.

The Company's leases typically contain rent escalations over the lease term. The Company recognizes expense for these leases on a straight-line basis over the lease term. Additionally, tenant incentives used to fund leasehold improvements are recognized when earned and reduce the right-of-use asset related to the lease. These are amortized through the right-of-use asset as reductions of expense over the lease term.

Some of the Company's leases include rent escalations based on inflation indexes and fair market value adjustments. Certain leases contain contingent rental provisions that include a fixed base rent plus an additional percentage of the restaurant's sales in excess of stipulated amounts. Operating lease liabilities are calculated using the prevailing index or rate at lease commencement. Subsequent escalations in the index or rate and contingent rental payments are recognized as variable lease expenses. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Company elected the practical expedient to account for lease and non-lease components as a single component for substantially all lease types.

As most of the Company's leases do not provide an implicit rate, the Company used its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments.

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

| Classification | | April 2, 2019 |
|-----------------------------|--|-------------------|
| Assets | | |
| Operating | Operating lease assets, net | \$ 218,311 |
| Finance | Finance lease assets, net ⁽¹⁾ | 1,057 |
| Total leased assets | | <u>\$ 219,368</u> |
| Liabilities | | |
| Current lease liabilities | | |
| Operating | Current operating lease liabilities | \$ 21,528 |
| Finance | Current finance lease liabilities ⁽²⁾ | 811 |
| Long-term lease liabilities | | |
| Operating | Long-term operating lease liabilities | 237,341 |
| Finance | Long-term finance lease liabilities ⁽²⁾ | 271 |
| Total lease liabilities | | <u>\$ 259,951</u> |

(1) The finance lease assets are included in property and equipment, net in the Consolidated Balance Sheets.

(2) The current portion of the finance lease liabilities is included in accrued expenses and other current liabilities, and the long-term portion is included in other long-term liabilities in the Consolidated Balance Sheets.

The components of lease costs are as follows (in thousands):

| Classification | | April 2, 2019 |
|-------------------------------|--|------------------|
| Operating lease cost | Occupancy, other restaurant operating costs, and general and administrative expenses | \$ 10,144 |
| Finance lease cost | | |
| Amortization of lease assets | Depreciation and amortization | 171 |
| Interest on lease liabilities | Interest expense, net | 20 |
| | | <u>10,335</u> |
| Sublease income | Franchising royalties and fees, and other | (112) |
| Total lease cost, net | | <u>\$ 10,223</u> |

Future minimum lease payments required under existing leases as of April 2, 2019 are as follows (in thousands):

| | <u>Operating Leases</u> | <u>Finance Leases</u> | <u>Total</u> |
|------------------------------------|-------------------------|-----------------------|-------------------|
| Remainder of 2019 | \$ 32,178 | \$ 497 | \$ 32,675 |
| 2020 | 42,686 | 471 | 43,157 |
| 2021 | 42,188 | 151 | 42,339 |
| 2022 | 42,024 | 23 | 42,047 |
| 2023 | 40,695 | 14 | 40,709 |
| Thereafter | 182,453 | 9 | 182,462 |
| Total lease payments | 382,224 | 1,165 | 383,389 |
| Less: Imputed interest | 123,355 | 83 | 123,438 |
| Present value of lease liabilities | <u>\$ 258,869</u> | <u>\$ 1,082</u> | <u>\$ 259,951</u> |

Operating lease payments include \$92.3 million related to options to extend lease terms that are reasonably certain of being exercised and exclude \$10.7 million of legally binding minimum lease payments for leases signed but not yet commenced.

