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

FORM 10-K

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

For the fiscal year ended December 28, 2021

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)	**(IRS Employer Identification No.)**
520 Zang Street, Suite D **Broomfield, CO**	**80021**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (720) 214-1900

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, par value $0.01 per share	**NDLS**	**Nasdaq Global Select Market**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No x

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 x 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 x No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates as of June 29, 2021, the last business day of the registrant's most recently completed second fiscal quarter, was $587.7 million. This amount was calculated based on the closing price of the common stock on June 29, 2021 on the Nasdaq Global Select Market. All executive officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant.

As of February 18, 2022, there were 45,705,041 shares of the registrant's Class A common stock, par value of $0.01 per share outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement relating to its 2022 Annual Meeting of Stockholders, to be held on or about May 10, 2022, are incorporated by reference into Part III of this Annual Report on Form 10-K, where so indicated. Such proxy statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

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PART I

ITEM 1. Business

General

Noodles & Company is a restaurant concept offering lunch and dinner within the fast-casual segment of the restaurant industry. Our core offerings include noodle and pasta dishes, staples of many different cuisines, with the goal of delivering fresh ingredients and flavors from around the world under one roof. Today, our globally-inspired menu includes a wide variety of high quality, cooked-to-order dishes, including noodles and pasta, salads, soups and appetizers. We believe that we offer our customers value, with per person spend of $11.25. As of December 28, 2021 we operated 448 restaurants in 29 states, which included 372 company locations and 76 franchise locations.

We offer more than 20 globally-inspired dishes together on a single menu that can be enjoyed inside our restaurants, taken to-go, or delivered to our customers. We believe we will benefit from trends in consumer preferences such as the increasing desire for convenience and to engage with brands digitally, as well as the broader demand for international cuisines. At many restaurants, customers are limited to a particular ethnic cuisine or type of dish, such as a sandwich, burrito or burger. At Noodles & Company, we aim to eliminate the “veto vote” by satisfying the preferences of a wide range of customers, whether a family or parent with kids, a group of coworkers, an individual or a large party.

Our menu is well suited for off-premise dining occasions in which customers order at our restaurant or online but then eat their meal from the comfort of their home or office. Our menu items travel particularly well, and our digital capabilities as well as the breadth of our menu position the brand well for changing consumer trends around convenience. We also believe that our globally-inspired menu, focused on noodle and pasta dishes, differentiates us from other restaurants. We believe our attributes—global flavors, variety, dishes prepared-to-order and fast service—allow us to compete against multiple segments throughout the restaurant industry and provide us a larger addressable market for lunch and dinner than competitors who focus on a single cuisine. We strive to provide a pleasant dining, pick-up or delivery experience by quickly preparing fresh food with friendly service at a price point we believe is attractive to our customers.

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. We refer to our Class A Common Stock, par value $0.01 per share, as our “common stock.”

Our Ongoing Response to the COVID-19 Pandemic

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

The Company continues to prioritize health and safety measures under the advisory of the Centers for Disease Control (“CDC”). Since the onset of the COVID-19 pandemic and during 2021, the Company took several safety measures, including:

- Increased cleaning and sanitizing protocols;
- Incentivizing team members to obtain vaccinations;
- Paid time off for COVID-related illnesses;
- Requirements for wearing of masks by all team members and guests, when locally mandated; and
- Health screening process for all team members before the start of each shift.

Our Concept and Business Strengths

Convenience. Our customers experience the Noodles brand through our company-owned and franchise operated locations, through our website www.noodles.com and through our mobile app. In 2021, approximately 57% of our sales were derived from digital ordering, where guests have the opportunity to select in-restaurant quick pick-up, curbside service or delivery to their home or office. In select restaurants, particularly new locations, we offer the added convenience of order-ahead drive through windows.

We believe that the breadth of ways that consumers can access our brand, the variety inherent in our menu, and how well our food travels is a business strength in relation to consumer trends towards convenience.

Variety. We have purposefully chosen a range of healthy to indulgent dishes to satisfy multiple dietary and lifestyle preferences. Our menu encourages customers to customize their meals to meet their tastes and nutritional preferences with our selection of a variety of fresh vegetables and six proteins. Additionally, customers are able to customize the noodle that their dish is prepared with, including healthy options such as our zucchini noodle ("Zoodles"), cauliflower infused rigatoni ("Caulifloodles"), and gluten free pipette noodles.

All of our dishes are cooked-to-order with fresh, high quality ingredients sourced from our carefully selected suppliers. Our commitment to the freshness of our ingredients is further demonstrated by our use of seasonal ingredients and healthy add-in options such as seasoned tofu. Our culinary team strives to develop new dishes and limited time offerings to further reinforce our brand positioning and regularly provide our customers additional options. Choice and customization has always been a great strength of the brand, and we continue to innovate in ways that allow guests to enjoy the world flavors they know and love, as well as discover new ones with all of the benefits of healthier options. This focus on culinary innovation allows us to prepare and serve high quality food, meet changing consumer trends and acquire new customers. As we add healthy alternatives, we additionally from time to time introduce more classic noodle and pasta dishes, such as our Tortelloni, which we introduced in the Spring of 2021 and was the highest menu mix of any new offering in our Company's history.

Value. The quality of our food and the welcoming ambiance of our restaurants creates an overall customer experience that we believe is unique and differentiated. Our per person spend is competitive not only within the fast-casual segment, but also within the quick-service segment. We deliver value by combining a family-friendly dining environment with the opportunity to enjoy many dishes containing a variety of fresh ingredients. We also offer kids meals which, at a fixed low price, provide the opportunity for parents to feed their children a balanced meal with sides such as broccoli, applesauce and a smaller portion of our house made rice crispy treat.

Our Brand Experience. Our locations are designed individually, which we believe creates an inviting restaurant environment. We believe the ambiance is warm and welcoming, with muted lighting and colors, comfortable seating and our own custom music mix, which is intended to make our customers feel relaxed and at home. We believe we deliver an exceptional overall dining experience. Our customers expect not only great food from our restaurants, but also warm hospitality and attentive service.

Consistent with our culture of enhanced customer service, we seek to hire and retain individuals who will deliver prompt, attentive service by engaging customers the moment they enter our restaurants. Our training philosophy empowers both our restaurant managers and team members, also referred to as employees, to add a personal touch when engaging with our customers. Our restaurant managers are critical to our success, as we believe that their entrepreneurial spirit and outreach efforts build our brand in our communities.

Our guests also experience the Noodles brand through our digital platforms, including orders placed on our website or our mobile app, contactless and in-restaurant pick-ups and delivery through our own channels or a third party aggregator. Our multi-channel approach allows us to adapt to potential changes in customer behavior, and has been strengthened by our investments in our off-premise channel, such as our elevated technology capabilities and our quick-pick up counters. Additionally, in the majority of our locations, we provide curbside pick-up available to our guests directly through our mobile app. Finally, the majority of our new locations have incorporated order ahead drive-thru windows to increase our level of convenience.

Our Operational Strategy

We believe our brand and globally-inspired menu resonates with consumers, and we believe our restaurants, team members and online engagement provide customers a unique and high-quality experience. We are focused on offering customers flavorful, cooked-to-order dishes in a warm and welcoming environment at an attractive value.

Restaurant initiatives. Our plan to improve our performance includes the following four key strategies:

- *Enhancing convenience for our customers*. We have meaningfully improved convenience for customers during the past few years. In 2019, we relaunched our digital platform making it easier for guests to navigate our menu and customize their orders. The digital platform introduced a new and improved *Noodles Rewards* program that incorporates points and tier-based rewards to further customer engagement. We believe there still remains a significant opportunity to enhance our *Noodles Rewards* program and digital experience for our guests. Additionally, we have reduced friction for off-premise channels by allowing our guests to have their meals delivered curbside by using features on our Noodles app or to use our quick pick-up counter within our locations. Finally, we continue to offer an additional level of convenience for our customers through our third-party delivery program.

- *Focusing on our global flavors and menu offerings.* We believe that our globally-inspired menu, focused on noodle and pasta dishes, differentiates us from other restaurants. We also believe this global variety, which includes a range of healthy to indulgent dishes that are cooked to order with fresh, high-quality ingredients, remains a competitive strength. We believe we have significant potential to broaden awareness and drive new guests with our zucchini and cauliflower-infused dishes. In addition, we are in development and test of a new healthy based product linguine to further strengthen our healthy offerings. Additionally, we continue to evolve our core offerings to increase the frequency of our loyal guests.

- *Improving efficiencies and unit-level margins.* The increased demand for off-premise and digital sales has accelerated our ability to optimize our staffing model and vendor efficiencies. We are actively enhancing our supply chain and food preparation procedures to reduce inbound ingredient costs and improve labor efficiency. For example, we have identified several food ingredients that meet our high-quality standards and were already prepared when delivered to restaurants, either sliced, peeled, seasoned or cooked, to reduce labor hour and optimize our pre-service prep processes. Additionally, during 2021 we completed our Kitchen of the Future initiative which improved our sales-based labor model to more efficiently staff our restaurants, optimized scheduling for food preparation and reduced our labor hours from our Noodle Ambassadors who serve as front of house cashiers. The Kitchen of the Future initiative also included the rollout of new steamer equipment into all of our restaurants, which improved cook times and increase labor efficiency. We believe further opportunity exists to optimize our restaurant efficiencies to help offset increases in food and wage inflation.

- *Improving manager selection, training and development of our teams.* Team member retention is a critical component to our success. We have increased our focus on the selection, training and development of our restaurant teams by implementing certain changes to our restaurant compensation program and an expanded benefits program. Our previous investments in extensive training tools and learning management systems have improved overall training execution, improved employee turnover and encouraged career development within our teams.

Restaurant Portfolio and Franchising

Restaurant Portfolio. As of December 28, 2021, we had 372 company-owned restaurants and 76 franchise restaurants in 29 states. Our restaurants are typically between 2,000 and 2,600 square feet and are located in end-cap, in-line or free-standing locations across a variety of suburban, collegiate and urban markets. We are currently executing a smaller square footage design which largely includes order ahead drive-thru windows as we embed our new operating model into new restaurants. We anticipate that this design will better facilitate future expansion and better meet the needs of the changing consumer experience.

Restaurant Development. In 2021, we initiated a disciplined development pipeline to achieve new unit growth of approximately 8% in 2022, with 10% unit growth thereafter. We anticipate this unit growth to include a combination of both company and franchise development. In 2021, we opened six new company-owned restaurants.

Franchising. As of December 28, 2021, we had 76 franchise units in 16 states operated by 9 franchisees. In 2021, our franchisees opened one restaurant and closed one restaurant. We have a total of nine area developers who have signed development agreements providing for the opening of 68 additional restaurants in their respective territories. Additionally, in January of 2022 we completed the sale of 15 restaurants to a new franchise partner and with a commitment to open 40 additional locations. We expect franchising to be a larger part of our growth strategy in future years. We look for experienced, well-capitalized franchise partners who are able to leverage their existing infrastructure and local knowledge in a manner that benefits both our franchisees and us. We expect to continue to offer development rights in markets where we do not intend to build company-owned restaurants. We may offer such rights to larger developers who commit to open 10 or more units, or to smaller developers who may commit to open fewer restaurants. We do not currently intend to offer single-unit franchises. We believe the strength and attractiveness of our brand will attract experienced and well-capitalized area developers.

Certain Restaurant Closures. We closed twelve company-owned restaurants in 2021, most of which were at or approaching the expiration of their leases or in trade areas that are not as well positioned for current consumer trends. We currently do not anticipate a significant number of restaurant closures for the foreseeable future; however, we may from time to time close or relocate certain restaurants, that are at, or near, the expiration of their leases or in trade areas that are not as well positioned for current consumer trends.

Site Development and Expansion

We consider our site selection and development process critical to our long-term success. We have used a combination of our own internal team and outside real estate consultants to locate, evaluate and negotiate new sites using various criteria. In making site selection decisions, we use several analytical tools designed to uncover the key site, demographic, business, retail, competitive and traffic characteristics that drive successful locations. Once a location has been approved by our executive-level selection committee, we begin a design process to match the characteristics and feel of the location to the trade area.

Restaurant Management and Operations

Friendly Team Members. We believe our genuine, friendly team members separate us from our competitors. We value the individuality of our team members, which we believe results in a management, operations and training philosophy distinct from that of our competitors. We strive to hire team members who share our values, a passion for food, have a competitive spirit and will operate our restaurants in a way that is consistent with our high standards. We seek to hire individuals who will deliver prompt, attentive service by engaging customers at all points during the Noodles brand experience. We empower our team members to enrich the experience of our customers and directly address any concerns that may arise in a manner that contributes to the success of our business.

Restaurant Management and Employees. Each restaurant typically has a general manager, an assistant general manager, multiple shift managers and team members. We cross-train our employees in an effort to create a depth of competency in our critical restaurant functions. To lead our restaurant management teams, we have area managers (each of whom is responsible for between five and 10 restaurants), as well as regional directors (each of whom is responsible for between approximately 50 and 60 restaurants).

Training and Career Development. We believe that our training efforts create a culture of continuous learning and professional growth that allows our team members to continue their career development with us. Within each restaurant, two to four team members are designated to lead the training efforts and ensure a consistent approach to team member development. We produce training materials that encourage individual contributions and participation from our team members while also requiring adherence to certain guidelines and procedures.

Food Preparation and Quality. Our teams use classic professional cooking methods, including sautéing many of our vegetables, in full kitchens resembling those of full-service restaurants. All team members, including our restaurant managers, spend their first several days working solely with food and learning these techniques, and we spend a significant amount of time ensuring that each team member learns how to prepare and cook our food properly.

The majority of our restaurants have exhibition-style kitchens. This design demonstrates our commitment to cooking fresh food in an accessible manner. We provide each customer with individual attention and make every effort to respond to customer suggestions and concerns in a personal and hospitable way.

We require all of our dishes to be cooked to order at food safe temperatures or, in the case of salads, subject to our produce washing protocols, which helps to ensure that the food we serve to our customers is safe. We have designed our food safety and quality assurance programs to maintain high standards for our food and food preparation procedures. Our director of quality assurance oversees comprehensive restaurant and supplier audits based upon the potential food safety risk of each food. We also consider food safety and quality assurance when selecting our distributors and suppliers. Our suppliers are inspected by federal, state and local regulators or other reputable, qualified inspection services, which helps ensure their compliance with all federal food safety and quality guidelines. We regularly inspect our suppliers to ensure that the ingredients we buy conform to our quality standards and that the prices we pay are competitive. We also rely on our own recipes, specifications and protocols to ensure that our food is consistently the best quality that is possible when it is served, including a physical examination of ingredients when they arrive at our restaurants. We train our employees to pay detailed attention to food quality at every stage of the food preparation cycle, and we have developed a daily checklist that our employees use to assess the freshness and quality of food supplies. Finally, we encourage our customers to provide feedback regarding our food quality so that we can identify and resolve problems or concerns as quickly as possible.

Restaurant Marketing

Our strategic marketing efforts seek to drive sales and increase brand loyalty by highlighting our competitive strengths through a variety of channels including digital marketing, social media, public relations, guest engagement and local marketing. We focus on attributes that set us apart including the breadth and customization of our menu and our best-in-class convenience offerings, and ultimately use a data-driven approach to guide our strategy.

- *Our Menu Offering.* At the heart of our marketing is our ongoing mission to always nourish and inspire every team member, guest and community we serve. We focus some of our marketing efforts on new menu offerings to broaden our appeal to our customers. Most of these marketing efforts are focused on prompt consumer action to directly drive traffic.

- *Loyalty Program.* Our *Noodles Rewards* program has more than 4.0 million members and allows us to build a relationship with each guest. The program allows guests to accumulate reward points associated with each purchase that can be redeemed for offers such as free bowls, shareables and delivery. Rewards members are typically the first to learn about new offerings, and in some cases are provided exclusive access to certain menu items, which allows us to build a relationship with each guest.

- *Seamless Digital Experiences.* Digital properties inclusive of our website and our app, offer guests a differentiated and seamless ordering experience. From exploring and selecting new dishes, to finding the perfect shareable, or redeeming rewards points, our digital experience has been carefully designed to highlight our food without the hassle. The information on or available through our website is not, and should not be considered, a part of this report.

- *Digital Marketing.* We use targeted digital advertising across all markets spanning email, search, display, social, video and other related channels. This helps to increase top of mind awareness with potential guests and drives frequency, trial and guest spend. We leverage zero and first party data to drive effective and efficient advertising spend, ensuring we are improving the return on our investment. In addition, digital advertising provides us with the opportunity to promote specific product categories, highlight convenient off-premise offerings such as curbside and direct delivery and encourage consumer action, resulting in immediate increases in our customer traffic and long-term customer loyalty.

Human Capital Management

We believe the strength of our workforce is one of the significant contributors to our success as a brand. This is largely attributed to our team members who strive every day to create an environment for our guests where they feel welcomed and cared for. Therefore, one of our strategic priorities is to develop people as a differentiator, including investing in the following areas of focus:

Oversight and Management. We recognize the diversity of our team members, guests and communities, and believe in creating an inclusive and equitable environment that represents a broad spectrum of backgrounds and cultures. Working under these principles, our Human Resources department is tasked with managing employment-related matters, including recruiting and hiring, onboarding and training, compensation and benefit planning, performance management and talent development. Our management and cross-functional teams also work closely to evaluate human capital management issues such as team member retention, workplace safety, harassment and bullying, as well as to implement measures to mitigate these risks.

Our Board of Directors and Board committees provide oversight on certain human capital matters as part of their overall engagement in our Environmental, Social and Governance practices. Our Compensation Committee, with input from members of our management and a third party compensation consultant who provides benchmarked data, has responsibility for administering and approving annually certain elements of compensation, including our incentive compensation plans and equity-based plans. Management provides input into the design of our incentive compensation programs to ensure that these programs support the Company’s business objectives and strategic priorities. The annual business plan initially established by our management, but approved by our Board, is an important element of our Compensation Committee’s decision-making process for performance measures and goals.

Total Rewards. We have demonstrated a history of investing in our workforce by offering competitive salaries and wages. To foster a stronger sense of ownership and align the interests of our team members with shareholders, restricted stock units are provided to eligible team members under our stock incentive programs. Additionally, we provide incentive compensation through annual bonus plans for all eligible team members. Furthermore, we offer comprehensive, targeted and innovative benefits to all eligible team members. This includes comprehensive health, dental and vision insurance coverage, a 401(k) program and paid time off.

In 2020, we announced the expansion of our already comprehensive team member benefits program called *LifeAtNoodles.* The new benefits include education, wellness, family planning, expanded time off and recognition initiatives for all team members.

- *Mental Health.* Our new benefits prioritize mental health by offering free in-person and virtual counseling for all team members. We also offer mental health awareness live webinars, focusing on identifying mental health symptoms, and supporting individuals with mental health issues to ensure all team members are supported.

- *Family Planning.* We also support team members growing families by offering six weeks of paid paternity leave and surrogacy and adoption assistance for qualifying team members of up to $10,000. This is in addition to our exceptional phase-in and phase-out maternity leave which includes 100% pay for a reduced schedule during the four weeks before and after the arrival of a child.

- *Tuition*. We offer tuition assistance for all team members and their immediate family to help families meet their educational goals and career aspirations.

We are continually focused on how we can offer the best workplace in our industry and we are proud of these benefits that honor our commitment to inclusion and diversity. We released our first Nourish & Inspire impact report in October of 2021 detailing the progress we have made across four important areas of our business: food, people, planet, and community,

As of December 28, 2021, we had approximately 8,000 employees, including approximately 600 salaried employees and approximately 7,400 hourly employees. None of our employees are unionized or covered by a collective bargaining agreement, and we consider our current employee relations to be good.

Suppliers

Maintaining a high degree of quality in our restaurants depends in part on our ability to acquire fresh ingredients and other necessary supplies that meet our specifications from reliable suppliers. We carefully select suppliers based on quality and their understanding of our brand, and we seek to develop mutually beneficial long-term relationships with them. We work closely with our suppliers and use a mix of forward, fixed and formula pricing protocols. In some cases, we have made efforts to increase the number of suppliers for our ingredients, which we believe can help mitigate pricing volatility. We monitor industry news, trade issues, weather, crises and other world events that may affect supply prices. In addition, a substantial volume of our produce items are grown in Mexico and other countries and any new or increased import duties, tariffs or taxes, or other changes in U.S. trade or tax policy, could result in higher food and supply costs.

Seasonality/Quarterly Financial Information

Seasonal factors and the timing of holidays 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 higher in the second and third quarters. Other factors also have a seasonal effect on our results. For example, restaurants located near colleges and universities generally do more business during the academic year. Seasonal factors, however, might be moderated or outweighed by other factors that may influence our quarterly results, such as worldwide health pandemics, fluctuations in food or packaging costs, or the timing of menu price increases or promotional activities and other marketing initiatives.

Our quarterly results are also affected by other factors such as the amount and timing of non-cash stock-based compensation expense and related tax rate impacts, impairment charges and non-operating costs, timing of marketing or promotional expenses, the number and timing of new restaurants opened in a quarter, and closure of restaurants. New restaurants typically have higher operating costs following opening because of the expenses associated with their opening and operating inefficiencies in the months immediately following opening. Accordingly, results for a particular quarter are not necessarily indicative of results to be expected for any other quarter or for any year.

Competition

We face competition from the casual dining, quick-service and fast-casual segments of the restaurant industry. These segments are highly competitive with respect to taste, price, food quality and presentation, service, location and the ambiance and condition of each restaurant, among other things. Our competition includes a variety of locally owned restaurants and national and regional chains who offer dine-in, carry-out and delivery services. Many of our competitors have existed longer and have a more established market presence with substantially greater financial, marketing, personnel and other resources than we have. Among our competitors are a number of multi-unit, multi-market fast-casual restaurant concepts, some of which are expanding nationally. As we expand, we will face competition from these concepts and new competitors that strive to compete with our market segments.

We also face competition from firms outside the restaurant industry, such as grocery stores and home meal replacement services, who sell prepared meals for takeout and in some cases, offer delivery service.

Intellectual Property and Trademarks

We own a number of trademarks and service marks registered or pending with the U.S. Patent and Trademark Office (“PTO”). We also have certain trademarks registered or pending in certain foreign countries. In addition, we own the Internet domain name *www.noodles.com*. The information on, or that can be accessed through, our website is not part of this report. We believe that our trademarks, service marks and other intellectual property rights have significant value and are important to the marketing of our brand, and it is our policy to protect and defend vigorously our rights to such intellectual property.

Governmental Regulation and Environmental Matters

We are subject to extensive and varied federal, state and local government regulation, including regulations relating to public and occupational health and safety, sanitation and fire prevention. We operate each of our restaurants in accordance with standards and procedures designed to comply with applicable codes and regulations. However, an inability to obtain or retain health department or other licenses could adversely affect our operations. Although we have not experienced, and do not anticipate, any significant difficulties, delays or failures in obtaining required licenses, permits or approvals, any such problem could delay or prevent the opening of, or adversely impact the viability of, a particular restaurant or group of restaurants.

In addition, in order to develop and construct restaurants, we need to comply with applicable zoning, land use and environmental regulations. Federal and state environmental regulations have not had a material effect on our operations to date, but more stringent and varied requirements of local governmental bodies with respect to zoning, land use and environmental factors could delay or even prevent construction and increase development costs for new restaurants. We are also required to comply with the accessibility standards mandated by the U.S. Americans with Disabilities Act (“ADA”), which generally prohibits discrimination in accommodation or employment based on disability. We may in the future have to modify restaurants, for example by adding access ramps or redesigning certain architectural fixtures, to provide service to or make reasonable accommodations for disabled persons. While these expenses could be material, our current expectation is that any such actions will not require us to expend substantial funds.

