UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended July 4, 2017

or

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

For the transition period from to

Commission File Number: 001-35987

NOODLES & COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**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)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No o

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 o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o Emerging growth company x

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. x

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

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

Class	Outstanding at August 7, 2017
Class A Common Stock, $0.01 par value per share	39,588,210 shares
Class B Common Stock, $0.01 par value per share	1,522,098 shares

TABLE OF CONTENTS

PART I

Item 1. Financial Statements

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

	July 4, 2017	January 3, 2017
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 3,158	$ 1,837
Accounts receivable	2,946	5,438
Inventories	10,075	11,285
Prepaid expenses and other assets	6,882	6,972
Income tax receivable	196	256
Total current assets	23,257	25,788
Property and equipment, net	164,112	173,533
Goodwill	6,400	6,400
Intangibles, net	1,603	1,715
Other assets, net	2,070	2,025
Total long-term assets	174,185	183,673
Total assets	$ 197,442	$ 209,461
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 9,350	$ 10,601
Accrued payroll and benefits	10,643	10,723
Accrued expenses and other current liabilities	22,506	27,709
Total current liabilities	42,499	49,033
Long-term debt, net	60,888	84,676
Deferred rent	38,754	44,929
Deferred tax liabilities, net	706	435
Other long-term liabilities	10,663	4,570
Total liabilities	153,510	183,643
Convertible Series A preferred stock—$0.01 par value, 50,000 shares authorized and designated as of July 4, 2017; zero shares issued and outstanding as of July 4, 2017 and zero shares designated, issued or outstanding as of January 3, 2017	—	—
Stockholders' equity:		
Preferred stock—$0.01 par value, 950,000 shares authorized and undesignated as of July 4, 2017 and 1,000,000 shares authorized and undesignated as of January 3, 2017; zero shares issued and outstanding as of July 4, 2017 and January 3, 2017	—	—
Common stock—$0.01 par value, authorized 180,000,000 shares as of July 4, 2017 and January 3, 2017; 43,522,430 issued and 41,098,559 outstanding as of July 4, 2017 and 30,300,925 issued and 27,877,054 outstanding as of January 3, 2017	435	303
Treasury stock, at cost, 2,423,871 shares as of July 4, 2017 and January 3, 2017	(35,000)	(35,000)
Additional paid-in capital	170,923	124,272
Accumulated other comprehensive loss	(60)	(51)
Accumulated deficit	(92,366)	(63,706)
Total stockholders' equity	43,932	25,818
Total liabilities and stockholders' equity	$ 197,442	$ 209,461

See accompanying notes to condensed consolidated financial statements.

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

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	July 4, 2017	June 28, 2016	July 4, 2017	June 28, 2016
Revenue:				
Restaurant revenue	$ 111,628	$ 120,204	$ 227,155	$ 233,069
Franchising royalties and fees	1,164	1,203	2,352	2,324
Total revenue	112,792	121,407	229,507	235,393
Costs and expenses:				
Restaurant operating costs (exclusive of depreciation and amortization shown separately below):				
Cost of sales	29,598	32,164	61,685	62,353
Labor	36,430	39,316	76,024	76,750
Occupancy	12,630	13,688	26,631	27,002
Other restaurant operating costs	16,194	18,596	33,341	35,488
General and administrative	9,393	9,840	20,059	19,877
Depreciation and amortization	6,279	7,071	12,546	13,977
Pre-opening	246	796	791	1,833
Restaurant impairments, closure costs and asset disposals	2,830	11,248	24,884	12,264
Total costs and expenses	113,600	132,719	255,961	249,544
Loss from operations	(808)	(11,312)	(26,454)	(14,151)
Interest expense, net	927	598	1,935	1,226
Loss before income taxes	(1,735)	(11,910)	(28,389)	(15,377)
Provision for income taxes	80	2,177	271	1,083
Net loss	(1,815)	(14,087)	(28,660)	(16,460)
Accretion of preferred stock to redemption value	(7,001)	—	(7,967)	—
Net loss attributable to common stockholders	$ (8,816)	$ (14,087)	$ (36,627)	$ (16,460)
Loss per share of Class A and Class B common stock, combined:				
Basic	$ (0.22)	$ (0.51)	$ (1.06)	$ (0.59)
Diluted	$ (0.22)	$ (0.51)	$ (1.06)	$ (0.59)
Weighted average shares of Class A and Class B common stock outstanding, combined:				
Basic	40,779,277	27,776,094	34,404,222	27,754,615
Diluted	40,779,277	27,776,094	34,404,222	27,754,615

See accompanying notes to condensed consolidated financial statements.

Noodles & Company
Condensed Consolidated Statements of Comprehensive Income (Loss)
(in thousands, unaudited)

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	July 4, 2017	June 28, 2016	July 4, 2017	June 28, 2016
Net loss	$ (1,815)	$ (14,087)	$ (28,660)	$ (16,460)
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(9)	22	(9)	127
Other comprehensive (loss) income	(9)	22	(9)	127
Comprehensive loss	$ (1,824)	$ (14,065)	$ (28,669)	$ (16,333)

See accompanying notes to condensed consolidated financial statements.

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

	Two Fiscal Quarters Ended	
	July 4, 2017	June 28, 2016
Operating activities		
Net loss	$ (28,660)	$ (16,460)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	12,546	13,977
Deferred income taxes	271	1,083
Restaurant impairments, closure costs and asset disposals	19,441	11,889
Amortization of debt issuance costs	185	58
Stock-based compensation	945	849
Non-cash gain on litigation settlement	(421)	—
Changes in operating assets and liabilities:		
Accounts receivable	2,465	(383)
Inventories	(468)	(301)
Prepaid expenses and other assets	46	4,171
Accounts payable	17	(4,802)
Deferred rent	1,479	2,835
Income taxes	60	42
Accrued expenses and other liabilities	(16,137)	(677)
Net cash (used in) provided by operating activities	(8,231)	12,281
Investing activities		
Purchases of property and equipment	(12,213)	(24,016)
Net cash used in investing activities	(12,213)	(24,016)
Financing activities		
Net borrowings from swing line loan	6,947	215
Proceeds from issuance of long-term debt	6,757	11,500
Payments on long-term debt	(37,015)	(1,000)
Issuance of preferred stock and common stock warrants, net of transaction expenses (see Note 9)	16,589	—
Issuance of common stock, net of transaction expenses (see Note 9)	29,110	—
Proceeds from exercise of stock options and employee stock purchase plan	37	876
Debt issuance costs	(662)	(2)
Net cash provided by financing activities	21,763	11,589
Effect of exchange rate changes on cash	2	127
Net increase (decrease) in cash and cash equivalents	1,321	(19)
Cash and cash equivalents		
Beginning of period	1,837	1,912
End of period	$ 3,158	$ 1,893

See accompanying notes to condensed consolidated financial statements.

NOODLES & COMPANY

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Business Summary and Basis of Presentation

Business

Noodles & Company (the "Company"), a Delaware corporation, develops and operates fast casual restaurants that serve globally inspired noodle and pasta dishes, soups, salads and appetizers. As of July 4, 2017, the Company had 413 company-owned restaurants and 73 franchise restaurants in 31 states and the District of Columbia. The Company operates its business as one operating and reportable segment.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Noodles & Company and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The accompanying interim unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. In the opinion of the Company, all adjustments considered necessary for the fair presentation of the Company's results of operations, financial position and cash flows for the periods presented have been included and are of a normal, recurring nature. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The results of operations for any interim period are not necessarily indicative of results for the full year. Certain information and footnote disclosures normally included in the Company's annual consolidated financial statements on Form 10-K have been condensed or omitted. The condensed consolidated balance sheet as of January 3, 2017 was derived from audited financial statements. These financial statements should be read in conjunction with the audited financial statements and the related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2017.

Fiscal Year

The Company operates on a 52- or 53-week fiscal year ending on the Tuesday closest to December 31. Fiscal year 2017, which ends on January 2, 2018, contains 52 weeks, and fiscal year 2016, which ended on January 3, 2017, contained 53 weeks. 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. The Company's fiscal quarter that ended July 4, 2017 is referred to as the second quarter of 2017, and the fiscal quarter ended June 28, 2016 is referred to as the second quarter of 2016.

Reclassification

As of January 3, 2017, the Company changed its presentation on the Condensed Consolidated Statements of Cash Flows of borrowings and repayments from its swing line loan to a net basis. Certain amounts in the prior period financial statements have been reclassified to conform to the current period presentation, which had no impact on the net change in cash and cash equivalents or the amount of net cash provided by financing activities for the applicable prior period presented. This reclassification had no effect on reported net loss.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") 605, "Revenue Recognition." This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of the new revenue standard by one year, and would allow entities the option to early adopt the new revenue standard as of the original effective date. There have been multiple standards updates amending this guidance or providing corrections or improvements on issues in the guidance. The requirements for these standards relating to Topic 606 will be effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted for interim and annual periods beginning after December 15, 2016. The Company expects to adopt these standards upon their effective date (the Company's first quarter of fiscal 2018), using one of two retrospective application methods. The

Company does not believe the new revenue recognition standard will materially impact its recognition of revenue from restaurant operations of company-owned restaurants or its recognition of continuing royalty fees from franchisees. The Company believes adoption of the new revenue recognition standard will impact its accounting for initial fees charged to franchisees. Historically, the Company has recognized revenue from initial franchise fees upon the opening of a franchised restaurant when it performed all of its material obligations and initial services. Upon the adoption of Topic 606, the Company will generally recognize initial franchise fees over the term of a franchise agreement. The Company will be finalizing accounting policies, selecting its transition method, quantifying the impact of adopting this standard, and designing internal controls during the fiscal year ended January 2, 2018. The Company is currently evaluating the impact the adoption of this accounting standard will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, "Leases." The pronouncement amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheet and making targeted changes to lessor accounting. This pronouncement will be effective for interim and annual periods beginning after December 15, 2018 (the Company's first quarter of fiscal 2019), with early adoption permitted. The new lease standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company believes the adoption of ASU No. 2016-02 will have a significant impact on its consolidated balance sheets by significantly increasing its non-current assets and non-current liabilities in order to record the right of use assets and related lease liabilities for its existing operating leases. The Company is currently evaluating the impact the adoption of this accounting standard will have on its results of operations and cash flows and related disclosures.

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory." ASU 2016-16 provide guidance on the income tax consequences of an intra-entity transfer of an asset other than inventory. The guidance is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted for any entity as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued or made available for issuance. The Company is currently evaluating the impact of the guidance, but does not believe it will materially impact the Company's financial position or results of operations and cash flows.

2. Supplemental Financial Information

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

	July 4, 2017	January 3, 2017
Leasehold improvements	$ 208,139	$ 205,687
Furniture, fixtures and equipment	120,910	120,248
Construction in progress	2,060	8,044
	331,109	333,979
Accumulated depreciation and amortization	(166,997)	(160,446)
	$ 164,112	$ 173,533

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

	July 4, 2017	January 3, 2017
Gift card liability	$ 2,987	$ 3,857
Occupancy related	5,706	2,069
Utilities	1,662	1,753
Data breach liabilities	7,605	11,622
Legal settlement	—	3,000
Other accrued expenses	4,546	5,408
	$ 22,506	$ 27,709

3. Long-Term Debt

The Company has a credit facility consisting of a revolving line of credit of $100.0 million, expiring in June 2020. As of July 4, 2017, the Company had $62.1 million of indebtedness and $3.0 million letters of credit outstanding under the revolving line of credit. The Company's ability to borrow funds pursuant to the revolving line of credit is further limited by the requirement that it comply with the revolving line of credit's financial covenants upon the measurement dates specified therein. These financial covenants include a maximum lease-adjusted leverage ratio and a minimum consolidated fixed charge coverage ratio. The credit agreement also contains other customary covenants, including limitations on additional borrowings, acquisitions, dividend payments and lease commitments.