Lease term and discount rate for the first quarter ended April 2, 2019 are as follows:

| | <u>April 2, 2019</u> |
|--|--------------------------|
| Weighted average remaining lease term (years): | |
| Operating | 9.4 |
| Finance | 2.2 |
| Weighted average discount rate: | |
| Operating | 8.66% |
| Finance | 7.11% |

Supplemental disclosures of cash flow information related to leases for the first quarter ended April 2, 2019 are as follows (in thousands):

| | <u>April 2, 2019</u> |
|---|--------------------------|
| Cash paid for lease liabilities: | |
| Operating leases | \$ 10,693 |
| Finance leases | 217 |
| | <u>\$ 10,910</u> |
| Right-of-use assets obtained in exchange for new lease liabilities: | |
| Operating leases | \$ 3,161 |
| Finance leases | 50 |
| | <u>\$ 3,211</u> |

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 first quarter ended April 2, 2019 and April 3, 2018 (in thousands):

| | April 2, 2019 | April 3, 2018 |
|---|------------------|------------------|
| Interest paid (net of amounts capitalized) | \$ 713 | \$ 1,315 |
| Income taxes paid | 6 | 29 |
| Changes in purchases of property and equipment accrued in accounts payable, net | (68) | (1,753) |

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 are recognized when sales occur. The Company reports revenue net of sales and use taxes collected from customers and remitted to governmental taxing authorities.

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 9% 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 April 2, 2019 and January 1, 2019, the current portion of the gift card liability, \$1.9 million and \$3.3 million, respectively, is included in accrued expenses and other current liabilities, and the long-term portion, \$0.7 million and \$0.4 million, respectively, is included in other long-term liabilities in the Consolidated Balance Sheets.

Revenue recognized in the Condensed Consolidated Statements of Operations for the redemption of gift cards was \$1.8 million during both the first quarters of 2019 and 2018.

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.

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 April 2, 2019. 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.

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 January 1, 2019. 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 years 2019 and 2018 each contain 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 estimated costs associated with our closure of underperforming restaurants, the implementation and results of strategic initiatives 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, 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; price and availability of commodities; our ability to adequately staff our restaurants; changes in labor costs; consumer confidence and spending patterns; consumer reaction to industry related public health issues and perceptions of food safety; seasonal factors; weather; 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 January 1, 2019.

Recent Trends, Risks and Uncertainties

Comparable Restaurant Sales. In the first quarter of 2019, system-wide comparable restaurant sales increased 3.0%, comprised of a 3.0% increase for company-owned restaurants and a 2.8% increase for franchise restaurants. Our ability to continue to increase comparable restaurant sales depends in part on our ability to successfully implement our operational strategies and initiatives.

Increased Labor Costs. Similar to much of the restaurant industry, our base labor costs have risen in recent periods. In the first quarter of 2019, we were able to mitigate the impact of increased base labor costs through labor efficiencies; however, we expect that labor costs will continue to rise as wage rates and benefit costs increase. Some jurisdictions in which we operate have recently increased their minimum wage by a significant amount and other jurisdictions are considering similar actions. Significant additional government-imposed increases could materially affect our labor costs.

Certain Restaurant Closures. We closed 19 company-owned restaurants in 2018, most of which were at or approaching the expiration of their leases, and did not close any restaurants in the first quarter of 2019. We currently do not anticipate significant restaurant closures for the foreseeable future; however, we may from time to time close certain restaurants, including closures at, or near, the expiration of their leases.

Restaurant Development. In the first quarter of 2019, we did not open any new company-owned restaurants but did acquire one franchise restaurant. As of April 2, 2019, we had 395 company-owned restaurants and 64 franchise restaurants in 29 states and the District of Columbia. Given recent improvement in performance, operating effectiveness and liquidity, we are currently pursuing a disciplined development pipeline to execute a modest new unit growth rate in the near term. In 2019, we plan to open between four and six company-owned 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 (“AUV”), comparable restaurant sales, restaurant contribution, restaurant contribution margin, EBITDA and adjusted EBITDA.

Revenue

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 higher in the second and third quarters. As a result of these factors, our quarterly and annual operating results and comparable restaurant sales may fluctuate significantly.

Average Unit Volume

AUV consists of the average annualized sales of all company-owned restaurants for the trailing 12 periods. AUV is 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. This measurement allows management to assess changes in consumer traffic and per person spending patterns at our restaurants.

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, or 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.