In addition, we are subject to the U.S. Fair Labor Standards Act, the U.S. Immigration Reform and Control Act of 1986, the Occupational Safety and Health Act and various other federal and state laws governing similar matters including minimum wages, overtime, workplace safety and other working conditions. Our failure to fully comply with these laws could subject us to potential litigation and liability. We are also subject to various laws and regulations relating to our current and any future franchise operations.

We are also subject to the Patient Protection and Affordable Care Act of 2010 (the “PPACA”), which requires health care coverage for many previously uninsured individuals and expands coverage for those already insured. We began offering such benefits in 2015.

We are subject to federal, state and local environmental laws and regulations concerning waste disposal, pollution, protection of the environment and the presence, discharge, storage, handling, release and disposal of, or exposure to, hazardous or toxic substances (“environmental laws”). These environmental laws can provide for significant fines and penalties for non-compliance and liabilities for remediation, sometimes without regard to whether the owner or operator of the property knew of, or was responsible for, the release or presence of the hazardous or toxic substances. Third parties may also make claims against owners or operators of properties for personal injuries and property damage associated with releases of, or actual or alleged exposure to, such substances. We are not aware of any environmental laws that will materially affect our earnings or competitive position, or result in material capital expenditures relating to our restaurants. However, we cannot predict what environmental laws will be enacted in the future, how existing or future environmental laws will be administered, interpreted or enforced, or the amount of future expenditures that we may need to make to comply with, or to satisfy claims relating to, environmental laws. It is possible that we will become subject to environmental liabilities at our properties, and any such liabilities could materially affect our business, financial condition or results of operations.

Management Information Systems

We use a variety of applications and systems to securely manage the flow of information within each restaurant, and within our central support office infrastructure. All of our restaurants use computerized management information systems, which we believe are scalable to support any future growth plans. We use point-of-sale (“POS”) computers designed specifically for the restaurant industry. Our POS system provides a touch screen interface, a graphical order confirmation display and integrated, high-speed credit card and gift card processing. Our online ordering system allows customers to place orders online or through our mobile app. Orders taken remotely are routed to the point-of-sale system based on the time of customer order pickup. The POS system is used to collect daily transaction data, which generates information about daily sales, product mix and average check that we actively analyze. All products sold and prices at our company-owned restaurants are programmed into the system from our central support office. We also continue to modernize and make investments in our information technology networks and infrastructure, specifically in our physical and technological security measures, to anticipate cyber-attacks and defend against breaches and to provide improved control, security and scalability. Enhancing the security of our financial data, customer information and other personal information is a high priority for us.

Our in-restaurant back office computer system is designed to assist in the management of our restaurants and provide labor and food cost management tools. These tools provide restaurant operations management and our central support office quick access to detailed business data and reduces restaurant managers’ administrative time. The system provides our restaurant managers the ability to submit orders electronically with our distribution network. The system also supplies sales, bank deposit and variance data to our accounting department on a daily basis. We use this data to generate daily sales information and weekly consolidated reports regarding sales and other key measures.

Franchisees use similar point of sale systems and are required to report sales on a daily basis through an online reporting network and submit their restaurant-level financial statements on a quarterly and annual basis. We also offer certain restaurant technology support services to our franchisees.

Financial Information About Segments

We operate as a single accounting segment. Financial information related to our business is included in Item 8 of this Annual Report on Form 10-K.

Available Information

We maintain a website at *www.noodles.com*, including an investor relations section at *investor.noodles.com*, on which we routinely post important information, such as webcasts of quarterly earnings calls, and any related materials. You may access our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, amendments to those reports and other reports relating to us that are filed with or furnished to the SEC, free of charge in the investor relations section of our website as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC.

The contents of the websites mentioned above are not incorporated into and should not be considered a part of this report. The references to the URLs for these websites are intended to be inactive textual references only.

ITEM 1A. Risk Factors

Special Note Regarding Forward-Looking Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties, including but not limited to the risks and uncertainties discussed under this Item 1A. “Risk Factors,” Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Item 1. “Business.” 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 involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. We discuss these risks, uncertainties and other factors in greater detail below. These statements reflect our current views with respect to future events and are based on currently available operating, financial and competitive information. Unless required by United States federal securities laws, we do not intend to update any of these forward-looking statements to reflect circumstances or events that occur after the statement is made.

Risks Related to the COVID-19 Pandemic

The novel coronavirus (COVID-19 pandemic) has adversely affected and could continue to adversely affect our financial results, operations and outlook for an extended period of time.

The novel coronavirus (COVID-19) pandemic, and restrictions imposed by federal, state and local governments in response to the outbreak, have disrupted and is expected to continue to disrupt our business. Beginning in 2020, and on an ongoing basis as variants of COVID-19 have become more widely spread, Centers for Disease Control (“CDC”) guidance and in some cases, government imposed restrictions required individuals located in many areas where we operate our restaurants to practice social distancing, wear face covering in our restaurants, self-quarantine for a specific duration if exposed to a confirmed positive individual, limit gathering in groups and/or “stay home” except for “essential” purposes. In response to the COVID-19 pandemic, government restrictions and CDC guidance, we have in certain situations been required to temporarily close some of our restaurants, restrict the use of many of our dining rooms while still offering takeout and delivery, and/or implement modified work hours. The mobility restrictions, the impact on staffing levels at our restaurants and in some cases the availability and increase in cost for our vendors to supply food to our restaurants caused by the COVID-19 pandemic have adversely affected and are expected to continue to adversely affect our financial condition or operating results. Even as, and when the infection rates for COVID-19 subside, guests may still be reluctant to return to in-restaurant dining, our team members may leave the job market or restaurant industry and our suppliers may continue to face staffing or cost pressures.

Although the ultimate severity of the COVID-19 pandemic remains uncertain at this time, we expect that the pandemic may continue to adversely impact the Company's financial condition and results of operations, including, but not limited to:

- Reduced demand as customers may self-impose or be subject to governmental restrictions to dine at our restaurants due to illness, quarantine or limitations on social gatherings;
- Changes in consumer spending behaviors due to the COVID-19 pandemic as customers choose to avoid public gathering places, which may continue to impact traffic in our restaurants;
- Changes in our lunch business as it relates to guests who visit us during corporate lunch breaks, particularly if trends related to work from home continue;
- Reductions in the supply of restaurant industry labor, which could result in temporarily closed restaurants or an increase in wages to remain competitive;
- The ability for our vendors and suppliers to provide food ingredients may be more restricted, even if under contractual obligation, which could result in delays or increased food cost;
- The ability for our franchisees to have the financial capacity to pay their franchise royalty fee obligations that we have historically received. Throughout the pandemic, we have worked with our franchisees to support their financial liquidity during this period of uncertainty. For a period of time, we granted deferral of certain royalties, information technology support, and marketing fees earned from franchisees;
- While liquidity has remained strong and improved since the pandemic, an impact on our liquidity, which may require us to pursue additional sources of financing to meet our financial obligations. Obtaining such financing is not guaranteed and is largely dependent upon market conditions and other factors. Further actions may be required to improve our cash position, including but not limited to, further reductions of corporate expenses and foregoing additional capital expenditures and other discretionary expenses;

- An increase in cyber security threats and attempts to breach our security networks as more business and activities have shifted online due to the COVID-19 pandemic restrictions on congregating and physical movements; and
- Uncertainty on the duration of how long the COVID-19 pandemic will last or if hospitalizations and infection rates will ultimately subside, when government restrictions and mandates will be imposed or lifted, or the longer term impact of the COVID-19 pandemic on consumer behavior.

The extent of the impact of the COVID-19 pandemic on the Company's operations and financial results depends on future developments and is highly uncertain due to the unknown duration and severity of the outbreak. The situation is changing rapidly and future impacts may materialize that are not yet known.

Risks Related to Our Business and Industry

We may not achieve our operational, strategic or financial goals.

We continue to pursue a number of financial, operational and strategic goals and we may be unsuccessful in achieving some or all of them. Our strategies are designed to, among other objectives, improve restaurant operations and increase our restaurant revenue, comparable restaurant sales, net income, restaurant contribution and restaurant contribution margin and adjusted EBITDA. However, these strategies may not be successful in achieving our goals in part or at all. Further, we may encounter difficulty in executing these strategies. Failing to execute our operational strategies could materially adversely affect our business, financial condition or results of operations.

Our strategies include improving our menu offerings, such as through the introduction of Zoodles, Caulifloodles and Tortelloni; pursuing off-premise opportunities, for example through our dedicated pick-up shelving, order-ahead drive-thru windows and third-party delivery; improving efficiencies and unit level margins by simplifying operations and introducing new technology and equipment, such as steamers; enhancing our menu structure and layout; and improving manager selection, training and development of our teams. However, customers may not favor new menu offerings or may not find initiatives aimed at off-premise dining appealing, and our efforts to increase our sales growth and improve our offerings may be unsuccessful. Additionally, our operational initiatives may be ineffective at reducing costs or may reduce the quality of the customer experience. Any failure of our new initiatives could materially adversely affect our business, financial condition or results of operations.

Further, we have had, and expect to continue to have, initiatives in various stages of testing, evaluation and implementation, upon which we expect to rely to improve our results of operations and financial condition. Failure to achieve successful implementation of our initiatives could materially adversely affect our business, financial condition or results of operations.

We believe our culture, from the restaurant level up through management, is an important contributor to our success. As time passes, however, we may have difficulty maintaining our culture or adapting it sufficiently to meet the needs of our business. Among other important factors, our culture depends on our ability to attract, retain and motivate employees who share our enthusiasm and dedication to our concept. Our comparable restaurant sales, and more broadly, our business, financial condition or results of operations, could be materially adversely affected if we do not maintain our infrastructure and culture.

Our strategic and operational goals are designed to improve our results of operations, including restaurant revenue and profitability. The level of comparable restaurant sales, which represent the change in year-over-year sales for restaurants open for at least 18 full periods, affects our restaurant revenue growth and will continue to be a critical factor affecting profitability. Our ability to increase comparable restaurant sales depends in part on our ability to successfully implement our initiatives. It is possible that such initiatives will not be successful, that we will not achieve our target comparable restaurant sales growth or that the change in comparable restaurant sales could be negative, which may cause a decrease in restaurant revenue and profitability that could materially adversely affect our business, financial condition or results of operations.

Changes in economic conditions could materially affect our ability to maintain or increase sales at our restaurants.

The restaurant industry depends on consumer discretionary spending. The United States in general or the specific markets in which we operate have suffered during certain historical periods and in the future may suffer from depressed economic activity, recessionary economic cycles, low consumer confidence as a result of stock market volatility and other reasons, high levels of unemployment, inflation, reduced home values, increases in home foreclosures, investment losses, personal bankruptcies, reduced access to credit or other economic factors that may affect consumers' discretionary spending. Traffic in our restaurants could decline if consumers choose to dine out less frequently or reduce the amount they spend on meals while dining out. Negative economic conditions (including negative economic conditions resulting from war, terrorist activities, global economic occurrences or trends or other geo-political events) might cause consumers to make long-term changes to their discretionary spending behavior, including dining out less frequently or dining at lower priced restaurants on an extended or permanent basis. If comparable restaurant sales decrease, our profitability would decline as we spread fixed costs across a lower level of restaurant revenue. Reductions in staff levels, additional asset impairment charges and additional restaurant closures could result from prolonged negative comparable restaurant sales, which could materially adversely affect our business, financial condition or results of operations.

Inflationary pressures may reduce customer demand and/or increase our costs, which may adversely affect our business, financial condition, and operating results.

Inflationary pressures may have broad implications on general market conditions, including decreased consumer confidence, increased cost of consumer credit, higher levels of unemployment and reduced consumer spending and disposable income. Consumers may, as a result, reduce purchases of our products, which may prevent us from achieving our sales targets. Additionally, inflationary pressures may increase our labor and raw material costs, and we may not be able to fully offset such higher costs through price increases. If consumer demand decreases or our costs in increase without a corresponding increase in prices, our business, financial condition, and operating results may be adversely affected.

Competition from other restaurant companies could adversely affect us.

We face competition from the casual dining, fast-casual and quick-service segments of the restaurant industry. These segments are highly competitive with respect to taste, price, food quality and presentation, service, location and the ambiance and condition of each restaurant, among other things. Our competition includes a variety of locally owned restaurants and national and regional chains who offer dine-in, carry-out and delivery services. Many of our competitors have existed longer and have a more established market presence with substantially greater financial, marketing, personnel and other resources than we have. Among our competitors are a number of multi-unit, multi-market fast-casual restaurant concepts, some of which are expanding nationally. We continually face competition from these concepts and new competitors that strive to compete with our market segments. For example, additional competitive pressures come from the deli sections and in-store cafés of grocery store chains, as well as from convenience stores and online meal preparation sites. These competitors may have, among other things, lower operating costs, food offerings more responsive to consumer preferences, better locations and facilities, more experienced management, more effective marketing and more efficient operations.

Several of our competitors compete by offering menu items that are specifically identified as low in carbohydrates, gluten-free, or rich in protein. In addition, many of our competitors emphasize lower-cost value options or meal packages, or strategies we do not currently pursue. Any of these competitive factors may materially adversely affect our business, financial condition or results of operations.

Our marketing programs may not be successful.

We incur costs and expend other resources in our marketing efforts to attract and retain customers. These initiatives may not be successful, resulting in expenses incurred without the benefit of higher revenues. Additionally, many of our competitors have more marketing resources and we may not be able to successfully compete. If our competitors increase spending on marketing, or if our marketing funds decrease for any reason, or if our advertising and promotions are less effective than those of our competitors, our financial performance could be materially affected.

Many of our competitors are devoting increased resources to their social media marketing programs. Social media can be challenging because it reaches a broad audience with an ability to respond or react, in near real time. In addition, social media can facilitate the improper disclosure of proprietary information, personally identifiable information, or inaccurate information. As a result, if we do not appropriately manage our social media strategies, our marketing efforts in this area may not be successful and could damage our reputation, negatively impacting our restaurant sales and financial performance.

Negative publicity relating to one or more of our restaurants, including our franchised restaurants, could reduce sales at some or all of our other restaurants.

Our success is dependent in part upon our ability to maintain and enhance the value of our brand, consumers' connection to our brand and positive relationships with our franchisees. We may be faced with negative publicity relating to food quality, restaurant facilities, customer complaints or litigation alleging illness or injury, health inspection scores, integrity of our or our suppliers' food processing, employee relationships or other matters, regardless of whether the allegations are valid or whether we are held to be responsible. The negative impact of adverse publicity relating to one restaurant may extend far beyond the restaurant or franchise involved to affect some or all of our other restaurants. The risk of negative publicity is particularly great with respect to our franchised restaurants because we are limited in the manner in which we can regulate them, especially on a real-time basis. Negative publicity generated by such incidents may be amplified by the use of social media. A similar risk exists with respect to unrelated food service businesses, if consumers associate those businesses with our own operations or are concerned with the food safety of the broader restaurant industry.

Additionally, employee claims against us based on, among other things, wage and hour violations, discrimination, harassment or wrongful termination may also create negative publicity that could materially adversely affect us and divert our financial and management resources that would otherwise be used to benefit the future performance of our operations. A significant increase in the number of these claims or an increase in the number or scope of successful claims could materially adversely affect our business, financial condition or results of operations. Consumer demand for our products and our brand's value could diminish significantly if any such incidents or other matters create negative publicity or otherwise erode consumer confidence in us or our products, or in the restaurant industry as a whole, which would likely result in lower sales and could materially adversely affect our business, financial condition or results of operations.

Food safety and foodborne illness concerns could have an adverse effect on our business.

We cannot guarantee that our internal controls and training will be fully effective in preventing all food safety issues at our restaurants, including any occurrences of foodborne illnesses such as E. coli, Hepatitis A, listeria, norovirus and salmonella. The risk of illnesses associated with our food might also increase in connection with the expansion of our catering and delivery businesses or other situations in which our food is served or delivered in conditions that we cannot control. Furthermore, we and our franchisees rely on third-party vendors throughout our supply chain, making it difficult to monitor food safety compliance and increasing the risk that foodborne illness would affect multiple locations rather than a single restaurant. Some foodborne illness incidents could be caused by third-party vendors and transporters outside of our control. New illnesses resistant to our current precautions may develop in the future, or diseases with long incubation periods could arise, that could give rise to claims or allegations on a retroactive basis. One or more instances of foodborne illness in any of our restaurants or markets or related to food products we sell could negatively affect our restaurant sales nationwide if highly publicized on national media outlets or through social media. This risk exists even if it were later determined that the illness was wrongly attributed to us or one of our restaurants.

A number of other restaurant chains have experienced incidents related to foodborne illnesses that have had a material adverse effect on their operations, including E. coli, listeria and norovirus outbreaks at other fast-casual concepts. These incidents at other restaurants could cause some customers to have a negative perception of fast-casual concepts generally, which can negatively affect our restaurants. The occurrence of a similar incident at one or more of our restaurants, or negative publicity or public speculation about an incident, could materially adversely affect our business, financial condition or results of operations.

Adverse weather conditions could affect our sales.

Adverse weather conditions, such as regional winter storms, floods and hurricanes, could affect our sales at restaurants in locations that experience these weather conditions, which could materially adversely affect our business, financial condition or results of operations. It is possible that weather conditions may impact our business more than other businesses in our industry because of the significant concentration of our restaurants in the Upper Midwest, Rocky Mountain and Mid-Atlantic states.

We are subject to risks associated with long-term non-cancellable leases and the costs of exiting leases at restaurants we have closed or may close in the future may be greater than we estimate or could be greater than the funds we raise to address closure costs.

We do not own any real property. Payments under our operating leases account for a significant portion of our operating expenses and we expect the new restaurants we open in the future will similarly be leased. Our leases generally have an initial term of ten years and generally can be extended only in five-year increments (at increased rates). All of our leases require a fixed annual rent, although some require the payment of additional rent if restaurant sales exceed a negotiated amount. Generally, our leases are "net" leases, which require us to pay all of the cost of insurance, taxes, maintenance and utilities. We generally cannot cancel these leases. Additional sites that we lease are likely to be subject to similar long-term non-cancelable leases. In connection with closing restaurants, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. In addition, as each of our leases expires, we may fail to negotiate renewals, either on commercially acceptable terms or at all, which could cause us to pay increased occupancy costs or to close restaurants in desirable locations.

Opening and operating new restaurants entails numerous risks and uncertainties.

One element of our operational strategy is the opening of new restaurants and operating those restaurants on a profitable basis. In 2021, we opened six company-owned restaurants and closed twelve company-owned restaurants. Our franchisees opened one restaurant and closed one restaurant. We plan to develop a pipeline to support an annual unit growth rate of approximately 8% in 2022, with 10% unit growth thereafter.

Opening new restaurants presents numerous risks and uncertainties. We may not be able to open new restaurants as quickly as planned. In the past, we have experienced delays in opening some restaurants. For example, in the second half of 2021, multiple new restaurants were delayed as a result of reduced availability of construction raw materials and restaurant equipment. Delays or failures in opening new restaurants could occur in the future and could materially adversely affect our business strategy and our expected results.

Our ability to open new restaurants also depends on other factors, including: site selection; negotiating leases with acceptable terms; identifying, hiring and training qualified employees; the state of the labor market in each local market; timely delivery of leased premises to use; managing construction and development costs; avoiding the impact of inclement weather, natural disasters and other calamities; obtaining construction materials and labor at acceptable costs; securing required governmental approvals, permits and licenses; and accessing sufficient capital.

We anticipate our new restaurants may be smaller in terms of square footage and seating than our current restaurants, in accordance with our increased focus on off-premise dining opportunities. We expect that most of our new restaurants will ultimately incorporate order-ahead, drive-thru windows. Customers may react negatively to these features and our re-designed, smaller stores, which could materially adversely affect our business, financial condition or results of operations.

Our long-term success is partially dependent on our ability to effectively identify appropriate target markets and secure appropriate sites for new restaurants.

In order to build new restaurants, we must first identify target markets where we can expand our footprint, taking into account numerous factors, including the location of our current restaurants, local economic trends, population density, area demographics and geography. The selection of target markets for expansion is challenging. We also must locate and secure appropriate sites for new restaurants, which is one of our biggest challenges. There are numerous factors involved in identifying and securing an appropriate site, including, among others: identification and availability of locations; competition; financial conditions affecting developers and potential landlords; developers and potential landlords obtaining licenses or permits for development projects on a timely basis; proximity of potential development sites to an existing location; anticipated development near our new restaurants; and availability of acceptable lease arrangements. If we are unable to fully implement our development plan, our business, financial condition or results of operations could be materially adversely affected.

New restaurants, once opened, may not be profitable.

New restaurants may not be profitable, and their sales performance may not follow historical patterns. In addition, our average restaurant sales and comparable restaurant sales may underperform our expectations. Our ability to operate new restaurants profitably and increase average restaurant sales and comparable restaurant sales will depend on many factors, some of which are beyond our control, including: consumer awareness, understanding and support of our brand; general economic conditions, local labor costs and availability and prices we pay for the food products and other supplies we use; changes in consumer preferences; competition; temporary and permanent site characteristics of new restaurants; and changes in government regulation.

If our new restaurants do not perform as planned, our business and future prospects could be harmed. In addition, if we are unable to achieve our expected average restaurant sales, our business, financial condition or results of operations could be materially adversely affected.

Opening new restaurants in existing markets may negatively affect sales at our existing restaurants.

The consumer target area of our restaurants varies by location, depending on a number of factors, including population density, other local retail and business attractions, area demographics and geography. As a result, opening a new restaurant in or near markets in which we already have restaurants could materially adversely affect the sales of these existing restaurants. Existing restaurants could also make it more difficult to build our consumer base for a new restaurant in the same market. Our core business strategy does not entail opening new restaurants that we believe will materially affect sales at our existing restaurants, but we may selectively open new restaurants in and around areas of existing restaurants that are operating at or near capacity to effectively serve our customers. Sales cannibalization between our restaurants may become significant in the future as we continue to expand our operations and could affect our sales growth, which could, in turn, materially adversely affect our business, financial condition or results of operations.

Risks Related to Our Employees, Executives and Franchisees

Our business could be adversely affected by difficulties in hiring and retaining top-performing employees.

Our success depends on the efforts of our employees and our ability to hire, motivate and retain qualified employees. Conditions during the pandemic have exacerbated the difficulty of successfully hiring and retaining quality employees. There may be a small supply of qualified individuals in some of the communities in which we operate, and competition in these communities for qualified individuals could require us to pay higher wages and provide greater benefits. We devote significant resources to training our employees and strive to reduce turnover in order to keep top performing employees and better realize our investment in training new employees. However, turnover among our restaurant employees may increase. Failure to hire and retain top-performing employees could impact our financial performance by increasing our training and labor costs and reducing the quality of our customers' experiences.

If we or our franchisees face labor shortages or increased labor costs, our operating results could be adversely affected.

Labor is a primary component in the cost of operating our restaurants and our success depends in part upon our and our franchisees' ability to control labor costs and attract, motivate and retain a sufficient number of well-qualified restaurant operators and management personnel, as well as a sufficient number of other qualified employees. Qualified individuals needed to fill these positions has been and may continue to be in short supply in some geographic areas. In addition, restaurants have traditionally experienced relatively high employee turnover rates relative to other industries. If we encounter labor shortages, we have and may continue to be forced to temporarily close restaurants or reduce store hours, which could result in reduced revenue. In addition, failure to recruit and retain qualified individuals has and may continue to delay the planned openings of new restaurants. If we increased labor costs, whether because of increased competition for employees, higher employee turnover rates, increases in the federal, state or local minimum wage or other employee benefits costs (including costs associated with workers' compensation and health insurance coverage), our operating expenses could increase.

