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 July 2, 2019

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)

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 August 2, 2019**
Class A Common Stock, $0.01 par value per share	44,111,347 shares

Table of Contents

TABLE OF CONTENTS

PART I

Item 1. Financial Statements

Noodles & Company
Condensed Consolidated Balance Sheets
(in thousands, except share and per share data)

	July 2, 2019 (unaudited)	January 1, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 3,338	$ 4,655
Accounts receivable	2,544	2,391
Inventories	9,860	9,646
Prepaid expenses and other assets	4,797	6,474
Income tax receivable	191	185
Total current assets	20,730	23,351
Property and equipment, net	134,692	138,774
Operating lease assets, net	215,347	—
Goodwill	7,154	6,400
Intangibles, net	1,057	1,291
Other assets, net	2,376	2,216
Total long-term assets	360,626	148,681
Total assets	$ 381,356	$ 172,032
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 7,567	$ 7,854
Accrued payroll and benefits	13,027	13,391
Accrued expenses and other current liabilities	8,530	11,183
Current operating lease liabilities	21,781	—
Current portion of long-term debt	938	719
Total current liabilities	51,843	33,147
Long-term debt, net	43,714	44,183
Long-term operating lease liabilities, net	233,902	—
Deferred rent	—	37,334
Deferred tax liabilities, net	133	133
Other long-term liabilities	4,861	4,554
Total liabilities	334,453	119,351
Stockholders' equity:		
Preferred stock—$0.01 par value, 1,000,000 shares authorized and undesignated as of July 2, 2019 and January 1, 2019; no shares issued or outstanding	—	—
Common stock—$0.01 par value, 180,000,000 shares authorized as of July 2, 2019 and January 1, 2019; 46,508,586 issued and 44,084,715 outstanding as of July 2, 2019 and 46,353,309 issued and 43,929,438 outstanding as of January 1, 2019	465	464
Treasury stock, at cost, 2,423,871 shares as of July 2, 2019 and January 1, 2019	(35,000)	(35,000)
Additional paid-in capital	199,978	198,352
Accumulated deficit	(118,540)	(111,135)
Total stockholders' equity	46,903	52,681
Total liabilities and stockholders' equity	$ 381,356	$ 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		Two Fiscal Quarters Ended	
	July 2, 2019	**July 3, 2018**	**July 2, 2019**	**July 3, 2018**
Revenue:				
Restaurant revenue	$ 118,858	$ 116,451	$ 227,623	$ 226,064
Franchising royalties and fees, and other	1,332	944	2,613	1,857
Total revenue	120,190	117,395	230,236	227,921
Costs and expenses:				
Restaurant operating costs (exclusive of depreciation and amortization shown separately below):				
Cost of sales	30,448	31,089	59,539	60,345
Labor	38,877	38,043	75,969	74,615
Occupancy	12,311	12,357	24,741	25,120
Other restaurant operating costs	16,858	16,875	33,314	33,773
General and administrative	11,848	14,813	21,988	25,081
Depreciation and amortization	5,661	5,797	11,168	11,617
Pre-opening	65	3	65	50
Restaurant impairments, closure costs and asset disposals	2,884	2,580	3,304	4,160
Total costs and expenses	118,952	121,557	230,088	234,761
Income (loss) from operations	1,238	(4,162)	148	(6,840)
Loss on extinguishment of debt	—	626	—	626
Interest expense, net	800	1,154	1,561	2,292
Income (loss) before income taxes	438	(5,942)	(1,413)	(9,758)
Provision (benefit) for income taxes	—	(7)	—	(248)
Net income (loss) and comprehensive income (loss)	$ 438	$ (5,935)	$ (1,413)	$ (9,510)
Earnings (loss) per share of Class A and Class B common stock, combined:				
Basic	$ 0.01	$ (0.14)	$ (0.03)	$ (0.23)
Diluted	$ 0.01	$ (0.14)	$ (0.03)	$ (0.23)
Weighted average shares of Class A and Class B common stock outstanding, combined:				
Basic	43,964,175	41,172,924	43,955,580	41,150,698
Diluted	45,075,888	41,172,924	43,955,580	41,150,698

See accompanying notes to condensed consolidated financial statements.