On February 8, 2017, the Company entered into an amendment to its credit facility. Among other things, giving effect to the equity issuances completed during the first quarter of 2017, the amendment (i) increased the interest rate margin applicable at total lease adjusted leverage levels at and above 4.25:1.00 and from the period of the date of amendment to the delivery of the first following quarterly compliance certificate, (ii) increased capital expenditure amounts related to restaurant growth, and (iii) made certain other changes. The Consolidated EBITDA definition, as revised, permits certain costs to be added back into the Consolidated EBITDA calculation, including costs associated with closing underperforming restaurants in 2017 (fees to landlords resulting from the termination of the Company's leases for such restaurants, the fees to its real estate advisor and brokers related to such terminations and other costs of closing restaurants, such as severance for terminated employees) and liabilities associated with the data security incident that occurred in 2016 (as described in greater detail in Note 11, Commitments and Contingencies). This amendment also revised certain financial covenant levels. Borrowings under this amended and restated agreement bear interest, at the Company's option, at either (i) LIBOR plus 2.00% to 3.25%, based on the lease-adjusted leverage ratio or (ii) the highest of the following rates plus zero to 1.00%: (a) the federal funds rate plus 0.50%; (b) the Bank of America prime rate or (c) the one month LIBOR plus 1.00%. The credit facility includes a commitment fee of 0.30% to 0.50%, based on the lease-adjusted leverage ratio, per year on any unused portion of the credit facility.

The credit facility bore interest between 3.77% and 6.50% during the two quarters of 2017. The Company also maintains outstanding letters of credit to secure obligations under its workers' compensation program and certain lease obligations. The Company was in compliance with all of its debt covenants as of July 4, 2017.

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 under the credit facility approximate fair value as the line of credit and term borrowings vary with market interest rates and negotiated terms and conditions are consistent with current market rates. The fair value of the Company's line of credit borrowings is measured using Level 2 inputs.

Adjustments to the fair value of non-financial assets measured at fair value on a non-recurring basis as of July 4, 2017 and June 28, 2016 are discussed in Note 7, Restaurant Impairments, Closure Costs and Asset Disposals.

5. Income Taxes

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

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	July 4, 2017	June 28, 2016	July 4, 2017	June 28, 2016
Provision for income taxes	$ 80	$ 2,177	$ 271	$ 1,083
Effective tax rate	(4.6)%	(18.3)%	(1.0)%	(7.0)%

During the first quarter of 2016, the Company recorded a valuation allowance against Canadian deferred tax assets. During the second quarter of 2016, the Company determined that it was appropriate to record a valuation allowance against U.S. deferred tax assets. As a result, the effective tax rates for all periods presented reflect the impact of a valuation allowance against U.S. and Canadian deferred tax assets. For the remainder of fiscal 2017, 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 to the effective tax rate.

6. Stock-Based Compensation

The Company's Stock Incentive Plan, as amended and restated in May of 2013, authorizes the grant of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units ("RSUs") and incentive bonuses to employees, officers, nonemployee directors and other service providers. The number of shares of common stock available for issuance pursuant to awards granted under the Stock Incentive Plan on or after the IPO shall not exceed 3,750,500 shares.

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

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	July 4, 2017	June 28, 2016	July 4, 2017	June 28, 2016
Stock-based compensation expense	$ 648	$ 564	$ 945	$ 973
Capitalized stock-based compensation expense	$ 52	$ 63	$ 102	$ 124

7. Restaurant Impairments, Closure Costs and Asset Disposals

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

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	July 4, 2017	June 28, 2016	July 4, 2017	June 28, 2016
Restaurant impairments (1)	$ 4,037	$ 10,346	$ 5,973	$ 10,541
Closure costs (1)	(1,471)	538	18,415	1,087
Loss on disposal of assets and other	264	364	496	636
	$ 2,830	$ 11,248	$ 24,884	$ 12,264

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

During the second quarter of 2017, nine restaurants were identified as impaired compared to 11 during the second quarter of 2016. During the first two quarters of 2017, 13 restaurants were identified as impaired compared to 12 restaurants during the first two quarters of 2016. Impairment is based on management's current assessment of the expected future cash flows of various restaurants based on recent results and other specific market factors. Impairment expense is a Level 3 fair value measure and was determined by comparing the carrying value of restaurant assets to the estimated fair market value of the restaurant assets at resale value.

During the second quarter of 2017, a gain of $3.6 million was recognized related to closures primarily due to adjustments to the liabilities to landlords as lease terminations occurred for 21 of the 55 restaurants closed during the first quarter of 2017, partially offset by $2.0 million of costs related to the restaurants closed in the first quarter of 2017. During the first two quarters of 2017, $18.4 million of closure costs were recognized related to the 55 restaurants closed during the first quarter of 2017, as well as ongoing costs of restaurants closed in the fourth quarter of 2015. The closure costs of $0.5 million recognized during the second quarter of 2016 and $1.1 million during the first two quarters of 2016 are related to the ongoing costs of restaurants closed in the fourth quarter of 2015. 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 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 restricted common stock. Diluted EPS considers the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of the potential common shares would have an anti-dilutive effect.

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

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	July 4, 2017	June 28, 2016	July 4, 2017	June 28, 2016
Net loss attributable to common stockholders	$ (8,816)	$ (14,087)	$ (36,627)	$ (16,460)
Shares:				
Basic weighted average shares outstanding	40,779,277	27,776,094	34,404,222	27,754,615
Effect of dilutive securities	—	—	—	—
Diluted weighted average shares outstanding	40,779,277	27,776,094	34,404,222	27,754,615
Loss per share:				
Basic loss per share	$ (0.22)	$ (0.51)	$ (1.06)	$ (0.59)
Diluted loss per share	$ (0.22)	$ (0.51)	$ (1.06)	$ (0.59)

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. All potential common shares are anti-dilutive in periods of net loss. The number of shares issuable on the vesting or exercise of share based awards or exercise of outstanding warrants excluded from the calculation of diluted loss per share because the effect of their inclusion would have been anti-dilutive totaled 3,393,950 and 1,561,256 for the second quarters of 2017 and 2016, respectively, and totaled 5,631,982 and 1,559,515 for first two quarters of 2017 and 2016, respectively.

9. Stockholders' Equity

Securities Purchase Agreement with L Catterton

On February 8, 2017, the Company entered into a securities purchase agreement with *L* Catterton, pursuant to which the Company agreed, in return for aggregate gross proceeds of $18.5 million, to sell to *L* Catterton an aggregate of 18,500 shares of preferred stock convertible into 4,252,873 shares of the Company's Class A common stock, par value $0.01 per share, at a price per share of $1,000, plus warrants exercisable for five years beginning six months following their issuance for the purchase of 1,913,793 shares of the Company's Class A common stock, at a price per share of $4.35 (such transactions, collectively, the "private placement"). The proceeds have been, and will continue to be used, in conjunction with cash flow from the Company's operations and the proceeds received from the transaction with Mill Road (see below), to satisfy existing and anticipated liabilities and to fund, in part, certain capital expenditures related to business initiatives in its company-owned restaurants. Any remaining proceeds are expected to be used for general corporate purposes. The funding of the private placement occurred on February 9, 2017 and the net proceeds from the transaction were $16.6 million, after $1.9 million of transaction expenses.

The Company determined that the preferred stock was more akin to an equity security than debt primarily because the preferred stock was contingently redeemable upon the occurrence of an event that was outside of the Company's control. The proceeds were allocated between the three features of the private placement: the warrants, the embedded beneficial conversion feature in the preferred stock, and the preferred stock itself. The fair values of the warrants of $3.1 million and the embedded beneficial conversion feature of $3.1 million were recorded as a discount against the stated value of the preferred stock on the date of issuance. The fair value of the warrants was estimated using a Black-Scholes option pricing model which is a Level 2 estimate of fair value. This discount is amortized, using the interest method, and treated as a deemed dividend through the date of conversion, which results in the accretion of the preferred stock to its full redemption value.

On April 5, 2017, the Company delivered a notice to *L* Catterton of its election to exercise the conversion option with respect to the Series A Convertible Preferred Stock. The terms of the preferred stock provided that the Company could, at its option upon the satisfaction of certain conditions, cause all outstanding shares of preferred stock to be automatically converted into the Company's Class A common stock. The conversion of the preferred stock into 4,252,873 shares of the Company's Class A Common Stock occurred on April 12, 2017. After the conversion, no shares of preferred stock are outstanding.

At the conversion date, all unamortized discounts were recognized immediately as a deemed dividend, which increased the net loss attributable to common stockholders. The amortized discount, which has been treated in the same manner as dividends, was $7.0 million for the second quarter of 2017 and $8.0 million for the first two quarters of 2017.

Securities Purchase Agreement with Mill Road Capital

On March 13, 2017, the Company entered into a securities purchase agreement with Mill Road Capital II, L.P. (“Mill Road”), pursuant to which the Company agreed, in return for aggregate gross proceeds of $31.5 million, to issue to Mill Road an aggregate of 8,873,240 shares of its Class A common stock, par value $0.01 per share, at a price per share of $3.55, which was equal to the closing sale price for the Company’s Class A common stock on March 10, 2017. On April 3, 2017, such shares were issued and the funding of the private placement occurred. The net proceeds from the transaction were $29.1 million during the first two quarters of 2017, after $2.4 million of transaction expenses paid.

10. Supplemental Disclosures to Condensed Consolidated Statements of Cash Flows

The following table presents the supplemental disclosures to the Condensed Consolidated Statements of Cash Flows for the two quarters ended July 4, 2017 and June 28, 2016 (in thousands):

	July 4, 2017	June 28, 2016
Interest paid (net of amounts capitalized)	$ 2,216	$ 860
Income taxes refunded	(60)	(42)
Changes in purchases of property and equipment accrued in accounts payable, net	(1,417)	873
Conversion of Series A convertible preferred stock to common stock	18,500	—

11. Commitments and Contingencies

Data Security Incident

Overview

On June 28, 2016, the Company announced that a data security incident compromised the security of the payment information of some customers who used debit or credit cards at certain Noodles & Company locations between January 31, 2016 and June 2, 2016. The malware involved in the incident has been removed, and the Company believes that it no longer poses a risk to credit or debit cards currently being used at affected locations. The Company continues to implement additional security procedures to further secure customers’ debit and credit card information.

Card Company Assessments

In the fourth quarter of 2016, the Company recorded a charge of $10.6 million for estimated losses, at the low end of an estimated range, associated with claims and anticipated claims by payment card companies for non-ordinary course operating expenses, card issuer losses and card replacement costs for which it expects to be liable (the “Data Breach Liabilities”). However, the Company may ultimately be subject to Data Breach Liabilities that are up to $5.5 million greater than that amount. The Company has used and intends to use a portion of the net proceeds of the private placement transactions entered into with *L* Catterton and Mill Road (both discussed in Note 9, Stockholders’ Equity) to fund the Data Breach Liabilities.

Data Security Litigation

In addition to claims by payment card companies with respect to the data security incident, the Company was a defendant in a purported class action lawsuit in the United States District Court for the District of Colorado (the “Court”), Selco Community Credit Union vs. Noodles & Company, alleging that the Company negligently failed to provide adequate security to protect the payment card information of customers of the plaintiffs and those of other similarly situated credit unions, banks and other financial institutions alleged to be part of the putative class, causing those institutions to suffer financial losses (the “Selco Litigation”). The complaint in the Selco Litigation also claimed the Company was negligent per se based on alleged violations of Section 5 of the Federal Trade Commission Act, and sought monetary damages, injunctive relief and attorneys’ fees. On July 21, 2017, the Court granted a Motion to Dismiss in the Selco Litigation in favor of the Company, which is subject to appeal by the plaintiffs. Any appeal must be filed on or before August 21, 2017.

Fees and Costs

The Company has incurred fees and costs associated with this data security incident, including legal fees, investigative fees, other professional fees and costs of communications with customers, all of which to date have been paid or reimbursed by its data security liability insurer. The Company expects to continue to incur significant fees and costs associated with the data security incident in future periods. Fees and costs related to the data security incident may also include other liabilities to payment card networks, liabilities from future litigation, governmental investigations and enforcement proceedings and capital investments for remediation activities, among others. The aggregate amount of such fees and costs cannot be reasonably estimated by the Company at present, but these fees and costs may be more than the limit that the data security liability insurer will pay or reimburse, in which case the Company will bear these fees and costs.

Insurance Coverage

As discussed above, to limit its exposure to losses arising from matters such as the data security incident, the Company maintained at the time of the incident and continues to maintain data privacy liability insurance coverage. This coverage, and certain other customary business insurance coverage, has reduced the Company's exposure related to the data security incident. The Company will pursue the maximum recoveries available under these policies.