We may be unable to increase our menu prices in order to pass these increased labor costs on to consumers, in which case our margins would be negatively affected, which could materially and adversely affect our business, financial condition or results of operations. We have taken strategic steps to attempt to make our restaurant operations more labor-efficient, including reconfigured restaurant operations, increased off-premise offerings, and new technology and equipment, but in certain instances these may require initial investment costs and there can be no assurances that these strategies will succeed.

For the reasons cited above, in particular, because of rising wages, our labor costs per person regularly increase year-over-year. In the second half of 2021, labor shortages in certain markets forced us to reduce store hours, and, partially in response to the staffing pressures we observed during the COVID-19 pandemic, we paid one-time appreciation bonuses to our employees. These pressures resulted in a reduction of revenue and a related increase in labor costs, which negatively affected our business in 2021 and may continue to do so in the future.

We may not be successful in executing our franchise strategy.

To the extent we are able to identify franchisees for the franchising of existing restaurants or the development of new restaurants, our success is dependent on the performance of our franchisees in successfully operating the restaurants. Our franchisees may not achieve financial and operational objectives, and they may close existing restaurants due to underperformance or they may ultimately be unsuccessful in developing new restaurants. We may also not be able to manage our franchise system effectively. Failure to provide our franchisees with adequate support and resources could materially adversely affect these franchisees, as well as cause disputes between us and them and potentially lead to material liabilities.

We rely in part on our franchisees, and if our franchisees cannot develop or finance new restaurants, build them on suitable sites or open them on schedule, our success may be affected.

We rely in part on our franchisees and the manner in which they operate their locations to develop and promote our business. Although we have developed criteria to evaluate and screen prospective franchisees, we cannot be certain that our franchisees will have the business acumen or financial resources necessary to operate successful franchises in their franchise areas and state franchise laws may limit our ability to terminate or modify these franchise arrangements. Moreover, despite our training, support and monitoring, franchisees may not successfully operate restaurants in a manner consistent with our standards and requirements or may not hire and train qualified managers and other restaurant personnel. The failure of our franchisees to operate their franchises successfully could have a material adverse effect on us, our reputation, our brand and our ability to attract prospective franchisees and could materially adversely affect our business, financial condition or results of operations.

Franchisees may not have access to the financial or management resources that they need to open the restaurants contemplated by their agreements with us or be able to find suitable sites on which to develop them, or they may elect to cease development for other reasons. Franchisees may not be able to negotiate acceptable lease or purchase terms for the sites, obtain the necessary permits and government approvals or meet construction schedules. Any of these problems could reduce our franchise revenues.

Risks Related to Our Supply Chain and Technology

We rely heavily on information technology, and any material failure, weakness, interruption or breach of security could prevent us from effectively operating our business.

We rely heavily on information systems, including point-of-sale processing in our restaurants, for management of our supply chain, payment of obligations, collection of cash, credit and debit card transactions and other processes and procedures. We also rely on third-party vendors to provide information technology systems and to securely process and store related information, especially as it relates to credit and debit card transactions and online ordering. Our franchisees also rely on information systems and third-party vendors. Our ability to efficiently and effectively manage our business depends significantly on the reliability and capacity of these systems. Our operations depend upon our and our franchisees', and our vendors', ability to protect computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses and other disruptive problems. Avoiding such incidents in the future will require us and our franchisees and vendors to continue to enhance information systems, procedures and controls and to hire, train and retain employees. The failure of these systems to operate effectively, maintenance problems, upgrading or transitioning to new platforms, or a breach in security of these systems could result in delays in customer service and reduce efficiency in our operations. Remediation of such problems could result in significant, unplanned capital investments and harm our business, financial condition or results of operations.

We may be harmed by breaches of security of information technology systems or our confidential consumer, employee, financial, or other proprietary data.

We use many information technology systems throughout our operations, including systems that record and process customer sales, manage human resources and generate accounting and financial reports. For example, our restaurants use computerized management information systems, including point-of-sale computers that process customer credit card, debit card and gift card payments, and in-restaurant back office computer systems designed to assist in the management of our restaurants and provide labor and food cost management tools. Our franchisees use similar point of sale systems and are required to report business and operational data through an online reporting network. Through these systems, we have access to and store a variety of consumer, employee, financial and other types of information related to our business. We also rely on third-party vendors to provide information technology systems and to securely process and store related information. Our franchisees also use information technology systems and rely on third-party vendors. If our technology systems, or those of third-party vendors we or our franchisees rely upon, are compromised as a result of a cyber-attack (including from circumvention of security systems, denial-of-service attacks, hacking, "phishing" attacks, computer viruses, ransomware, malware, or social engineering) or other external or internal methods, it could materially adversely affect our reputation, business, financial condition or results of operations.

The cyber risks we face range from cyber-attacks common to most industries to attacks that target us due to the confidential consumer information we obtain through our electronic processing of credit and debit card transactions. Like others in our industry, we have experienced many attempts to compromise our information technology and data, including a successful attempt in 2016 that we have discussed in previous filings, and we may experience more attempts in the future. In addition to property and casualty insurance, which may cover restoration of data, certain physical damage or third-party injuries, we have cybersecurity insurance related to a breach event. However, damage and claims arising from such incidents may not be covered or may exceed the amount of any available insurance.

Because cyber-attacks take many forms, change frequently, are becoming increasingly sophisticated, and may be difficult to detect for significant periods of time, we may not be able to respond adequately or timely to future cyber-attacks. If we or our franchisees, or third-party vendors, were to experience a material breach resulting in the unauthorized access, use, or destruction of our information technology systems or confidential consumer, employee, financial, or other proprietary data, it could negatively impact our reputation, reduce our ability to attract and retain customers and employees and disrupt the implementation and execution of our strategic goals. Moreover, such breaches could result in a violation of various privacy-related laws and subject us to investigations or private litigation, which, in turn, could expose us to civil or criminal liability, fines and penalties imposed by state and federal regulators, claims for purportedly fraudulent transactions arising out of the actual or alleged theft of credit or debit card information, compromised security and information systems, failure of our employees to comply with applicable laws, the unauthorized acquisition or use of such information by third parties, or other similar claims, and various costs associated with such matters.

We rely heavily on certain vendors, suppliers and distributors, which could adversely affect our business.

Our ability to maintain consistent price, quality and safety throughout our restaurants depends in part upon our ability to acquire specified food products and supplies in sufficient quantities from third-party vendors, suppliers and distributors at a reasonable cost. We do not control the businesses of our vendors, suppliers and distributors and our efforts to specify and monitor the standards under which they perform may not be successful. Furthermore, certain food items are perishable, and we have limited control over whether these items will be delivered to us in appropriate condition for use in our restaurants. If any of our distributors or suppliers perform inadequately, or our distribution or supply relationships are disrupted for any reason, our business, financial condition, results of operations or cash flows could be materially adversely affected. If we cannot replace or engage distributors or suppliers who meet our specifications in a short period of time, including any suppliers who are a sole source of supply of a particular ingredient, that could increase our expenses and cause shortages of food and other items at our restaurants, which could cause a restaurant to remove items from its menu. If that were to happen, affected restaurants could experience significant reductions in sales during the shortage or thereafter, especially if customers change their dining habits as a result. Our focus on a limited menu would make the consequences of a shortage of a key ingredient more severe. In addition, because we provide moderately priced food, we may choose not to, or may be unable to, pass along commodity price increases to consumers. These potential changes in food and supply costs could materially adversely affect our business, financial condition or results of operations.

In the second half of 2021, certain vendors experienced staffing pressures and raw material availability that impacted their ability to supply and distribute our food ingredients in a timely and cost-effective manner. Despite the disruption within our vendor base, we did not experience a significant financial impact to our business. However, given the uncertainty of the ongoing impact of the COVID-19 pandemic, and supply chain environment, if these pressures on our vendor base continue, our financial condition and business operations could be more severely impacted.

In addition, we use various third-party vendors to provide, support and maintain most of our management information systems. We also outsource certain accounting, payroll and human resource functions to business process service providers. The failure of such vendors to fulfill their obligations could disrupt our operations. Additionally, any changes we may make to the services we obtain from our vendors, or new vendors we employ, may disrupt our operations. These disruptions could materially adversely affect our business, financial condition or results of operations.

We also partner with various third-party vendors to deliver our food. If any of our delivery vendors perform inadequately, or our delivery relationships are disrupted for any reason, our business, financial condition or results of operations could be materially adversely affected.

Our ability to continue to expand our digital business, delivery orders and catering is uncertain, and these business lines are subject to risks.

Our revenue from digital orders has increased significantly from prior years, especially in response to changing customer habits resulting from the COVID-19 pandemic. In response to this trend, we have promoted our digital business through our rewards program, partnered with third-party delivery companies and are developing new-store concepts with reduced indoor-seating, pick-up shelves, and order-ahead drive-thru windows. However, this growth rate may not be sustainable, or our digital business may decline, especially if safety concerns regarding COVID-19 lessen and consumer preferences shift back to in-person dining. If our digital business does not continue to expand it may be difficult for us to achieve our planned sales growth and utilize our digital-order focused assets.

We rely on third-party providers to fulfill delivery orders, and the ordering and payment platforms used by these third parties, or our mobile app or online ordering system, could be damaged or interrupted by technological failures, user errors, cyber-attacks or other factors, which may materially adversely impact our sales through these channels and could negatively impact our brand. Additionally, our delivery partners are responsible for order fulfillment and may make errors or fail to make timely deliveries, leading to customer disappointment that may negatively impact our brand. We also incur additional costs associated with using third-party service providers to fulfill these digital orders and the costs of delivering may have a material adverse impact on restaurant level margins. Moreover, the third-party restaurant delivery business is intensely competitive, with a number of players competing for market share, online traffic, capital, and delivery drivers and other people resources. The third-party delivery services with which we work may struggle to compete effectively, and if they were to cease or curtail operations, or fail to provide timely delivery services in a cost-effective manner, or if they give greater priority on their platforms to our competitors, our delivery business may be negatively impacted. We have also introduced catering offerings on both a pick-up and delivery basis, and customers may choose our competitors' catering offerings over ours, be disappointed with their experience with our catering, or experience food safety problems if they do not serve our food in a safe manner, which may negatively impact us. Such delivery and catering offerings also increase the risk of illnesses associated with our food because the food is transported and/or served by third parties in conditions we cannot control.

Because all of these offerings are relatively new, it is difficult for us to anticipate the level of sales they may generate. That may result in operational challenges, both in fulfilling orders made through these channels and in operating our restaurants as we balance fulfillment of these orders with service of our traditional in-restaurant guests as well. Any such operational challenges may negatively impact the customer experience associated with our digital, delivery or catering orders, the guest experience for our traditional in-restaurant business, or both. These factors may materially adversely impact our sales and our brand reputation.

Changes in food and supply costs could adversely affect our results of operations.

Our profitability depends in part on our ability to anticipate and react to changes in food and supply costs. Shortages or interruptions in the availability of certain supplies caused by seasonal fluctuations, unanticipated demand, problems in production or distribution, food contamination, product recalls, government regulations, inclement weather or other conditions could materially adversely affect the availability, quality and cost of our ingredients, which could harm our operations. Weather related issues, such as freezes, heavy rains or drought, may also lead to temporary spikes in the prices of some ingredients such as produce or meats. Increasing weather volatility or other long-term changes in global weather patterns, including any changes associated with global climate change, could have a significant impact on the price, availability and timing of delivery of some of our ingredients. In addition, at certain times of the year a substantial volume of our produce items is imported from Mexico and other countries. Any new or increased import duties, tariffs or taxes, or other changes in U.S. trade or tax policy, could result in higher food and supply costs. Any increase in the prices of the food products most critical to our menu, such as pasta, beef, chicken, wheat flour, cheese and other dairy products, tofu and vegetables, could materially adversely affect our operating results.

In the second half of 2021, the cost of several of our food ingredients increased as a result of inflation in many commodities, particularly chicken and durum wheat. As a result, specifically for our chicken purchases, we entered into temporary formula pricing contracts with our vendors and were susceptible to fluctuations in the commodities markets. If food inflation in the chicken market or any other food ingredient persists, our financial condition and business operations could be more severely impacted.

Our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could have an adverse effect on our business.

There has been a widespread and dramatic increase in the use of social media platforms that allow users to access a broad audience of consumers and other interested persons. The availability of information on social media can be virtually immediate, as can its impact, and users of many social media platforms can post information without filters or checks on the accuracy of the content posted. Adverse information concerning our restaurants or brand, including user reviews, whether accurate or inaccurate, may be posted on such platforms at any time and can quickly reach a wide audience. The resulting harm to our reputation may be immediate, without affording us an opportunity to correct or otherwise respond to the information, and it is challenging to monitor and anticipate developments on social media in order to respond in an effective and timely manner.

In addition, although search engine marketing, social media and other new technological platforms offer great opportunities to increase awareness of and engagement with our restaurants and brand, our failure to use social media effectively in our marketing efforts may further expose us to the risks associated with the accelerated impact of social media. Many of our competitors are expanding their use of social media and the social media landscape is rapidly evolving, potentially making more traditional social media platforms obsolete. As a result, we need to continuously innovate and develop our social media strategies in order to maintain broad appeal with guests and brand relevance, and we may not do so effectively. A variety of additional risks associated with our use of social media include the possibility of improper disclosure of proprietary information, exposure of personally identifiable information of our employees or guests, fraud, or the publication of out-of-date information, any of which may result in material liabilities or reputational damage. Furthermore, any inappropriate use of social media platforms by our employees could also result in negative publicity that could materially damage our reputation or lead to litigation that materially increases our costs.

New technologies or changes in consumer behavior facilitated by these technologies could negatively affect our business.

Advances in technologies or certain changes in consumer behavior driven by such technologies could impact the manner in which meals are marketed, prepared, ordered and delivered. We may pursue certain of those technologies, but consumers may not accept them, or we may fail to successfully integrate them into our operations, thereby harming our financial performance. In addition, our competitors, some of whom have more resources than us, may be more effective at responding to such advances in technologies and erode our competitive position.

Legal, Accounting, and Regulatory Risks

Changes to estimates related to our property, fixtures and equipment or operating results that are lower than our current estimates at certain restaurant locations may cause us to incur impairment charges on certain long-lived assets, which may materially adversely affect our results of operations.

In accordance with accounting guidance as it relates to the impairment of long-lived assets, we make certain estimates and projections with regard to individual restaurant operations, as well as our overall performance, in connection with our impairment analyses for long-lived assets. When impairment triggers are deemed to exist for any location, the estimated undiscounted future cash flows are compared to its carrying value. If the carrying value exceeds the undiscounted cash flows, an impairment charge equal to the difference between the carrying value and the fair value is recorded. The projections of future cash flows used in these analyses require the use of judgment and a number of estimates and projections of future operating results. If actual results differ from our estimates, additional charges for asset impairments may be required in the future. Over the past several years we have recognized significant impairment charges and if future impairment charges continue to be significant, this could have a material adverse effect on our business or results of operations.

Failure of our internal control over financial reporting could adversely affect our business and financial results.

Our management is responsible for establishing and maintaining effective internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that we would prevent or detect a misstatement of our financial statements or fraud. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud. The identification of a material weakness could indicate a lack of controls adequate to generate accurate financial statements that, in turn, could cause a loss of investor confidence and decline in the market price of our common stock. We may not be able to timely remediate any material weaknesses that may be identified in future periods or maintain all of the controls necessary for continued compliance. Likewise, we cannot assure you that we will be able to retain sufficient skilled finance and accounting personnel, especially in light of the increased demand for such personnel among publicly traded companies.

Governmental regulation may adversely affect our ability to open new restaurants or otherwise adversely affect our business, financial condition or results of operations.

We are subject to various federal, state and local regulations, including those relating to building and zoning requirements and those relating to the preparation and sale of food. Our restaurants are also subject to state and local licensing and regulation by health, sanitation, food and occupational safety and other agencies. We may experience material difficulties or failures in obtaining the necessary licenses, approvals or permits for our restaurants, which could delay planned restaurant openings or affect the operations at our existing restaurants. In addition, stringent and varied requirements of local regulators with respect to zoning, land use and environmental factors could delay or prevent development of new restaurants in particular locations. Due to the COVID-19 pandemic, there could be additional governmental regulations that arise that could impact our business.

We are subject to the ADA and similar state laws that give civil rights protections to individuals with disabilities in the context of employment, public accommodations and other areas, including our restaurants. We may in the future have to modify restaurants, for example, by adding access ramps or redesigning certain architectural fixtures, to provide service to or make reasonable accommodations for disabled persons. The expenses associated with these modifications could be material.

Our operations are also subject to the U.S. Occupational Safety and Health Act, which governs worker health and safety, the U.S. Fair Labor Standards Act, which governs such matters as minimum wages and overtime and a variety of similar federal, state and local laws that govern these and other employment law matters. In addition, federal, state and local proposals have been made related to paid sick leave and similar matters. Changes in these laws or implementation of new proposals could materially adversely affect our business, financial condition or results of operations.

Changes in employment laws may adversely affect our business.

Various federal and state labor laws govern the relationship with our employees and affect operating costs. These laws include employee classification as exempt/non-exempt for overtime and other purposes, minimum wage requirements, unemployment tax rates, workers' compensation rates, mandatory health benefits, immigration status and other wage and benefit requirements. Some jurisdictions, including some of those in which we operate, have recently increased their minimum wage by a significant amount, and other jurisdictions are considering similar actions, which may increase our labor costs. Significant additional government-imposed increases in the following areas could materially affect our business, financial condition, operating results or cash flow: overtime rules; mandatory health benefits; vacation accruals; paid leaves of absence, including paid sick leave; and tax reporting.

Immigration laws have recently been an area of considerable focus by the Department of Homeland Security, with enforcement operations taking place across the country, resulting in arrests, detentions and deportation of unauthorized workers. Some of these changes and enforcement programs may increase our obligations for compliance and oversight, which could subject us to additional costs and make our hiring process more cumbersome or reduce the availability of potential employees. Although we require all workers to provide us with government-specified documentation evidencing their employment eligibility, some of our employees may, without our knowledge, be unauthorized workers. Unauthorized workers are subject to deportation and may subject us to fines or penalties, and if any of our workers are found to be unauthorized we could experience adverse publicity that negatively impacts our brand and may make it more difficult to hire and keep qualified employees. Termination of a significant number of employees who were unauthorized employees may disrupt our operations, cause temporary increases in our labor costs as we train new employees and result in additional adverse publicity. We could also become subject to fines, penalties and other costs related to claims that we did not fully comply with all recordkeeping obligations of federal and state immigration compliance laws. These factors could materially adversely affect our business, financial condition or results of operations.

New information or attitudes regarding diet and health could result in changes in regulations and consumer consumption habits that could adversely affect our results of operations.

Regulations and consumer eating habits may change as a result of new information or attitudes regarding diet, health and safety. Such changes may include federal, state and local regulations and recommendations from medical and diet professionals pertaining to the ingredients and nutritional content of the food and beverages we offer. The success of our restaurant operations is dependent, in part, upon our ability to effectively respond to changes in any consumer health regulations and our ability to adapt our menu offerings to trends in food consumption. If consumer health regulations or consumer eating habits change significantly, we may choose or be required to modify or remove certain menu items, which may cause us to incur costs to implement those changes and may materially adversely affect the appeal of our menu to new or returning customers. To the extent we are unwilling or unable to respond with appropriate changes to our menu offerings, it could materially affect consumer demand and could have a material adverse impact on our business, financial condition or results of operations.

Government regulation and consumer eating habits may impact our business as a result of changes in attitudes regarding diet and health or new information regarding the adverse health effects of consuming certain menu offerings. As discussed in Part I, “Business-Governmental Regulation and Environmental Matters” of this 10-K, these changes have resulted in, and may continue to result in, laws and regulations requiring us to disclose the nutritional content of our food offerings, and they have resulted, and may continue to result in, laws and regulations affecting permissible ingredients and menu offerings. Inconsistencies among state laws with respect to presentation of nutritional content could be challenging for us to comply with in an efficient manner. The PPACA also requires covered restaurants to provide to consumers, upon request, a written summary of detailed nutritional information for each standard menu item, and to provide a statement on menus and menu boards about the availability of this information upon request. An unfavorable report on, or reaction to, our menu ingredients, the size of our portions or the nutritional content of our menu items could negatively influence the demand for our offerings.

Compliance with current and future laws and regulations regarding the ingredients and nutritional content of our menu items may be costly and time-consuming. The risks and costs associated with nutritional disclosures on our menus could also impact our operations, particularly given differences among applicable legal requirements and practices within the restaurant industry with respect to testing and disclosure, ordinary variations in food preparation among our own restaurants and the need to rely on the accuracy and completeness of nutritional information obtained from third-party suppliers.

We may not be able to effectively respond to changes in consumer health and safety perceptions or to successfully implement the nutrient content disclosure requirements and adapt our menu offerings to trends in eating habits. The imposition of additional menu labeling laws could materially adversely affect our business, financial condition or results of operations, as well as our position within the restaurant industry in general.

We may not be able to adequately protect our intellectual property, which could harm the value of our brand and could adversely affect our business.

Our intellectual property is material to the conduct of our business and our marketing efforts. Our ability to implement our business plan successfully depends in part on our ability to further build brand recognition using our trademarks, service marks, trade dress and other proprietary intellectual property, including our name and logos and the unique ambiance of our restaurants. While it is our policy to protect and defend vigorously our rights to our intellectual property, we cannot predict whether steps taken by us to protect our intellectual property rights will be adequate to prevent misappropriation of these rights or the use by others of restaurant features based upon, or otherwise similar to, our concept. It may be difficult for us to prevent others from copying elements of our concept and any litigation to enforce our rights will likely be costly and may not be successful. Although we believe that we have sufficient rights to all of our trademarks and service marks, we may face claims of infringement that could interfere with our ability to market our restaurants and promote our brand. Any such litigation may be costly and divert resources from our business. Moreover, if we are unable to successfully defend against such claims, we may be prevented from using our trademarks or service marks in the future, may be liable for damages and may have to change our marketing efforts, which in turn could materially adversely affect our business, financial condition or results of operations.

We could be party to litigation that could adversely affect us by distracting management, increasing our expenses or subjecting us to material money damages and other remedies.

Our customers occasionally file complaints or lawsuits against us alleging we caused an illness or injury they suffered at or after a visit to our restaurants, or that we have problems with food quality or operations. These kinds of complaints or lawsuits may be more common in a period in which the public is focused on health safety issues, or may attract more attention due to publication on various social media outlets. We are also subject to a variety of other claims arising in the ordinary course of our business, including personal injury claims, contract claims and claims alleging violations of federal and state law regarding workplace and employment matters, equal opportunity, discrimination and similar matters and we could become subject to class action or other lawsuits related to these or different matters in the future. In addition, the restaurant industry has from time to time been subject to claims based on the nutritional content of food products sold and disclosure and advertising practices. We may also become subject to various employee and workplace litigation, including claims related to discrimination, harassment, workplace safety, medical and family leave, and wage-and-hour issues, which risk has been heightened by the COVID-19 pandemic as discussed above.

Regardless of whether any claims against us are valid, or whether we are ultimately held liable, claims may be expensive to defend and may divert time and money away from our operations and hurt our performance. A judgment in excess of our insurance coverage for any claims could materially adversely affect our financial condition or results of operations. Any adverse publicity resulting from these allegations, even if proven to be false, may also materially adversely affect our reputation or prospects, which in turn could materially adversely affect our business, financial condition or results of operations.

Risks Related to Our Common Stock and Debt Financing

Our quarterly operating results may fluctuate significantly and could fall below the expectations of securities analysts and investors due to seasonality and other factors, some of which are beyond our control, resulting in a decline in our stock price.