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;
- 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 growth strategy and we anticipate new restaurants will be a component of our revenue growth (albeit to a lesser extent in future periods, as discussed below), comparable restaurant sales is only one measure of how we evaluate our performance.

Restaurant Contribution and Restaurant Contribution Margin

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 and our comparable restaurant sales growth.

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, severance costs and stock-based compensation expense.

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 loss to EBITDA and adjusted EBITDA:

| | Fiscal Quarter Ended | |
|--|---------------------------|------------------|
| | April 2, 2019 | April 3, 2018 |
| | (in thousands, unaudited) | |
| Net loss | \$ (1,851) | \$ (3,575) |
| Depreciation and amortization | 5,507 | 5,820 |
| Interest expense, net | 761 | 1,138 |
| Provision (benefit) for income taxes | — | (241) |
| EBITDA ⁽¹⁾ | \$ 4,417 | \$ 3,142 |
| Restaurant impairments, closure costs and asset disposals ⁽²⁾ | 420 | 1,580 |
| Acquisition costs ⁽³⁾ | 36 | — |
| Severance costs ⁽⁴⁾ | — | 278 |
| Stock-based compensation expense | 726 | 580 |
| Adjusted EBITDA | \$ 5,599 | \$ 5,580 |

(1) The first quarter of 2019 includes a \$0.2 million positive impact on EBITDA from the adoption of ASU 2016-02, “Leases (Topic 842),” the new lease standard.

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- (2) Restaurant impairments and closure costs in all periods presented above include amounts related to restaurants previously impaired or closed. Additionally, the first quarter of 2018 includes the impairment of one restaurant. See Note 7, Restaurant Impairments, Closure Costs and Asset Disposals.
- (3) The first quarter of 2019 includes acquisition costs related to the acquisition of one franchise restaurant.
- (4) The first quarter of 2018 includes severance costs from departmental structural changes.

Restaurant Openings, Closures and Relocations

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

| | Fiscal Quarter Ended | |
|--|----------------------|------------------|
| | April 2, 2019 | April 3, 2018 |
| Company-Owned Restaurant Activity | | |
| Beginning of period | 394 | 412 |
| Openings | — | 1 |
| Acquisition ⁽¹⁾ | 1 | — |
| Closures | — | (2) |
| Restaurants at end of period | 395 | 411 |
| Franchise Restaurant Activity | | |
| Beginning of period | 65 | 66 |
| Openings | — | — |
| Divestiture ⁽¹⁾ | (1) | — |
| Closures | — | (1) |
| Restaurants at end of period | 64 | 65 |
| Total restaurants | 459 | 476 |

- (1) Represents one franchise restaurant acquired by us.

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 | |
|---|----------------------|------------------|
| | April 2, 2019 | April 3, 2018 |
| | (unaudited) | |
| <i>Revenue:</i> | | |
| Restaurant revenue | 98.8 % | 99.2 % |
| Franchising royalties and fees, and other | 1.2 % | 0.8 % |
| Total revenue | 100.0 % | 100.0 % |
| <i>Costs and expenses:</i> | | |
| Restaurant operating costs (exclusive of depreciation and amortization shown separately below): | | |
| Cost of sales | 26.7 % | 26.7 % |
| Labor | 34.1 % | 33.4 % |
| Occupancy | 11.4 % | 11.6 % |
| Other restaurant operating costs | 15.1 % | 15.4 % |
| General and administrative | 9.2 % | 9.3 % |
| Depreciation and amortization | 5.0 % | 5.3 % |
| Pre-opening | — % | — % |
| Restaurant impairments, closure costs and asset disposals | 0.4 % | 1.4 % |
| Total costs and expenses | 101.0 % | 102.4 % |
| Loss from operations | (1.0)% | (2.4)% |
| Interest expense, net | 0.7 % | 1.0 % |
| Loss before income taxes | (1.7)% | (3.4)% |
| Provision (benefit) for income taxes | — % | (0.2)% |
| Net loss | (1.7)% | (3.2)% |

