UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 27, 2022

or

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

For the transition period from to

Commission File Number: 001-35987

NOODLES & COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**84-1303469**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
520 Zang Street, Suite D **Broomfield, CO**	**80021**
(Address of principal executive offices)	(Zip Code)

(720) 214-1900

(Registrant's telephone number, including area code)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☐

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

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

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PART I

Item 1. Financial Statements

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

See accompanying notes to condensed consolidated financial statements.

Noodles & Company

Condensed Consolidated Statements of Stockholders' Equity

(in thousands, except share data, unaudited)

	Fiscal Quarter Ended						
	Common Stock[1]		Treasury		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance—June 28, 2022	48,384,193	$ 484	2,423,871	$ (35,000)	$ 209,561	$ (140,158)	$ 34,887
Stock plan transactions and other	59,601	—	—	—	(56)	—	(56)
Stock-based compensation expense	—	—	—	—	755	—	755
Net income	—	—	—	—	—	795	795
Balance—September 27, 2022	48,443,794	$ 484	2,423,871	$ (35,000)	$ 210,260	$ (139,363)	$ 36,381
Balance—June 29, 2021	48,011,761	$ 480	2,423,871	$ (35,000)	$ 204,996	$ (135,033)	$ 35,443
Stock plan transactions and other	54,155	1	—	—	(203)	—	(202)
Stock-based compensation expense	—	—	—	—	1,164	—	1,164
Net income	—	—	—	—	—	4,697	4,697
Balance—September 28, 2021	48,065,916	$ 481	2,423,871	$ (35,000)	$ 205,957	$ (130,336)	$ 41,102

	Three Fiscal Quarters Ended						
	Common Stock[1]		Treasury		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance—December 28, 2021	48,125,151	$ 481	2,423,871	$ (35,000)	$ 207,226	$ (135,074)	$ 37,633
Stock plan transactions and other	318,643	3	—	—	(376)	—	(373)
Stock-based compensation expense	—	—	—	—	3,410	—	3,410
Net loss	—	—	—	—	—	(4,289)	(4,289)
Balance—September 27, 2022	48,443,794	$ 484	2,423,871	$ (35,000)	$ 210,260	$ (139,363)	$ 36,381
Balance—December 29, 2020	46,807,587	$ 468	2,423,871	$ (35,000)	$ 202,970	$ (138,739)	$ 29,699
L Catterton warrants exercised	975,458	10	—	—	(10)	—	—
Stock plan transactions and other	282,871	3	—	—	(484)	—	(481)
Stock-based compensation expense	—	—	—	—	3,481	—	3,481
Net income	—	—	—	—	—	8,403	8,403
Balance—September 28, 2021	48,065,916	$ 481	2,423,871	$ (35,000)	$ 205,957	$ (130,336)	$ 41,102

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

See accompanying notes to condensed consolidated financial statements.

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

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

See accompanying notes to condensed consolidated financial statements.

NOODLES & COMPANY
Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Business Summary and Basis of Presentation

Business

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

Basis of Presentation

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

Fiscal Year

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

Recent Accounting Pronouncements

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

2. Supplemental Financial Information

Accounts receivable consist of the following (in thousands):

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

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

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

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

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

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

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

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

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

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

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

3. Long-Term Debt

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

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

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

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

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

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

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

4. Fair Value Measurements

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

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

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

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

5. Income Taxes

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

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

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

6. Stock-Based Compensation

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

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

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

7. Restaurant Impairments, Closure Costs and Asset Disposals

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

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

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

The Company impaired two restaurants during the third quarter of 2022 and four restaurants in the first three quarters of 2022. There was one restaurant impairment in the third quarter of 2021 and two restaurant impairments during the first three quarters of 2021. Impairment is based on management's current assessment of the expected future cash flows of a restaurant based on recent results and other specific market factors. Impairment expense is a Level 3 fair value measure and is determined by comparing the carrying value of restaurant assets to the estimated fair value of the restaurant assets at resale value and the right-of-use asset based on a discounted cash flow analysis utilizing market lease rates. The Company will continue to monitor the impact from the COVID-19 pandemic as it relates to recoverability of long-lived assets.