General

It is possible that losses associated with the data security incident could have a material adverse effect on the Company's results of operations in future periods. The Company will continue to evaluate information as it becomes known and will record an estimate for additional losses at the time or times when it is probable that an additional loss, if any, will be incurred and the amount of any such loss is reasonably estimable.

Delaware Gift Card Litigation

As previously disclosed in prior reports filed with the SEC, the Company is named as a defendant in an action filed in the Superior Court of Delaware in New Castle County (the "Court"), entitled The State of Delaware, William French v. Card Compliant, LLC, et. al. The case was filed under seal in June 2013 and was unsealed on March 26, 2014. The complaint in this case alleges that a number of large retailers and restaurant companies, including the Company, knowingly refused to fulfill obligations under Delaware's Abandoned Property Law by failing to report and deliver "unclaimed gift card funds" to the State of Delaware, and knowingly made, used or caused to be made or used, false statements and records to conceal, avoid or decrease an obligation to pay or transmit money to Delaware in violation of the Delaware False Claims and Reporting Act. The complaint seeks an order that the Company cease and desist from violating the Delaware Abandoned Property Law, monetary damages (including treble damages under the False Claims and Reporting Act), penalties, and attorneys' fees and costs. On November 23, 2015, the Court ruled on a motion to dismiss the complaint. While the Court granted the motion to dismiss with respect to a claim alleging that the defendants intended to defraud the government or willfully concealed property owed to the government and for which a certificate or receipt was provided, it did not dismiss the other claims alleging that the defendants knowingly made false statements to avoid transmitting money to the government. The defendants have filed a motion for summary judgment in the case. The trial date with respect to this matter is set for May 21, 2018. In 2015 the Company recorded a loss contingency accrual based on a reasonable estimate of the probable losses that might arise from this matter; this loss contingency accrual did not have a material effect on our results of operations. However, the Company may ultimately be subject to greater losses resulting from the litigation. The Company intends to continue to vigorously defend this action.

Litigation Regarding Classification of Assistant General Managers

In the third quarter of 2016, the Company recorded a charge of $3.0 million to establish a reserve related to the settlement of a purported collective and class action lawsuit against the Company alleging violations of the Fair Labor Standards Act and certain state laws in connections with the Company's classification of assistant general managers as exempt employees. In the second quarter of 2017, the Company recorded a gain of $0.4 million related to such settlement because the final amount determined to be owed by the Company under the settlement agreement was $0.4 million less than the amount reserved.

Other Matters

In the normal course of business, the Company is subject to other proceedings, lawsuits and claims. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, the Company is unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters as of July 4, 2017. These matters could affect the operating results of any one financial reporting period when resolved in future periods. The Company believes that an unfavorable outcome with respect to these matters is remote or a potential range of loss is not material to its consolidated financial statements. Significant increases in the number of these claims, or one or more successful claims that result in greater liabilities than the Company currently anticipates, could materially and adversely affect its business, financial condition, results of operations or cash flows.

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

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

Noodles & Company is a Delaware corporation that was organized in 2002. Noodles & Company and its subsidiaries are sometimes referred to as "we," "us," "our" and the "Company" in this report. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes in Item 1 and with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for our fiscal year ended January 3, 2017. 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 2017 contains 52 weeks and fiscal year 2016 contained 53 weeks.

Cautionary Note Regarding Forward-Looking Statements

In addition to historical information, this discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties such as the number of restaurants we intend to open, projected capital expenditures and estimates of our effective tax rates. In some cases, you can identify forward-looking statements by terms such as "may," "might," "will," "objective," "intend," "should," "could," "can," "would," "expect," "believe," "design," "estimate," "predict," "potential," "plan" or the negative of these terms and similar expressions intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on currently available operating, financial and competitive information. Examples of forward-looking statements include all matters that are not historical facts, such as statements regarding estimated costs associated with our closure of underperforming restaurants, the implementation and results of strategic initiatives and our future financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements due to reasons including, but not limited to, our ability to execute our strategy to refranchise restaurants in certain of our markets; 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; costs associated with our data security incident, including legal fees, investigative fees, other professional fees and the cost of communications with customers, as well as potential losses associated with settling payment card networks' expected claims and litigation associated with the data security breach; the success of our marketing efforts; our ability to open new restaurants on schedule; current economic conditions; price and availability of commodities; our ability to adequately staff our restaurants; changes in labor costs; consumer confidence and spending patterns; consumer reaction to industry related public health issues and perceptions of food safety; seasonal factors; weather; and those discussed in "Special Note Regarding Forward-Looking Statements" and "Risk Factors" as filed in our Annual Report on Form 10-K for our fiscal year ended January 3, 2017.

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 volumes ("AUVs"), comparable restaurant sales, restaurant contribution, EBITDA and adjusted EBITDA.

Revenue

Restaurant revenue represents sales of food and beverages in company-owned restaurants. Several factors affect our restaurant revenue in any period, including the number of restaurants in operation and per-restaurant sales.

Franchise royalties and fees represent royalty income and initial franchise fees. While we expect that the majority of our revenue and net income growth will be driven by company-owned restaurants, our franchise restaurants remain an important factor impacting our revenue and financial performance.

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

Average Unit Volumes ("AUVs")

AUVs consist of the average annualized sales of all company-owned restaurants for the trailing 12 periods. AUVs are calculated by dividing restaurant revenue by the number of operating days within each time period and multiplying by 361, which is the number of operating days we have in a typical year. This measurement allows management to assess changes in consumer traffic and per-person spending patterns at our restaurants.

Comparable Restaurant Sales

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

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

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

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

Restaurant Contribution

Restaurant contribution is defined as restaurant revenue less restaurant operating costs which are cost of sales, labor, occupancy and other restaurant operating costs. Fluctuations in restaurant contribution margin can also be attributed to those factors discussed above for the components of restaurant operating costs.

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, litigation settlements, severance costs and stock-based compensation.

Management believes that EBITDA and adjusted EBITDA provide clear pictures of our operating results by eliminating certain non-cash expenses that may vary widely from period to period and are not reflective of the underlying business performance. The presentation of this financial information 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.

Recent Trends, Risks and Uncertainties

Restaurant Development. In 2016, we significantly reduced our rate of company-owned restaurant unit growth, which we anticipate will result in our revenue growing at a slower rate than would be expected if our unit growth rate continued at the historical rate. In 2017, we plan to open 13 company-owned restaurants; 11 openings occurred in the first two quarters of 2017. We do not intend to open restaurants in new markets in 2017, and most of our openings will be in well-established markets where we maintain strong brand awareness and restaurant-level financial performance that exceeds company averages. We believe this more moderate growth strategy will enhance our ability to focus on improving restaurant operations and profitability. We will continue to evaluate our company-owned restaurant growth rate based on our operational and financial performance, capital resources and real estate opportunities. Furthermore, we anticipate pre-opening costs to decrease as a result of the more moderate anticipated growth rate.

Certain Restaurant Closures. We closed 55 restaurants in the first quarter of 2017. These restaurants significantly underperformed our restaurant averages, as measured by AUVs, restaurant contribution margin and cash flow. Many of these restaurants were opened in the last two to three years in newer markets where brand awareness of our restaurants is not as strong and where it has been more difficult to adequately staff our restaurants. We believe closing these restaurants will favorably affect our future restaurant contribution, restaurant contribution margin, adjusted EBITDA, adjusted EBITDA margin and net income.

Comparable Restaurant Sales and Restaurant Contribution Margin. In the second quarter of 2017, comparable restaurant sales decreased 3.4% system-wide, decreased 3.9% for company-owned restaurants, and decreased 0.4% for franchise restaurants. During the first two quarters of 2017, comparable restaurant sales decreased 2.7% system-wide, decreased 3.2% for company-owned restaurants, and increased 0.3% for franchise restaurants. Comparable restaurant sales represent year-over-year sales comparisons for restaurants open for at least 18 full periods. Our comparable restaurant sales decreased primarily as a result of underperformance at company-owned restaurants.

Increased Labor Costs. Similar to much of the restaurant industry, our labor costs have risen in recent periods and we expect that labor costs will continue to rise in future periods as wage rates and benefit costs increase. Some jurisdictions, including some of those in which we operate, have recently increased their minimum wage by a significant amount, and other jurisdictions are considering similar actions. Significant additional government-imposed increases could materially affect our labor costs.

Results of Operations

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

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	July 4, 2017	June 28, 2016	July 4, 2017	June 28, 2016
	(in thousands, unaudited)			
Net loss	$ (1,815)	$ (14,087)	$ (28,660)	$ (16,460)
Depreciation and amortization	6,279	7,071	12,546	13,977
Interest expense, net	927	598	1,935	1,226
Provision for income taxes	80	2,177	271	1,083
EBITDA	$ 5,471	$ (4,241)	$ (13,908)	$ (174)
Restaurant impairments, closure costs and asset disposals (1)	2,830	11,248	24,884	12,264
Litigation settlement (2)	(421)	—	(421)	—
Fees and costs related to the registration statement and related transactions (3)	40	—	679	—
Severance costs (4)	129	—	332	—
Stock-based compensation expense	647	501	945	849
Adjusted EBITDA	$ 8,696	$ 7,508	$ 12,511	$ 12,939

(1) The first two quarters of 2017 include the closure costs related to the 55 restaurants closed in the first quarter of 2017 and the impairment of 13 restaurants. The first two quarters of 2016 include the impairment of 12 restaurants. All periods include the ongoing closure costs of restaurants closed in the fourth quarter of 2015. See Note 7, Restaurant Impairments, Closure Costs and Asset Disposals.

(2) The second quarter of 2017 includes a gain on an employment-related litigation settlement due to final settlement being less than what the Company had previously accrued.
(3) The first two quarters of 2017 include expenses related to the registration statement the Company filed in the first quarter of 2017, which registration statement was later withdrawn.
(4) The first two quarters of 2017 include severance costs related to the departure of our Chief Operations Officer and department structural changes.

Restaurant Openings, Closures and Relocations

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

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	July 4, 2017	June 28, 2016	July 4, 2017	June 28, 2016
Company-Owned Restaurant Activity				
Beginning of period	409	436	457	422
Openings	4	8	11	22
Closures	—	(1)	(55)	(1)
Restaurants at end of period	413	443	413	443
Franchise Restaurant Activity				
Beginning of period	73	71	75	70
Openings	1	1	2	2
Closures	(1)	(1)	(4)	(1)
Restaurants at end of period	73	71	73	71
Total restaurants	486	514	486	514

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

	Fiscal Quarter Ended		Two Fiscal Quarters Ended	
	July 4, 2017	June 28, 2016	July 4, 2017	June 28, 2016
Revenue:				
Restaurant revenue	99.0 %	99.0 %	99.0 %	99.0 %
Franchising royalties and fees	1.0 %	1.0 %	1.0 %	1.0 %
Total revenue	100.0 %	100.0 %	100.0 %	100.0 %
Costs and expenses:				
Restaurant operating costs (exclusive of depreciation and amortization shown separately below): (1)				
Cost of sales	26.5 %	26.8 %	27.2 %	26.8 %
Labor	32.6 %	32.7 %	33.5 %	32.9 %
Occupancy	11.3 %	11.4 %	11.7 %	11.6 %
Other restaurant operating costs	14.5 %	15.5 %	14.7 %	15.2 %
General and administrative	8.3 %	8.1 %	8.7 %	8.4 %
Depreciation and amortization	5.6 %	5.8 %	5.5 %	5.9 %
Pre-opening	0.2 %	0.7 %	0.3 %	0.8 %
Restaurant impairments, closure costs and asset disposals	2.5 %	9.3 %	10.8 %	5.2 %
Total costs and expenses	100.7 %	109.3 %	111.5 %	106.0 %
Loss from operations	(0.7)%	(9.3)%	(11.5)%	(6.0)%
Interest expense, net	0.8 %	0.5 %	0.8 %	0.5 %
Loss before income taxes	(1.5)%	(9.8)%	(12.4)%	(6.5)%
Provision for income taxes	0.1 %	1.8 %	0.1 %	0.5 %
Net loss	(1.6)%	(11.6)%	(12.5)%	(7.0)%

(1) As a percentage of restaurant revenue.

Table of Contents

Second Quarter Ended July 4, 2017 Compared to Second Quarter Ended June 28, 2016

The table below presents our unaudited operating results for the second quarters of 2017 and 2016, and the related quarter-over-quarter changes.