First Quarter Ended April 2, 2019 Compared to First Quarter Ended April 3, 2018

The table below presents our unaudited operating results for the first quarters of 2019 and 2018, and the related quarter-over-quarter changes.

| | Fiscal Quarter Ended | | Increase / (Decrease) | |
|---|----------------------|------------------|-----------------------|----------|
| | April 2, 2019 | April 3, 2018 | \$ | % |
| (in thousands, unaudited) | | | | |
| Revenue: | | | | |
| Restaurant revenue | \$ 108,765 | \$ 109,613 | \$ (848) | (0.8)% |
| Franchising royalties and fees, and other | 1,281 | 913 | 368 | 40.3 % |
| Total revenue | 110,046 | 110,526 | (480) | (0.4)% |
| Costs and expenses: | | | | |
| Restaurant operating costs (exclusive of depreciation and amortization shown separately below): | | | | |
| Cost of sales | 29,091 | 29,256 | (165) | (0.6)% |
| Labor | 37,092 | 36,572 | 520 | 1.4 % |
| Occupancy | 12,430 | 12,763 | (333) | (2.6)% |
| Other restaurant operating costs | 16,456 | 16,898 | (442) | (2.6)% |
| General and administrative | 10,140 | 10,268 | (128) | (1.2)% |
| Depreciation and amortization | 5,507 | 5,820 | (313) | (5.4)% |
| Pre-opening | — | 47 | (47) | (100.0)% |
| Restaurant impairments, asset disposals and closure costs | 420 | 1,580 | (1,160) | (73.4)% |
| Total costs and expenses | 111,136 | 113,204 | (2,068) | (1.8)% |
| Loss from operations | (1,090) | (2,678) | 1,588 | * |
| Interest expense, net | 761 | 1,138 | (377) | (33.1)% |
| Loss before income taxes | (1,851) | (3,816) | 1,965 | * |
| Provision (benefit) from income taxes | — | (241) | 241 | (100.0)% |
| Net loss | \$ (1,851) | \$ (3,575) | \$ 1,724 | * |
| Company-owned: | | | | |
| Average unit volume | \$ 1,131 | \$ 1,080 | \$ 51 | 4.7 % |
| Comparable restaurant sales | 3.0% | (0.3)% | | |

* Not meaningful.

Revenue

Total revenue decreased \$0.5 million in the first quarter of 2019, or 0.4%, to \$110.0 million, compared to \$110.5 million in the first quarter of 2018. This decrease was primarily due to the impact of closing 19 company-owned restaurants since the beginning of 2018, mostly offset by the increase in comparable restaurant sales.

AUV increased \$51,000 compared to the prior year. AUV for the trailing twelve months was \$1,131,000.

System-wide comparable restaurant sales growth was 3.0% in the first quarter of 2019, comprised of a 3.0% increase at company-owned restaurants and a 2.8% increase at franchise-owned restaurants. Comparable sales in the first quarter of 2019 benefited by approximately 50 bps due to a shift in the timing of the Easter holiday.

Cost of Sales

Cost of sales decreased by \$0.2 million, or 0.6%, in the first quarter of 2019 compared to the same period of 2018, due primarily to the decrease in restaurant revenue in the first quarter of 2019. As a percentage of restaurant revenue, cost of sales remained flat at 26.7% in the first quarter of 2019 compared to the first quarter of 2018 due to the nationwide launch of zucchini noodles in the second quarter of 2018, which have a higher cost of goods sold than the balance of our menu offerings, offset by supply chain initiatives.

Labor Costs

Labor costs increased by \$0.5 million, or 1.4%, in the first quarter of 2019 compared to the same period of 2018. As a percentage of restaurant revenue, labor costs increased to 34.1% in the first quarter of 2019 from 33.4% in the first quarter of 2018. The increase as a percentage of restaurant revenue was driven by higher benefit costs due to certain individual high dollar claims incurred during the first quarter of 2019 and wage inflation.