Noodles & Company

Condensed Consolidated Statements of Stockholders' Equity

(in thousands, except share data, unaudited)

	Fiscal Quarter Ended						
	Common Stock(1)(2)		Treasury		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance—April 2, 2019	46,370,951	$ 464	2,423,871	$ (35,000)	$ 199,110	$ (118,978)	$ 45,596
Stock plan transactions and other	137,635	1	—	—	(257)	—	(256)
Stock-based compensation expense	—	—	—	—	1,125	—	1,125
Net income	—	—	—	—	—	438	438
Balance—July 2, 2019	46,508,586	$ 465	2,423,871	$ (35,000)	$ 199,978	$ (118,540)	$ 46,903
Balance—April 3, 2018	43,559,312	$ 436	2,423,871	$ (35,000)	$ 172,240	$ (106,269)	$ 31,407
Stock plan transactions and other	131,083	1	—	—	(329)	—	(328)
Stock-based compensation expense	—	—	—	—	1,025	—	1,025
Net loss	—	—	—	—	—	(5,935)	(5,935)
Balance—July 3, 2018	43,690,395	$ 437	2,423,871	$ (35,000)	$ 172,936	$ (112,204)	$ 26,169

	Two Fiscal Quarters Ended						
	Common Stock(1)(2)		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
Stock plan transactions and other	155,277	1	—	—	(236)	$ —	(235)
Stock-based compensation expense	—	—	—	—	1,862	$ —	1,862
Adoption of ASU No. 2016-02, Leases (Topic 842)	—	—	—	—	—	$ (5,992)	(5,992)
Net loss	—	—	—	—	—	$ (1,413)	(1,413)
Balance—July 2, 2019	46,508,586	$ 465	2,423,871	$ (35,000)	$ 199,978	$ (118,540)	$ 46,903
Balance—January 2, 2018	43,550,329	$ 436	2,423,871	$ (35,000)	$ 171,613	$ (101,188)	$ 35,861
Stock plan transactions and other	140,066	1	—	—	(294)	$ —	(293)
Stock-based compensation expense	—	—	—	—	1,617	$ —	1,617
Adoption of ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606)	—	—	—	—	—	$ (1,506)	(1,506)
Net loss	—	—	—	—	—	$ (9,510)	(9,510)
Balance—July 3, 2018	43,690,395	$ 437	2,423,871	$ (35,000)	$ 172,936	$ (112,204)	$ 26,169

____

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

(2) On May 24, 2018, 1,522,098 shares of Class B common stock were converted into the same number of the Company's Class A common stock. As a result of the conversion, no shares of the Company's Class B common stock were outstanding as of July 3, 2018.

See accompanying notes to condensed consolidated financial statements.

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

	Two Fiscal Quarters Ended	
	July 2, 2019	**July 3, 2018**
Operating activities		
Net loss	$ (1,413)	$ (9,510)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	11,168	11,617
Deferred income taxes	—	(251)
Restaurant impairments, closure costs and asset disposals	2,784	3,669
Loss on extinguishment of debt	—	626
Amortization of debt issuance costs	250	363
Stock-based compensation	1,841	1,592
Changes in operating assets and liabilities:		
Accounts receivable	(143)	837
Inventories	(347)	(751)
Prepaid expenses and other assets	(904)	(1,184)
Accounts payable	(1,332)	(2,909)
Deferred rent	—	(975)
Income taxes	(6)	(46)
Operating lease assets and liabilities	(407)	—
Accrued expenses and other liabilities	(2,483)	(241)
Net cash provided by operating activities	9,008	2,837
Investing activities		
Purchases of property and equipment	(8,217)	(7,051)
Proceeds from disposal of property and equipment	352	—
Franchise restaurant acquisition, net of cash acquired	(1,387)	—
Net cash used in investing activities	(9,252)	(7,051)
Financing activities		
Net payments from swing line loan	—	(101)
Proceeds from issuance of long-term debt	—	73,389
Payments on long-term debt	(500)	(66,873)
Payments on finance leases	(338)	—
Stock plan transactions and tax withholding on share based compensation awards	(235)	(293)
Debt issuance costs	—	(1,629)
Net cash (used in) provided by financing activities	(1,073)	4,493
Net (decrease) increase in cash and cash equivalents	(1,317)	279
Cash and cash equivalents		
Beginning of period	4,655	3,361
End of period	$ 3,338	$ 3,640

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 July 2, 2019, the Company had 395 company-owned restaurants and 62 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 July 2, 2019 is referred to as the second quarter of 2019, and the fiscal quarter ended July 3, 2018 is referred to as the second 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 second quarter of 2019 or the first two quarters 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):

	July 2, 2019	January 1, 2019
Leasehold improvements	$ 196,237	$ 197,571
Furniture, fixtures and equipment	122,107	121,479
Construction in progress	6,953	3,620
	325,297	322,670
Accumulated depreciation and amortization	(190,605)	(183,896)
	$ 134,692	$ 138,774