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

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

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

8. Earnings (Loss) Per Share

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

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

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

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

9. Leases

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

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

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

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

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

10. Supplemental Disclosures to Condensed Consolidated Statements of Cash Flows

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

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

11. Revenue Recognition

Revenue

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

Gift Cards

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

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

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

Franchise Fees

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

Loyalty Program

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

12. Commitments and Contingencies

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

NOODLES & COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

Cautionary Note Regarding Forward-Looking Statements

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

Our Ongoing Response to the COVID-19 Pandemic

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

Recent Trends, Risks and Uncertainties

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

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

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

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

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

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

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

Key Measures We Use to Evaluate Our Performance

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

Revenue

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

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

Comparable Restaurant Sales

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

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

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

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

Average Unit Volumes

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

Restaurant Contribution and Restaurant Contribution Margin

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

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

EBITDA and Adjusted EBITDA

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

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

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

Results of Operations

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

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

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

Restaurant Openings, Closures and Relocations

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

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

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

Statement of Operations as a Percentage of Revenue

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

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

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

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

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

* Not meaningful.

Revenue

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

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

Cost of Sales

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

Labor Costs

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

Occupancy Costs

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

Other Restaurant Operating Costs

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

General and Administrative Expense

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

Depreciation and Amortization

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

Restaurant Impairments, Closure Costs and Asset Disposals

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

Interest Expense

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

Provision for Income Taxes

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

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

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

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

* Not meaningful.

Revenue

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

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

quarters of 2022 was primarily driven by continued momentum in both digital and in-person channels, as well as several price increases implemented on our core menu.
AUV, which normalizes for the impact of temporary restaurant closures, increased year-over-year due to pricing increases for our core menu offerings, in addition to strong off-premise sales, including digital, and growth in dine-in sales.

Cost of Sales

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

Labor Costs

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

Occupancy Costs

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

Other Restaurant Operating Costs

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

General and Administrative Expense

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

Depreciation and Amortization

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

Restaurant Impairments, Closure Costs and Asset Disposals

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

Interest Expense

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

Provision for Income Taxes

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

Liquidity and Capital Resources

Summary of Cash Flows

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

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

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

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

Operating Activities

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

Investing Activities

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

Financing Activities

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

Capital Resources

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

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

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

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

Credit Facility

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

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

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

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

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

Off-Balance Sheet Arrangements

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

Critical Accounting Policies and Estimates

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

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

Commodity Price Risk

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

Inflation

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

Item 4. Controls and Procedures

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

Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibit Index

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

SIGNATURES

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

NOODLES & COMPANY

By: /s/ CARL LUKACH

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

Date November 4, 2022

RESTRICTED STOCK UNIT AGREEMENT
For General Manager Equity Partner Plan

This RESTRICTED STOCK UNIT AGREEMENT (this "Agreement") is made as of September 29, 2022 (the "Effective Date") by and between Noodles & Company, a Delaware corporation (the "Company"), and XXXXX(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 XXXXX shares of the 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:

"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 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.

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

"Confidential Information" has the meaning set forth in Section 23(b).

"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.

"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.

"Qualifying Termination" means (i) if the Participant is party to an employment agreement with a "Good Reason" provision, termination of the Participant's employment by the Participant for Good Reason in accordance with the terms of such employment agreement or (ii) the Participant's termination of employment by the Company without Cause.

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

"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).

"Third Party Information" has the meaning set forth in Section 23(b).

"Vesting Period" has the meaning set forth in Section 3(a).

"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 RSUs.

2. Grant of RSUs. The Company grants to the Participant restricted stock units (the "RSUs") with respect to XXXXX Shares.

3. Vesting.

(a) The RSUs shall vest 100% on the third anniversary of the Effective Date ("Vesting Period") so long as the Participant remains continuously employed by the Employer.

(b) In addition, the Administrator may, at any time in its sole discretion, accelerate the vesting of all or any portion of the RSUs.

4. Settlement.

(a) Unless deferred by the Participant to the extent permitted by the Board, the RSUs shall be settled promptly following their vesting pursuant to Section 3 by the Company delivering to the Participant one Share for each RSU that has vested. Unless deferred by the Participant, in no event shall such settlement occur later than March 15 of the year following the year in which the RSUs vest.

(b) Subject to Section 3(b), the unvested RSUs shall immediately expire on the Termination Date.

5. Nontransferability of the RSUs. Except as permitted by the Administrator or as permitted under the Plan, the Participant may not assign or transfer the RSUs to anyone other than by will or the laws of descent and distribution. The Company may cancel the Participant's

RSUs if the Participant attempts to assign or transfer them in a manner inconsistent with this Section 5.

6. Adjustments.

(a) 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 RSUs shall be subject to adjustment as provided in Section 12(a) of the Plan.

(b) In connection with a Change in Control, the Administrator may provide for any adjustment or action specified in Section 12(b) of the Plan.

7. 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 RSUs, 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.

8. No Interest in Shares Subject to RSUs. 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 RSUs.

9. Plan Controls. The RSUs 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 RSUs 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.

10. 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).

11. 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.