Our quarterly operating results may fluctuate significantly because of several factors, including but not limited to: increases and decreases in AUVs and comparable restaurant sales; profitability of our restaurants; labor availability and costs for hourly and management personnel; changes in interest rates; macroeconomic conditions, both nationally and locally; negative publicity relating to the consumption of products we serve; changes in consumer preferences and competitive conditions; impairment of long-lived assets and any loss on and exit costs associated with restaurant closures; expansion to new markets; the timing of new restaurant openings and related expense; restaurant operating costs for our newly-opened restaurants; increases in infrastructure costs; and fluctuations in commodity prices.

Seasonal factors, particularly weather disruptions, and the timing of holidays also 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 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. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year and comparable restaurant sales for any particular future period may decrease. In the future, operating results may fall below the expectations of securities analysts and investors. In that event, the price of our common stock would likely decrease.

Future sales of our common stock, or the perception that such sales may occur, could depress our common stock price.

Sales of a substantial number of shares of our common stock in the public market, or the perception that such sales may occur, could depress the market price of our common stock. Our amended and restated certificate of incorporation authorizes us to issue up to 180,000,000 shares of Class A common stock and Class B common stock. As of December 28, 2021, we have 45,701,280 outstanding shares of Class A common stock and no outstanding shares of Class B common stock. In addition, as of such date, approximately 1,948,239 shares of Class A common stock are issuable upon the exercise of outstanding stock options and the vesting of restricted stock units. Moreover, as of that date, approximately 3.5 million shares of our common stock are available for future grants under our stock incentive plan and for future purchase under our employee stock purchase plan.

Provisions in our organizational documents and Delaware law may delay or prevent our acquisition by a third party.

Our amended and restated certificate of incorporation, our second amended and restated bylaws and Delaware law each contain several provisions that may make it more difficult for a third party to acquire control of us without the approval of our Board of Directors. For example, we have a classified Board of Directors with three-year staggered terms, which could delay the ability of stockholders to change the membership of a majority of our Board of Directors. These provisions may make it more difficult or expensive for a third party to acquire a majority of our outstanding equity interests. These provisions also may delay, prevent or deter a merger, acquisition, tender offer, proxy contest or other transaction that might otherwise result in our stockholders receiving a premium over the market price for their common stock.

We may be unable to negotiate favorable borrowing terms, and any additional capital we may require could be senior to existing equity holders, dilute existing equity holders or include unfavorable restrictions.

As a general matter, operating and developing our business requires significant capital. Our credit agreement ends in 2024 and securing access to credit on reasonable terms thereafter will require us to extend or refinance such agreement. In addition, in order to pursue our business and operational strategies, we may need additional sources of liquidity in the future and it may be difficult or impossible at such time to increase our liquidity. Our lenders may not agree to amend our credit agreement at such time to increase our borrowing capacity. Further, our requirements for additional liquidity may coincide with periods during which we are not in compliance with covenants under our credit agreement and our lenders may not agree to further amend our credit agreement to accommodate such non-compliance. Even if we are able to access additional liquidity, agreements governing any borrowing arrangement could contain covenants restricting our operations. If we raise additional funds through future issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing we secure in the future could involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which might make it more difficult for us to obtain additional capital and to pursue business opportunities. Moreover, if we issue new debt securities, the debt holders would have rights senior to common stockholders to make claims on our assets. In addition, variable-rate borrowings under our credit agreement typically use LIBOR as a benchmark for establishing the rate of interest, and LIBOR is subject to recent regulatory guidance and/or reform that could cause interest rates under our current or future debt agreements to perform differently than in the past or cause other unanticipated consequences. In July 2017, the Chief Executive of the U.K. Financial Conduct Authority (the “FCA”), which regulates LIBOR, announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. However, on November 30, 2020, ICE Benchmark Administration (“IBA”), indicated that it would consult on its intention to cease publication of most USD LIBOR tenors beyond June 30, 2023. On March 5, 2021, IBA confirmed it would cease publication of Overnight, 1, 3, 6 and 12 Month USD LIBOR settings immediately following the LIBOR publication on June 30, 2023. IBA also intends to cease publishing 1 Week and 2 Month USD LIBOR settings immediately following the LIBOR publication on December 31, 2021. The Alternative Reference Rates Committee, which was convened by the Federal Reserve Board and the New York Fed, has identified the Secured Overnight Financing Rate (“SOFR”) as the recommended risk-free alternative rate for USD LIBOR. The extended cessation date for most USD LIBOR tenors will allow for more time for existing legacy USD LIBOR contracts to mature and provide additional time to continue to prepare for the transition from LIBOR. At this time, it is not possible to predict the effect any discontinuance, modification or other reforms to LIBOR, or the establishment of alternative reference rates such as SOFR, or any other reference rate, will have on us or our borrowing costs.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

As of December 28, 2021, we and our franchisees operated 448 restaurants in 29 states. Our restaurants are typically between 2,000 and 2,600 square feet and are located in a variety of suburban, collegiate and urban markets. We lease the property for our central support office and all of the properties on which we operate restaurants. The chart below shows the locations of our company-owned and franchised restaurants as of December 28, 2021.

State	Company-owned	Franchised	Total
Arizona	5	—	5
California	16	—	16
Colorado	58	—	58
Connecticut	—	4	4
Florida	—	5	5
Idaho	5	—	5
Illinois	49	5	54
Indiana	21	1	22
Iowa	9	1	10
Kansas	8	—	8
Kentucky	1	4	5
Maryland	23	—	23
Michigan	—	23	23
Minnesota	44	1	45
Missouri	3	7	10
Montana	—	2	2
Nebraska	—	5	5
New York	1	—	1
North Carolina	8	4	12
North Dakota	—	5	5
Ohio	17	—	17
Oregon	6	—	6
Pennsylvania	9	—	9
South Dakota	—	2	2
Tennessee	—	4	4
Utah	16	—	16
Virginia	24	—	24
Washington	2	—	2
Wisconsin	47	3	50
	372	**76**	**448**

We are obligated under non-cancelable leases for our restaurants and our central support office. Our restaurant leases generally have initial terms of 10 years with two or more five-year renewal options. Our restaurant leases may require us to pay a proportionate share of real estate taxes, insurance, common area maintenance charges and other operating costs.

ITEM 3. Legal Proceedings

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 December 28, 2021. 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.

ITEM 4. Mine Safety Disclosures

Not applicable.

PART II

ITEM 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our Class A common stock trades on the Nasdaq Global Select Market under the symbol NDLS. As of February 18, 2022, there were approximately 30 holders of record of our common stock. The number of holders of record is based upon the actual numbers of holders registered at such date and does not include holders of shares in “street name” or persons, partnerships, associates, corporations or other entities in security position listings maintained by depositories.

Purchases of Equity Securities by the Issuer

We had no share repurchases during the fourth quarter of 2021.

Sales of Unregistered Securities by the Issuer

We sold no unregistered securities that have not been previously included in a Quarterly Report on Form 10-Q or in a Current Report on Form 8-K.

Dividends

No dividends have been declared or paid on our shares of common stock. We do not anticipate paying any cash dividends on any of our shares of common stock in the foreseeable future. We currently intend to retain any earnings to finance the development and expansion of our business. Any future determination to pay dividends will be at the discretion of our Board of Directors and will be dependent upon then-existing conditions, including our earnings, capital requirements, results of operations, financial condition, business prospects and other factors that our Board of Directors considers relevant. Further, our credit facility and warrants each contain provisions that limit our ability to pay dividends on our common stock. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Certain Relationships and Related Transactions, and Director Independence” for additional information regarding our financial condition.

ITEM 6. [Reserved]

ITEM 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included in Item 8. “Financial Statements and Supplementary Data.” This section of the Form 10-K generally discusses 2021 and 2020 items and year-to-year comparisons of 2021 to 2020. Discussions of 2019 items and year-to-year comparisons of 2020 and 2019 that are not included in this Form 10-K can be found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 on our Annual Report on Form 10-K for the year ended December 29, 2020. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors including, but not limited to, those discussed in Item 1A. “Risk Factors” and elsewhere in this report.

We operate on a 52- or 53-week fiscal year ending on the Tuesday closest to December 31. Fiscal years 2021 and 2020, which ended on December 28, 2021 and December 29, 2020, respectively, contained 52 weeks. We refer to our fiscal years as 2021 and 2020. Our fiscal quarters each contained 13 operating weeks.

Overview

Noodles & Company is a restaurant concept offering lunch and dinner within the fast-casual segment of the restaurant industry. We opened our first location in 1995, offering noodle and pasta dishes, staples of many different cuisines, with the goal of delivering fresh ingredients and flavors from around the world under one roof. Today, our globally-inspired menu includes a wide variety of high quality, cooked-to-order dishes, including noodles and pasta, soups, salads and appetizers. We believe we offer our customers value with per person spend of approximately $11.25 in 2021.

Impact of COVID-19 Pandemic on Our Business

The ongoing COVID-19 pandemic has had, and is continuing to have, a significant impact on the restaurant industry. Our business has been adversely affected by the COVID-19 pandemic in varying degrees through occasional temporarily closed restaurants and reduced operating hours, disruption in our supply chain and shortages in the labor required to operate our restaurants. We believe we are well positioned to navigate the ongoing challenges associated with the COVID-19 pandemic given our investments in our off-premise and digital channels and the consumer demand for our brand.

The retention as well as health and well-being of our employees and guests continues to remain our top priority. We continue to closely follow the recommendations from the Centers for Disease Control and local health departments. Further, we have incentivized our team members to obtain vaccinations as well as implemented a one-time incentive bonus to our team members. Collectively, these efforts give our employees and guests confidence that we remain dedicated to our commitment to keeping them safe.

Our business was well-positioned for the transition to largely off-premise dining. We continued our investment in digital technology to promote our off-premise channel, including implementing direct delivery nationwide through the Noodles app and website, expanding our third party delivery services, and launching curbside delivery at all of our restaurants. The shifting demand pattern towards our off-premise offerings, including delivery, has caused a reduction in our restaurant level margins due primarily to higher delivery fees, partially offset by improved efficiencies throughout the balance of our expense profile, most notably in our labor model.

The ongoing impact of the COVID-19 pandemic on our longer-term operational and financial performance will depend on future developments, including varying levels of government restrictions and continued COVID-19 variants. Many of these future developments are outside of our control and all are highly uncertain and cannot be predicted. As of the date of this filing, substantially all of our restaurants continue to operate, but a restaurant may, from time to time, temporarily close or temporarily reduced operating hours as a result of a reduction in staffing or a confirmed positive COVID-19 individual. While we cannot predict the extent to which the COVID-19 pandemic will impact our business, we intend to continue to actively monitor the evolving situation and may take further actions that alter our business operations as may be required by federal, state or local authorities or that we determine are in the best interests of our team members, customers, suppliers and shareholders. For a further discussion of the impacts that the COVID-19 pandemic has had on our financial results refer to the “Results of Operations.”

Recent Trends, Risks and Uncertainties

Comparable Restaurant Sales. In fiscal 2021, system-wide comparable restaurant sales increased 22.1%, comprised of a 21.3% increase for company-owned restaurants and a 27.1% increase for franchise restaurants. These increases were primarily due to the increase in restaurant average unit volumes, including growth in both our digital and in-person channels. In addition, comparable sales growth was the strongest when compared with the initial months of the COVID-19 pandemic in 2020, which was the most severely impacted period. Comparable restaurant sales represent year-over-year sales comparisons for restaurants open for at least 18 full periods. For fiscal years 2021 and 2020, restaurants that were temporarily closed or operating at reduced hours and dining capacity due to the COVID-19 pandemic remained in comparable restaurant sales.

Our full year comparable sales results were impacted by volatility related to the COVID-19 pandemic and staffing challenges in the workforce. However, we believe that the volatility in our sales performance was offset by our strong brand positioning and ability to meet the needs of today's consumer for great tasting healthy food served conveniently where and when guests want it. Our ability to maintain positive comparable sales depends, among other reasons, on (i) the duration of the COVID-19 pandemic, (ii) limitations imposed by federal, state and local governments with respect to mask mandates in our restaurants, (iii) our customers' future willingness to eat at restaurants and (iv) macroeconomic conditions and the length of time required for the national and local economies to achieve economic recovery following the crisis.

Cost of Sales. As a result of the ongoing COVID-19 pandemic, we have and expect to continue to incur incremental costs of sales, including the use of additional packaging supplies to support the continued increase in to-go and off-premise orders as well as increased ingredient costs. Additionally, we have seen a shortage in labor and raw material availability at some of our food suppliers, which in some cases, has resulted in increased costs of food or transportation. Despite these market factors, we have continued to work with our suppliers for ongoing supply chain efficiencies, including adding additional suppliers as necessary, with a goal of maintaining adequate food supply to our restaurants. To date, there has been minimal disruption to our supply chain network, including the supply of our ingredients, packaging or other sourced materials, though it is possible that more significant disruptions could occur if the COVID-19 pandemic continues to impact the markets in which we operate. We are working closely with our distributors and contract manufacturers as the situation evolves. We intend to continue to actively monitor the situation, including the status of our supply chain, to determine the appropriate actions to minimize any interruptions.

Labor Costs. Similar to much of the restaurant industry, our base labor costs have risen in recent years. In 2021, we experienced continued wage inflation as well as a reduction in labor availability in some of the markets where we operate, which in some cases resulted in temporary closures of our restaurants. We were able to partially mitigate the impact of these market factors through a continued focus on optimizing our hiring process and retaining existing employees. In the fourth quarter of 2021, we offered a one-time retention and sign on bonus within our restaurants. Additionally, with the increased adoption of digital ordering from our customers, we modified our labor model to reduce the number of front of house labor hours in our restaurants. Further, changes in market pressure and labor availability could materially affect our labor costs.

Other Restaurant Operating Costs. We have and expect to continue to incur additional third-party delivery fees resulting from a significant expansion of our use of third-party delivery services due to the COVID-19 pandemic.

Restaurant Development. We expect to incorporate increased unit development into our strategic growth plan for 2022 and beyond. We plan to develop a pipeline to support an annual unit growth rate of approximately 8% in 2022, with 10% unit growth thereafter.

In 2021, we opened six company-owned restaurants and closed twelve company-owned restaurants, while our franchisees opened one restaurant and closed one restaurant in 2021. As of December 28, 2021, we had 372 company-owned restaurants and 76 franchise restaurants in 29 states.

Certain Restaurant Closures. We closed twelve and six company-owned restaurants in 2021 and 2020, respectively, most of which were at or approaching the expiration of their leases. 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.

Impairment of Long-lived Assets. We impaired six restaurants in 2021 and eight restaurants in 2020 and in 2021, we recognized $0.5 million related to the write down of certain assets related to the sale of 15 company-owned restaurants to a franchisee that closed in January of 2022.

Impairment is based on our current assessment of the expected future cash flows of various restaurants based on recent results and other specific market factors. Many of these restaurants we had opened in the last three to four years in newer markets where brand awareness of our restaurants was not as strong and where it had been more difficult to adequately staff our restaurants. Although impairment charges have meaningfully declined since 2017, we may recognize impairment charges in the future.

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, comparable restaurant sales, average unit volumes ("AUVs"), restaurant contribution, restaurant contribution margin, EBITDA and adjusted EBITDA. Restaurant contribution, restaurant contribution margin, EBITDA and adjusted EBITDA are non-GAAP financial measures.

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 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.

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. As of the end of 2021, 2020 and 2019, there were 359, 368 and 383 restaurants, respectively, in our comparable restaurant base for company-owned locations. This measure highlights performance of existing restaurants, as the impact of new restaurant openings is excluded. For fiscal years 2021 and 2020, restaurants that were temporarily closed or operating at reduced hours and dining capacity due to the COVID-19 pandemic remained in comparable restaurant sales. 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, but not limited to:

- consumer recognition of our brand and our ability to respond to changing consumer preferences;
- overall economic trends, particularly those related to consumer spending;
- our ability to operate restaurants effectively and efficiently to meet consumer expectations;
- pricing;
- the number of restaurant transactions, per-person spend and average check amount;
- marketing and promotional efforts;
- abnormal weather patterns;
- food safety and foodborne illness concerns;
- the impact of the COVID-19 pandemic;
- local competition;
- trade area dynamics;

- introduction of new and seasonal menu items and limited time offerings; and
- opening new restaurants in the vicinity of existing locations.

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

Average Unit Volumes

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

Restaurant Contribution and Restaurant Contribution Margin

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, fees and costs related to transactions and other acquisition/disposition costs, severance costs and stock-based compensation.

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

The presentation of 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.

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

	Fiscal Year	
	2021	2020
	(in thousands)	
Net income (loss)	$ 3,665	$ (23,259)
Depreciation and amortization	22,333	21,709
Interest expense, net	2,082	3,146
Provision for income taxes	70	84
EBITDA	$ 28,150	$ 1,680
Restaurant impairments, closure costs and asset disposals (1)	5,727	6,540
Fees and costs related to transactions and other acquisition/disposition costs (2)	—	162
Severance costs (3)	—	536
Stock-based compensation expense	4,271	2,554
Adjusted EBITDA	$ 38,148	$ 11,472

(1) Restaurant impairments and closure costs in all periods presented above include amounts related to restaurants previously impaired or closed. Additionally, 2021 and 2020 include closure costs of twelve and six restaurants, respectively. Fiscal years 2021 and 2020 had $3.4 million and $4.1 million, respectively of impairment charges. See Note 6, Restaurant Impairments, Closure Costs and Asset Disposals.

(2) Fiscal year 2020 includes expenses related to refranchising activities.

(3) Severance costs are related to departmental structural changes and the departure of certain executives.

Key Financial Definitions

Cost of Sales

Cost of sales includes the direct costs associated with the food, beverage and packaging of our menu items. Cost of sales also includes any costs related to discounted menu items. Cost of sales is a substantial expense and can be expected to change proportionally as our restaurant revenue changes. Fluctuations in cost of sales are caused primarily by volatility in the cost of commodity food items and related contracts for such items. Other important factors causing fluctuations in cost of sales include seasonality, discounting activity and restaurant level management of food waste.

Labor Costs

Labor costs include wages, payroll taxes, workers’ compensation expense, benefits and incentives paid to our restaurant teams. Similar to certain other expense items, we expect labor costs to change proportionally as our restaurant revenue changes. Factors that influence fluctuations in our labor costs include minimum wage and payroll tax legislation, wage inflation, the frequency and severity of workers’ compensation claims, health care costs and the performance of our restaurants.

Occupancy Costs

Occupancy costs include rent, common area maintenance charges and real estate tax expense related to our restaurants and are expected to grow proportionally as we open new restaurants.

Other Restaurant Operating Costs

Other restaurant operating costs include the costs of repairs and maintenance, utilities, restaurant-level marketing, credit card processing fees, third-party delivery fees, restaurant supplies and other restaurant operating costs. Similar to certain other costs, they are expected to grow proportionally as restaurant revenue grows.

General and Administrative Expense

General and administrative expense is composed of payroll, other compensation, travel, marketing, accounting and legal fees, insurance and other expenses related to the infrastructure required to support our restaurants. General and administrative expense also includes the non-cash stock compensation expense related to our stock incentive plan.

Depreciation and Amortization

Our principal depreciation and amortization charges relate to depreciation of long-lived assets, such as property, equipment and leasehold improvements, from restaurant construction and ongoing maintenance.

Pre-Opening Costs

Pre-opening costs relate to the costs incurred prior to the opening of a restaurant. These include management labor costs, staff labor costs during training, food and supplies utilized during training, marketing costs and other pre-opening related costs. Pre-opening costs also include rent recorded between the date of possession and the opening date for our restaurants.

Restaurant Impairments, Closure Costs and Asset Disposals

Restaurant impairments, closure costs and asset disposals include the net gain or loss on disposal of long-lived assets related to retirements and replacement of equipment or leasehold improvements, restaurant closures, divestitures and impairment charges.

Interest Expense

Interest expense consists primarily of interest on our outstanding indebtedness and amortization of debt issuance costs over the life of the related debt reduced by capitalized interest.

Provision for Income Taxes

Provision for income taxes consists of federal, state and local taxes on our income.

Restaurant Openings, Closures and Relocations

The following table shows restaurants opened or closed in the years indicated:

	Fiscal Year	
	2021	**2020**
Company-Owned Restaurants		
Beginning of period	378	389
Openings [(1)]	6	4
Divestitures [(2)]	—	(9)
Closures and relocations	(12)	(6)
End of period	372	378
Franchise Restaurants		
Beginning of period	76	68
Openings	1	—
Acquisitions [(2)]	—	9
Closures	(1)	(1)
End of period	76	76
Total restaurants	448	454

(1) We account for relocated restaurants under both restaurant openings and closures and relocations. During 2021, we relocated one restaurant.
(2) During 2020, we sold nine company-owned restaurants to a franchisee.

Results of Operations

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 Year	
	2021	**2020**
Revenue:		
Restaurant revenue	98.4 %	98.7 %
Franchising royalties and fees, and other	1.6 %	1.3 %
Total revenue	100.0 %	100.0 %
Costs and expenses:		
Restaurant operating costs (exclusive of depreciation and amortization, shown separately below):		
Cost of sales	25.2 %	25.1 %
Labor	31.2 %	32.5 %
Occupancy	9.8 %	12.0 %
Other restaurant operating costs	17.9 %	18.3 %
General and administrative	10.0 %	10.9 %
Depreciation and amortization	4.7 %	5.5 %
Pre-opening	0.1 %	0.1 %
Restaurant impairments, closure costs and asset disposals	1.2 %	1.7 %
Total costs and expenses	98.8 %	105.1 %
Income (loss) from operations	1.2 %	(5.1)%
Interest expense, net	0.4 %	0.8 %
Income (loss) before income taxes	0.8 %	(5.9)%
Provision for income taxes	*	*
Net income (loss)	0.8 %	(5.9)%

* Not meaningful.

Fiscal Year 2021 compared to Fiscal Year 2020

The table below presents our operating results for 2021 and 2020, and the related year-over-year changes:

	Fiscal Year		Increase / (Decrease)	
	2021	2020	$	%
		(in thousands)		
Revenue:				
Restaurant revenue	$ 467,336	$ 388,480	$ 78,856	20.3 %
Franchising royalties and fees, and other	7,816	5,175	2,641	51.0 %
Total revenue	475,152	393,655	81,497	20.7 %
Costs and Expenses:				
Restaurant operating costs (exclusive of depreciation and amortization, shown separately below):				
Cost of sales	117,894	97,697	20,197	20.7 %
Labor	145,622	126,424	19,198	15.2 %
Occupancy	45,956	46,787	(831)	(1.8)%
Other restaurant operating costs	83,603	71,208	12,395	17.4 %
General and administrative	47,535	42,876	4,659	10.9 %
Depreciation and amortization	22,333	21,709	624	2.9 %
Pre-opening	665	443	222	50.1 %
Restaurant impairments, closure costs and asset disposals	5,727	6,540	(813)	(12.4)%
Total costs and expenses	469,335	413,684	55,651	13.5 %
Income (loss) from operations	5,817	(20,029)	25,846	*
Interest expense, net	2,082	3,146	(1,064)	(33.8)%
Income (loss) before income taxes	3,735	(23,175)	26,910	*
Provision for income taxes	70	84	(14)	(16.7)%
Net income (loss)	$ 3,665	$ (23,259)	$ 26,924	*
Company-owned:				
Average unit volumes	$ 1,300	$ 1,064	$ 236	22.2 %
Comparable restaurant sales	21.3 %	(11.6)%		

* Not meaningful.

Revenue

Total revenue increased by $81.5 million, or 20.7%, in 2021 compared to 2020. This increase was primarily due to an increase in traffic and restaurant average unit volumes, including growth in both our digital and in-person channels.