	Fiscal Quarter Ended		Increase / (Decrease)	
	July 4, 2017	June 28, 2016	$	%
	(in thousands)			
Revenue:				
Restaurant revenue	$ 111,628	$ 120,204	$ (8,576)	(7.1)%
Franchising royalties and fees	1,164	1,203	(39)	(3.2)%
Total revenue	112,792	121,407	(8,615)	(7.1)%
Costs and expenses:				
Restaurant operating costs (exclusive of depreciation and amortization shown separately below):				
Cost of sales	29,598	32,164	(2,566)	(8.0)%
Labor	36,430	39,316	(2,886)	(7.3)%
Occupancy	12,630	13,688	(1,058)	(7.7)%
Other restaurant operating costs	16,194	18,596	(2,402)	(12.9)%
General and administrative	9,393	9,840	(447)	(4.5)%
Depreciation and amortization	6,279	7,071	(792)	(11.2)%
Pre-opening	246	796	(550)	(69.1)%
Restaurant impairments, asset disposals and closure costs	2,830	11,248	(8,418)	(74.8)%
Total costs and expenses	113,600	132,719	(19,119)	(14.4)%
Loss from operations	(808)	(11,312)	10,504	92.9 %
Interest expense, net	927	598	329	55.0 %
Loss before income taxes	(1,735)	(11,910)	10,175	85.4 %
Provision for income taxes	80	2,177	(2,097)	(96.3)%
Net loss	$ (1,815)	$ (14,087)	$ 12,272	87.1 %
Company-owned:				
Average unit volumes	$ 1,065	$ 1,092	$ (27)	(2.5)%
Comparable restaurant sales	(3.9)%	(0.9)%		

Revenue

Total revenue decreased $8.6 million in the second quarter of 2017, or 7.1%, to $112.8 million, compared to $121.4 million in the second quarter of 2016. This decrease was primarily due to the impact of closing 55 company-owned restaurants in the first quarter of 2017. Additionally, AUVs decreased $27,000 compared to the prior year. AUV's for the trailing twelve months were $1,065,000.

Comparable restaurant sales decreased by 3.9% at company-owned restaurants, decreased by 0.4% at franchise-owned restaurants and decreased by 3.4% system-wide in the second quarter of 2017.

Cost of Sales

Cost of sales decreased by $2.6 million, or 8.0%, in the second quarter of 2017 compared to the same period of 2016, due primarily to the decrease in restaurant revenue in the second quarter of 2017. As a percentage of restaurant revenue, cost of sales decreased to 26.5% in the second quarter of 2017 from 26.8% in second quarter of 2016. The decrease as a percentage of restaurant revenue was primarily due to less promotional activity.

Labor Costs

Labor costs decreased by $2.9 million, or 7.3%, in the second quarter of 2017 compared to the same period of 2016, due primarily to the decrease in restaurant revenue in the second quarter of 2017. As a percentage of restaurant revenue, labor costs decreased to 32.6% in the second quarter of 2017 from 32.7% in the second quarter of 2016. The decrease as a percentage of restaurant revenue was driven by labor savings initiatives.

Occupancy Costs

Occupancy costs decreased by $1.1 million, or 7.7%, in the second quarter of 2017 compared to the second quarter of 2016. As a percentage of revenue, occupancy costs decreased to 11.3% in the second quarter of 2017, compared to 11.4% in the second quarter of 2016. The decrease was due primarily to the closure of restaurants during the latter part of the first quarter of 2017.

Other Restaurant Operating Costs

Other restaurant operating costs decreased by $2.4 million, or 12.9%, in the second quarter of 2017 compared to the second quarter of 2016, due primarily to decreased restaurant revenue in the second quarter of 2017 and lower marketing expense. As a percentage of restaurant revenue, other restaurant operating costs decreased to 14.5% in the second quarter of 2017 from 15.5% in the second quarter of 2016, due primarily to a reduction in marketing spend.

General and Administrative Expense

General and administrative expense decreased by $0.4 million, or 4.5%, in the second quarter of 2017 compared to the second quarter of 2016, primarily attributable to a gain recognized on the employment-related litigation settlement due to final settlement being less than what the Company had previously accrued. As a percentage of revenue, general and administrative expense increased to 8.3% in the second quarter of 2017 from 8.1% in the second quarter of 2016.

Depreciation and Amortization

Depreciation and amortization decreased by $0.8 million, or 11.2%, in the second quarter of 2017 compared to the second quarter of 2016. As a percentage of revenue, depreciation and amortization decreased to 5.6% in the second quarter of 2017 from 5.8% in the second quarter of 2016, due primarily to restaurants impaired or closed in prior quarters.

Pre-Opening Costs

Pre-opening costs decreased by $0.6 million, or 69.1%, in the second quarter of 2017 compared to the second quarter of 2016. As a percentage of revenue, pre-opening costs decreased to 0.2% in the second quarter of 2017 from 0.7% in the second quarter of 2016. The decrease in pre-opening costs was due to fewer restaurants under construction compared to the comparable period in the prior year.

Restaurant Impairments, Closure Costs and Asset Disposals

Restaurant impairments, closure costs and asset disposals decreased by $8.4 million in the second quarter of 2017 compared to the second quarter of 2016. The decrease was primarily due to a net gain recognized during the second quarter of 2017 for closures related to adjustments to the liabilities to landlords as lease terminations occurred, partially offset by ongoing costs of the restaurants closed during the first quarter of 2017. Additionally, the second quarter of 2017 includes the impairment of nine restaurants, compared to 11 restaurants impaired during the second quarter of 2016.

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

Interest Expense

Interest expense increased by $0.3 million, or 55.0%, in the second quarter of 2017 compared to the second quarter of 2016. The increase was the result of an increase in the average interest rate on our credit facility in the second quarter of 2017 compared to the second quarter of 2016 and higher amortization of debt issuance costs.

Provision (Benefit) for Income Taxes

In the second quarter of 2017, we had a provision for income taxes of $0.1 million compared to a provision for income taxes of $2.2 million in the second quarter of 2016. During the first quarter of 2016, the Company recorded a valuation allowance against Canadian deferred tax assets. During the second quarter of 2016, the Company determined that it was appropriate to record a valuation allowance against U.S. deferred tax assets. As a result, the effective tax rate for both the second quarter of 2017 and 2016, reflects the impact of a valuation allowance against U.S. and Canadian deferred tax assets. The provision for income taxes in the second quarter of 2016 was related to the establishment of a valuation allowance against U.S. deferred tax assets. As of July 4, 2017, we continued to maintain a full valuation allowance on our U.S. and Canadian deferred tax assets due to uncertainty regarding the realizability of future tax benefits. As a result, the effective tax rate decreased to (4.6)% for the second quarter of 2017 compared to (18.3)% for the second quarter of 2016. For the remainder of fiscal 2017 we do not anticipate material income tax expense or benefit because of the valuation allowance recorded.

Two Quarters Ended July 4, 2017 Compared to Two Quarters Ended June 28, 2016

The table below presents our unaudited operating results for the first two quarters of 2017 and 2016, and the related period-over-period changes.

	Two Fiscal Quarters Ended		Increase / (Decrease)	
	July 4, 2017	June 28, 2016	$	%
	(in thousands, except percentages)			
Revenue:				
Restaurant revenue	$ 227,155	$ 233,069	$ (5,914)	(2.5)%
Franchising royalties and fees	2,352	2,324	28	1.2 %
Total revenue	229,507	235,393	(5,886)	(2.5)%
Costs and expenses:				
Restaurant operating costs (exclusive of depreciation and amortization shown separately below):				
Cost of sales	61,685	62,353	(668)	(1.1)%
Labor	76,024	76,750	(726)	(0.9)%
Occupancy	26,631	27,002	(371)	(1.4)%
Other restaurant operating costs	33,341	35,488	(2,147)	(6.0)%
General and administrative	20,059	19,877	182	0.9 %
Depreciation and amortization	12,546	13,977	(1,431)	(10.2)%
Pre-opening	791	1,833	(1,042)	(56.8)%
Restaurant impairments, asset disposals and closure costs	24,884	12,264	12,620	*
Total costs and expenses	255,961	249,544	6,417	2.6 %
Loss from operations	(26,454)	(14,151)	(12,303)	(86.9)%
Interest expense, net	1,935	1,226	709	57.8 %
Loss before income taxes	(28,389)	(15,377)	(13,012)	(84.6)%
Provision for income taxes	271	1,083	(812)	(75.0)%
Net loss	$ (28,660)	$ (16,460)	$ (12,200)	(74.1)%
Company owned:				
Average unit volumes	$ 1,065	$ 1,092	$ (27)	(2.5)%
Comparable restaurant sales	(3.2)%	(0.4)%		

* Not meaningful.

Revenue

Total revenue decreased by $5.9 million, or 2.5%, in the first two quarters of 2017, to $229.5 million compared to $235.4 million in the same period of 2016. This decrease was primarily due to the impact of closing 55 company-owned restaurants in the first quarter of 2017.

Comparable restaurant sales decreased by 3.2% at company-owned restaurants, increased by 0.3% at franchise-owned restaurants and decreased by 2.7% system-wide in the second quarter of 2017.

Cost of Sales

Cost of sales decreased by $0.7 million, or 1.1%, in the first two quarters of 2017 compared to the same period of 2016, due primarily to the decrease in restaurant revenue in the first two quarters of 2017. As a percentage of restaurant revenue, cost of sales increased to 27.2% in the first two quarters of 2017 from 26.8% in the first two quarters of 2016. The increase in cost of sales as a percentage of restaurant revenue was the result of modest commodity inflation and increased waste as a result of the elimination of certain menu items and introduction of new items.

Labor Costs

Labor costs decreased by $0.7 million, or 0.9%, in the first two quarters of 2017 compared to the same period of 2016, due primarily to the decrease in restaurant revenue in the first two quarters of 2017. As a percentage of restaurant revenue, labor costs increased to 33.5% in the first two quarters of 2017 from 32.9% in the first two quarters of 2016, due to increases in wage rates and deleverage on lower AUVs.

Occupancy Costs

Occupancy costs decreased by $0.4 million, or 1.4%, in the first two quarters of 2017 compared to the first two quarters of 2016, due primarily to the closure of restaurants during the latter part of the first quarter of 2017. As a percentage of revenue, occupancy costs increased to 11.7% in first two quarters of 2017, compared to 11.6% in the first two quarters of 2016, due to deleverage on lower AUVs, partially offset by the closure of restaurants during the latter part of the first quarter of 2017.

Other Restaurant Operating Costs

Other restaurant operating costs decreased by $2.1 million, or 6.0%, in the first two quarters of 2017 compared to the first two quarters of 2016, due primarily to decreased restaurant revenue in the first two quarters of 2017 and lower marketing expense. As a percentage of restaurant revenue, other restaurant operating costs decreased to 14.7% in the first two quarters of 2017, compared to 15.2% in the first two quarters of 2016, due primarily to a reduction in marketing spend.

General and Administrative Expense

General and administrative expense increased by $0.2 million, or 0.9%, in the first two quarters of 2017 compared to the first two quarters of 2016. As a percentage of revenue, general and administrative expense increased to 8.7% in the first two quarters of 2017 compared to 8.4% in the first two quarters of 2016. This increase was primarily attributable to professional fees related to the registration statement we filed in the first quarter of 2017, which registration statement was later withdrawn, and severance expenses, partially offset by a gain recognized on the employment-related litigation settlement.

Depreciation and Amortization

Depreciation and amortization decreased by $1.4 million, or 10.2%, in the first two quarters of 2017 compared to the first two quarters of 2016. As a percentage of revenue, depreciation and amortization decreased to 5.5% in the first two quarters of 2017, compared to 5.9% in the first two quarters of 2016, due to restaurants impaired or closed in prior quarters.

Pre-Opening Costs

Pre-opening costs decreased by $1.0 million, or 56.8%, in the first two quarters of 2017 compared to the first two quarters of 2016. As a percentage of revenue, pre-opening costs decreased to 0.3% in the first two quarters of 2017 compared to 0.8% in the first two quarters of 2016. The decrease in pre-opening costs was due to fewer restaurants under construction compared to the comparable period in the prior year.