Occupancy Costs

Occupancy costs decreased by \$0.3 million, or 2.6%, in the first quarter of 2019 compared to the first quarter of 2018, due primarily to the impact of restaurants closed since the beginning of 2018. As a percentage of revenue, occupancy costs decreased to 11.4% in the first quarter of 2019, compared to 11.6% in the first quarter of 2018 due to leverage on higher AUV.

Other Restaurant Operating Costs

Other restaurant operating costs decreased by \$0.4 million, or 2.6%, in the first quarter of 2019 compared to the first quarter of 2018, due primarily to lower marketing spend, partially offset by increased third-party delivery fees associated with higher delivery revenues. As a percentage of restaurant revenue, other restaurant operating costs decreased to 15.1% in the first quarter of 2019 compared to 15.4% in the first quarter of 2018.

General and Administrative Expense

General and administrative expense decreased by \$0.1 million, or 1.2%, in the first quarter of 2019 compared to the first quarter of 2018, primarily due to severance costs from departmental structural changes in the first quarter of 2018. As a percentage of revenue, general and administrative expense decreased to 9.2% in the first quarter of 2019 from 9.3% in the first quarter of 2018.

Depreciation and Amortization

Depreciation and amortization decreased by \$0.3 million, or 5.4%, in the first quarter of 2019 compared to the first quarter of 2018, due primarily to restaurants closed or impaired in prior quarters. As a percentage of revenue, depreciation and amortization decreased to 5.0% in the first quarter of 2019 from 5.3% in the first quarter of 2018.

Restaurant Impairments, Closure Costs and Asset Disposals

Restaurant impairments, closure costs and asset disposals decreased by \$1.2 million in the first quarter of 2019 compared to the first quarter of 2018. In the first quarter of 2019, no restaurants were impaired and closure costs were comprised of a \$0.3 million gain, primarily relating to changes in our assessment of remaining operating lease terms, offset by \$0.3 million of ongoing costs related to restaurants closed in previous years. In the first quarter of 2018, we impaired one restaurant and recognized \$0.6 million of closure costs related to restaurants closed in previous years.

Interest Expense

Interest expense decreased by \$0.4 million in the first quarter of 2019 compared to the first quarter of 2018. The decrease was due to lower average borrowings partially offset by a higher average interest rate during the first quarter of 2019 compared to the first quarter of 2018.

Provision (Benefit) from Income Taxes

The effective tax rate was 0.0% for the first quarter of 2019 compared to 6.3% for the first quarter of 2018. The effective tax rate for the first quarter of 2019 reflects the impact of the previously recorded valuation allowance. The effective tax rate for the first quarter of 2018 was primarily related to a benefit from a reduction to the valuation allowance. For the remainder of fiscal 2019, 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.

Liquidity and Capital Resources

Summary of Cash Flows

As of April 2, 2019, our available cash and cash equivalents balance was \$1.8 million and \$36.8 million was available for future borrowings under our 2018 Credit Facility.

We have historically used cash to fund capital expenditures for new restaurant openings, reinvest in our existing restaurants, invest in infrastructure and information technology and maintain working capital; however, due to our anticipated modest unit growth, cash required for new restaurant openings has been correspondingly reduced. 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 have sufficient sources of cash to meet our liquidity needs and capital resource requirements for the next twelve months, primarily through currently available cash and cash equivalents, cash flows from operations and undrawn capacity under our revolving credit line.

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

| | Fiscal Quarter Ended | |
|---|----------------------|------------------|
| | April 2, 2019 | April 3, 2018 |
| Net cash provided by (used in) operating activities | \$ 114 | \$ (1,004) |
| Net cash used in investing activities | (5,551) | (4,805) |
| Net cash provided by financing activities | 2,582 | 5,072 |
| Net decrease in cash and cash equivalents | \$ (2,855) | \$ (737) |

Operating Activities

Net cash provided by operating activities was \$0.1 million in the first quarter of 2019 compared to net cash used in operating activities of \$1.0 million in the first quarter of 2018. The improvement in operating cash flows resulted primarily from lower net loss during the first quarter of 2019 compared to first quarter of 2018, adjusted for non-cash items such as depreciation and amortization, restaurant impairments, closure costs and asset disposals, and changes in working capital due to timing.