Average unit volumes increased 22.2% to $1.3 million in 2021 compared to $1.1 million in 2020 due to increases in traffic and price. System-wide comparable restaurant sales increased 22.1% in 2021, comprised of a 21.3% increase at company-owned restaurants and a 27.1% increase at franchise-owned restaurants. Comparable sales growth was the strongest when compared with the initial months of the COVID-19 pandemic in 2020, which was the most severely impacted period.

Cost of Sales

Cost of sales increased by $20.2 million, or 20.7%, in 2021 compared to 2020, due primarily to the increase in restaurant revenue. As a percentage of restaurant revenue, cost of sales increased to 25.2% in 2021 from 25.1% in 2020. The increase as a percentage of restaurant revenue was primarily due to higher packaging costs associated with the shift to increased off-premise sales in response to the continued COVID-19 pandemic as well as increases in commodity food costs, mostly offset by menu price increases and cost savings initiatives.

Labor Costs

Labor costs increased by $19.2 million, or 15.2%, in 2021 compared to 2020, due primarily to the increase in restaurant sales in 2021 as well as wage inflation. As a percentage of restaurant revenue, labor costs decreased to 31.2% in 2021 compared to 32.5% in 2020 as a result of the labor efficiency initiatives implemented and labor savings in 2020 from temporarily closing indoor dining, partially offset by wage inflation.

Occupancy Costs

Occupancy costs decreased by $0.8 million, or 1.8%, in 2021 compared to 2020, due primarily to the favorable impact of restaurant closures since the beginning of 2020. As a percentage of restaurant revenue, occupancy costs decreased to 9.8% in 2021 from 12.0% in 2020, due to an increase in restaurant revenue.

Other Restaurant Operating Costs

Other restaurant operating costs increased by $12.4 million, or 17.4%, in 2021 compared to 2020, due primarily to increased third-party delivery fees, increased utility costs, higher credit card fees and higher repairs and maintenance in 2021. As a percentage of restaurant revenue, other restaurant operating costs decreased to 17.9% in 2021 from 18.3% in 2020.

General and Administrative Expense

General and administrative expense increased by $4.7 million, or 10.9%, in 2021 compared to 2020, due primarily to increases in wage and incentive compensation as 2020 included temporary cost reduction measures in response to the COVID-19 pandemic including reduced wage and incentive compensation, travel costs and additional discretionary expenses. The increase was also due to higher travel expenses and other benefits, partially offset by decreases in legal fees and marketing expenses. As a percentage of revenue, general and administrative expense decreased to 10.0% in 2021 compared to 10.9% in 2020, due primarily to the increase in revenue.

Depreciation and Amortization

Depreciation and amortization increased by $0.6 million, or 2.9%, in 2021 compared to 2020, due primarily to new restaurant openings partially offset by restaurants impaired or closed. As a percentage of revenue, depreciation and amortization decreased to 4.7% in 2021 from 5.5% in 2020, due primarily to the increase in restaurant sales as a result of recovering in 2021 from the impact of the COVID-19 pandemic.

Pre-Opening Costs

Pre-opening costs increased $0.2 million in 2021 compared to 2020 due to the increased number of restaurant openings in 2021 compared to 2020.

Restaurant Impairments, Closure Costs and Asset Disposals

Restaurant impairments, closure costs and asset disposals decreased by $0.8 million, or 12.4%, in 2021 compared to 2020. In 2021, we recognized $3.4 million of impairment charges on six restaurants. In addition, the assets held for the Warner Sale were written down by $0.5 million. In 2020, we had $4.1 million of impairment charges on eight restaurants. Both periods include ongoing equipment costs for restaurants previously impaired.

Each quarter we evaluate possible impairment of property and equipment at the restaurant level and record an impairment loss whenever we determine that the fair value of these assets is less than their carrying value. There can be no assurance that such evaluations will not result in additional impairment costs in future periods.

Interest Expense

Interest expense decreased by $1.1 million, or 33.8% in 2021 compared to 2020. The decrease was mainly due to lower average borrowings and a lower average interest rate in 2021 compared to 2020.

Provision for Income Taxes

The effective tax rate was 1.9% in 2021 compared to (0.4)% in 2020. The effective tax rates in 2021 and 2020 are primarily related to changes in indefinite-lived intangibles. We will continue to 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

Current Resources

As of December 28, 2021, our available cash and cash equivalents balance was $2.3 million, and $71.8 million was available for future borrowings under our Second Amended Credit Facility (defined below).

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 included a letter of credit subfacility in the amount of $15.0 million and a swingline subfacility in the amount of $10.0 million.

On November 20, 2019, we amended our 2018 Credit Facility by entering into the First Amendment to Credit Agreement (the “Amendment” or “Amended Credit Facility”). Among other things, the Amendment: (i) extended the maturity date to November 20, 2024; (ii) increased the revolving credit facility from $65.0 million to $75.0 million; (iii) delayed step downs of the Company’s leverage covenant; and (iv) increased the limit on capital expenditures to $37.0 million in 2020 and to $45.0 million in 2021 and each fiscal year thereafter.

On June 16, 2020 (the “Effective Date”), we amended our Amended Credit Facility by entering into the Second Amendment to the Credit Facility (the “Second Amendment” or the “Second Amended Credit Facility”). Beginning on the Effective Date and through the third quarter of 2021 (the “Amendment Period”), borrowings under the Second Amended Credit Facility, including the term loan facility (“Borrowings”), will bear interest at LIBOR plus 3.25% per annum. Following the Amendment Period, Borrowings will bear interest at LIBOR plus a margin of 2.00% to 3.00% per annum, based upon the consolidated total lease-adjusted leverage ratio. Among other things, the Second Amendment (i) waives the lease-adjusted leverage ratio and fixed charge ratio covenants through the first quarter of 2021; (ii) amends the Company’s lease-adjusted leverage ratio and fixed coverage ratio covenant thresholds beginning in the second quarter of 2021 through the third quarter of 2022 and the first quarter of 2022, respectively and (iii) limits capital expenditures to $12.0 million in 2020, $12.0 million plus a liquidity-based performance basket up to an additional $12.0 million in 2021, $34.0 million in 2022, $37.0 million in 2023 and $45.0 million annually thereafter. Our Second Amended Credit Facility is secured by a pledge of stock of substantially all of our subsidiaries and a lien on substantially all of our and our subsidiaries’ personal property assets.

As of December 28, 2021, we had $22.3 million of indebtedness (excluding $1.3 million of unamortized debt issuance costs) and $3.2 million of letters of credit outstanding under the Second Amended Credit Facility. The term loan requires principal payments of $187,500 per quarter through the third quarter of 2021, $375,000 through the third quarter of 2022, $531,250 through the third quarter of 2023 and $625,000 per quarter thereafter through maturity.

Availability of borrowings under the Second Amended Credit Facility is conditioned upon our compliance with the terms of the Amendment, 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. As of December 28, 2021, we were in compliance with all of our debt covenants.

We expect that we will meet all applicable financial covenants in our Second Amended Credit Facility, including the maximum consolidated total lease-adjusted leverage ratio, through at least the next four fiscal quarters. 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.

Cash Flow Analysis

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

	Fiscal Year Ended	
	December 28, 2021	December 29, 2020
	(in thousands)	
Net cash provided by operating activities	$ 36,165	$ 9,124
Net cash used in investing activities	(18,370)	(10,945)
Net cash used in financing activities	(23,380)	(798)
Net decrease in cash and cash equivalents	$ (5,585)	$ (2,619)

Operating Activities

Net cash provided by operating activities in 2021 increased $27.0 million compared to 2020. The change in operating cash flows resulted from an increase in net income due to the growth of average unit volumes in our restaurants during 2021, in addition to a recovery from the initial impacts of the COVID-19 pandemic and a return to less volatile working capital changes as the business recovered in 2021.

Investing Activities

Net cash used in investing activities was primarily related to new restaurant capital expenditures for the opening of six and four company-owned restaurants in 2021 and 2020, respectively, as well as information technology expenses and investments in restaurant equipment.

Financing Activities

Net cash used in financing activities was $23.4 million in 2021 largely related to repayments of long-term debt and finance leases.

Material Cash Requirements

Our short-term obligations consist primarily of certain lease and other contractual commitments related to our operations, normal recurring operating expenses, working capital needs, new store development, capital improvements and maintenance of our restaurants, regular interest payments on our debt obligations and certain non-recurring expenditures.

Our long-term obligations consist primarily of certain lease and other contractual commitments related to our operations and principal payments on our outstanding debt obligations. In addition, our growth target for new store development will require capital each year which is expected to be funded by currently available cash and cash equivalents, cash flows from operations and our revolving credit facility.

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.

Our total capital expenditures for 2021 were $18.8 million, and we expect our 2022 capital expenditures to be in the range of $30.0 million to $34.0 million. Our capital expenditures in 2022 are expected to be related to our construction of new restaurants before any reductions for landlord reimbursements, reinvestment in existing restaurants and investments in technology.

Our contractual obligations consist of lease obligations, purchase obligations, long-term debt and other liabilities. See Note 4 Long-Term Debt and Note 12 Leases for further discussion. We are obligated under non-cancelable leases for our restaurants, administrative offices and equipment. In addition to those lease obligations, we have legally binding minimum lease payments for leases signed but not yet commenced amounting to $1.9 million as of December 28, 2021. We enter into various purchase obligations in the ordinary course of business. As of December 28, 2021, our short-term binding purchase obligations amounted to $10.4 million and our long-term binding purchase obligations amounted to $9.1 million. These amounts relate to volume commitments for beverage and food products, as well as binding commitments for the constructions of new restaurants. Our other liabilities of $2.7 million as of December 28, 2021 include expected payments associated with the employer payroll tax deferral under the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") and our commitment under our non-qualified deferred compensation plan.

We believe that we have sufficient liquidity to meet our liquidity needs and capital resource requirements for at least the next twelve months primarily through currently available cash and cash equivalents, cash flows from operations, and borrowings under the Second Amended Credit Facility. 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. 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.

Critical Accounting Policies and Estimates

Our 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 Note 1, Business and Summary of Significant Accounting Policies, to our consolidated financial statements. 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. We believe the critical accounting policies described below affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Impairment of Long-Lived Assets

We review long-lived assets, such as property and equipment, right of use assets and intangibles, subject to amortization, for impairment when events or circumstances indicate the carrying value of the assets may not be recoverable. In determining the recoverability of the asset value, an analysis is performed at the individual restaurant level and primarily includes an assessment of historical cash flows and other relevant factors and circumstances. The other factors and circumstances include changes in the economic environment, changes in the manner in which assets are used, unfavorable changes in legal factors or business climate, incurring excess costs in construction of the asset, overall restaurant operating performance and projections for future performance. These estimates result in a wide range of variability on a year to year basis due to the nature of the criteria. Restaurant-level cash flow less than our internal threshold over the previous 12 periods is considered an indicator of potential impairment. In such situations, we evaluate future undiscounted cash flow projections in conjunction with qualitative factors and future operating plans. Our impairment assessment process requires the use of estimates and assumptions regarding the future undiscounted cash flows and operating outcomes, which are based upon a significant degree of management's judgment.

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, excluding occupancy rent expense, to the asset's carrying value, excluding lease liability, 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.

Leases

We lease all restaurant facilities, office space and certain equipment. Pursuant to FASB Accounting Standards Codification ("ASC") Topic 842, all operating and finance lease assets and liabilities are recognized on our Consolidated Balance Sheets.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make future lease payments arising from the lease. Operating lease ROU assets and liabilities are recorded at commencement date based on the present value of lease payments over the lease term, which includes options to extend lease terms that are reasonably certain of being exercised. To determine the present value of lease payments not yet paid, we estimate incremental borrowing rates corresponding to the reasonably certain lease term. As most of our leases do not provide an implicit rate, we use the incremental borrowing rate based on information available at commencement date in determining the present value of lease payments. Leases with an initial term of 12 months or less are not recorded on the Consolidated Balance Sheets. We recognize lease expense for these short-term leases on a straight-line basis over the lease term.

Our leases typically contain rent escalations over the lease term. We recognize 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. Rent expense for the period prior to the restaurant opening is reported as pre-opening expense in the Consolidated Statements of Operations.

Recently Issued Accounting Pronouncements

Refer to Note 1, Business and Summary of Significant Accounting Policies, of Notes to Consolidated Financial Statements of this report.

ITEM 7A. Quantitative and Qualitative Disclosure 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 December 28, 2021, $22.3 million in borrowings were outstanding under our Second Amended Credit Facility. An increase or decrease of 1.0% in the effective interest rate applied to our borrowings would have resulted in a pre-tax interest expense fluctuation of approximately $0.2 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 that 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 costs, labor costs, energy costs and materials used in the construction of new restaurants and maintenance of existing restaurants. Increases in federal, state or local minimum wages 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. In recent years, inflation has not significantly affected our operating results with the exception of increased wage inflation that affected our results from 2019 through 2021. We expect food inflation and wage inflation to affect our results in the near future.

ITEM 8. Financial Statements and Supplementary Data

Noodles & Company

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements

See accompanying notes to consolidated financial statements.

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

	December 28, 2021	December 29, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 2,255	$ 7,840
Accounts receivable	3,958	3,428
Inventories	9,404	9,643
Prepaid expenses and other assets	6,837	2,759
Income tax receivable	108	44
Total current assets	22,562	23,714
Property and equipment, net	119,276	122,917
Operating lease assets, net	188,440	195,618
Goodwill	7,154	7,154
Intangibles, net	668	757
Other assets, net	3,359	3,471
Total long-term assets	318,897	329,917
Total assets	$ 341,459	$ 353,631
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 15,543	$ 6,402
Accrued payroll and benefits	18,600	12,876
Accrued expenses and other current liabilities	13,791	11,632
Current operating lease liabilities	26,617	26,094
Current portion of long-term debt	2,031	1,125
Total current liabilities	76,582	58,129
Long-term debt, net	18,931	40,949
Long-term operating lease liabilities, net	200,243	210,454
Deferred tax liabilities, net	269	240
Other long-term liabilities	7,801	14,160
Total liabilities	303,826	323,932
Commitments and contingencies		
Stockholders' equity:		
Preferred stock—$0.01 par value, 1,000,000 shares authorized and undesignated as of December 28, 2021 and December 29, 2020; no shares issued or outstanding	—	—
Common stock—$0.01 par value, 180,000,000 shares authorized as of December 28, 2021 and December 29, 2020; 48,125,151 issued and 45,701,280 outstanding as of December 28, 2021; 46,807,587 issued and 44,383,716 outstanding as of December 29, 2020	481	468
Treasury stock, at cost, 2,423,871 shares as of December 28, 2021 and December 29, 2020, respectively	(35,000)	(35,000)
Additional paid-in capital	207,226	202,970
Accumulated deficit	(135,074)	(138,739)
Total stockholders' equity	37,633	29,699
Total liabilities and stockholders' equity	$ 341,459	$ 353,631

See accompanying notes to consolidated financial statements.

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

	Fiscal Year Ended		
	December 28, 2021	December 29, 2020	December 31, 2019
Revenue:			
Restaurant revenue	$ 467,336	$ 388,480	$ 456,671
Franchising royalties and fees, and other	7,816	5,175	5,740
Total revenue	475,152	393,655	462,411
Costs and expenses:			
Restaurant operating costs (exclusive of depreciation and amortization shown separately below):			
Cost of sales	117,894	97,697	117,179
Labor	145,622	126,424	150,565
Occupancy	45,956	46,787	48,863
Other restaurant operating costs	83,603	71,208	66,684
General and administrative	47,535	42,876	43,446
Depreciation and amortization	22,333	21,709	22,086
Pre-opening	665	443	402
Restaurant impairments, closure costs and asset disposals	5,727	6,540	7,747
Total costs and expenses	469,335	413,684	456,972
Income (loss) from operations	5,817	(20,029)	5,439
Loss on extinguishment of debt	—	—	746
Interest expense, net	2,082	3,146	2,942
Income (loss) before income taxes	3,735	(23,175)	1,751
Provision for income taxes	70	84	104
Net income (loss)	$ 3,665	$ (23,259)	$ 1,647
Earnings (loss) per Class A and Class B common stock, combined			
Basic	$ 0.08	$ (0.53)	$ 0.04
Diluted	$ 0.08	$ (0.53)	$ 0.04
Weighted average Class A and Class B common stock outstanding, combined			
Basic	45,483,029	44,272,474	44,036,947
Diluted	46,125,386	44,272,474	44,976,436

See accompanying notes to consolidated financial statements.

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

	Common Stock[1]		Treasury		Additional Paid-In Capital	Retained Earnings (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	204,625	2	—	—	(254)	—	(252)
Stock-based compensation expense	—	—	—	—	2,487	—	2,487
Cumulative catch-up adjustment for ASC 842	—	—	—	—	—	(5,992)	(5,992)
Net income	—	—	—	—	—	1,647	1,647
Balance—December 31, 2019	46,557,934	466	2,423,871	(35,000)	200,585	(115,480)	50,571
Stock plan transactions and other	249,653	2	—	—	(176)	—	(174)
Stock-based compensation expense	—	—	—	—	2,561	—	2,561
Net loss	—	—	—	—	—	(23,259)	(23,259)
Balance—December 29, 2020	46,807,587	468	2,423,871	(35,000)	202,970	(138,739)	29,699
L Catterton warrants exercised[2]	975,458	10	—	—	(10)	—	—
Stock plan transactions and other	342,106	3	—	—	98	—	101
Stock-based compensation expense	—	—	—	—	4,168	—	4,168
Net income	—	—	—	—	—	3,665	3,665
Balance—December 28, 2021	48,125,151	$ 481	2,423,871	$ (35,000)	$ 207,226	$ (135,074)	$ 37,633

(1) Unless otherwise noted, activity relates to Class A common stock.
(2) Refer to Note 8 - Stockholders' Equity.

See accompanying notes to consolidated financial statements.

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

	Fiscal Year Ended		
	December 28, 2021	**December 29, 2020**	**December 31, 2019**
Operating activities			
Net income (loss)	$ 3,665	$ (23,259)	$ 1,647
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	22,333	21,709	22,086
Deferred income taxes, net	29	40	68
Restaurant impairments, closure costs and asset disposals	3,538	4,782	7,808
Loss on extinguishment of debt	—	—	746
Amortization of debt issuance costs	444	371	474
Stock-based compensation	4,110	2,497	2,443
Gain on insurance proceeds received for property damage	(406)	(200)	(489)
Changes in operating assets and liabilities:			
Accounts receivable	(491)	(392)	(630)
Inventories	(382)	61	(625)
Prepaid expenses and other assets	(492)	(14)	(690)
Accounts payable	4,689	(1,287)	406
Operating lease assets and liabilities	(1,759)	2,847	(2,202)
Income taxes	(64)	59	82
Accrued expenses and other liabilities	951	1,910	(1,064)
Net cash provided by operating activities	36,165	9,124	30,060
Investing activities			
Purchases of property and equipment	(18,776)	(11,782)	(17,404)
Franchise restaurant acquisition, net of cash acquired	—	—	(1,387)
Proceeds from disposal of property and equipment	—	—	352
Insurance proceeds received for property damage	406	837	—
Net cash used in investing activities	(18,370)	(10,945)	(18,439)
Financing activities			
Proceeds from borrowings on long-term debt	—	55,500	1,917
Payments on long-term debt	(21,556)	(54,313)	(5,875)
Debt issuance costs	—	(731)	(917)
Payment of finance leases	(1,925)	(1,080)	(690)
Stock plan transactions and tax withholding on share-based compensation awards	101	(174)	(252)
Net cash used in financing activities	(23,380)	(798)	(5,817)
Net (decrease) increase in cash and cash equivalents	(5,585)	(2,619)	5,804
Cash and cash equivalents			
Beginning of year	7,840	10,459	4,655
End of year	$ 2,255	$ 7,840	$ 10,459

See accompanying notes to consolidated financial statements.

1. Business and Summary of Significant Accounting Policies

Business

Noodles & Company (the “Company” or “Noodles & Company”), a Delaware corporation, develops and operates fast-casual restaurants that serve globally-inspired noodle and pasta dishes, soups, salads and appetizers. As of December 28, 2021, the Company had 372 company-owned restaurants and 76 franchise restaurants in 29 states. The Company operates its business as one operating and reportable segment.

Principles of Consolidation and Basis of Presentation

The accompanying consolidated financial statements include the accounts of Noodles & Company and its subsidiaries. All intercompany balances and transactions are eliminated in consolidation.

Fiscal Year

The Company operates on a 52- or 53-week fiscal year ending on the Tuesday closest to December 31. Fiscal years 2021, 2020 and 2019, which ended on December 28, 2021, December 29, 2020, and December 31, 2019, respectively, each contained 52 weeks.

Risks and Uncertainties

We are subject to risks and uncertainties as a result of the ongoing COVID-19 pandemic. The extent of the future impact of the COVID-19 pandemic on the Company’s business is uncertain and difficult to predict. Our operational and financial performance will depend on future developments, including the duration of the outbreak, limitations imposed by federal, state and local governments with respect to reduced seating capacity in our restaurants and other social distancing measures, and our customers’ future willingness to eat at restaurants. Furthermore, several industries have been negatively impacted by the COVID-19 pandemic, and it is possible that it could cause an extended economic recession. All of the effects of the COVID-19 pandemic could have a material adverse effect on our business. Although the ultimate severity of the COVID-19 pandemic is still uncertain at this time, we intend to continue to actively monitor the evolving situation and may take further actions that alter our business operations, as may be required by federal, state or local authorities or that we determine are in the best interests of our team members, customers, suppliers and shareholders.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investment instruments with an initial maturity of three months or less when purchased to be cash equivalents. Amounts receivable from credit card processors are converted to cash shortly after the related sales transaction and are considered to be cash equivalents because they are both short-term and highly liquid in nature. Amounts receivable from credit card processors as of December 28, 2021 and December 29, 2020, which are included in cash and cash equivalents, were $1.0 million and $0.9 million, respectively. Additionally, the Company records “book overdrafts” when outstanding checks at year end are in excess of cash and cash equivalents. Such book overdrafts are recorded within accounts payable in the accompanying Consolidated Balance Sheets and within operating activities in the accompanying Consolidated Statements of Cash Flows.

Accounts Receivable

Accounts receivable consists primarily of franchise receivables and vendor rebates, as well insurance receivables and other miscellaneous receivables arising from the normal course of business. The Company believes all amounts to be collectible and does not have a history of losses. Accordingly, no allowance for doubtful accounts has been recorded as of December 28, 2021 or December 29, 2020.

Inventories

Inventories consist of food, beverages, supplies and smallwares, and are stated at the lower of cost (first-in, first-out method) or net realizable value. Smallwares inventory, which consist of the plates, silverware and cooking utensils used in the restaurants, are frequently replaced and are therefore considered current assets. Replacement costs of smallwares inventory are recorded as other restaurant operating costs in the Consolidated Statements of Operations and are expensed as incurred. As of December 28, 2021 and December 29, 2020, smallwares inventory of $6.3 million and $6.6 million, was included in the accompanying Consolidated Balance Sheets.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Expenditures for major renewals and improvements are capitalized, while expenditures for minor replacements and maintenance and repairs are expensed as incurred. Upon retirement or disposal of assets, the accounts are relieved of cost and accumulated depreciation and the related gain or loss is reflected in earnings. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the estimated useful life or the lease term, which generally includes option periods that are reasonably certain to be exercised. Depreciation and amortization expense on property and equipment, including assets recorded as finance leases, was $22.3 million, $21.6 million and $22.0 million in 2021, 2020 and 2019, respectively.