Restaurant Impairments, Closure Costs and Asset Disposals

Restaurant impairments, closure costs and asset disposals increased by $12.6 million in the first two quarters of 2017 compared to the first two quarters of 2016. The increase was primarily due to the closures of 55 restaurants in the first quarter of 2017 and the impairment of 13 restaurants during the first two quarters of 2017, partially offset by a net gain recognized during the second quarter of 2017 for closures related to adjustments to the liabilities to landlords as lease terminations occurred. The first two quarters of 2016 included the impairment of twelve restaurants. Both periods include ongoing costs of restaurants closed in the fourth quarter of 2015.

Interest Expense

Interest expense increased by $0.7 million, or 57.8%, in the first two quarters of 2017 compared to the same period of 2016. The increase was the result of an increase in the average interest rate on our credit facility in the first two quarters of 2017 compared to the first two quarters of 2016, and higher amortization of debt issuance costs.

Provision for Income Taxes

In the first two quarters 2017, we had a provision for income taxes of $0.3 million compared to a provision for income taxes of $1.1 million in the first two quarters of 2016. During the first quarter of 2016, the Company recorded a valuation allowance against Canadian deferred tax assets. During the second quarter of 2016, the Company determined that it was appropriate to record a valuation allowance against U.S. deferred tax assets. As a result, the effective tax rate for the first two quarters of 2017 and the first two quarters of 2016 reflects the impact of a valuation allowance against U.S. and Canadian deferred tax assets. The provision for income tax for the first two quarters of 2016 was primarily related to the establishment of a valuation allowance against U.S. deferred tax assets. As of July 4, 2017, we continued to maintain a full valuation allowance on our U.S. and Canadian deferred tax assets due to uncertainty regarding the realizability of future tax benefits. As a result, the effective tax rate decreased to (1.0)% for the first two quarters of 2017 compared to (7.0)% for the first two quarters of 2016. For the remainder of fiscal 2017 we do not anticipate material income tax expense or benefit because of the valuation allowance recorded.

Liquidity and Capital Resources

Summary of Cash Flows

Historically, our primary sources of liquidity and cash flows were operating cash flows and borrowings on our revolving line of credit. In the first quarter of 2017, in order to pursue our operational strategies and fund obligations such as the liabilities to landlords from the termination of our leases for the restaurants closed in the first quarter of 2017, fees to be paid to our real estate advisor and brokers related to such terminations and other costs of closing restaurants, such as severance for terminated employees (“Restaurant Closing Liabilities”) and the Data Breach Liabilities, we determined that we needed additional sources of liquidity. We executed the following transactions to provide us with additional liquidity: (i) we completed two private placement transactions for aggregate gross proceeds to us of $50.0 million, and (ii) we also amended our credit agreement to increase our flexibility under the credit facility.

We have historically used cash to fund capital expenditures for new restaurant openings, reinvest in our existing restaurants, invest in infrastructure and information technology and maintain working capital; however, due to our anticipated modest unit growth, cash required for new restaurant openings has been correspondingly reduced. Our working capital position benefits from the fact that we generally collect cash from sales to customers the same day, or in the case of credit or debit card transactions, within several days of the related sale, and we typically have at least 30 days to pay our vendors. We believe that expected cash flow from operations, the proceeds received from the private placement transactions and existing borrowing capacity under our credit facility are adequate to fund debt service requirements, operating lease obligations, capital expenditures, the Restaurant Closing Liabilities, the Data Breach Liabilities and working capital obligations for the remainder of fiscal year 2017.

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

	Two Fiscal Quarters Ended	
	July 4, 2017	June 28, 2016
Net cash (used in) provided by operating activities	$ (8,231)	$ 12,281
Net cash used in investing activities	(12,213)	(24,016)
Net cash provided by financing activities	21,763	11,589
Effect of exchange rate changes on cash	2	127
Net increase (decrease) in cash and cash equivalents	$ 1,321	$ (19)

Operating Activities

Net cash used in operating activities was $8.2 million for the first two quarters of 2017, as compared to net cash provided by operating activities of $12.3 million for the first two quarters of 2016. The decrease resulted primarily from the higher net loss during the first two quarters of 2017 as compared to the first two quarters of 2016, adjusted for non-cash items such as depreciation and amortization, restaurant impairments, closure costs and asset disposals and stock-based compensation expense. Additionally, the first two quarters of 2017 included payments to landlords for lease terminations of $7.1 million, a litigation settlement payment of $2.6 million and a payment for the data breach liabilities of $4.0 million.

Investing Activities

Net cash flows used in investing activities decreased to $12.2 million for the first two quarters of 2017 from $24.0 million for the first two quarters of 2016, primarily due to the reduction in new restaurant development during 2017.

Financing Activities

Net cash provided by financing activities was $21.8 million and $11.6 million for first the two quarters of 2017 and 2016, respectively. The increase in net cash provided by financing activities is primarily due to the net proceeds received from the private placement transactions that occurred during the first two quarters of 2017, net of repayments on long-term debt.

Capital Resources

Future Capital Expenditure Requirements. Our capital expenditure requirements are primarily dependent upon the pace of our real estate development program and resulting new restaurants opened. We anticipate our real estate development growth to be reduced in upcoming quarters, compared to our historical rates. Our real estate development program is dependent upon many factors, including economic conditions, real estate markets, site locations and the nature of lease agreements. Our capital expenditure outlays are also dependent on costs for maintenance and remodeling of our existing restaurants as well as information technology expenses and other general corporate capital expenditures.

We estimate capital expenditures for the remainder of 2017 to be in the range of approximately $8.0 million to $12.0 million for a total of $19.0 million to $23.0 million for the fiscal year, of which $7.0 million to $9.0 million relates to our construction of new restaurants before any reductions for landlord reimbursements, and the remainder relates primarily to reinvestment in existing restaurants and investments in technology. We expect such capital expenditures to be funded by a combination of cash from operations, funding received from the two private placements that occurred during the first two quarters of 2017, and borrowings under our revolving credit facility.

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

Liquidity. We believe that our current cash and cash equivalents, the expected cash flows from company-owned restaurant operations, the expected franchise fees and royalties and borrowings under the credit facility will be sufficient to fund our cash requirements for working capital needs and capital improvements and maintenance of existing restaurants for the next twelve months. Additionally, we expect a significant use of cash in 2017 to be the funding of the Restaurant Closing Liabilities, which we anticipate will total approximately $18.0 million to $23.0 million, including (i) $17.0 million to $22.0 million relating to the termination of leases, including related fees and expenses. We have paid approximately $8.0 million to date and the remainder of approximately $10.0 million to $15.0 million is expected to be paid out over the next nine to 15 months.

Credit Facility

We maintain a $100.0 million revolving line of credit under our credit facility. The revolving line of credit includes a swing line loan of $10.0 million used to fund working capital requirements. The credit facility matures in June 2020.

On February 8, 2017, we entered into an amendment to our credit facility, which amendment, giving effect to the equity issuances completed during the first quarter of 2017, (i) increased the interest rate margin applicable at total lease adjusted leverage levels at and above 4.25:1.00 and from the period of the date of the Amendment to the delivery of the first following quarterly compliance certificate, (ii) increased capital expenditure amounts related to restaurant growth, and (iii) made certain other changes. The Consolidated EBITDA definition, as revised, permits certain costs to be added back into the Consolidated EBITDA calculation, including the costs associated with the Restaurant Closing Liabilities and the Data Breach Liabilities. The amendment also revised certain financial covenant levels.

As of July 4, 2017, we had $62.1 million of indebtedness and $3.0 million of letters of credit outstanding under our revolving line of credit. Borrowings under our most recent amended and restated credit facility bear interest, at our option, at either (i) LIBOR plus 2.00% to 3.25%, based on the lease-adjusted leverage ratio or (ii) the highest of the following rates plus zero to 1.00%: (a) the federal funds rate plus 0.50%; (b) the Bank of America prime rate or (c) the one month LIBOR plus 1.00%. The credit facility includes a commitment fee of 0.30% to 0.50%, based on the lease-adjusted leverage ratio, per year on any unused portion of the facility. We also maintain outstanding letters of credit to secure obligations under our workers' compensation program and certain lease obligations.

Availability of borrowings under the revolving line of credit is conditioned on our compliance with specified covenants, including a maximum lease-adjusted leverage ratio and a minimum consolidated fixed charge coverage ratio. We are subject to a number of other customary covenants, including limitations on additional borrowings, acquisitions, dividend payments and lease commitments. As of July 4, 2017, we were in compliance with all of our debt covenants.

We expect that we will meet all applicable financial covenants in our credit facility, including the maximum lease-adjusted leverage ratio, throughout the fiscal year ending January 2, 2018. However, there can be no assurance we will meet such financial covenants. If such covenants are not met, we would be required to seek a waiver or amendment from the banks participating in the credit facility. There can be no assurance that such waiver or amendment would be granted, which could have a material adverse impact on our liquidity.

Our credit facility is secured by a pledge of stock of substantially all of our subsidiaries and a lien on substantially all of our and our subsidiaries' personal property assets.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements or obligations as of July 4, 2017.

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 January 3, 2017. Critical accounting estimates are those that require application of management's most difficult, subjective or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods. While we apply our judgment based on assumptions believed to be reasonable under the circumstances, actual results could vary from these assumptions. It is possible that materially different amounts would be reported using different assumptions. Our critical accounting estimates are identified and described in our annual consolidated financial statements and the related notes included in our Annual Report on Form 10-K for our fiscal year ended January 3, 2017.

JOBS Act

We qualify as an "emerging growth company" pursuant to the provisions of the Jumpstart our Business Startups ("JOBS") Act. For as long as we are an "emerging growth company," we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies," including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements of holding advisory "say-on-pay" votes on executive compensation and shareholder advisory votes on golden parachute compensation. We could be an "emerging growth company" until the end of our 2018 fiscal year.

In addition, Section 107 of the JOBS Act also provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. An "emerging growth company" can therefore delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we have chosen to "opt out" of such extended transition period and, as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

We are exposed to market risk from changes in interest rates on debt. Our exposure to interest rate fluctuations is limited to our outstanding bank debt, which bears interest at variable rates. As of July 4, 2017, we had $62.1 million of indebtedness under our revolving line of credit. An increase or decrease of 1.0% in the effective interest rate applied on this loan would have resulted in a pre-tax interest expense fluctuation of approximately $0.6 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. The purchasing contracts and pricing arrangements we use may result in unconditional purchase obligations, which are not reflected in our consolidated balance sheets. Typically, we use these types of purchasing techniques to control costs as an alternative to directly managing financial instruments to hedge commodity prices. In many cases, we believe we will be able to address material commodity cost increases by adjusting our menu pricing or changing our product delivery strategy. However, increases in commodity prices, without adjustments to our menu prices, could increase restaurant operating costs as a percentage of company-owned 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 directly affect our labor costs. Many of our leases require us to pay taxes, maintenance, repairs, insurance and utilities, all of which are generally subject to inflationary increases. Finally, the cost of constructing our restaurants is subject to inflationary increases in the costs of labor and material. Over the past five years, inflation has not significantly affected our operating results with the exception of increased wage inflation that has affected our results from 2015 through the second quarter of 2017. We expect wage inflation to continue to affect our results in the near future.

Item 4. Controls and Procedures

Our management carried out an evaluation, under the supervision and with the participation of our chief executive officer and interim chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of July 4, 2017, 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 interim 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 interim 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

Data Security Litigation

On June 28, 2016, we announced that a data security incident compromised the security of the payment information of some customers who used debit or credit cards at certain Noodles & Company locations between January 31, 2016 and June 2, 2016. In addition to claims by payment card companies with respect to the data security incident, we were a defendant in a purported class action lawsuit in the United States District Court for the District of Colorado (the “Court”), Selco Community Credit Union vs. Noodles & Company, alleging that we negligently failed to provide adequate security to protect the payment card information of customers of the plaintiffs and those of other similarly situated credit unions, banks and other financial institutions alleged to be part of the putative class, causing those institutions to suffer financial losses (the “Selco Litigation”). The complaint in the Selco Litigation also claimed we were negligent per se based on alleged violations of Section 5 of the Federal Trade Commission Act, and it sought monetary damages, injunctive relief and attorneys’ fees. On July 21, 2017, the Court granted a Motion to Dismiss in the Selco Litigation in favor of us, which is subject to appeal by the plaintiffs. Any appeal must be filed on or before August 21, 2017.