Investing Activities

Net cash used in investing activities in both periods was primarily related to reinvestments in existing restaurants and investments in technology. Additionally, in the first quarter of 2019 we purchased one franchise restaurant for total cash consideration of \$1.4 million.

Financing Activities

Net cash provided by financing activities in both periods is the result of borrowings, net of repayments on long-term debt.

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 for the remainder of 2019 to be approximately \$10.5 million to \$15.0 million for a total of approximately \$14.5 million to \$19.0 million for the fiscal year, of which \$4.0 million to \$7.0 million relates to our construction of new restaurants before any reductions for landlord reimbursements. We expect such capital expenditures to be funded by a combination of cash from operations and borrowings under our revolving credit facility.

Current Resources. Our operations have not 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. 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 borrowings under the credit facility will be sufficient to fund our cash

requirements for working capital needs and capital improvements and maintenance of existing restaurants for the next twelve months.

Credit Facility

On May 9, 2018, we entered into the 2018 Credit Facility which consists of a term loan facility in an aggregate principal amount of \$25.0 million and a revolving line of credit of \$65.0 million (which may be increased to \$75.0 million), which includes a letter of credit subfacility in the amount of \$15.0 million and a swingline subfacility in the amount of \$10.0 million. The 2018 Credit Facility has a four-year term and matures on May 9, 2022. Upon execution of the 2018 Credit Facility, the Company repaid in full its outstanding indebtedness under its existing credit facility using funds drawn on its 2018 Credit Facility. Upon repayment, the existing credit facility and all related agreements were terminated.

As of April 2, 2019, we had \$49.3 million of indebtedness (excluding \$1.5 million of unamortized debt issuance costs) and \$3.2 million of letters of credit outstanding under the 2018 Credit Facility. The term loan requires principal payments of \$156,250 per quarter through the first quarter of 2019, \$187,500 per quarter through the first quarter of 2020, \$375,000 per quarter through the first quarter of 2021, and \$531,250 per quarter through maturity in the second quarter of 2022.

The material terms of the 2018 Credit Facility also include, among other things, the following financial covenants: (i) a maximum consolidated total lease-adjusted leverage ratio covenant; (ii) a minimum consolidated fixed charge coverage ratio covenant; and (iii) a covenant limiting the total capital expenditures by us in any fiscal year. Borrowings under the 2018 Credit Facility bear interest, at our option, at either (i) LIBOR plus a margin of 2.25% to 3.25% per annum, based upon the consolidated total lease-adjusted leverage ratio or (ii) the highest of the following base rates plus a margin of 1.25% to 2.25% per annum: (a) the federal funds rate plus 0.50%; (b) the U.S. Bank prime rate or (c) the one-month LIBOR plus 1.00%. The 2018 Credit Facility includes a commitment fee of 0.30% to 0.50% per annum, based upon the consolidated total lease-adjusted leverage ratio, on any unused portion of the revolving credit facility.

Availability of borrowings under the 2018 Credit Facility is conditioned upon our compliance with the terms of the 2018 Credit Facility, including the financial covenants and other customary affirmative and negative covenants, such as limitations on additional borrowings, acquisitions, dividend payments and lease commitments, and customary representations and warranties.

We expect that we will meet all applicable financial covenants in our 2018 Credit Facility, including the maximum consolidated total lease-adjusted leverage ratio, through at least the fiscal year ending December 31, 2019. However, there can be no assurance we will meet such financial covenants. If such covenants are not met, we would be required to seek a waiver or amendment from the banks participating in the credit facility. There can be no assurance that such waiver or amendment would be granted, which could have a material adverse impact on our liquidity.

Our 2018 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.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements or obligations as of April 2, 2019.

Critical Accounting Policies and Estimates

With the adoption of ASU 2016-02, "Leases (Topic 842)," the right-of-use assets in our operating and finance leases are subject to the impairment guidance in ASC 360, "Property, Plant, and Equipment." The operating and finance lease assets are long-lived non-financial assets and are accounted for similar to our other long-lived non-financial assets, such as property and equipment and intangibles, subject to amortization. Therefore, we will review operating and finance lease assets for impairment when events or circumstances indicate the carrying value of the assets may not be recoverable.