The estimated useful lives for property and equipment are:

Property and Equipment	Estimated Useful Lives
Leasehold improvements	Shorter of lease term or estimated useful life, not to exceed 20 years
Furniture and fixtures	3 to 15 years
Equipment	3 to 7 years

The Company capitalizes internal payroll and payroll-related costs directly related to the successful acquisition, development, design and construction of its new restaurants. Capitalized internal costs were $0.2 million, $0.2 million and $0.4 million in 2021, 2020 and 2019, respectively. Interest incurred on funds used to construct company-owned restaurants is capitalized and amortized over the estimated useful life of the related assets. Capitalized interest totaled $0.3 million, $0.2 million and $0.3 million in 2021, 2020 and 2019, respectively.

Goodwill

Goodwill represents the excess of purchase price over the fair value of identifiable net assets acquired. Goodwill is not subject to amortization, but instead is tested for impairment at least annually (or more often, if necessary) as of the first day of the Company’s fourth fiscal quarter.

Goodwill is evaluated at the level of the Company’s single operating segment, which also represents the Company’s only reporting unit. In 2021, 2020 and 2019, the Company performed a qualitative impairment assessment. Under this approach, the Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of its reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. If after performing the qualitative assessment, the Company determines there is less than a 50 percent chance that the fair value of its reporting unit is less than its carrying amount, then performing the two-step test is unnecessary. Based on the qualitative assessment performed, management did not believe that it is more likely than not that the Company’s goodwill has been impaired.

Based on the Company’s analysis, no impairment charges were recognized on goodwill in 2021, 2020 or 2019.

Intangibles, net

Intangibles, net consists primarily of reacquired franchise rights and trademarks. The Company amortizes the fair value of reacquired franchise rights over the remaining contractual terms of the reacquired franchise area development agreements at the time of acquisition, which ranged from approximately four years to 11 years as of December 28, 2021. Trademark rights are considered indefinite-lived intangible assets, the carrying value of which are analyzed for impairment at least annually (or more often, if necessary).

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparison of the carrying amount of the assets to the future undiscounted net cash flows expected to be generated by the assets. Identifiable cash flows are measured at the lowest level for which they are largely independent of the cash flows of other groups of assets and liabilities, generally at the restaurant level. If the assets are determined to be impaired, the amount of impairment recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. Estimates of future cash flows are based on the Company's experience and knowledge of local operations. During 2021, 2020 and 2019, the Company recorded impairment charges of certain long-lived assets which are included in restaurant impairments, closure costs and asset disposals in the Consolidated Statements of Operations. See Note 6, Restaurant Impairments, Closure Costs and Asset Disposals. Fair value of the restaurant assets was determined using Level 3 inputs (as described in Note 5, Fair Value Measurements).

Debt Issuance Costs

Certain fees and costs incurred to obtain long-term financing are capitalized and included as a reduction in the net carrying value of long-term debt, net of accumulated amortization. These costs are amortized to interest expense over the term of the related debt. When debt is extinguished prior to its maturity date, the amortization of the remaining unamortized debt issuance costs, or pro-rata portion thereof, is charged to loss on extinguishment of debt. Debt issuance costs of $1.3 million and $1.7 million, net of accumulated amortization, as of December 28, 2021 and December 29, 2020, respectively, are included as a reduction of long-term debt in the Consolidated Balance Sheets.

Self-Insurance Programs

The Company self-insures for health, workers' compensation, general liability and property damage. Predetermined loss limits have been arranged with insurance companies to limit the Company's per occurrence cash outlay. Estimated costs to settle reported claims and incurred but unreported claims for health and workers' compensation self-insured plans are recorded in accrued payroll and benefits and for general liability and property damage in accrued expenses and other liabilities in the Consolidated Balance Sheets.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company's cash balances may exceed federally insured limits. Credit card transactions at the Company's restaurants are processed by one service provider. Concentration of credit risk related to accounts receivable are limited, as the Company's receivables are primarily amounts due from franchisees and the Company directly pulls the amounts owed from the franchisees bank accounts.

Revenue Recognition

Revenue consists of sales from restaurant operations and franchise royalties and fees. 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, which is recognized ratably over the estimated redemption period of the gift card, approximately 24 months.

Loyalty Program

The Company operates the Noodles Rewards program, which is primarily a spend-based loyalty program. With each purchase, Noodles Rewards members earn loyalty points that can be redeemed for rewards, including free products. Using an estimate of the value of reward redemptions, we defer revenue associated with points earned, net of estimated points that will not be redeemed. Points generally expire after six months. Revenue is recognized in a future period when the reward points are redeemed.

Franchise Royalties

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. 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, such fees 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.

As of December 28, 2021, December 29, 2020 and December 31, 2019, there were 76, 76 and 68 franchise restaurants in operation, respectively. Franchisees opened one restaurant in 2021 and one restaurant in 2019. Franchisees closed one restaurant in 2021, one restaurant in 2020 and two restaurants in 2019. Franchisees acquired nine company-owned locations in 2020 and five locations in 2019. Franchisees did not open any restaurants in 2020.

Pre-Opening Costs

Pre-opening costs, including rent, wages, benefits and travel for the training and opening teams, food, beverage and other restaurant operating costs, are expensed as incurred prior to a restaurant opening for business.

Advertising and Marketing Costs

Advertising and marketing costs are expensed as incurred and were $7.7 million, $7.9 million and $6.1 million in 2021, 2020 and 2019, respectively. These costs are included in restaurant operating costs, general and administrative expenses and pre-opening costs based on the nature of the advertising and marketing costs incurred.

Rent

Rent expense for the Company's leases, which generally have escalating rentals over the term of the lease, is recorded 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. Lease expense associated with rent escalation and contingent rental provisions is not material and is included within operating lease cost. 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.

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.

Provision (Benefit) for Income Taxes

Provision (benefit) for income taxes is accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those deferred amounts are expected to be recovered or settled. Valuation allowances are recorded for deferred tax assets that more likely than not will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company's policy is to recognize interest to be paid on an underpayment of income taxes in interest expense and any related statutory penalties in provision (benefit) for income taxes in the Consolidated Statements of Operations.

Stock-Based Compensation Expense

Stock-based compensation expense is measured at the grant date based upon the estimated fair value of the portion of the award that is ultimately expected to vest and is recognized as expense over the applicable vesting period of the award generally using the straight-line method (see Note 9, Stock-Based Compensation for more information).

Recently Issued Accounting Pronouncements

In March 2020, the FASB issued ASU No. 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The ASU is intended to provide temporary optional expedients and exceptions to the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. The Company may elect to apply the amendments prospectively through December 31, 2022. The Company is currently evaluating the impact this guidance may have on its consolidated financial statements and related disclosures.

Recently Adopted Accounting Pronouncements

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* (“ASU 2019-12”). ASU 2019-12 was issued as a means to reduce the complexity of accounting for income taxes for those entities that fall within the scope of the accounting standard. This guidance is effective for public companies for annual reporting periods beginning after December 15, 2020 and interim periods within those reporting periods. Interim period adoption is permitted. The guidance is to be applied using a prospective method, excluding amendments related to franchise taxes, which should be applied on either a retrospective basis for all periods presented or a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The adoption of ASU 2019-12 did not have a material impact to the Company’s consolidated financial statements.

2. Supplemental Financial Information

Accounts receivable consist of the following (in thousands):

	2021	2020
Delivery program receivables	$ 1,467	$ 1,268
Vendor rebate receivables	695	641
Insurance receivable	—	74
Franchise receivables	644	564
Other receivables	1,152	881
Accounts receivable	$ 3,958	$ 3,428

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

	2021	2020
Prepaid occupancy related costs	$ 73	$ 884
Prepaid insurance	853	744
Current assets held for sale	3,514	—
Prepaid expenses	2,272	1,092
Other current assets	125	39
Prepaid expenses and other assets	$ 6,837	$ 2,759

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

	2021	2020
Leasehold improvements	$ 197,722	$ 199,782
Furniture, fixtures and equipment	140,698	132,756
Construction in progress	6,306	1,713
	344,726	334,251
Accumulated depreciation and amortization	(225,450)	(211,334)
Property and equipment, net	$ 119,276	$ 122,917

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

	2021	2020
Accrued payroll and related liabilities	$ 9,851	$ 6,812
Accrued bonus	5,078	2,364
Insurance liabilities	3,671	3,700
Accrued payroll and benefits	$ 18,600	$ 12,876

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

	2021	2020
Gift card liability	$ 2,850	$ 2,551
Occupancy related	1,615	1,322
Utilities	1,302	1,338
Current portion of finance lease liability	1,956	1,800
Liabilities held for sale	1,671	—
Accrued interest	271	375
Insurance liabilities	393	398
Other restaurant expense accruals	995	1,079
Other corporate expense accruals	2,738	2,769
Accrued expenses and other current liabilities	$ 13,791	$ 11,632

Assets and Liabilities Held for Sale

In November 2021, the Company entered into a definitive agreement to sell fifteen restaurants to a new franchisee ("Warner Sale"). In January 2022, the Company closed the Warner Sale. The assets and liabilities associated with the Warner Sale have been recorded in "Prepaid expenses and other assets" and "Accrued expenses and other current liabilities" on the Consolidated Balance Sheets as of December 28, 2021. In addition, the Company recorded a $0.5 million write down of assets related to this transaction during the year ended December 28, 2021, included in "Restaurant impairments, closure costs and asset disposals" on the Consolidated Statements of Operations. The following table presents the carrying amounts of the major classes of assets and liabilities classified as held for sale (in thousands):

	2021
Assets	
Current assets, total	$ 2,494
Operating lease assets	1,020
Current assets held for sale	3,514
Liabilities	
Operating lease liabilities	1,671
Net assets held for sale	$ 1,843

3. Goodwill and Intangible Assets

The Company had no goodwill impairment charges in 2021, 2020 or 2019. As of December 28, 2021 and December 29, 2020, the goodwill balance remained at $7.2 million.

The following table presents intangible assets subject to amortization as of December 28, 2021 and December 29, 2020, (in thousands):

	2021	2020
Amortized intangible assets:		
Reacquired franchise rights	$ 933	$ 992
Accumulated Amortization	(493)	(458)
Amortized intangible assets, net	440	534
Non-amortized intangible assets:		
Trademark rights	228	223
Intangibles, net	$ 668	$ 757

The estimated aggregate future amortization expense as of December 28, 2021 is as follows, (in thousands):

2022	$ 67
2023	67
2024	66
2025	66
2026	52
Thereafter	122
	$ 440

No impairment charges were recorded related to non-amortized intangible assets in 2021, 2020 or 2019.

4. Long-Term Debt

2018 Credit Facility

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

Amended Credit Facility

On November 20, 2019, the Company amended its 2018 Credit Facility by entering into the First Amendment to the Credit Facility (the "Amendment" or "Amended Credit Facility"). Among other things, the Amendment: (i) extended the maturity date to November 20, 2024; (ii) increased the revolving credit facility from $65.0 million to $75.0 million; (iii) delayed step downs of the Company's leverage covenant; and (iv) increased the limit on capital expenditures to $37.0 million in 2020 and to $45.0 million in 2021 and each fiscal year thereafter. We wrote off unamortized debt issuance costs related to the 2018 Credit Facility and recognized a loss on extinguishment of debt in the amount of $0.7 million in 2019.

Borrowings under the Amended Credit Facility, including the term loan facility, bore interest annually, at the Company's option, at either (i) LIBOR plus a margin of 2.00% to 2.75% per annum, based upon the consolidated total lease-adjusted leverage ratio or (ii) the highest of the following base rates plus a margin of 1.00% to 1.75% 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 Amendment included a commitment fee of 0.20% to 0.35% per annum, based upon the consolidated total lease-adjusted leverage ratio, on any unused portion of the revolving credit facility.

Second Amended Credit Facility

On June 16, 2020 (the “Effective Date”), the Company amended its 2018 Credit Facility by entering into the Second Amendment to the Credit Facility (the “Second Amendment” or the “Second Amended Credit Facility”). Beginning on the Effective Date and through the third quarter of 2021 (the “Amendment Period”), borrowings under the Second Amended Credit Facility, including the term loan facility (“Borrowings”), will bear interest at LIBOR plus 3.25% per annum. Following the Amendment Period, borrowings will bear interest at LIBOR plus a margin of 2.00% to 3.00% per annum, based upon the consolidated total lease-adjusted leverage ratio. Among other things, the Second Amendment (i) waives the lease-adjusted leverage ratio and fixed charge ratio covenants through the first quarter of 2021; (ii) amends the Company’s lease-adjusted leverage ratio and fixed coverage ratio covenant thresholds beginning in the second quarter of 2021 through the third quarter of 2022 and the first quarter of 2022, respectively and (iii) limits capital expenditures to $12.0 million in 2020, $12.0 million plus a liquidity-based performance basket up to an additional $12.0 million in 2021, $34.0 million in 2022, $37.0 million in 2023 and $45.0 million annually thereafter.

As of December 28, 2021, the Company had $22.3 million of indebtedness (excluding $1.3 million of unamortized debt issuance costs) and $3.2 million of letters of credit outstanding under the Second Amended Credit Facility. The term loan requires principal payments of $187,500 per quarter through the third quarter of 2021, $375,000 through the third quarter of 2022, $531,250 through the third quarter of 2023 and $625,000 per quarter thereafter through maturity.

Aggregate maturities for debt outstanding as of December 28, 2021 are as follows (in thousands):

Year 1	$	2,031
Year 2		2,219
Year 3		18,000
Total	$	22,250

The Company also maintains outstanding letters of credit to secure obligations under its workers’ compensation program and certain lease obligations. As of December 28, 2021, the Company was in compliance with all of its debt covenants.

The Second Amended Credit Facility is secured by a pledge of stock of substantially all of the Company’s subsidiaries and a lien on substantially all of the personal property assets of the Company and its subsidiaries.

The Company’s indebtedness bore interest at a range of 2.38% to 5.5% during 2021. The Company recorded interest expense of $2.1 million, $3.1 million and $2.9 million for 2021, 2020 and 2019, respectively, of which $0.4 million, $0.4 million, and $0.5 million was amortization of debt issuance costs in each of the respective years.

5. Fair Value Measurements

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and all other current liabilities approximate 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 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 December 28, 2021 and December 29, 2020, are discussed in Note 6, Restaurant Impairments, Closure Costs and Asset Disposals. Assets held for sale are measured at fair value on a non-recurring basis using Level 3 inputs.

The fair values are assigned a level within the fair value hierarchy, depending on the source of the inputs into the calculation.

Level 1—Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2—Quoted prices in markets that are not active or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3—Prices or valuation techniques which require inputs that are both significant to the fair value measurement and unobservable (*i.e.*, supported by little or no market activity).

6. Restaurant Impairments, Closure Costs and Asset Disposals

The following table presents restaurant impairments, closure costs and asset disposals for fiscal years 2021, 2020 and 2019 (in thousands):

	2021	2020	2019
Restaurant impairments[(1)]	$ 3,424	$ 4,113	$ 6,218
Closure costs[(1)]	1,239	535	(54)
Loss on disposal of assets and other	1,064	1,892	1,583
	$ 5,727	$ 6,540	$ 7,747

(1) Restaurant impairments and closure costs in all periods presented above include amounts related to restaurants previously impaired or closed. Closure costs in 2019 included a gain on lease remeasurement.

Restaurant Impairments

During 2021, 2020 and 2019, six restaurants, eight restaurants and two restaurants were identified as impaired, respectively. In addition, the assets held for the Warner Sale (discussed in Note 2, Supplemental Financial Information) were written down by $0.5 million. In 2019, the Company also recorded a $3.6 million write down of assets in connection with the sale of nine company-owned restaurants to a franchisee that completed in January of 2020. All periods include ongoing equipment costs for restaurants previously impaired. Impairment is based on management’s current assessment of the expected future cash flows of various restaurants based on recent results and other specific market factors. Impairment expense is a Level 3 fair value measure and was determined by comparing the carrying value of restaurant assets to the estimated fair market value of the restaurant assets at resale value. The onset of the COVID-19 pandemic during 2020 resulted in significant disruption to the restaurant industry and adversely affected the Company’s business. The extent of the COVID-19 pandemic impact on the Company’s operations depends on future developments and is highly uncertain due to unknown duration and severity of the outbreak. The Company will continue to monitor the impact from the COVID-19 pandemic as it relates to recoverability of long-lived assets.

In performing its impairment testing, the Company forecasts the 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. The Company compares 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.

Restaurant Closures

Closure costs during 2021, 2020 and 2019 pertain to ongoing costs of restaurants that closed in previous years, as well as costs related to the closure of twelve, six, and five restaurants, respectively. These closure costs were offset by gains of $0.2 million in 2021, $0.6 million in 2020 and $0.4 million in 2019 resulting from the adjustments to liabilities as lease terminations occur. Closure costs can include fees from real estate advisors and brokers related to terminations of the leases and charges resulting from final adjustments to liabilities as lease terminations occur.

Loss on disposal of assets and other includes expenses related to the divestiture of company-owned restaurants to a franchisee in 2020 and 2019.

7. Income Taxes

The components of the provision for income taxes are as follows for 2021, 2020 and 2019 (in thousands):

	2021	2020	2019
Current tax provision:			
Federal	$ —	$ —	$ —
State	41	44	36
	41	44	36
Deferred tax provision:			
Federal	23	30	52
State	6	10	16
	29	40	68
Total provision for income taxes	$ 70	$ 84	$ 104

The reconciliation of income tax provision (benefit) that would result from applying the federal statutory rate to pre-tax income as shown in the accompanying Consolidated Statements of Operations is as follows for 2021, 2020 and 2019 (in thousands):

	2021	2020	2019
Federal income tax provision (benefit) at federal rate	$ 784	$ (4,867)	$ 368
State income tax provision (benefit), net of federal tax	162	(1,191)	168
Other permanent differences	(17)	288	327
Tax credits	(1,297)	(390)	(408)
Change in valuation allowance	244	6,104	(913)
Tax rate change	6	(25)	23
Deferred tax asset write-off	207	157	566
Other items, net	(19)	8	(27)
Provision for income taxes	$ 70	$ 84	$ 104
Effective income tax rate	1.9 %	(0.4)%	5.9 %

The Company’s total deferred tax assets and liabilities are as follows (in thousands):

	2021	2020
Deferred tax assets	$ 110,098	$ 111,831
Deferred tax liabilities	(64,603)	(66,551)
Total deferred tax assets	45,495	45,280
Valuation allowance	(45,764)	(45,520)
Net deferred tax liabilities	$ (269)	$ (240)

Deferred income taxes arise because of the differences in the book and tax bases of certain assets and liabilities. Deferred income tax liabilities and assets consist of the following (in thousands):

	2021	2020
Deferred tax assets (liabilities):		
Loss carry forwards	$ 37,534	$ 37,852
Deferred franchise revenue	1,128	1,506
Property, equipment and intangible assets	(11,821)	(11,063)
Stock-based compensation	1,676	1,384
Tax credit carry forwards	5,624	4,326
Inventory smallwares	(1,646)	(1,740)
Other accrued expenses	1,154	1,861
Operating lease assets	(51,136)	(53,748)
Operating lease liabilities	61,844	63,799
Other	1,138	1,103
Total net deferred tax assets	45,495	45,280
Valuation allowance	(45,764)	(45,520)
Net deferred tax liabilities	$ (269)	$ (240)

For the year ended December 28, 2021, the Company determined that it was appropriate to maintain a valuation allowance of $45.8 million against U.S. deferred tax assets due to uncertainty regarding the realizability of future tax benefits. The valuation allowance is recorded against net deferred tax assets, exclusive of indefinite-lived intangibles. During 2019, 2020 and 2021, the Company generated indefinite-lived net operating loss (“NOL”) carry forwards. The Company will maintain the remaining valuation allowance 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 to the effective tax rate.

As of December 28, 2021 and December 29, 2020, NOL carry forwards for federal income tax purposes of approximately $145.0 million and $145.7 million, respectively, were available to offset future taxable income. Of these amounts, $106.8 million is available to offset future taxable income through 2037. Federal NOLs of $38.2 million created during the year ending January 1, 2019 and all subsequent years after can be carried forward indefinitely, but can only offset 80% of future taxable income. The Internal Revenue Code Section 382 generally limits the utilization of NOLs when there is an ownership change. The Company completed an analysis under Section 382 through December 28, 2021 and determined that there isn’t a current year limitation on utilization of tax attributes. Prior to the utilization of NOLs in the future, the Company will determine whether there are any limitations under Section 382. If such a limitation exists, it is possible that a portion of the NOLs may not be available for use before expiration.

Uncertain tax positions are recognized if it is more likely than not that the Company will be able to sustain the tax position taken, and the measurement of the benefit is calculated as the largest amount that is more than 50% likely to be realized upon resolution of the benefit. The Company has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions.

There were no uncertain tax positions for the years ended December 28, 2021 or December 29, 2020. For federal and state income tax purposes, the Company’s 2017 through 2020 tax years remain open for examination by the authorities under the normal three year statute of limitations. Should the Company utilize any of its U.S. or state NOLs, the tax year to which the original loss relates will remain open to examination.

8. Stockholders' Equity

Common Stock

The Company has 181,000,000 shares of stock authorized, consisting of 150,000,000 shares of Class A common stock, par value $0.01 per share; 30,000,000 shares of Class B common stock, par value $0.01 and 1,000,000 shares of preferred stock, par value $0.01 per share. Preferred stock rights are determined by the Company's Board of Directors when preferred shares are issued. The following summarizes the rights of common stock:

Voting—Shares of Class A common stock and Class B common stock are entitled to one vote per share in all voting matters, with the exception that Class B common stock does not vote on the election or removal of directors.

Conversion—Each share of Class B common stock is convertible, at the option of the holder, into one share of Class A common stock.

Dividends—Class A common stock and Class B common stock share equally if a dividend is declared or paid to either class, but they do not have rights to any special dividend.

Liquidation, Dissolution or Winding Up—Class A common stock and Class B common stock share equally in distributions in liquidation, dissolution or winding up of the corporation.

Securities Purchase Agreement with L Catterton

On February 8, 2017, the Company entered into a securities purchase agreement with *L* Catterton, pursuant to which the Company agreed, in return for aggregate gross proceeds of $18.5 million, to sell to *L* Catterton an aggregate of 18,500 shares of preferred stock convertible into 4,252,873 shares of the Company's Class A common stock, par value $0.01 per share, at a price per share of $1,000, plus warrants exercisable for five years beginning six months following their issuance for the purchase of 1,913,793 shares of the Company's Class A common stock, at a price per share of $4.35. On January 6, 2021, *L* Catterton exercised their warrants and sold 837,948 shares of Class A Common Stock, pursuant to a private transaction. Upon completion of the transaction, *L* Catterton did not hold any shares of the Company's Class A Common Stock.

9. Stock-Based Compensation

The Company's 2010 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 ("SARs"), restricted stock, restricted stock units ("RSUs"), performance stock units ("PSUs") and incentive bonuses to employees, officers, non-employee directors and other service providers. The Plan is administered by the Compensation Committee of the Company's Board of Directors (the "Board") or another committee designated by the Board, or in the absence of any such committee, the Board itself (the "administrator"). Stock options are granted at a price determined by the administrator at an exercise price that is not less than the fair market value of the underlying stock on the date of grant. The administrator may also grant SARs and RSUs with terms determined by the administrator in accordance with the Plan. All share-based awards (except for RSUs) granted under the Plan have a life of ten years. Most awards vest ratably over four years; however, some have been granted with different vesting schedules. Of the awards outstanding, none have been granted to non-employees (except those granted to non-employee members of the Board of Directors of the Company) under the Plan. At December 28, 2021, approximately 2.9 million share-based awards were available to be granted under the Plan.

Stock-based compensation expense is generally recognized on a straight-line basis over the service period of the awards. In 2021, 2020 and 2019, non-cash stock-based compensation expense of $4.3 million, $2.6 million and $2.4 million, respectively, was included in general and administrative expense. Expense recognized in 2021 was higher than previous years due to the increase in performance share compensation expense as a result of improved Company performance compared to previous years. As of December 28, 2021, there was $6.1 million of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan, which is expected to be recognized over 2.6 years.