Delaware Gift Card Litigation

As previously disclosed in prior reports filed with the SEC, the Company is named as a defendant in an action filed in the Superior Court of Delaware in New Castle County (the “Court”), entitled The State of Delaware, William French v. Card Compliant, LLC, et. al. The case was filed under seal in June 2013 and was unsealed on March 26, 2014. The complaint in this case alleges that a number of large retailers and restaurant companies, including the Company, knowingly refused to fulfill obligations under Delaware’s Abandoned Property Law by failing to report and deliver “unclaimed gift card funds” to the State of Delaware, and knowingly made, used or caused to be made or used, false statements and records to conceal, avoid or decrease an obligation to pay or transmit money to Delaware in violation of the Delaware False Claims and Reporting Act. The complaint seeks an order that we cease and desist from violating the Delaware Abandoned Property Law, monetary damages (including treble damages under the False Claims and Reporting Act), penalties, and attorneys’ fees and costs. On November 23, 2015, the Court ruled on a motion to dismiss the complaint. While the Court granted the motion to dismiss with respect to a claim alleging that the defendants intended to defraud the government or willfully concealed property owed to the government and for which a certificate or receipt was provided, it did not dismiss the other claims alleging that the defendants knowingly made false statements to avoid transmitting money to the government. The defendants have filed a motion for summary judgment in the case. The trial date with respect to this matter is set for May 21, 2018. In 2015 we recorded a loss contingency accrual based on a reasonable estimate of the probable losses that might arise from this matter; this loss contingency accrual did not have a material effect on our results of operations. However, we may ultimately be subject to greater losses resulting from the litigation. We intend to continue to vigorously defend this action.

Litigation Regarding Classification of Assistant General Managers

In the third quarter of 2016, we recorded a charge of $3.0 million to establish a reserve related to the settlement of a purported collective and class action lawsuit against us alleging violations of the Fair Labor Standards Act and certain state laws in connections with our classification of assistant general managers as exempt employees. In the second quarter of 2017, we recorded a gain of $0.4 million related to such settlement because the final amount determined to be owed by us under the settlement agreement was $0.4 million less than the amount reserved.

Other Matters

In the normal course of business, we are subject to other proceedings, lawsuits and claims. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, we are unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters as of July 4, 2017. These matters could affect the operating results of any one financial reporting period when resolved in future periods. We believe that an unfavorable outcome with respect to these matters is remote or a potential range of loss is not material to our consolidated financial statements. Significant increases in the number of these claims, or one or more successful claims that result in greater liabilities than we currently anticipate, could materially adversely affect our business, financial condition, results of operations or cash flows.

Item 1A. Risk Factors

A description of the risk factors associated with our business is contained in the “Risk Factors” section of our Annual Report on Form 10-K for our fiscal year ended January 3, 2017. There have been no material changes to our Risk Factors as previously reported.

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

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibit Index

Exhibit Number	Description of Exhibit
10.1	Noodles & Company Compensation Plan for Non-Employee Directors Amended and Restated July 26, 2017
10.2	Interim Chief Financial Officer Letter Agreement, dated June 13, 2017, between Noodles & Company and Susan Daggett
10.3	Employment Agreement, dated June 13, 2017, between Noodles & Company and Paul Murphy
31.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

NOODLES & COMPANY

By:	/s/ DAVE BOENNIGHAUSEN
	Dave Boennighausen *Chief Executive Officer*
Date	August 11, 2017

Exhibit 10.1

NOODLES & COMPANY
COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS
AMENDED AND RESTATED JULY 26, 2017

I. PURPOSE

1.1 The purpose of the Noodles & Company Compensation Plan for Non-Employee Directors (this "Plan") is to provide a comprehensive compensation program to attract and retain qualified individuals who are not employed by Noodles & Company (the "Company") or its subsidiaries to serve on the Company's Board of Directors. In particular, this Plan aligns the interests of such directors with those of the Company's shareholders by providing that a significant portion of such directors' compensation is directly linked to the value of the Company's common stock. This amendment and restatement of the Plan is effective beginning July 26, 2017.

1.2 Non-Covered Non-Employee Directors. This Plan shall not apply to any non-employee director serving on the Company's Board of Directors who formerly held a management position at the Company, and no such individual shall be eligible for any grants or payments hereunder. For purposes of this Plan a "management position" is defined to include the Company's Chief Executive Officer, Chief Financial Officer, General Counsel, Chief Operations Officer, Chief Marketing Officer, and equivalent positions thereto.

II. CASH RETAINERS

2.1 Annual Board Retainer. Except as provided in Section 2.4 of this Plan, each non-employee director shall be entitled to receive an annual cash retainer for his or her Board service, in such amount as determined by the Board of Directors from time to time, which shall be payable in quarterly installments. As of December 30, 2015, this amount is $50,000.

2.2 Committee Retainer. A non-employee director appointed as a member of a standing committee of the Board of Directors shall receive an annual cash retainer, payable in quarterly installments, in such amount as determined by the Board of Directors from time to time. These committee retainers are in addition to the annual retainer set forth in Section 2.1 above.

2.3 Retainer for Committee Chairs. A non-employee director appointed to chair a standing committee of the Board of Directors shall be paid an annual cash retainer, payable in quarterly installments, in such amount as determined by the Board of Directors from time to time. These committee chair retainers are in addition to the retainers set forth in Sections 2.1 and 2.2 above.

2.4 Retainer for Lead Independent Director. A non-employee director appointed to act as Lead Independent Director ("LID") shall receive an additional cash retainer for his or her service as LID, in such amount as determined by the Board of Directors from time to time, which shall be paid in quarterly installments. As of July 26, 2017 this amount is $20,000 per annum. This retainer is in addition to the retainers set forth in Sections 2.1 through 2.3 above.

2.5 Pro-Rata Retainer. A non-employee director who commences service after the Annual Meeting of Shareholders shall be entitled to a pro-rated annual cash retainer as well as pro-rated annual committee and committee chair retainers, or an additional retainer for acting as LID, as applicable, and as approved by the incumbent non-employee directors. The amount of the retainer(s) shall be determined based on the number of full months during the year that a new non-employee director is in active service. The pro-rated portion of the annual retainer, if any, shall be payable in quarterly installments.

III. EQUITY AWARDS

3.1 Company's Stock Incentive Plan. Grants of equity awards made under this Plan shall be made under the Company's stock incentive plan that is in effect from time to time ("Stock Plan"). The terms "Fair Market Value" and "Stock" used in this Article III shall have the meanings set forth in the Stock Plan.

3.2 Annual Retainer Grants. At the close of business on the date of each Annual Meeting of Shareholders, each non-employee director who then continues as a member of the Board of Directors may be granted restricted stock units (“RSUs”) in such amounts as determined by the Board of Directors from time to time. Notwithstanding the foregoing, the Board of Directors may grant any one or more of the awards set forth under the Stock Plan in such amounts and on such terms as determined by the Board of Directors from time to time. As of December 30, 2015, the Fair Market Value of the RSUs granted is $50,000.

3.3 Vesting of RSUs. A non-employee director’s RSUs shall be fully vested upon grant.

3.4 Pro-Rata Awards. A non-employee director who commences service after the Annual Meeting of Shareholders will receive a pro-rated equity award at the next Annual Meeting of Shareholders based upon the Fair Market Value of the equity award granted to the incumbent non-employee directors in the year in which such director was appointed or as otherwise approved by the incumbent non-employee directors. The amount of the award shall be determined based on the number of full months during the year that a new non-employee director is in active service.

3.5 Settlement of RSUs. The RSUs shall be settled by delivering shares of Stock promptly following vesting. Notwithstanding the foregoing, at the election of the non-employee director, settlement of the Stock may be deferred until the earlier of the director’s separation from Board service or a change in control of the Company, provided that any such election shall comply with the requirements of Section 409A of the Internal Revenue Code.

IV. ADDITIONAL PROVISIONS

4.1 This Plan shall be administered by the Board of Directors, which shall have the power to interpret this Plan and amend it from time to time as it deems proper. To the fullest extent practicable, however, the terms and conditions of the Stock Plan shall be applicable to equity awards granted under this Plan.

4.2 This Plan may be suspended or terminated at any time by action of the Board of Directors. Notwithstanding any such suspension or termination, the Company shall remain obligated to pay cash retainer amounts earned but not yet paid and any outstanding equity awards under this Plan will continue to be governed by the terms of this Plan as in effect at the time of such suspension or termination, the Stock Plan or a prior stock plan, as applicable, and any applicable stock incentive award agreements.

4.3 Unless otherwise provided by the Board of Directors, the right to receive any compensation under this Plan, whether under new or outstanding equity awards, may not be transferred, assigned, or subject to attachment or other legal process.

4.4 To the extent any amounts paid under this Plan are subject to Section 409A of the Internal Revenue Code, this Plan will be interpreted in a manner to comply with the requirements of Section 409A of the Internal Revenue Code.

4.5 Subject to Sections 4.2 and 4.3 above, any outstanding equity awards under this Plan will continue to be governed by the terms of this Plan as in effect at the time such awards were granted.

4.6 This Plan shall be governed by and subject to the laws of the State of Delaware and applicable Federal laws.

June 13, 2017

Susan Daggett
Noodles & Company
520 Zang Street, Suite D
Broomfield, CO 80021

Dear Sue:

We are excited to have you serve as the interim Chief Financial Officer of Noodles & Company (the “Company”). In recognition of this new position, the Company will pay to you a nondiscretionary bonus payment of $8,333 per month, payable monthly, while you serve as interim CFO. This nondiscretionary bonus is in addition to the base salary you currently receive from the Company, which will remain unchanged.

We are very pleased to have you in a leadership role during this exciting time for the Company. Please confirm your agreement to the terms specified in this letter by signing below.

Sincerely,

/s/ Dave Boennighausen

Dave Boennighausen
Chief Executive Officer

AGREED AND ACKNOWLEDGED:

/s/ Susan Daggett
Susan Daggett

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is entered into as of June 13, 2017, by and between Noodles & Company, a Delaware corporation (the "Company"), and Paul Murphy, an individual (the "Executive").

INTRODUCTION

1. The Company wishes to employ the Executive as its Executive Chairman.

2. The Executive desires to be employed by the Company, pursuant to the terms and conditions set forth herein.

AGREEMENT

In consideration of the premises and mutual promises herein below set forth, the parties hereby agree as follows:

1. Employment Period

The term of the Executive's employment by the Company pursuant to this Agreement (the "Employment Period") shall commence on July 10, 2017 (the "Effective Date") and shall continue until terminated pursuant to an event described in Section 5.

2. Employment

(a) Title; Duties; Board Membership; Location. The Executive shall serve as Executive Chairman of the Company during the Employment Period, and the Executive hereby accepts such employment. The duties assigned and authority granted to the Executive shall be as determined by the Company's Board of Directors (the "Board") from time to time, and such duties shall be consistent with the Executive's position and status as Executive Chairman. The Executive also shall serve as a member of the Board during the Employment Period. The Executive agrees to perform his duties for the Company diligently, competently, and in a good faith manner. Subject to customary travel, the Executive shall primarily perform his duties to the Company at its corporate headquarters in Colorado.

(b) Exclusive Employment. During the Employment Period, the Executive shall devote his full business time to his duties and responsibilities set forth above, and may not, without the prior written consent of the Board or its designee, operate, participate in the management, board of directors, operations or control of, or act as an employee, officer, consultant, agent or representative of, any type of business or service (other than as an employee of the Company); provided, however, that the Executive may (i) engage in civic and charitable activities, (ii) participate in industry associations, deliver lectures, fulfill speaking engagements or teach at educational institutions, (iii) make and maintain outside personal investments, and (iv) serve on other boards of directors consented to in writing by the Board (which consent shall not be unreasonably withheld or delayed), provided that none of the foregoing activities and service significantly interfere with the Executive's performance of his duties hereunder.

3. Compensation

(a) Base Salary. The Executive shall be entitled to receive a base salary from the Company during the Employment Period at the rate of Five Hundred Fifty Thousand Dollars ($550,000) per year, and the base salary shall not be increased or decreased during the period the Executive is employed as Executive Chairman. The base salary shall be paid in accordance with the Company's payroll procedures as in effect from time-to-time.