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

	July 2, 2019	January 1, 2019
Gift card liability	$ 1,647	$ 3,284
Occupancy related - other	1,337	2,600
Utilities	1,487	1,582
Other accrued expenses	4,059	3,717
	$ 8,530	$ 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 July 2, 2019, the Company had $46.1 million of indebtedness (excluding $1.4 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 July 2, 2019 are as follows (in thousands):

Year 1	$ 938
Year 2	1,656
Year 3	1,594
Year 4	41,888
Total	$ 46,076

The Company's outstanding indebtedness bore interest at rates between 5.34% to 7.25% during the first two quarters of 2019.

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

A loss on extinguishment of debt in the amount of $0.6 million was recorded during the second quarter of 2018 in connection with this repayment.

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 July 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 July 2, 2019 and July 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		Two Fiscal Quarters Ended	
	July 2, 2019	July 3, 2018	July 2, 2019	July 3, 2018
Provision (benefit) for income taxes	$ —	$ (7)	$ —	$ (248)
Effective tax rate	—%	0.1%	—%	2.5%

The effective tax rate for the second quarter of 2019 and the first two quarters of 2019 reflect 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 rates for the second quarter of 2018 and the first two quarters 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 July 2, 2019, approximately 3.1 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		Two Fiscal Quarters Ended	
	July 2, 2019	July 3, 2018	July 2, 2019	July 3, 2018
Stock-based compensation expense	$ 1,155	$ 1,012	$ 1,881	$ 1,592
Capitalized stock-based compensation expense	$ 10	$ 13	$ 21	$ 25

7. Restaurant Impairments, Closure Costs and Asset Disposals

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

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	July 2, 2019	July 3, 2018	July 2, 2019	July 3, 2018
Restaurant impairments (1)	$ 2,276	$ 319	$ 2,465	$ 917
Closure costs (1)	173	1,519	134	2,073
Loss on disposal of assets and other	435	742	705	1,170
	$ 2,884	$ 2,580	$ 3,304	$ 4,160

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

As a result of downward pressure on the operating results of two of our restaurants, we identified these restaurants as impaired during the second quarter of 2019, and as a result, recorded an impairment charge of $2.2 million. There were no restaurant impairments during the first quarter of 2019. There were no restaurant impairments during the second quarter of 2018 and one restaurant impairment during the first two quarters 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 and the right-of-use asset based on a discounted cash flow analysis utilizing market lease rates.

Closure costs of $0.2 million in the second quarter of 2019 and $0.1 million during the first two quarters of 2019 include ongoing costs of restaurants closed in previous years, partially offset by a gain of $0.1 million and $0.4 million, respectively, relating to changes in the Company's assessment of remaining operating lease terms. The closure costs of $1.5 million recognized during the second quarter of 2018 and $2.1 million recognized during the first two quarters of 2018 are related to the seven restaurants closed in the second quarter of 2018 and nine restaurants closed in the first two quarters of 2018, most of which were approaching the expiration of their leases, as well as 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. 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		Two Fiscal Quarters Ended	
	July 2, 2019	July 3, 2018	July 2, 2019	July 3, 2018
Net income (loss)	$ 438	$ (5,935)	$ (1,413)	$ (9,510)
Shares:				
Basic weighted average shares outstanding	43,964,175	41,172,924	43,955,580	41,150,698
Effect of dilutive securities	1,111,713	—	—	—
Diluted weighted average shares outstanding	45,075,888	41,172,924	43,955,580	41,150,698
Earnings (loss) per share:				
Basic earnings (loss) per share	$ 0.01	$ (0.14)	$ (0.03)	$ (0.23)
Diluted earnings (loss) per share	$ 0.01	$ (0.14)	$ (0.03)	$ (0.23)

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 1,297,255 and 2,630,523 for the second quarter of 2019 and 2018, respectively, and totaled 3,229,030 and 3,043,387 for the first two quarters 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		July 2, 2019
Assets			
Operating	Operating lease assets, net	$	215,347
Finance	Finance lease assets, net [(1)]		1,057
Total leased assets		$	216,404
Liabilities			
Current lease liabilities			
Operating	Current operating lease liabilities	$	21,781
Finance	Current finance lease liabilities [(2)]		820
Long-term lease liabilities			
Operating	Long-term operating lease liabilities		233,902
Finance	Long-term finance lease liabilities [(2)]		300
Total lease liabilities		$	256,803