The estimated fair value of each option granted is calculated using the Black-Scholes option-pricing model. Expected volatilities are based on the Company's historical data and implied volatility. The Company uses historical data to estimate expected employee forfeitures of stock options. The expected life of options granted is management's best estimate using recent and expected transactions. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The Company did not grant any options in 2021 or 2020.

The weighted-average assumptions used in the model for the options granted in 2019 were as follows:

		2019
Risk-free interest rate		1.8 %
Expected term (average in years)		6.2
Expected dividend yield		—
Expected volatility		55.7 %
Weighted-average Black-Scholes fair value per share at date of grant	$	4.16

The Company has estimated forfeiture rates that average 22% based upon the class of employees receiving stock-based compensation in its calculation of stock-based compensation expense for the year ended December 28, 2021. These estimates are based on historical forfeiture behavior exhibited by employees of the Company.

A summary of aggregate option award activity under the Plan as of December 28, 2021, and changes during the fiscal year then ended is presented below:

	Awards		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term		Aggregate Intrinsic Value (1) (in thousands)
Outstanding—December 29, 2020	939,353	$	12.57			
Granted	—		—			
Forfeited or expired	(64,471)		14.21			
Exercised	(91,470)		10.45			
Outstanding—December 28, 2021	783,412	$	12.26	4.49	$	896
Vested and expected to vest	769,558	$	12.34	4.44	$	872
Exercisable as of December 28, 2021	689,532	$	12.81	4.10	$	754

(1) Aggregate intrinsic value represents the amount by which fair value of the Company's stock exceeds the exercise price of the option as of December 28, 2021.

There were no options granted in the years ended December 28, 2021 or December 29, 2020. The Company had 90,590, 120,349 and 203,254 options that vested during the years ended December 28, 2021, December 29, 2020 and December 31, 2019, respectively. These awards had a total estimated fair value of $1.1 million, $0.8 million, and $1.4 million at the date of vesting for the years ended December 28, 2021, December 29, 2020 and December 31, 2019, respectively.

Performance Stock Units

The Company grants PSUs to its executive officers under the Plan. These PSU awards are earned over a three-year performance period subject to the achievement of certain target performance conditions. The number of shares eligible to vest ranges from 0% to 200%, however no share shall vest if the defined minimum targets are not met. The PSUs granted during fiscal years 2019 to 2021 were based on target performance measures over the Company's comparable sales growth and Adjusted EBITDA ("Financial PSU"). In 2021, the Company also awarded a total shareholder return based metric ("TSR"), which compares the stock price of the Company's shares to a group of peer companies.

Each share of the Financial PSU has a fair value equal to the Company's stock price at the date of grant while the fair value of each share of TSR is determined using a Monte Carlo valuation model. The Financial PSU stock-based compensation expense is recognized during the three-year period and is adjusted for the number of shares that are expected to vest based on the probability of achieving the targeted performance measures. Stock-based compensation expense for TSR awards is recognized straight-line over the term of the award. PSUs remain unvested until the end of the performance period and through the post-vest holding period of three to six months ("vest date"). PSUs are forfeited in the event of termination prior to the vest date. The stock-based compensation expense recognized from the PSUs amounted to $1.5 million and $0.2 million during 2021 and 2019, respectively There was no stock-based compensation expense recognized from the PSUs in 2020.

A summary of the status of the Company's non-vested restricted share units as of December 28, 2021 and changes during the year then ended is presented below:

	Awards	Weighted-Average Grant Date Fair Value
Outstanding—December 29, 2020	1,155,326	$ 6.32
Granted	471,926	11.90
Vested	(315,009)	7.10
Forfeited	(147,416)	6.16
Non-vested at December 28, 2021	1,164,827	$ 8.23

The Company had 315,009 restricted stock units that vested during the year ended December 28, 2021. These units had a total estimated fair value of $3.7 million at the date of vesting for the year ended December 28, 2021.

10. Earnings (Loss) Per Share

Basic earnings (loss) per share ("EPS") is calculated by dividing net income (loss) available to common shareholders 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 and restricted common stock. 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):

	2021	2020	2019
Net income (loss) attributable to common stockholders	$ 3,665	$ (23,259)	$ 1,647
Shares:			
Basic weighted average shares outstanding	45,483,029	44,272,474	44,036,947
Effect of dilutive securities	642,357	—	939,489
Diluted weighted average number of shares outstanding	46,125,386	44,272,474	44,976,436
Earnings (loss) per share:			
Basic earnings (loss) per share	$ 0.08	$ (0.53)	$ 0.04
Diluted earnings (loss) per share	$ 0.08	$ (0.53)	$ 0.04

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. Shares issuable on the vesting or exercise of share based awards or exercise of outstanding warrants were excluded from the calculation of diluted loss per share because the effect of their inclusion would have been anti-dilutive totaled 503,142, 3,175,472 and 1,513,552 for 2021, 2020 and 2019, respectively.

11. Employee Benefit Plans

Defined Contribution Plan

In October 2003, the Company adopted a defined contribution plan, The Noodles & Company 401(k) Plan (the "401(k) Plan"). Company employees aged 21 or older, are eligible to participate in the 401(k) Plan beginning on the first day of the calendar month following 30 days of employment. Under the provisions of the 401(k) Plan, the Company may, at its discretion, make contributions to the 401(k) Plan. Participants are 100% vested in their own contributions. In 2019, the board of directors authorized matching contributions equal to 25% of the first 4% of compensation that is deferred by the participant. The Company recognized matching contribution expense of $0.3 million, $0.1 million and $0.4 million in 2021, 2020 and 2019, respectively. In 2020, as a result of the impact of the COVID-19 pandemic, the Company temporarily halted the matching contribution. In 2021, the Company reinstated the matching contribution.

Deferred Compensation Plan

The Company's deferred compensation plan, under which compensation deferrals began in 2013, is a non-qualified deferred compensation plan which allows highly compensated employees to defer a portion of their base salary and variable compensation each plan year. To offset its obligation, the Company purchases Company-owned whole-life insurance contracts on certain employees. As of December 28, 2021 and December 29, 2020, $2.5 million and $2.2 million, respectively, were included in other assets, net, which represents the cash surrender value of the associated life insurance policies, and $0.5 million and $0.3 million, respectively, were included in accrued expenses and other current liabilities and other long-term liabilities, which represents the carrying value of the liability for deferred compensation.

Employee Stock Purchase Plan

In 2013, the Company adopted an Employee Stock Purchase Plan (the "ESPP") under which eligible team members may voluntarily contribute up to 15% of their salaries, subject to limitations, to purchase common stock at a price equal to 85% of the fair market value of a share of the Company's common stock on the first day of each offering period or 85% of the fair market value of a share of the Company's common stock on the last day of each offering period, whichever amount is less. In general, all non-highly compensated employees who have been employed by the Company for at least 30 days prior to the offering period and who are regularly scheduled to work more than 20 hours per week and for more than five months in any calendar year, are eligible to participate in the ESPP which operates in-line with the Company's fiscal quarters. A total of 750,000 shares of common stock are available for issuance under the ESPP. The Company has issued a total of 226,891 shares under this plan, of which 22,572 shares were issued during 2021. A total of 523,109 shares remain available for future issuance. For 2021, in accordance with the guidance for accounting for stock compensation, the Company estimated the fair value of the stock purchase plan using the Black-Scholes multiple-option pricing model. The average assumptions used in the model included a 0.16% risk-free interest rate; 0.25 years year expected life; expected volatility of 45.8%; and a zero percent dividend yield. The weighted average fair value per share at grant date was $1.92. In 2021, the Company recognized $44,000 of compensation expense related to the ESPP.

12. Leases

The Company leases restaurant facilities, office space and certain equipment that expire on various dates through September 2037. 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.

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. Total rent expense for operating leases for 2021, 2020 and 2019 was approximately $39.1 million, $39.9 million and $40.8 million, respectively.

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. Lease expense associated with rent escalation and contingent rental provisions is not material and is included within operating lease cost. 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.

During 2020, the onset of the COVID-19 pandemic impacted the Company's business significantly, including temporary closures of our dining rooms starting in March 2020. During the second and third quarters of 2020, we were able to negotiate with the majority of our landlords to obtain rent abatements or defer rent amounts due during the second quarter, and in some cases, the periods of the respective lease terms were extended earlier than as proscribed in the lease as part of the rent concessions. In the case where the lease term was extended, we remeasured the remaining consideration in the contract. The total rent that was deferred for lease amendments that has been executed through December 29, 2020 was $4.4 million and $0.3 million was recognized as a reduction to lease expense in fiscal 2020. In addition, the COVID-19 pandemic has had an impact to the underlying asset values for certain of our restaurants. The Company recorded right-of-use asset impairment charges on one restaurant in 2021 and four restaurants in 2020 which reduced the carrying value of operating lease assets to their respective estimated fair value by $0.1 million and $0.5 million, respectively.

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

	Classification	2021	2020
Assets			
Operating	Operating lease assets, net	$ 188,440	$ 195,618
Finance	Property and equipment	6,394	7,822
Total leased assets		$ 194,834	$ 203,440
Liabilities			
Current lease liabilities			
Operating	Current operating lease liabilities	$ 26,617	$ 26,094
Finance	Accrued expenses and other current liabilities	1,956	1,800
Long-term lease liabilities			
Operating	Long-term operating lease liabilities	200,243	210,454
Finance	Other long-term liabilities	4,654	6,056
Total lease liabilities		$ 233,470	$ 244,404

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

	Classification	Year Ended December 28, 2021	Year Ended December 29, 2020
Operating lease cost	Occupancy, other restaurant operating costs, general and administrative expenses, and pre-opening costs	$ 39,075	$ 39,870
	Closure costs, loss on disposals and other	1,598	1,309
Finance lease cost			
Amortization of lease assets	Depreciation and amortization	2,128	1,142
Interest on lease liabilities	Interest expense, net	487	163
		43,288	42,484
Sublease income	Franchising royalties and fees, and other	(1,832)	(1,266)
Total lease cost, net		$ 41,456	$ 41,218

Future minimum lease payments required under existing leases as of December 28, 2021 are as follows (in thousands):

	Operating Leases	Finance Leases	Total
2022	$ 42,403	$ 2,475	$ 44,878
2023	42,392	2,100	44,492
2024	40,606	1,898	42,504
2025	39,017	808	39,825
2026	35,690	15	35,705
Thereafter	108,861	21	108,882
Total lease payments	308,969	7,317	316,286
Less: Imputed interest	82,109	707	82,816
Present value of lease liabilities	$ 226,860	$ 6,610	$ 233,470

Operating lease payments include $111.4 million related to options to extend lease terms that are reasonably certain of being exercised and exclude $1.9 million of legally binding minimum lease payments for leases signed but not yet commenced.

Lease term and discount rate are as follows:

	December 28, 2021	December 29, 2020
Weighted average remaining lease term (years):		
Operating	8.1	8.5
Finance	3.4	4.2
Weighted average discount rate:		
Operating	8.2 %	8.6 %
Finance	6.5 %	6.8 %

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

	2021	2020
Cash paid for lease liabilities:		
Operating leases	$ 42,231	$ 39,864
Finance leases	2,413	1,240
	$ 44,644	$ 41,104
Right-of-use assets obtained in exchange for new lease liabilities:		
Operating leases	$ 15,642	$ 8,310
Finance leases	701	8,291
	$ 16,343	$ 16,601

13. Supplemental Disclosures to Consolidated Statements of Cash Flows

The following table presents the supplemental disclosures to the Consolidated Statements of Cash Flows for 2021, 2020 and 2019 (in thousands):

	2021	2020	2019
Interest paid (net of amounts capitalized)	$ 1,400	$ 2,500	$ 2,800
Income taxes paid (refunded)	106	(66)	(98)
Purchases of property and equipment accrued in accounts payable	5,335	891	2,487

14. 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 December 28, 2021. 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.

15. Related Party Transactions

Securities Purchase Agreements

Under the securities purchase agreement with Mill Road Capital II, L.P. (“Mill Road”), if at any time Mill Road owns 10.0% or more of our outstanding common stock, Mill Road has the right to designate one nominee for election to our Board of Directors. If Mill Road’s ownership level falls below 10.0% of our outstanding common stock, Mill Road will no longer have a right to designate a nominee. As of December 28, 2021 and December 29, 2020, Mill Road did not hold a position on the Company’s Board of Directors.

16. Revenue Recognition

Gift Cards

As of December 28, 2021 and December 29, 2020, the current portion of the gift card liability, $2.8 million and $2.6 million, respectively, is included in accrued expenses and other current liabilities, and the long-term portion, $0.6 million and $0.6 million, respectively, is included in other long-term liabilities in the Consolidated Balance Sheets.

Revenue recognized in the Consolidated Statements of Operations for the redemption of gift cards was $3.2 million, $3.5 million and $5.3 million in 2021, 2020 and 2019, respectively. The Company recognized gift card breakage in restaurant revenue of approximately $0.3 million, $0.3 million and $0.4 million in 2021, 2020 and 2019, respectively.

Franchise Fees

Initial fees received from franchisees are recognized as revenue over the term of each respective franchise agreement, which is typically 20 years. The Company recognized revenue of $0.1 million, $0.1 million and $0.2 million in 2021, 2020 and 2019, respectively, related to initial fees from franchisees that were included in the contract liability balance at the beginning of the year. The Company expects to recognize approximately $0.1 million each fiscal year through fiscal 2026 and approximately $0.5 million thereafter related to performance obligations that are unsatisfied as of December 28, 2021.

Loyalty Program

The Company operates the Noodles Rewards program, which is primarily a spend-based loyalty program. With each purchase, Noodles Rewards members earn loyalty points that can be redeemed for rewards, including free products. Using an estimate of the value of reward redemptions, we defer revenue associated with points earned, net of estimated points that will not be redeemed. Points generally expire after six months. Revenue is recognized in a future period when the reward points are redeemed. Deferred revenue related to the rewards was $0.4 million as of December 28, 2021 and December 29, 2020, and was included in accrued expenses and other current liabilities in the Consolidated Balance Sheets.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Noodles & Company

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Noodles & Company (the Company) as of December 28, 2021 and December 29, 2020, the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 28, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 28, 2021 and December 29, 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 28, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 28, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 23, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Impairment of long-lived assets

Description of the Matter	As more fully described in Notes 1 and 6 to the consolidated financial statements, during the year ended December 28, 2021, the Company recorded impairment charges of $3.4 million related to its restaurants. The Company evaluates its long-lived assets, which primarily include property and equipment and right-of-use assets, for impairment whenever events or changes indicate that the carrying amount may not be recoverable. Management groups and evaluates long-lived assets for impairment at the individual restaurant level, which is the lowest level at which independent identifiable cash flows are available. The Company estimates the future undiscounted cash flows expected to be generated by the assets and compares those estimates to the carrying value of the related assets. If the assets are determined to be impaired, they are written down to their fair values. When indicators of impairment were identified, auditing the Company's long-lived asset impairment analyses involved subjective auditor judgment in evaluating the expected restaurant revenues included in the future undiscounted cash flows. This assumption is subjective in nature and is affected by expectations about future market or economic conditions for a given store.
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's assessment of the projected undiscounted cash flows to be generated by restaurants with indicators of impairment. This included testing controls over management's review of the significant assumption of future restaurant revenues described above. To test the significant assumption described above, our audit procedures included, among others, comparing estimated revenue trends to historical results for similar restaurants and evaluating current trends by restaurant and testing the data for completeness and accuracy used in the calculations. We inquired of the Company's management to understand the business initiatives supporting the revenue assumption in the future cash flows. We performed a sensitivity analysis of the forecasted restaurant revenues to evaluate the change in future undiscounted cash flow estimates that would result from changes in the assumption.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2009.
Denver, Colorado
February 23, 2022

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure 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 defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting 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.

Management's Annual Report on Internal Control Over Financial Reporting

The management of Noodles & Company is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United State of America, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on our financial statements.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we carried out an evaluation of the effectiveness of our internal control over financial reporting as of December 28, 2021 based on the criteria in "Internal Control - Integrated Framework (the 2013 framework)" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 28, 2021.

Attestation Report of the Independent Registered Public Accounting Firm

Our independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on the effectiveness of our internal control over financial reporting as of December 28, 2021. This report follows.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Noodles & Company

Opinion on Internal Control Over Financial Reporting

We have audited Noodles & Company's internal control over financial reporting as of December 28, 2021, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Noodles & Company (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 28, 2021, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 28, 2021 and December 29, 2020, the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 28, 2021, and the related notes and our report dated February 23, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP
Denver, Colorado
February 23, 2022

ITEM 9B. Other Information

None.

ITEM 9C. Disclosures Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

We have adopted a Code of Business Conduct and Ethics that applies to our directors and a Code of Business Conduct and Ethics that applies to our officers and employees (collectively, the “Codes”), including our principal executive, financial and accounting officers, and persons performing similar functions. These Codes are published on our corporate governance website located at *investor.noodles.com/corporate-governance.cfm*. We intend to disclose future amendments to provisions of our Codes, or waivers of provisions of the Codes granted to executive officers and directors, on the website within four business days following the date of such amendment or waiver.

The remaining information required by this item is incorporated herein by reference to the sections entitled “Proposal No. 1 - Election of Directors,” “Delinquent Section 16(a) Report,” “Executive Officers,” “Board Committees—Policy Regarding Stockholder Recommendations” and “Board Committees—Audit Committee” in our definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 10, 2022 (the “Proxy Statement”).

ITEM 11. Executive Compensation

The information required by this item is incorporated by reference to the sections entitled “Executive Compensation,” “Director Compensation” and “Board Committees—Compensation Committee Interlocks and Insider Participation” in the Proxy Statement.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference to the sections entitled “Equity Compensation Plan Information” and “Security Ownership of Certain Beneficial Owners and Management” in the Proxy Statement.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference to the sections entitled “Transactions with Related Persons” and “Directors and Corporate Governance—Board Independence” in the Proxy Statement.

ITEM 14. Principal Accounting Fees and Services

The information required by this item is incorporated by reference to the section entitled “Proposal No. 3 - Ratification of Appointment of Independent Registered Public Accounting Firm for 2022” in the Proxy Statement.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules

1. Our Consolidated Financial Statements and Notes thereto are included in Item 8, “Financial Statements and Supplementary Data,” of this Annual Report on Form 10-K.

2. All financial schedules have been omitted either because they are not applicable or because the required information is provided in our Consolidated Financial Statements and Notes thereto, included in Item 8 of this Annual Report on Form 10-K.

3. The Index to Exhibits is incorporated herein by reference and is filed as part of this 10-K.

EXHIBITS

Exhibit Number	Exhibit Description	Form	File No.	Filing Date	Exhibit Number	Filed Herewith
		Description of Exhibit Incorporated Herein by Reference				
3.1	Amended and Restated Certificate of Incorporation	S-1	333-192402	November 19, 2013	3.1	
3.2	Second Amended and Restated Bylaws	8-K	001-35987	August 24, 2015	3.1	
4.1	Specimen Stock Certificate	S-1/A	333-188783	June 17, 2013	4.1	
4.2	Certificate of Designations for Series A Convertible Preferred Stock	8-K	001-35987	February 9, 2017	4.1	
4.3	Form of Warrant to Purchase Class A Common Stock	8-K	001-35987	February 9, 2017	4.2	
4.4	Description of Securities	10-K	001-35987	February 26, 2021	4.4	
10.1	Noodles & Company Amended and Restated 2010 Stock Incentive Plan	S-1/A	333-188783	June 17, 2013	10.1	
10.2	Noodles & Company 2013 Employee Stock Purchase Plan	S-1/A	333-188783	June 17, 2013	10.2	
10.5	Credit Agreement, dated May 9, 2018, among Noodles & Company, the other Loan Party thereto, U.S. Bank National Association, as Administrative Agent, L/C Issuer and Swing Line Lender and the other lenders party thereto	10-Q	001-35987	May 11, 2018	10.1	
10.6	First Amendment to Credit Agreement, dated as of November 20, 2019, by and among Noodles & Company, each of the Guarantors signatory thereto, U.S. Bank National Association, as Administrative Agent, L/C Issuer and Swing Line Issuer and the lenders signatory thereto	8-K	001-35987	November 21, 2019	10.1	
10.7	Second Amendment to Credit Agreement dated June 16, 2020, by and among Noodles & Company, each of the Guarantors signatory thereto, U.S. Bank National Association, as Administrative Agent, L/C Issuer and Swing Line Issuer and the lenders signatory thereto	10-Q	001-35987	June 17, 2020	10.4	
10.8	Security Agreement, dated May 9, 2018, by and between Noodles & Company and U.S. Bank National Association, as administrative agent	10-Q	001-35987	May 11, 2018	10.2	
10.9	Pledge Agreement, dated May 9, 2018, by and between Noodles & Company and U.S. Bank National Association, as administrative agent	10-Q	001-35987	May 11, 2018	10.3	
10.10	Form of Indemnification Agreement by and between Noodles & Company and each of its directors	S-1/A	333-188783	June 17, 2013	10.15	

10.11	Form of Area Development Agreement	10-K	001-35987	February 24, 2015	10.9
10.12	Form of Franchise Agreement	10-K	001-35987	February 24, 2015	10.10
10.13	Form of Stock Option Agreement (Nonqualified Stock Options)	10-Q	001-35987	November 9, 2017	10.7
10.14	Form of Restricted Stock Unit Agreement	10-Q	001-35987	November 9, 2017	10.8
10.15	Form of Restricted Stock Unit Agreement for Nonemployee Directors	10-Q	001-35987	November 9, 2017	10.9
10.16	Form of 2018 Performance Restricted Stock Unit Agreement	10-Q	001-35987	July 19, 2018	10.1
10.17	The Executive Nonqualified "Excess" Plan Adoption Agreement, adopted by Noodles & Company on May 16, 2013	S-1/A	333-188783	June 17, 2013	10.22
10.18*	Employment Agreement, dated September 21, 2017, between Noodles & Company and Dave Boennighausen	8-K	001-35987	September 25, 2017	10.1
10.19	Letter Agreement, dated February 15, 2017, between Noodles & Company and Mill Road Capital Management LLC	8-K	001-35987	March 14, 2017	10.2
10.20	Securities Purchase Agreement, dated March 13, 2017, between Noodles & Company and Mill Road Capital Management LLC	8-K	001-35987	March 14, 2017	10.1
10.21*	Stock Option Agreement (Nonqualified Stock Options), dated September 21, 2017, between Noodles & Company and Dave Boennighausen	10-Q	001-35987	November 9, 2017	10.4
10.22*	Restricted Stock Unit Agreement, dated September 21, 2017, between Noodles & Company and Dave Boennighausen	10-Q	001-35987	November 9, 2017	10.5
10.23*	Restricted Stock Unit Agreement, dated September 21, 2017, between Noodles & Company and Dave Boennighausen	10-Q	001-35987	November 9, 2017	10.6
10.24*	Severance Agreement with Melissa Heidman, dated June 6, 2018	10-K	001-35987	March 15, 2019	10.32
10.25*	Amended and Restated Noodles & Company Compensation Plan for Non-Employee Directors, dated December 12, 2018	10-K	001-35987	March 15, 2019	10.34
10.26*	Compensation Plan for Non-Employee Directors Amended and Restated September 19, 2019	10-Q	001-35987	June 17, 2020	10.2
10.27*	Offer Letter, dated December 4, 2019, between Noodles & Company and Stacey Pool	10-K	001-35987	February 26, 2020	10.34
10.28	Form of 2020 Performance Restricted Stock Unit Agreement	10-K	001-35987	February 26, 2020	10.35
10.29*	Temporary Salary Protection Waiver Letter between Noodles & Company and Dave Boennighausen dated April 1, 2020	10-Q	001-35987	June 17, 2020	10.3

10.30*	Employment Agreement, dated October 27, 2020, between Noodles & Company and Dave Boennighausen	10-Q	001-35987	October 29, 2020	10.1	
10.31*	Employment Agreement, dated October 27, 2020, between Noodles & Company and Brad West	10-Q	001-35987	October 29, 2020	10.2	
10.32*	Employment Agreement, dated October 27, 2020, between Noodles & Company and Stacey Pool	10-Q	001-35987	October 29, 2020	10.3	
10.33*	Employment Agreement, dated October 27, 2020, between Noodles & Company and Melissa Heidman	10-Q	001-35987	October 29, 2020	10.4	
10.34*	Carl Lukach Employment Agreement	8-K	001-35987	November 2, 2020	10.1	
10.35*	Carl Lukach Offer Letter	8-K	001-35987	November 2, 2020	10.2	
10.36*	Form of 2021 Performance Restricted Stock Unit Agreement	10-Q	001-35987	April 30, 2021	10.1	
10.37*	Employment Agreement, dated August 2, 2021, between Noodles & Company and Kathy Lockhart	10-Q	001-35987	August 4, 2021	10.1	
10.38*	Employment Agreement, dated August 2, 2021, between Noodles & Company and Sue Petersen	10-Q	001-35987	August 4, 2021	10.2	
10.39*	Employment Agreement, dated July 30, 2021, between Noodles & Company and Corey Kline	10-Q	001-35987	August 4, 2021	10.3	
10.40*	Form of 2019 Performance Restricted Stock Unit Agreement					X
21.1	List of Subsidiaries of Noodles & Company					X
23.1	Consent of Ernst & Young LLP					X
24.1	Power of Attorney (included on signature page of this report)					X
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1	Certification of Chief Executive Officer and Chief Financial Officer Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					X

101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)	X

* Management contract or compensatory plan or arrangement.