(b) Annual Bonus. The Executive shall be eligible to receive an annual bonus for each calendar year during the Employment Period in an amount targeted at fifty percent (50%) of the Executive's then-effective annual base salary (the "Annual Bonus"), contingent upon the Executive achieving certain targeted goals that will be established by the Board or the Compensation Committee of the Board and prorated for partial years of employment. Any Annual Bonus to which the Executive may be entitled under this Section 3(b) shall be paid in cash in the form of a lump sum as soon as practicable following the completion of the financial audit for the applicable fiscal year, and in no event later than April 30 after the end of the fiscal year to which such Annual Bonus relates. Whether and to what degree the Executive has met the performance goals described in this Section 3(b) shall be determined by the Board in its reasonable discretion in accordance with the applicable bonus/performance goals document for that bonus year described in the first sentence of this Section 3(b).

(c) Equity Grant. Effective as of the Effective Date, the Executive shall be granted the following equity awards pursuant to and subject to the terms of the Company's 2010 Stock Incentive Plan (the "2010 Plan") and an award agreement:

(A) nonqualified stock options to purchase 100,000 shares of the Company's common stock, par value $0.01 per share ("Stock") that vest in four (4) ratable installments on each of the first four anniversaries of the Effective Date, subject to the Executive's continued employment with the Company through the applicable vesting date;

(B) time-vesting restricted stock units with respect to 150,000 shares of Stock that vest in four (4) ratable installments on each of the first four anniversaries of the Effective Date, subject to the Executive's continued employment with the Company through the applicable vesting date; and

(C) performance-vesting restricted stock units with respect to 50,000 shares of Stock that vest upon either (i) the Shares attaining a $15 per share average closing price for two consecutive calendar quarters prior to the quarter ending December 31, 2020 or (ii) a Change in Control (as defined in the 2010 Plan) occurring no later than December 31, 2020 with a stock price for the Shares no less than (I) $6.50 for a

Change in Control occurring prior to the first anniversary of the Effective Date, (II) \$8.50 for a Change in Control occurring on or after the first anniversary and before the second anniversary of the Effective Date, (III) \$11 for a Change in Control occurring on or after the second anniversary and before the third anniversary of the Effective Date, (IV) \$14.50 for a Change in Control occurring on or after the third anniversary and before the fourth anniversary of the Effective Date, or (V) \$15 for a Change in Control occurring on or after the fourth anniversary of the Effective Date, subject in each case to the Executive's continued employment through the applicable vesting event.

In addition, as of each of the first, second and third anniversaries of the Effective Date, the Executive shall be granted pursuant to the 2010 Plan nonqualified stock options to purchase 25,000 Shares that vest in four (4) ratable installments on each of the first four anniversaries of the applicable grant date, subject to the Executive's continued employment with the Company through the applicable vesting date.

4. Other Benefits; Location

(a) Insurance. During the Employment Period, the Executive and the Executive's dependents shall be eligible for coverage under the group insurance plans made available from time to time to Company's executive employees, subject in all events to the terms of the applicable plans. The premiums for the coverage of the Executive and the Executive's dependents under that plan shall be paid by the Company pursuant to the formula in place for other executive employees covered by Company's group insurance plans.

(b) Savings and Retirement Plans. During the Employment Period, the Executive shall be entitled to participate in all other savings and retirement plans, practices, policies and programs, in each case on terms and conditions no less favorable than the terms and conditions generally applicable to the Company's other executive employees, subject in all events to the terms of the applicable plans.

(c) Vacation. During the Employment Period, the Executive shall be entitled to four (4) weeks of annual vacation pursuant to the Company's Time Away From Work policy, as in effect from time to time.

(d) Reimbursement of Expenses. The Company shall promptly reimburse the Executive for all reasonable out of pocket travel, entertainment, and other expenses incurred or paid by the Executive in connection with, or related to, the performance of his responsibilities or services under this Agreement upon the submission of appropriate documentation pursuant to the Company's policies in effect from time to time. In addition, promptly following the Effective Date, the Company shall pay the Executive a cash lump sum of Fifty Thousand Dollars (\$50,000) to assist with relocation expenses that the Executive may incur in relocating to Colorado.

5. **Termination**

(a) Termination by the Company with Cause. Upon written notice to the Executive, the Company may terminate the Executive's employment for Cause (as defined below). In the event that the Executive's employment is terminated for Cause, the Executive shall receive from the Company payments for (i) any and all earned and unpaid portion of his then-effective base salary (on or before the first regular payroll date following the Date of Termination in accordance with applicable law); (ii) any and all unreimbursed business expenses (in accordance with the Company's reimbursement policy); (iii) any and all accrued and unused vacation time through the Date of Termination (on or before the first regular payroll date following the Date of Termination in accordance with applicable law); and (iv) any other benefits the Executive is entitled to receive as of the Date of Termination under the employee benefit plans of the Company, less standard withholdings (items (i) through (iv) are hereafter referred to as "Accrued Benefits"). Except for the Accrued Benefits or as required by law, after the Date of Termination, the Company shall have no obligation to make any other payment, including severance or other compensation of any kind on account of the Executive's termination of employment or to make any payment in lieu of notice to the Executive in the event of a termination pursuant to this Section 5(a). Except as required by law or as otherwise provided herein, all benefits provided by the Company to the Executive under this Agreement or otherwise shall cease as of the Date of Termination in the event of a termination pursuant to this Section 5(a).

(b) Termination by the Company Without Cause. The Company may, at any time and without prior written notice, terminate the Executive's employment without Cause. In the event that the Executive's employment with the Company is terminated without Cause, the Executive shall receive the Accrued Benefits and any unpaid portion of the Annual Bonus from a prior year (payable when other senior executives receive their annual bonuses for such year, and in no event later than March 15 of the year following the year for which the Annual Bonus was earned). In addition, if the termination without Cause is prior to the fourth anniversary of the Effective Date, the Executive shall be entitled to receive from the Company (i) severance payments totaling his then-effective base salary, paid in equal installments according to the Company's regular payroll schedule over the twelve (12) months following the Date of Termination (the "Severance Period"), and (ii) an amount equal to the "COBRA" premium for as long as the Executive and, if applicable, the Executive's dependents are eligible for COBRA from the Company. The Executive's entitlement to the severance payments and benefits in the foregoing sentence is conditioned on (A) the Executive's executing and delivering to the Company of a mutual release of claims substantially in the form attached hereto as Exhibit A within forty-five (45) days following the Date of Termination, and on such release becoming effective, and (B) the Executive's compliance with the restrictive covenants set forth in Sections 6, 7 and 8; provided, that if such forty-five (45) day period begins in one taxable year and ends in the following taxable year, the payments described in (i) of the preceding sentence shall commence in the second taxable year (and any payments that would have been made in the first taxable year shall be paid in a lump sum at the time payments commence pursuant hereto).

Except as specifically provided in this Section 5(b) or in another section of this Agreement, or except as required by law, all benefits provided by the Company to the Executive under this Agreement or otherwise shall cease as of the Date of Termination in the event of a termination pursuant to this Section 5(b).

(c) Voluntary Termination. If the Executive terminates employment with the Company for any reason other than due to his death or Disability, the Executive agrees to provide the Company with thirty (30) days' prior written notice. In the event that the Executive's employment is terminated under this Section 5(c), the Executive shall receive from the Company payment for all Accrued Benefits described in Section 5(a) above at the times specified in Section 5(a) above. Except as required by law, after the Date of Termination, the Company shall have no obligation to make any other payment, including severance or other compensation, of any kind to the Executive on account of the Executive's termination of employment pursuant to this Section 5(c).

(d) Termination Upon Death or Disability. If the Executive's employment is terminated as a result of death or Disability prior to the expiration of the Employment Period, the Executive (or the Executive's estate, or other designated beneficiary(s) as shown in the records of the Company in the case of death) shall be entitled to receive from the Company payment for the Accrued Benefits described in Section 5(a) above at the times specified in Section 5(a) above and any unpaid portion of the Annual Bonus from a prior year (payable when other senior executives receive their annual bonuses for such year, and in no event later than March 15 of the year following the year for which the Annual Bonus was earned). Except as required by law, after the Date of Termination, the Company shall have no obligation to make any other payment, including severance or other compensation, of any kind to the Executive (or the Executive's estate, or other designated beneficiary(s), as applicable) upon a termination of employment by death or Disability.

(e) Certain Definitions. For purposes of this Agreement, the following terms shall have the meanings set forth below.

(A) "Cause" shall mean the Executive (i) commits a material breach of any material term of this Agreement or any material Company policy or procedure of which the Executive had prior knowledge; provided that if such breach is curable in not longer than 30 days (as determined by the Board in its reasonable discretion), the Company shall not have the right to terminate the Executive's employment for cause pursuant hereto unless the Executive, having received written notice of the breach from Company specifically citing this Section 5(e)(A), fails to cure the breach within a reasonable time; (ii) 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; (iii) willfully engages in illegal conduct or gross misconduct with respect to to the Company; or (iv) fails to cure, within 10 days after receiving written notice from Company specifically citing this Section 5(e)(A), any willful failure to perform the Executive's duties and responsibilities under this Agreement.

(B) "Date of Termination" shall mean (i) if the Executive is terminated by the Company for Disability, thirty (30) days after written notice of termination is given to the Executive (provided that the Executive shall not have returned to the performance of his duties on a full-time basis during such 30-day period); (ii) if the Executive's employment is terminated by the Company for any other reason, the date on which a written notice of termination is given or such other date specified in the notice, specifying in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment is given, and in the case of termination for Cause, after compliance with the applicable notice and cure provisions in the definition of Cause; (iii) if the Executive terminates employment other than due to death or Disability, the date specified in the Executive's notice in compliance with Section 5(c); or (iv) in the event of the Executive's death, the date of death.

(C) "Disability" shall mean the absence of the Executive from the Executive's duties with the Company on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness, which is determined to be total and permanent by a physician selected by the Company or its insurers and reasonably acceptable to the Executive or the Executive's legal representative.

(f) Notice of Termination. Any termination of the Executive's employment by the Company or by the Executive under this Section 5 (other than in the case of death) shall be communicated by a written notice (the "Notice of Termination") to the other party hereto, indicating the specific termination provision in this Agreement relied upon, setting forth as appropriate in reasonable detail any facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, and specifying a Date of Termination which notice shall be delivered within the time periods set forth in the various subsections of this Section 5, as applicable (the "Notice Period"); provided, however, that the Company may pay to the Executive all base salary, benefits and other rights due to the Executive during the Notice Period instead of employing the Executive during such Notice Period.

(g) Resignation from All Positions. Upon the Executive's termination of employment for any reason, the Executive shall immediately resign from all other positions with the Company and its affiliates (including as a member of the Board).

6. Non-Competition; General Provisions Applicable to Restrictive Covenants

(a) Covenant not to Compete. For the duration of the Employment Period and for twelve (12) months thereafter, the Executive shall not, directly or indirectly, own any interest in, manage, control, participate in, consult with, render services for, or be employed in an executive, managerial or administrative capacity by any entity engaged in the fast or quick-casual restaurant business in North America that derives 20% or more of its revenues from the sale of noodles or pasta dishes or that otherwise is engaged in the fast-casual restaurant business (a "Competing Business"); provided that, if the Employment Period ends due to the Executive's resignation, he may serve on the board of directors of a Competing Business that is engaged in the fast-casual business but does not derive 20% or more of its revenues from the sale of noodles or pasta dishes (but, for the avoidance of doubt, the Executive may not serve as an employee or an executive chairman of any such Competing Business for the twelve (12) months following such resignation). Nothing herein shall prohibit the Executive from being a passive owner of not more than 5% of the outstanding stock of any class of a corporation which is publicly traded, so long as the Executive has no active participation in the business of such corporation.

(b) Specific Performance. The Executive recognizes and agrees that a violation by him of his obligations under this Section 6, or under Section 7, or subparts (a) or (d) of Section 8 may cause irreparable harm to the Company that would be difficult to quantify and that money damages may be inadequate. As such, the Executive 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 Executive from contesting the Company's request for the issuance of any such injunction on the grounds that no violation or threatened violation of the aforementioned Sections has occurred and that the Company has not suffered irreparable harm. If a court of competent jurisdiction determines that the Executive has violated the obligations of any covenant for a particular duration, then the Executive agrees that such covenant will be extended by that duration.

(c) Scope and Duration of Restrictions. The Executive expressly agrees that the character, duration and geographical scope of the restrictions imposed under this Section 6, and under Section 7, and all of Section 8 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 Executive 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 Executive 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.