____

(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	Fiscal Quarter Ended July 2, 2019	Two Fiscal Quarters Ended July 2, 2019
Operating lease cost	Occupancy, other restaurant operating costs, and general and administrative expenses	$ 10,188	$ 20,332
Finance lease cost			
Amortization of lease assets	Depreciation and amortization	179	350
Interest on lease liabilities	Interest expense, net	20	40
		10,387	20,722
Sublease income	Franchising royalties and fees, and other	(88)	(200)
Total lease cost, net		$ 10,299	$ 20,522

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

	Operating Leases	Finance Leases	Total
Remainder of 2019	$ 21,533	$ 382	$ 21,915
2020	42,799	538	43,337
2021	42,316	216	42,532
2022	42,167	44	42,211
2023	40,832	14	40,846
Thereafter	187,239	9	187,248
Total lease payments	376,886	1,203	378,089
Less: Imputed interest	121,203	83	121,286
Present value of lease liabilities	$ 255,683	$ 1,120	$ 256,803

Operating lease payments include $89.0 million related to options to extend lease terms that are reasonably certain of being exercised over the next five years and also include $72.5 million related to operating lease payments during the option period for leases expiring beyond five years, and exclude $6.5 million of legally binding minimum lease payments for leases signed but not yet commenced.

Lease term and discount rate as of the July 2, 2019 are as follows:

	July 2, 2019
Weighted average remaining lease term (years):	
Operating	9.4
Finance	2.1
Weighted average discount rate:	
Operating	8.68%
Finance	7.16%

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

	Fiscal Quarter Ended	Two Fiscal Quarters Ended
	July 2, 2019	July 2, 2019
Cash paid for lease liabilities:		
Operating leases	$ 10,813	$ 21,506
Finance leases	160	377
	$ 10,973	$ 21,883
Right-of-use assets obtained in exchange for new lease liabilities:		
Operating leases	$ 2,049	$ 5,210
Finance leases	179	229
	$ 2,228	$ 5,439

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 two quarters ended July 2, 2019 and July 3, 2018 (in thousands):

	July 2, 2019	July 3, 2018
Interest paid (net of amounts capitalized)	$ 1,382	$ 1,973
Income taxes paid	6	49
Changes in purchases of property and equipment accrued in accounts payable, net	1,054	(1,580)

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 July 2, 2019 and January 1, 2019, the current portion of the gift card liability, $1.6 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 $3.2 million and $3.4 million for the first two quarters of 2019 and 2018, respectively. The revenue recognized from gift cards for the first two quarters of 2018 includes $0.3 million of gift card breakage that resulted from a change in the estimate for gift card unredeemed balances for the years 2014 and after. This change in estimate was a result of the Delaware Gift Card Litigation settlement in the second quarter of 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 July 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 second quarter of 2019, system-wide comparable restaurant sales increased 4.6%, comprised of a 4.8% increase for company-owned restaurants and a 3.7% 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 second 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 two quarters 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 two quarters of 2019, we did not open any new company-owned restaurants but did acquire one franchise restaurant. As of July 2, 2019, we had 395 company-owned restaurants and 62 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.

Table of Contents

Results of Operations

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

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	July 2, 2019	July 3, 2018	July 2, 2019	July 3, 2018
	(in thousands, unaudited)			
Net income (loss)	$ 438	$ (5,935)	$ (1,413)	$ (9,510)
Depreciation and amortization	5,661	5,797	11,168	11,617
Interest expense, net	800	1,154	1,561	2,292
Provision (benefit) for income taxes	—	(7)	—	(248)
EBITDA	$ 6,899	$ 1,009	$ 11,316	$ 4,151
Restaurant impairments, closure costs and asset disposals (1)	2,884	2,580	3,304	4,160
Acquisition costs (2)	—	—	36	—
Stock-based compensation expense	1,155	1,012	1,881	1,592
Litigation settlement (3)	—	3,796	—	3,796
Loss on extinguishment of debt (4)	—	626	—	626
Fees and costs related to registration statements and related transactions (5)	—	53	—	53
Severance costs (6)	—	—	—	278
Adjusted EBITDA	$ 10,938	$ 9,076	$ 16,537	$ 14,656

____

(1) The first two quarters of 2019 include the impairment of two restaurants compared to one restaurant during the same period of 2018. Additionally, the first two quarters of 2018 included closure costs of the nine restaurants closed in the first two quarters of 2018, most of which were approaching the expiration of their leases. See Note 7, Restaurant Impairments, Closure Costs and Asset Disposals.