ITEM 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 24, 2022.

NOODLES & COMPANY

By: /s/ DAVE BOENNIGHAUSEN

Dave Boennighausen

Chief Executive Officer

POWER OF ATTORNEY

Know all persons by these presents, that each person whose signature appears below constitutes and appoints Dave Boennighausen or Melissa M. Heidman, or any of them, as such person's true and lawful attorney-in-fact and agent, with full power of substitution and re-substitution, for such person and in such person's name, place and stead, in any and all capacities, to sign any and all amendments to this Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as such person might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or any of them or their or such person's substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ DAVE BOENNIGHAUSEN Dave Boennighausen	Director, Chief Executive Officer *(principal executive officer)*	February 24, 2022
/s/ CARL LUKACH Carl Lukach	Chief Financial Officer *(principal financial officer)*	February 24, 2022
/s/ KATHY LOCKHART Kathy Lockhart	Vice President and Chief Accounting Officer *(principal accounting officer)*	February 24, 2022
/s/ JEFFREY JONES Jeffrey Jones	Chairman	February 24, 2022
/s/ ROBERT HARTNETT Robert Hartnett	Director	February 24, 2022
/s/ MARY EGAN Mary Egan	Director	February 24, 2022
/s/ DREW MADSEN Drew Madsen	Director	February 24, 2022
/s/ ELISA SCHREIBER Elisa Schreiber	Director	February 24, 2022
/s/ SHAWN TAYLOR Shawn Taylor	Director	February 24, 2022

PERFORMANCE RESTRICTED STOCK UNIT AGREEMENT

This PERFORMANCE RESTRICTED STOCK UNIT AGREEMENT (this "Agreement") is made as of ___________, 2019 (the "Effective Date") by and between Noodles & Company, a Delaware corporation (the "Company"), and _____________ (the "Participant").

RECITALS

A. The Company has adopted the Noodles & Company Amended and Restated 2010 Stock Incentive Plan (the "Plan"), a copy of which is attached hereto as Exhibit 1.

B. The Company desires to grant the Participant the right to a proprietary interest in the Company to encourage the Participant's contribution to the success and progress of the Company.

C. In accordance with the Plan, the Administrator (as defined in the Plan) has granted to the Participant restricted stock units with respect to a target number of ____ shares (the “Target Number”) of Class A Common Stock of the Company, par value $0.01 per share ("Shares"), subject to the terms and conditions of the Plan and this Agreement.

AGREEMENTS

NOW, THEREFORE, in consideration of the mutual terms, conditions and other covenants and agreements set forth herein, the parties hereto hereby agree as follows:

1. Definitions. Capitalized terms used herein shall have the following meanings, and capitalized terms not otherwise defined herein shall have the meaning specified in the Plan:

"Adjusted EBITDA" means, for the Performance Period, the Company’s aggregate earnings before interest, taxes, depreciation and amortization, adjusted for (a) restaurant impairments, closure costs and asset disposals; (b) data breach liabilities; (c) material litigation settlements; severance costs; (d) stock-based compensation expenses; and (e) other adjustments to the Adjusted EBITDA disclosure in the Company’s annual Form 10-K filed with the Securities and Exchange Commission. The Adjusted EBITDA results shall be appropriately adjusted by the Administrator to exclude the effect of acquisitions and dispositions and in such other circumstances as it deems appropriate.

"Agreement" has the meaning set forth in the Preamble.

"Business Day" means a day other than Saturday, Sunday or any day on which banks located in the State of New York are authorized or obligated to close.

"Cause" has the meaning in the Participant's employment or severance protection agreement with the Company or, if there is no such agreement or definition, means that the Participant (a) is convicted of, or pleads guilty or *nolo contendere* to, a felony (other than a traffic-related felony) or any other crime involving dishonesty or moral turpitude; or (b) willfully engages in illegal conduct or gross misconduct that is materially and demonstrably injurious to the Company; or (c) willfully violates any noncompetition or nonsolicitation covenant between the Participant and the Company. The determination of "Cause" shall be in the reasonable discretion of the Administrator.

"Change in Control Price" means the price per Share on a fully-diluted basis offered in conjunction with any transaction resulting in a Change in Control as determined in good faith by the Administrator as constituted before the Change in Control, or in the case of a Change in Control that does not result in a payment for Shares, the average Fair Market Value of a Share on the 30 trading days immediately preceding the date on which the Change in Control occurs.

"Company" has the meaning set forth in the Preamble.

"Disability" has the meaning ascribed to such term in the Plan.

"Effective Date" has the meaning set forth in the Preamble.

"Employer" means the Company and/or any of its subsidiaries with which the Participant is employed.

"Participant" has the meaning set forth in the Preamble.

"Performance Period" means the Company's fiscal year beginning January 2, 2019 and the two next-following fiscal years.

"Person" means and includes an individual, a partnership, a corporation, a limited liability company, a trust, a joint venture, an unincorporated organization and any governmental or regulatory body or agency or other authority.

"Plan" has the meaning set forth in the Recitals.

"PSUs" has the meaning set forth in Section 2.

"Sales Growth" means the average of the annual percentage changes in the comparable restaurant sales (*i.e.*, the year-over-year percentage change in sales) of the Company and its franchisees for restaurants that have been open for at least 18 months, for the three fiscal years in the Performance Period.

"Shares" has the meaning set forth in the Recitals.

"Termination Date" means the date on which the Participant experiences a Termination of Employment (as defined in the Plan).

"Withholding Obligation" means the amount determined in the Administrator's sole discretion to be the minimum sufficient to satisfy all federal, state, local and other withholding tax obligations that the Administrator determines may arise with respect to the issuance of Shares or payment of income earned in respect of any PSUs.

2. Grant of PSUs. The Company grants to the Participant performance restricted stock units (the "PSUs") with respect to the Target Number of Shares, subject to adjustment as provided herein.

3. Earned PSUs.

(a) Fifty percent (50%) of the PSUs with respect to the Target Number of Shares shall be eligible to be earned and vest as follows (the "Sales-Based PSUs"), based on achievement of Sales Growth for the Performance Period:

Sales Growth of less than 0.33%: None of the Sales-Based PSUs will be earned or eligible to vest.
Sales Growth of at least 0.33% ("Threshold Sales Growth Goal"): 25% of Sales-Based PSUs will be earned and eligible to vest.
Sales Growth of at least 2.0% ("Target Sales Growth Goal"): 100% of Sales-Based PSUs will be earned and eligible to vest.
Sales Growth of at least 4.0% ("Maximum Sales Growth Goal"): 200% of Sales-Based PSUs will be earned and eligible to vest.

If actual Sales Growth for the Performance Period is between the Threshold Sales Growth Goal and the Target Sales Growth Goal, or between the Target Sales Growth Goal and the Maximum Sales Growth Goal, the number of Sales-Based PSUs that will be earned and eligible to vest will be determined by linear interpolation. For example, if Sales Growth were 3.0%, then 150% of Sales-Based PSUs would be earned and eligible to vest.

(b) Fifty percent (50%) of the PSUs with respect to the Target Number of Shares shall be eligible to be earned and vest as follows (the "EBITDA-Based PSUs"), based on achievement of Adjusted EBITDA for the Performance Period:

Adjusted EBITDA of less than $95,400,000: None of the EBITDA-Based PSUs will be earned and be eligible to vest.
Adjusted EBITDA of at least $95,400,000 ("Threshold EBITDA Goal"): 25% of EBITDA-Based PSUs will be earned and eligible to vest.
Adjusted EBITDA of at least $106,300,000 ("Target EBITDA Goal"): 100% of EBITDA-Based PSUs will be earned and eligible to vest.
Adjusted EBITDA of at least $124,000,000 ("Maximum EBITDA Goal"): 200% of EBITDA-Based PSUs will be earned and eligible to vest.

If actual Adjusted EBITDA for the Performance Period is between the Threshold EBITDA Goal and the Target EBITDA Goal, or between the Target EBITDA Goal and the Maximum EBITDA Goal, the number of EBITDA-Based PSUs that will be earned and be eligible to vest will be determined by linear interpolation. For example, if Adjusted EBITDA were $115,150,000, then 150% of EBITDA-Based PSUs would be earned and eligible to vest.

3. Vesting. Any PSUs that are earned pursuant to Section 2 shall vest on June 29, 2022 (the "Vesting Date"), subject to the Participant remaining continuously employed by the Employer through that date. Notwithstanding the foregoing, the PSUs shall be treated as follows for certain types of Terminations of Employment prior to the Vesting Date:

(a) Death/Disability. If the Participant's Termination of Employment is due to death or Disability prior to the Vesting Date, any PSUs that are earned pursuant to Section 2 shall be paid to the Participant (or, as applicable, his or her estate) following the end of the Performance Period, at the time specified in Section 5.

(b) Termination without Cause (not within 12 months following a Change in Control). If the Participant's employment is terminated by the Employer without Cause other than within 12 months following a Change in Control, then the number of PSUs that are earned and which shall vest shall be determined by the Administrator in its discretion based on actual performance through the end of the fiscal quarter ending immediately prior to the date of such termination. The earned PSUs shall be paid to the Participant following the end of the Performance Period, at the time specified in Section 5.

4. Change in Control.

(a) In the event a Change in Control occurs before the end of the Performance Period, unless otherwise determined by the Administrator in its discretion and subject to Section 4(b), the PSUs shall be converted into time-vesting restricted stock units or such other rights as determined by the Administrator (collectively, "RSUs") as follows. If the Change in Control occurs prior to the last day of the first fiscal year in the Performance Period, the number of RSUs shall equal the PSUs that would have been earned based on achievement at the Target Sales Growth Goal and the Target EBITDA Goal. If the Change in Control occurs on or after the first day of the second fiscal year in the Performance Period, the number of RSUs shall equal the number of PSUs that are earned through the date of the Change in Control as determined by the Administrator in its discretion based on actual performance (using the annual goals for the three fiscal years in the Performance Period taken into account by the Administrator in determining the Sales Growth and Adjusted EBITDA goals for the entire Performance Period) through the day immediately preceding the Change in Control. Any such RSUs shall be eligible to vest on the Vesting Date subject to the Participant remaining continuously employed by the Employer through that date; provided, however, that if the Participant's Termination of Employment is by the Employer without Cause within 12 months following the Change in Control, the RSUs shall vest upon such termination.

(b) Notwithstanding Section 4(a), if the PSUs (or, as applicable, RSUs) are not continued, assumed or substituted for in a Change in Control, the PSUs shall be earned to the extent determined by the Administrator (taking into account the principles in Section 4(a) for conversion to RSUs), such earned PSUs shall vest upon the Change in Control, and the Participant will receive with respect to such PSUs either (i) the consideration (whether stock, cash, or other securities or property) received in the Change in Control by holders of Shares for each Share held on the effective date of the Change in Control, (ii) common stock of the successor to the Company with a value equal to the Change in Control Price, or (iii) cash equal to the Change in Control Price, as determined by the Administrator in its discretion.

5. Settlement.

(a) The PSUs (or, if Section 4 applies, the RSUs) shall be settled promptly following the Vesting Date (or, if the last sentence of Section 4 applies, within 10 days following the Participant's Termination Date) by the Company delivering to the Participant one Share for each PSU that has been earned and vests. In no event shall such settlement occur later than March 15 of the year following the year in which the PSUs (or, as applicable, RSUs) vest.

(b) All PSUs that are not earned or that do not vest shall immediately expire on the Termination Date.

6. Dividends. Any cash dividends paid with respect to Shares before settlement of the shares underlying unvested PSUs (or RSUs, if applicable) shall not be paid currently, but shall be converted into additional PSUs (or RSUs, if applicable) to be settled pursuant to Section 5 at the same time as the underlying earned and vested PSUs (or RSUs, if applicable). Any PSUs resulting from such conversion (the "Dividend Units") will be considered PSUs (or RSUs, if applicable) for purposes of this Agreement and will be subject to all of the terms, conditions and restrictions set forth herein that apply to the underlying PSUs (or RSUs, if applicable) that generated the Dividend Units. As of each date that the Company would otherwise pay the declared dividend on the Shares underlying the PSUs or RSUs (the "Dividend Payment Date") in the absence of the

reinvestment requirements of this Section, the number of Dividend Units will be determined by dividing the amount of dividends otherwise attributable to the PSUs or RSUs but not paid on the Dividend Payment Date by the Fair Market Value of the Shares on the Dividend Payment Date.

7. No transferability of the PSUs. Except as permitted by the Administrator or as permitted under the Plan, the Participant may not assign or transfer the PSUs to anyone other than by will or the laws of descent and distribution. The Company may cancel the Participant's PSUs if the Participant attempts to assign or transfer them in a manner inconsistent with this Section 7.

8. Adjustments. In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities or other property, but excluding regular, quarterly and other periodic cash dividends),stock split or a combination or consolidation of the outstanding Shares into a lesser number of shares, is declared with respect to the Shares, then the PSUs shall be subject to adjustment as provided in Section 12(a) of the Plan.

9. Restrictions on Resales of Shares. The Company may impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any resales by the Participant or other subsequent transfers by the Participant of any Shares issued as a result of the settlement of the PSUs, including without limitation (a) restrictions under an insider trading policy,(b) restrictions designed to delay and/or coordinate the timing and manner of sales by Participant and other grantees and (c) restrictions as to the use of a specified brokerage firm for such resales or other transfers.

10. No Interest in Shares Subject to PSUs. Neither the Participant (individually or as a member of a group) nor any beneficiary or other Person claiming under or through the Participant shall have any right, title, interest, or privilege in or to any Shares allocated or reserved for the purpose of the Plan or subject to this Agreement except as to such Shares, if any, as shall have been issued to such Person following vesting of the PSUs.

11. Plan Controls. The PSUs hereby granted are subject to, and the Company and the Participant agree to be bound by, all of the terms and conditions of the Plan as the same may be amended from time to time in accordance with the terms thereof; provided, however, that no such amendment shall be effective as to the PSUs without the Participant's consent insofar as it adversely affects the Participant's material rights under this Agreement, which consent will not be unreasonably withheld by the Participant.

12. Not an Employment Contract. Nothing in the Plan, this Agreement or any other instrument executed pursuant hereto or thereto shall confer upon the Participant any right to continue in the employ of the Employer or any affiliate thereof or shall affect the right of the Employer to terminate the employment of the Participant at any time with or without Cause (unless otherwise set forth in an employment agreement between the Company and the Participant).

13. Governing Law. This Agreement, and any disputes or controversies arising hereunder, shall be construed and enforced in accordance with and governed by the internal laws of the State of Delaware other than principles of law that would apply the law of another jurisdiction.

14. Taxes. The Administrator may, in its sole discretion, make such provisions and take such steps as it may deem necessary or appropriate to satisfy the Withholding

Obligations with respect to the issuance of Shares, including deducting the amount of any such Withholding Obligations from any other amount then or thereafter payable to the Participant, requiring the Participant to pay to the Company the amount of such Withholding Obligations or to execute such documents as the Administrator deems necessary or desirable to enable it to satisfy the Withholding Obligations, or any other means provided in the Plan; provided, however, that, the Participant may satisfy any Withholding Obligations by (i) directing the Company to withhold that number of Shares with an aggregate fair market value equal to the amount of the Withholding Obligations or (ii) delivering to the Company such number of previously held Shares that have been owned by the Participant with an aggregate fair market value equal to the amount of the Withholding Obligations.

15. Notices. All notices, requests, demands and other communications called for or contemplated hereunder shall be in writing and shall be deemed to have been given when delivered to the party to whom addressed or when sent by telecopy (if promptly confirmed by registered or certified mail, return receipt requested, prepaid and addressed) to the parties, their successors in interest, or their assignees at the following addresses, or at such other addresses as the parties may designate by written notice in the manner aforesaid:

If to the Company to:

Noodles & Company
520 Zang Street, Suite D
Broomfield, CO 80021
Fax: (720) 214-1921
Attention: General Counsel

If to the Participant to the address set forth below the Participant's signature below.

All such notices, requests and other communications will (i) if delivered personally to the address as provided in this Section 15, be deemed given upon delivery,(ii) if delivered by facsimile transmission to the facsimile number as provided for in this Section 15, be deemed given upon facsimile confirmation,(iii) if delivered by mail in the manner described above to the address as provided for in this Section 15, be deemed given on the earlier of the third Business Day following mailing or upon receipt, and (iv) if delivered by overnight courier to the address as provided in this Section 15, be deemed given on the earlier of the first Business Day following the date sent by such overnight courier or upon receipt (in each case regardless of whether such notice, request or other communication is received by any other Person to whom a copy of such notice is to be delivered pursuant to this Section 15. Any party from time to time may change its address, facsimile number or other information for the purpose of notices to that party by giving notice specifying such change to the other parties hereto.

Either party may, by notice given to the other party in accordance with this Section 15, designate another address or Person for receipt of notices hereunder.

16. Amendments and Waivers. This Agreement shall not be changed, altered, modified or amended, except by a written agreement signed by both parties hereto. The failure of any party to insist in any one instance or more upon strict performance of any of the terms and conditions hereof, or to exercise any right or privilege herein conferred, shall not be construed as a waiver of such terms, conditions, rights or privileges, but same shall continue to remain in full force and effect. Any waiver by any party of any violation

of, breach of or default under any provision of this Agreement by the other party shall not be construed as, or constitute, a continuing waiver of such provision, or waiver of any other violation of, breach of or default under any other provision of this Agreement. Any waiver by any party of any provision hereof shall be effective only by a writing signed by the party to be charged.

17. Entire Agreement. This Agreement, together with the Plan, sets forth the entire agreement and understanding between the parties hereto as to the subject matter hereof and thereof and supersedes all prior oral and written and all contemporaneous oral discussions, agreements and understandings of any kind or nature, regarding the subject matter hereof and thereof between the parties hereto.

18. Separability. If any term or provision of this Agreement shall to any extent be invalid, illegal or incapable of being enforced by any rule of law, or public policy, all other conditions and provisions of this Agreement nevertheless shall remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner adverse to any party. Upon such determination that any term or provision is invalid, illegal or incapable of being enforced, the invalid or unenforceable provisions, to the extent permitted by law, shall be deemed amended and given such interpretation so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the maximum extent possible.

19. Headings; Construction. Headings in this Agreement are for reference purposes only and shall not be deemed to have any substantive effect. The words "include," "includes" and "including" when used herein shall be deemed in each case to be followed by the words "without limitation."

20. Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.

21. Further Assurances. The Participant shall cooperate and take such action as may be reasonably requested by the Company in order to carry out the provisions and purposes of this Agreement.

22. Remedies. In the event of a breach by any party to this Agreement of its obligations under this Agreement, any party injured by such breach, in addition to being entitled to exercise all rights granted by law, including recovery of damages, shall be entitled to specific performance of its rights under this Agreement. The parties agree that the provisions of this Agreement shall be specifically enforceable, it being agreed by the parties that the remedy at law, including monetary damages, for breach of any such provision will be inadequate compensation for any loss and that any defense in any action for specific performance that a remedy at law would be adequate is hereby waived.

23. Electronic Delivery. By executing the Agreement, the Participant hereby consents to the delivery of information (including, without limitation, information required to be delivered to the Participant pursuant to applicable securities laws) regarding the Company and the subsidiaries, the Plan, the PSUs and the Shares via Company web site or other electronic delivery

24. Binding Effect. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective permitted successors and assigns, including any Permitted Transferees.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the Effective Date.

THE COMPANY:

NOODLES & COMPANY

By: ______________
Name:
Title:

PARTICIPANT:

____
Name:

Address: __________
____
____
Tel: ________

Exhibit 21.1

Subsidiaries of the Registrant	Jurisdiction of Incorporation
TNSC, Inc.	Colorado, United States
The Noodle Shop, Co. - Colorado, Inc.	Colorado, United States
The Noodle Shop, Co. - Delaware, Inc.	Delaware, United States
The Noodle Shop, Co. - Illinois, Inc.	Illinois, United States
The Noodle Shop, Co. - Kansas, LLC	Kansas, United States
The Noodle Shop, Co. - Virginia, Inc.	Virginia, United States
The Noodle Shop, Co. - Wisconsin, Inc.	Wisconsin, United States

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-8 No. 333-189877) pertaining to the Noodles & Company Employee Stock Purchase Plan,

(2) Registration Statement (Form S-8 No. 333-189878) pertaining to the Noodles & Company Amended and Restated 2010 Stock Incentive Plan, and

(3) Registration Statements (Form S-3 No. 333-217760 and No. 333-225238) of Noodles & Company;

of our reports dated February 23, 2022, with respect to the consolidated financial statements of Noodles & Company and the effectiveness of internal control over financial reporting of Noodles & Company included in this Annual Report (Form 10-K) of Noodles & Company for the year ended December 28, 2021.

/s/ Ernst & Young LLP

Denver, Colorado

February 23, 2022

Exhibit 31.1

CERTIFICATION

I, Dave Boennighausen, certify that:

1. I have reviewed this annual report on Form 10-K 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.

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: February 24, 2022

/s/ DAVE BOENNIGHAUSEN
Dave Boennighausen
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Carl Lukach, certify that:

1. I have reviewed this annual report on Form 10-K 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.

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: February 24, 2022

/s/ CARL LUKACH

Carl Lukach
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 Annual Report of Noodles & Company on Form 10-K for the fiscal year ended December 28, 2021 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 Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Noodles & Company.

Date: February 24, 2022

By:	/s/ DAVE BOENNIGHAUSEN
Name:	Dave Boennighausen
Title:	Chief Executive Officer

I, Carl Lukach, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Noodles & Company on Form 10-K for the fiscal year ended December 28, 2021 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 Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Noodles & Company.

Date: February 24, 2022

By:	/s/ CARL LUKACH
Name:	Carl Lukach
Title:	Chief Financial Officer

This certification accompanies this Annual Report on Form 10-K 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.