In performing our impairment testing, we forecast our future undiscounted cash flows by looking at recent restaurant level performance, restaurant level operating plans, sales trends and cost trends for cost of sales, labor and operating expenses. We believe that this combination of information gives us a fair benchmark to estimate future undiscounted cash flows. We compare this cash flow forecast to the asset's carrying value at the restaurant. Based on this analysis, if the carrying amount of the assets is greater than the estimated future undiscounted cash flows, an impairment charge is recognized, measured as the amount by which the carrying amount exceeds the fair value of the asset.

When determining the fair value of our right-of-use assets, we will consider what market participants would pay to lease the asset (i.e., what a market participant would pay up front in one payment for the right-of-use asset, assuming no additional lease payments would be due) for its highest and best use, even if that use differs from the current or intended use by us.

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. Our significant accounting policies are described in our Annual Report on Form 10-K for the year ended January 1, 2019. 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 January 1, 2019.

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 April 2, 2019, we had \$49.3 million of outstanding borrowings under our credit facility. 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 \$0.5 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. Typically, we use these types of purchasing techniques to control costs as an alternative to directly managing financial instruments to hedge commodity prices. In many cases, we believe we will be able to address material commodity cost increases by adjusting our menu pricing or changing our product delivery strategy. However, increases in commodity prices, without adjustments to our menu prices, could 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. Over the past five years, inflation has not significantly affected our operating results with the exception of increased wage inflation that affected our results from 2015 through the first quarter of 2019. We expect wage inflation to 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 April 2, 2019, 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 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

During the fiscal quarter ended April 2, 2019, we implemented controls to ensure we properly assessed the impact of the new lease accounting standard on our consolidated financial statements to facilitate adoption of the standard on January 2, 2019. We further completed upgrades to our existing lease system to support our accounting for leases and have integrated the new system functionality with our processes and controls.

There have been no other 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.

PART II

Item 1. Legal Proceedings

In the normal course of business, we are subject to other proceedings, lawsuits and claims. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, we are unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters as of April 2, 2019. These matters could affect the operating results of any one financial reporting period when resolved in future periods. We believe that an unfavorable outcome with respect to these matters is remote or a potential range of loss is not material to our consolidated financial statements. Significant increases in the number of these claims, or one or more successful claims that result in greater liabilities than we currently anticipate, could materially adversely affect our business, financial condition, results of operations or cash flows.

Item 1A. Risk Factors

A description of the risk factors associated with our business is contained in the “Risk Factors” section of our Annual Report on Form 10-K for our fiscal year ended January 1, 2019. There have been no material changes to our Risk Factors as previously reported.

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.

Item 6. Exhibit Index

| Exhibit Number | Description of Exhibit |
|-----------------------|---|
| 31.1 | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith) |
| 101.INS | 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 | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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/ KEN KUICK

Ken Kuick

Chief Financial Officer (principal financial officer and duly authorized signatory for the registrant)

Date May 10, 2019

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Dave Boennighausen, certify that:

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

Date: May 10, 2019

/s/ DAVE BOENNIGHAUSEN

Dave Boennighausen

Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Ken Kuick, certify that:

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

Date: May 10, 2019

/s/ KEN KUICK

Ken Kuick

Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

I, Dave Boennighausen, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Noodles & Company on Form 10-Q for the fiscal quarter ended April 2, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Noodles & Company.

Date: May 10, 2019

By: /s/ DAVE BOENNIGHAUSEN

Name: Dave Boennighausen

Title: Chief Executive Officer

I, Ken Kuick, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Noodles & Company on Form 10-Q for the fiscal quarter ended April 2, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Noodles & Company.

Date: May 10, 2019

By: /s/ KEN KUICK

Name: Ken Kuick

Title: Chief Financial Officer

This certification accompanies this Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.