(2) The first two quarters of 2019 includes acquisition costs related to the acquisition of one franchise restaurant.

(3) The second quarter of 2018 includes a charge of $3.4 million for the final assessment related to data breach liabilities, and a $0.3 million charge for a litigation settlement related to the Delaware gift card matter.

(4) The second quarter of 2018 includes the loss on extinguishment of debt which resulted from writing off the remaining unamortized balance of debt issuance costs related to the prior credit facility when it was repaid in full in the second quarter of 2018.

(5) The second quarter of 2018 includes expenses related to the registration statement the Company filed in the second quarter of 2018.

(6) The first two quarters 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		Two Fiscal Quarters Ended	
	July 2, 2019	July 3, 2018	July 2, 2019	July 3, 2018
Company-Owned Restaurant Activity				
Beginning of period	395	411	394	412
Openings	—	—	—	1
Acquisition (1)	—	—	1	—
Closures	—	(7)	—	(9)
Restaurants at end of period	395	404	395	404
Franchise Restaurant Activity				
Beginning of period	64	65	65	66
Openings	—	—	—	—
Divestiture (1)	—	—	(1)	—
Closures	(2)	—	(2)	(1)
Restaurants at end of period	62	65	62	65
Total restaurants	457	469	457	469

(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		Two Fiscal Quarters Ended	
	July 2, 2019	**July 3, 2018**	**July 2, 2019**	**July 3, 2018**
	(unaudited)			
Revenue:				
Restaurant revenue	98.9%	99.2 %	98.9 %	99.2 %
Franchising royalties and fees, and other	1.1%	0.8 %	1.1 %	0.8 %
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	25.6%	26.7 %	26.2 %	26.7 %
Labor	32.7%	32.7 %	33.4 %	33.0 %
Occupancy	10.4%	10.6 %	10.9 %	11.1 %
Other restaurant operating costs	14.2%	14.5 %	14.6 %	14.9 %
General and administrative	9.9%	12.6 %	9.6 %	11.0 %
Depreciation and amortization	4.7%	4.9 %	4.9 %	5.1 %
Pre-opening	0.1%	— %	— %	— %
Restaurant impairments, closure costs and asset disposals	2.4%	2.2 %	1.4 %	1.8 %
Total costs and expenses	99.0%	103.5 %	99.9 %	103.0 %
Income (loss) from operations	1.0%	(3.5)%	0.1 %	(3.0)%
Loss on extinguishment of debt	—%	0.5 %	— %	0.3 %
Interest expense, net	0.7%	1.0 %	0.7 %	1.0 %
Income (loss) before income taxes	0.4%	(5.1)%	(0.6)%	(4.3)%
Provision (benefit) for income taxes	—%	— %	— %	(0.1)%
Net income (loss)	0.4%	(5.1)%	(0.6)%	(4.2)%

Second Quarter Ended July 2, 2019 Compared to Second Quarter Ended July 3, 2018

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

	Fiscal Quarter Ended		Increase / (Decrease)	
	July 2, 2019	July 3, 2018	$	%
	(in thousands, unaudited)			
Revenue:				
Restaurant revenue	$ 118,858	$ 116,451	$ 2,407	2.1 %
Franchising royalties and fees, and other	1,332	944	388	41.1 %
Total revenue	120,190	117,395	2,795	2.4 %
Costs and expenses:				
Restaurant operating costs (exclusive of depreciation and amortization shown separately below):				
Cost of sales	30,448	31,089	(641)	(2.1)%
Labor	38,877	38,043	834	2.2 %
Occupancy	12,311	12,357	(46)	(0.4)%
Other restaurant operating costs	16,858	16,875	(17)	(0.1)%
General and administrative	11,848	14,813	(2,965)	(20.0)%
Depreciation and amortization	5,661	5,797	(136)	(2.3)%
Pre-opening	65	3	62	*
Restaurant impairments, asset disposals and closure costs	2,884	2,580	304	11.8 %
Total costs and expenses	118,952	121,557	(2,605)	(2.1)%
Income (loss) from operations	1,238	(4,162)	5,400	*
Loss on extinguishment of debt	—	626	(626)	*
Interest expense, net	800	1,154	(354)	(30.7)%
Income (loss) before income taxes	438	(5,942)	6,380	*
Provision (benefit) from income taxes	—	(7)	7	*
Net income (loss)	$ 438	$ (5,935)	$ 6,373	*
Company-owned:				
Average unit volume	$ 1,148	$ 1,092	$ 56	5.1 %
Comparable restaurant sales	4.8%	5.0%		

* Not meaningful.