12. 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.

13. 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
Email: Benefits@Noodles.com
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 13, be deemed given upon delivery,(ii) if delivered by facsimile transmission to the facsimile number as provided for in this Section 13,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 13,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 13,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 13). 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 13, designate another address or Person for receipt of notices hereunder.

14. 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.

15. 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.

16. 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.

17. 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."

18. 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.

19. 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.

20. 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.

21. 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 RSUs and the Shares via Company web site or other electronic delivery

22. 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.

23. Participant Covenants.

(a) Non-Solicitation. While employed by the Company or a subsidiary and for six (6) months thereafter, other than in the course of performing his or her duties, the Participant shall not, directly or indirectly through another Person, induce or attempt to induce any employee of the Company or any of its subsidiaries to leave the employ of the Company or such subsidiary, or in any way interfere with the relationship between the Company or any of its subsidiaries and any such employee.

(b) Confidentiality. The Participant acknowledges that the confidential business information generated by the Company and its subsidiaries, whether such information is written, oral or graphic, including, but not limited to, financial plans and records, marketing plans, business strategies and relationships with third parties, present and proposed products, present and proposed patent applications, trade secrets, information regarding customers and suppliers, strategic planning and systems and contractual terms obtained by the Participant while employed by the Company and its subsidiaries concerning the business or affairs of the Company or any subsidiary of the Company (collectively, the "Confidential Information") is the property of the Company or such subsidiary. The Participant agrees that he or she shall not disclose to any Person or use for the Participant's own purposes any Confidential Information or any confidential or proprietary information of other Persons in the possession of the Company and its subsidiaries ("Third Party Information"),without the prior written consent of the Board, unless and to the extent that (i) the Confidential Information or Third Party Information becomes generally known to and available for use by the public, other than as a result of the Participant's acts or omissions or (ii) the disclosure of such Confidential Information is required by law, in which case the Participant shall give notice to and the opportunity to the Company to comment on the form of the disclosure and only the portion of Confidential Information that is required to be disclosed by law shall be disclosed. The Participant shall deliver to the Company on the date of his or her termination of employment, or at any other time the Company may request, all memoranda, notes, plans, records, reports, computer files, disks and tapes, printouts and software and other documents and data (and copies thereof) embodying or relating to Third Party Information, Confidential Information, or the business of the Company or any of its subsidiaries which he or she may then possess or have under his or her control.

(c) Specific Performance. The Participant recognizes and agrees that a violation by him or her of his or her obligations under this Section 23 may cause irreparable harm to the Company that would be difficult to quantify and that money damages may be inadequate. As such, the Participant agrees that the Company shall have the right to seek injunctive relief (in addition to, and not in lieu of any other right or remedy that may be available to it) to prevent or restrain any such alleged violation without the necessity of posting a bond or other security and without the necessity of proving actual damages. However, the foregoing shall not prevent the Participant from contesting the Company's request for the issuance of any such injunction on the grounds that no violation or threatened violation of this Section 23 has occurred and that the Company has not suffered irreparable harm. If a court of competent jurisdiction determines that the Participant has violated the obligations of any covenant for a particular duration, then the Participant agrees that such covenant will be extended by that duration.

(d) Scope and Duration of Restrictions. The Participant expressly agrees that the character, duration and geographical scope of the restrictions imposed under this Section 23 are reasonable in light of the circumstances as they exist at the date upon which this Agreement has been executed. However, should a determination nonetheless be made by a court of competent jurisdiction at a later date that the character, duration or geographical scope of any of the covenants contained herein is unreasonable in light of the circumstances as they then exist, then it is the intention of both the Participant and the Company that such covenant shall be construed by the court in such a manner as to impose only those restrictions on the conduct of the Participant which are reasonable in light of the circumstances as they then exist and necessary to assure the Company of the intended benefit of such covenant.

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 1

NOODLES & COMPANY
AMENDED AND RESTATED
2010 STOCK INCENTIVE PLAN

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Dave Boennighausen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Noodles and Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am 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 my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me 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 my 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 my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on my 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: November 4, 2022

/s/ DAVE BOENNIGHAUSEN

Dave Boennighausen
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Carl Lukach, certify that:

1. I have reviewed this annual report on Form 10-Q of Noodles and Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

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: November 4, 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 Quarterly Report of Noodles & Company on Form 10-Q for the fiscal quarter ended September 27, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects the financial condition and results of operations of Noodles & Company.

Date: November 4, 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 Quarterly Report of Noodles & Company on Form 10-Q for the fiscal quarter ended September 27, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects the financial condition and results of operations of Noodles & Company.

Date: November 4, 2022

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

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