Revenue

Total revenue increased $2.8 million in the second quarter of 2019, or 2.4%, to $120.2 million, compared to $117.4 million in the second quarter of 2018. This increase was primarily due to the increase in comparable restaurant sales, partially offset by the impact of restaurants closed since the beginning of second quarter of 2018, most of which were approaching the expiration of their leases.

AUV increased $56,000 compared to the prior year. AUV for the trailing twelve months was $1,148,000.

System-wide comparable restaurant sales growth was 4.6% in the second quarter of 2019, comprised of a 4.8% increase at company-owned restaurants and a 3.7% increase at franchise-owned restaurants. Comparable restaurant sales growth in the second quarter of 2019 was driven primarily by increased off-premise sales, a new menu pricing structure and corresponding mix shift benefits, partially offset by the shift in the timing of the Easter holiday, which shift resulted in a reduction in comparable restaurant sales of approximately 50 bps.

Cost of Sales

Cost of sales decreased by $0.6 million, or 2.1%, in the second quarter of 2019 compared to the same period of 2018, due primarily to ongoing supply chain savings initiatives in the second quarter of 2019. As a percentage of restaurant revenue, cost of sales decreased to 25.6% in the second quarter of 2019 compared to 26.7% in second quarter of 2018 due to leverage on higher AUVs, primarily due to increased menu price and lower expenses resulting from ongoing supply chain initiatives.

Labor Costs

Labor costs increased by $0.8 million, or 2.2%, commensurate with the growth in sales in the second quarter of 2019 compared to the same period of 2018. As a percentage of restaurant revenue, labor costs were flat at 32.7% in both the second quarters of 2019 and 2018.

Occupancy Costs

Occupancy costs were flat in the second quarters of 2019 and 2018. As a percentage of revenue, occupancy costs decreased to 10.4% in the second quarter of 2019, compared to 10.6% in the second quarter of 2018 due to leverage on higher AUV.

Other Restaurant Operating Costs

Other restaurant operating costs were flat quarter over quarter, due primarily to lower marketing spend and utilities costs, offset by increased third-party delivery fees associated with higher delivery revenues. As a percentage of restaurant revenue, other restaurant operating costs decreased to 14.2% in the second quarter of 2019 compared to 14.5% in the second quarter of 2018.

General and Administrative Expense

General and administrative expense decreased by $3.0 million in the second quarter of 2019 compared to the second quarter of 2018, primarily due to a $3.4 million charge for the final assessment related to data breach liabilities incurred during the second quarter of 2018. As a percentage of revenue, general and administrative expense decreased to 9.9% in the second quarter of 2019 from 12.6% in the second quarter of 2018.

Depreciation and Amortization

Depreciation and amortization decreased by $0.1 million, or 2.3%, in the second quarter of 2019 compared to the second quarter of 2018, due primarily to restaurants closed or impaired since the beginning of the second quarter of 2018. As a percentage of revenue, depreciation and amortization decreased to 4.7% in the second quarter of 2019 from 4.9% in the second quarter of 2018.

Restaurant Impairments, Closure Costs and Asset Disposals

Restaurant impairments, closure costs and asset disposals increased by $0.3 million in the second quarter of 2019 compared to the second quarter of 2018. In the second quarter of 2019, the Company recorded a $2.2 million impairment charge for two restaurants and incurred $0.6 million which was comprised of ongoing costs for restaurants closed in previous years, partially offset by gains related to lease re-measurements, and loss on disposal of assets. In the second quarter of 2018, we did not impair any restaurants and recognized $1.5 million of closure costs, $0.9 million related to restaurants closed 2018, most of which were approaching the expiration of their leases, and $0.6 million related to restaurants closed in previous years, and we incurred $1.1 million comprised of costs related to previously impaired restaurants and loss on disposal of assets.

Loss on Extinguishment of Debt

In May 2018, we entered into a credit facility with U.S. Bank National Association (the “2018 Credit Facility”) and repaid in full our outstanding indebtedness with Bank of America, N.A. (the “Prior Credit Facility”) using funds drawn on the 2018 Credit Facility. Upon repayment, the Prior Credit Facility and all related agreements were terminated. As a result, we wrote off the remaining unamortized balance of debt issuance costs related to the Prior Credit Facility and recognized a loss on extinguishment of debt in the amount of $0.6 million in the second quarter of 2018.

Interest Expense

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

Provision (Benefit) from Income Taxes

The effective tax rate was 0.0% for the second quarter of 2019 compared to 0.1% for the second quarter of 2018. The effective tax rate for the second quarter of 2019 reflects the impact of the previously recorded valuation allowance. The effective tax rate for the second 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.

Two Quarters Ended July 2, 2019 Compared to Two Quarters Ended July 3, 2018

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

	Two Fiscal Quarters Ended		Increase / (Decrease)	
	July 2, 2019	July 3, 2018	$	%
	(in thousands, except percentages)			
Revenue:				
Restaurant revenue	$ 227,623	$ 226,064	$ 1,559	0.7 %
Franchising royalties and fees	2,613	1,857	756	40.7 %
Total revenue	230,236	227,921	2,315	1.0 %
Costs and expenses:				
Restaurant operating costs (exclusive of depreciation and amortization shown separately below):				
Cost of sales	59,539	60,345	(806)	(1.3)%
Labor	75,969	74,615	1,354	1.8 %
Occupancy	24,741	25,120	(379)	(1.5)%
Other restaurant operating costs	33,314	33,773	(459)	(1.4)%
General and administrative	21,988	25,081	(3,093)	(12.3)%
Depreciation and amortization	11,168	11,617	(449)	(3.9)%
Pre-opening	65	50	15	30.0 %
Restaurant impairments, asset disposals and closure costs	3,304	4,160	(856)	(20.6)%
Total costs and expenses	230,088	234,761	(4,673)	(2.0)%
Income (loss) from operations	148	(6,840)	6,988	*
Loss on extinguishment of debt	—	626	(626)	*
Interest expense, net	1,561	2,292	(731)	(31.9)%
Loss before income taxes	(1,413)	(9,758)	8,345	*
Provision (benefit) for income taxes	—	(248)	248	*
Net loss	$ (1,413)	$ (9,510)	$ 8,097	*
Company-owned:				
Average unit volumes	$ 1,148	$ 1,092	$ 56	5.1 %
Comparable restaurant sales	3.9%	2.4%		

* Not meaningful.

Revenue

Total revenue increased by $2.3 million, or 1.0%, in the first two quarters of 2019, to $230.2 million compared to $227.9 million in the same period of 2018. This increase was due to the increase in comparable restaurant sales, partially offset by the impact of restaurants closed since the beginning of the second quarter of 2018, most of which were approaching the expiration of their leases.

Comparable restaurant sales increased by 3.9% at company-owned restaurants, increased by 3.2% at franchise-owned restaurants and increased by 3.8% system-wide in the first two quarters of 2019.

Cost of Sales

Cost of sales decreased by $0.8 million, or 1.3%, in the first two quarters of 2019 compared to the same period of 2018, due primarily to ongoing supply chain savings initiatives. As a percentage of restaurant revenue, cost of sales decreased to 26.2% in the first two quarters of 2019 compared to 26.7% in the first two quarters of 2018 primarily due to reduced discounting.

Labor Costs

Labor costs increased by $1.4 million, or 1.8%, in the first two quarters of 2019 compared to the same period of 2018, due primarily to the increase in restaurant revenue in the first two quarters of 2019. As a percentage of restaurant revenue, labor costs increased to 33.4% in the first two quarters of 2019 compared to 33.0% in the first two quarters of 2018. The increase as a percentage of restaurant revenue was driven by wage inflation and training investments, partially offset by labor efficiencies.

Occupancy Costs

Occupancy costs decreased by $0.4 million, or 1.5%, in the first two quarters of 2019 compared to the first two quarters of 2018. As a percentage of revenue, occupancy costs decreased to 10.9% in first two quarters of 2019, compared to 11.1% in the first two quarters of 2018, primarily due to leverage on higher AUV.

Other Restaurant Operating Costs

Other restaurant operating costs decreased by $0.5 million, or 1.4%, in the first two quarters of 2019 compared to the first two quarters of 2018, due primarily to lower marketing spend and utilities costs partially offset by off-premise investments. As a percentage of restaurant revenue, other restaurant operating costs decreased to 14.6% in the first two quarters of 2019, compared to 14.9% in the first two quarters of 2018.

General and Administrative Expense

General and administrative expense decreased by $3.1 million, or 12.3%, in the first two quarters of 2019 compared to the first two quarters of 2018, due primarily to the recognition of a $3.4 million charge for the final settlement related to the data breach liabilities in the second quarter of 2018, partially offset by an increase in wages primarily related to key executive positions in the first two quarters of 2019. As a percentage of revenue, general and administrative expense decreased to 9.6% in the first two quarters of 2019 compared to 11.0% in the first two quarters of 2018.

Depreciation and Amortization

Depreciation and amortization decreased by $0.4 million, or 3.9%, in the first two quarters of 2019 compared to the first two quarters of 2018. As a percentage of revenue, depreciation and amortization decreased to 4.9% in the first two quarters of 2019, compared to 5.1% in the first two quarters of 2018, due to restaurants impaired or closed in prior quarters.

Pre-Opening Costs

Pre-opening costs remained modest and flat in the first two quarters of 2019 and 2018.

Restaurant Impairments, Closure Costs and Asset Disposals

Restaurant impairments, closure costs and asset disposals decreased by $0.9 million in the first two quarters of 2019 compared to the first two quarters of 2018. In the first two quarters of 2019, the Company recorded a $2.2 million impairment charge for two restaurants and incurred $0.8 million which was comprised of ongoing costs for restaurants closed in previous years, partially offset by gains related to lease re-measurements, and loss on disposal of assets. In the first two quarters of 2018, we impaired one restaurant and recognized $2.1 million of closure costs, $0.9 million related to restaurants closed 2018, most of which were approaching the expiration of their leases, and $1.2 million related to restaurants closed in previous years, and we incurred $1.2 million loss on disposal of assets.

Loss on Extinguishment of Debt

In May 2018, we entered into the 2018 Credit Facility and repaid in full our outstanding indebtedness under the Prior Credit Facility using funds drawn on the 2018 Credit Facility. As a result, we wrote off the remaining unamortized balance of debt issuance costs related to the Prior Credit Facility and recognized a loss on extinguishment of debt in the amount of $0.6 million in the second quarter of 2018.

Interest Expense

Interest expense decreased by $0.7 million in the first two quarters of 2019 compared to the same period of 2018. The decrease was largely due to the lower average borrowings partially offset by a higher average interest rate in the first two quarters of 2019 compared to the first two quarters of 2018, and higher amortization of debt issuance costs.

Provision for Income Taxes

The effective tax rate was 0.0% for the first two quarters of 2019 compared to 2.5% for the first two quarters of 2018. The effective tax rate for the first two quarters of 2019 reflects the impact of the previously recorded valuation allowance. The effective tax rate for the first two quarters of 2018 reflects changes made by the Tax Act, which enabled the Company to release a portion of the previously recorded valuation allowance as a benefit from income tax. 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 July 2, 2019, our available cash and cash equivalents balance was $3.3 million and $39.9 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):

	Two Fiscal Quarters Ended	
	July 2, 2019	July 3, 2018
Net cash provided by operating activities	$ 9,008	$ 2,837
Net cash used in investing activities	(9,252)	(7,051)
Net cash (used in) provided by financing activities	(1,073)	4,493
Net (decrease) increase in cash and cash equivalents	$ (1,317)	$ 279

Operating Activities

Net cash provided by operating activities increased to $9.0 million in the first two quarters of 2019 from $2.8 million in the two quarters of 2018. The improvement in operating cash flows resulted primarily from better operating results during the first two quarters of 2019 compared to the prior comparable period, adjusted for non-cash items such as depreciation and amortization, restaurant impairments, closure costs and asset disposals, a decrease in payments made on lease termination settlements related to closed restaurants, and changes in working capital due to timing.

Investing Activities

Net cash used in investing activities increased $2.2 million in the first two quarters of 2019 from $7.1 million in the first two quarters of 2018. This increase is due to construction activities on new restaurant development and the purchase of one franchise restaurant. Both periods include reinvestments in existing restaurants and investments in technology.

Financing Activities

Net cash used in financing activities was $1.1 million in the first two quarters of 2019 largely related to repayments of long-term debt. The first two quarters of 2018 included net proceeds received from borrowings made from the new credit facility, net of repayments to extinguish the prior credit facility.

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 $6.0 million to $11.0 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 prior credit facility using funds drawn on its 2018 Credit Facility. Upon repayment, the prior credit facility and all related agreements were terminated.

As of July 2, 2019, we had $46.1 million of indebtedness (excluding $1.4 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 July 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 July 2, 2019, we had $46.1 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 two quarters 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 July 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

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.

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 July 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 August 6, 2019

Exhibit 31.1

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: August 6, 2019

/s/ DAVE BOENNIGHAUSEN

Dave Boennighausen

Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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: August 6, 2019

/s/ KEN KUICK

Ken Kuick
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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 July 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: August 6, 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 July 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: August 6, 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.