7. Confidentiality Covenants

The Executive 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 Executive 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 Executive agrees that he shall not disclose to any Person or use for the Executive'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 Executive's acts or omissions or (ii) the disclosure of such Confidential Information is required by law, in which case the Executive 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. In addition, nothing in this Section 7 or any other provision of this Agreement prohibits the Executive from voluntarily communicating, without notice to or approval by the Company, with any federal government agency about a potential violation of federal law or regulation.

8. Other Covenants

(a) Non-Solicitation. For the duration of the Employment Period and for twelve (12) months thereafter, other than in the course of performing his duties, the Executive shall not, directly or indirectly through another person, induce or attempt to induce any employee of the Company or any of its subsidiaries (other than restaurant-level employees who are not managers) 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) Compliance with Company Policies. The Executive agrees that, during the Employment Period, he shall comply in all material respects with the Company's employee manual and other policies and procedures reasonably established by the Company from time to time, including but not limited to policies addressing matters such as management, supervision, recruiting and diversity.

(c) Cooperation. For a period of eighteen (18) months following the end of the Employment Period, the Executive shall, upon the Company's reasonable request and in good faith and with the Executive's commercially reasonable efforts and subject to the Executive's reasonable availability, cooperate and assist the Company in any dispute, controversy, or litigation in which the Company may be involved and with respect to which the Executive obtained knowledge while employed by the Company or any of its affiliates, successors, or assigns, including, but not limited to, participation in any court or arbitration proceedings, giving of testimony, signing of affidavits, or such other personal cooperation as counsel for the Company shall request. Any such activities shall be scheduled, to the extent reasonably possible, to accommodate the Executive's business and personal obligations at the time. The Company shall pay the Executive's reasonable travel and incidental out-of-pocket expenses incurred in connection with any such cooperation.

(d) Return of Business Records and Equipment. Upon termination of the Executive's employment hereunder, the Executive shall promptly return to the Company: (i) all documents, records, procedures, books, notebooks, and any other documentation in any form whatsoever, including but not limited to written, audio, video or electronic, containing any information pertaining to the Company which includes Confidential Information, including any and all copies of such documentation then in the Executive's possession or control regardless of whether such documentation was prepared or compiled by the Executive, Company, other employees of the Company, representatives, agents, or independent contractors, and (ii) all equipment or tangible personal property entrusted to the Executive by the Company. The Executive acknowledges that all such documentation, copies of such documentation, equipment, and tangible personal property are and shall at all times remain the sole and exclusive property of the Company.

9. **Nondisparagement**. During the Executive's employment with the Company and thereafter, the Executive, agrees, to the fullest extent permissible by law, not intentionally to make, directly or indirectly, any public or private statements, gestures, signs, signals or other verbal or nonverbal, direct or indirect communications that the Executive, using reasonable judgment, should have known would be harmful to or reflect negatively on the Company or are otherwise disparaging of the Company or its past, present or future officers, board members, employees, shareholders, and their affiliates. During the Executive's employment with the Company and thereafter, the Board agrees that neither the Company nor any of its controlling stockholders, directors, officers, employees or representatives will intentionally make, directly or indirectly, any public or private statements, gestures, signs, signals or other verbal or nonverbal, direct or indirect communications that any such disclosing person, using reasonable judgment, should have known would be harmful to or reflect negatively on the Executive or are otherwise disparaging of the Executive. Nothing in this Section 9 shall prohibit either party from truthfully responding to an accusation from the other party or require either party to violate any subpoena or law.

10. **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 Colorado, without reference to principles of law that would apply the substantive law of another jurisdiction.

11. **Entire Agreement.** This Agreement, together with the agreement granting to the Executive the stock options specified in Section 3(c), constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and thereof and supersedes and cancels any and all previous agreements, written and oral, regarding the subject matter hereof. This Agreement shall not be changed, altered, modified or amended, except by a written agreement that (i) explicitly states the intent of both parties hereto to supplement this Agreement and (ii) is signed by both parties hereto.

12. **Notices.** All notices, requests, demands and other communications called for or contemplated hereunder shall be in writing and shall be deemed to have been sufficiently given if personally delivered or if sent by registered or certified mail, return receipt requested 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, and shall be deemed received upon actual receipt:

(a) to the Company at:

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

with a copy to:

Gibson, Dunn & Crutcher LLP
200 Park Avenue
New York, NY 10166
Attention: Steven Shoemate, Esq.
Facsimile: (212) 351-5316

(b) to the Executive at:

____
____
____

13. **<u>Severability</u>.** If any term or provision of this Agreement, or the application thereof to any person or under any circumstance, shall to any extent be invalid or unenforceable, the remainder of this Agreement, or the application of such terms to the persons or under circumstances other than those as to which it is invalid or unenforceable, shall be considered severable and shall not be affected thereby, and each term of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

14. **<u>Waiver</u>.** 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.

15. **<u>Successors and Assigns</u>.** This Agreement shall be binding upon the Company and any successors and assigns of the Company, including any corporation with which, or into which, the Company may be merged or which may succeed to the Company's assets or business. In the event that the Company sells or transfers all or substantially all of the assets of the

Company, or in the event of any merger or consolidation of the Company, the Company shall use reasonable efforts to cause such assignee, transferee, or successor to assume the liabilities, obligations and duties of the Company hereunder. Notwithstanding the foregoing, if for any reason an assignee, transferee, or successor does not assume the full extent of the Company's liabilities, obligations and duties of the Company hereunder, such event or nonoccurence shall trigger a termination without Cause under this Agreement. Neither this Agreement nor any right or obligation hereunder may be assigned by the Executive; provided, however, that this provision shall not preclude the Executive from designating one or more beneficiaries to receive any amount that may be payable after his death and shall not preclude his executor or administrator from assigning any right hereunder to the person or persons entitled hereto.

16. **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.

17. **Headings.** Headings in this Agreement are for reference only and shall not be deemed to have any substantive effect.

18. **Opportunity to Seek Advice; Warranties and Representations.** The Executive acknowledges and confirms that he has had the opportunity to seek such legal, financial and other advice and representation as he has deemed appropriate in connection with this Agreement. The Executive hereby represents and warrants to the Company that he is not under any obligation of a contractual or quasi-contractual nature known to him that is inconsistent or in conflict with this Agreement or that would prevent, limit or impair the performance by the Executive of his obligations hereunder.

19. **Withholdings**. All salary, severance payments, bonuses or benefits provided by the Company under this Agreement shall be net of any tax or other amounts required to be withheld by the Company under applicable law.

20. **Section 409A.** The parties intend that any compensation, benefits and other amounts payable or provided to the Executive under this Agreement be paid or provided in compliance with Section 409A of the Internal Revenue Code and all regulations, guidance, and other interpretative authority issued thereunder (collectively, "Section 409A") such that there will be no adverse tax consequences, interest, or penalties for the Executive under Section 409A as a result of the payments and benefits so paid or provided to him. The parties agree to modify this Agreement, or the timing (but not the amount) of the payment hereunder of severance or other compensation, or both, to the extent necessary to comply with and to the extent permissible under Section 409A. In addition, notwithstanding anything to the contrary contained in any other provision of this Agreement, the payments and benefits to be provided the Executive under this Agreement shall be subject to the provisions set forth below.

(a) The date of the Executive's "separation from service," as defined in the regulations issued under Section 409A, shall be treated as Executive's Date of Termination for purpose of determining the time of payment of any amount that becomes payable to the Executive pursuant to Section 5 hereof upon the termination of his employment and that is treated as an amount of deferred compensation for purposes of Section 409A.

(b) In the case of any amounts that are payable to the Executive under this Agreement, or under any other "nonqualified deferred compensation plan" (within the meaning of Section 409A) maintained by the Company in the form of installment payments, (i) the Executive's right to receive such payments shall be treated as a right to receive a series of separate payments under Treas. Reg. §1.409A-2(b)(2)(iii), and (ii) to the extent any such plan does not already so provide, it is hereby amended as of the date hereof to so provide, with respect to amounts payable to the Executive thereunder.

(c) If the Executive is a "specified employee" within the meaning of Section 409A at the time of his "separation from service" within the meaning of Section 409A, then any payment otherwise required to be made to him under this Agreement on account of his separation from service, to the extent such payment (after taking in to account all exclusions applicable to such payment under Section 409A) is properly treated as deferred compensation subject to Section 409A, shall not be made until the first business day after (i) the expiration of six months from the date of the Executive's separation from service, or (ii) if earlier, the date of the Executive's death (the "Delayed Payment Date"). On the Delayed Payment Date, there shall be paid to the Executive or, if the Executive has died, to the Executive's estate, in a single cash lump sum, an amount equal to aggregate amount of the payments delayed pursuant to the preceding sentence.

(d) To the extent that the reimbursement of any expenses or the provision of any in-kind benefits pursuant to this Agreement is subject to Section 409A, (i) the amount of such expenses eligible for reimbursement, or in-kind benefits to be provided hereunder during any one calendar year shall not affect the amount of such expenses eligible for reimbursement or in-kind benefits to be provided hereunder in any other calendar year; provided, however, that the foregoing shall not apply to any limit on the amount of any expenses incurred by the Executive that may be reimbursed or paid under the terms of the Company's medical plan, if such limit is imposed on all similarly situated participants in such plan; (ii) all such expenses eligible for reimbursement hereunder shall be paid to the Executive as soon as administratively practicable after any documentation required for reimbursement for such expenses has been submitted, but in any event by no later than December 31 of the calendar year following the calendar year in which such expenses were incurred; and (iii) the Executive's right to receive any such reimbursements or in-kind benefits shall not be subject to liquidation or exchange for any other benefit.

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

NOODLES & COMPANY
a Delaware corporation

By: /s/ Paul A. Strasen
Paul A. Strasen
Executive Vice President

EXECUTIVE:

/s/ Paul Murphy
Paul Murphy

[Signature Page to Employment Agreement]

Exhibit A

RELEASE AGREEMENT

1. Executive, individually and on behalf of his heirs and assigns, hereby releases, waives and discharges Company, and all subsidiary, parent or affiliated companies and corporations, and their present, former or future respective subsidiary, parent or affiliated companies or corporations, and their respective present or former directors, officers, shareholders, trustees, managers, supervisors, employees, partners, attorneys, agents, representatives and insurers, and the respective successors, heirs and assigns of any of the above described persons or entities (hereinafter referred to collectively as "Released Parties"), from any and all claims, causes of action, losses, damages, costs, and liabilities of every kind and character, whether known or unknown ("Claims"), that Executive may have or claim to have, in any way relating to or arising out of, in whole or in part, (a) any event or act of omission or commission occurring on or before the Date of Termination, including Claims arising by reason of the continued effects of any such events or acts, which occurred on or before the Date of Termination, or (b) Executive's employment with Company or the termination of such employment with Company, including but not limited to Claims arising under federal, state, or local laws prohibiting disability, handicap, age, sex, race, national origin, religion, retaliation, or any other form of discrimination, such as the Americans with Disabilities Act, 42 U.S.C.§§ 12101 et seq.; the Age Discrimination in Employment Act, as amended, 29 U.S.C. §§ 621 et seq.; and Title VII of the 1964 Civil Rights Act, as amended, 42 U.S.C. §§ 2000e et seq.; Claims for intentional infliction of emotional distress, tortious interference with contract or prospective advantage, and other tort claims; and Claims for breach of express or implied contract; with the exception of Employee's vested rights, if any, under Company retirement plans. Executive hereby warrants that he has not assigned or transferred to any person any portion of any claim that is released, waived and discharged above. Executive understands and agrees that by signing this Agreement he is giving up his right to bring any legal claim against any Released Party concerning, directly or indirectly, Executive's employment relationship with the Company, including his separation from employment, and/or any and all contracts between Executive and Company, express or implied. Executive agrees that this legal release is intended to be interpreted in the broadest possible manner in favor of the Released Parties, to include all actual or potential legal claims that Executive may have against any Released Party, except as specifically provided otherwise in this Agreement. This release does not cover Claims relating to the validity or enforcement of this Agreement. Further, Executive has not released any claim for indemnity or legal defense available to him due to his service as a board member, officer or director of the Company, as provided by the certificate of incorporation or bylaws of the Company, or by any applicable insurance policy, or under any applicable corporate law.

2. Executive agrees and acknowledges that he: (i) understands the language used in this Agreement and the Agreement's legal effect; (ii) understands that by signing this Agreement he is giving up the right to sue the Company for age discrimination; (iii) will receive compensation under this Agreement to which he would not have been entitled without signing this Agreement; (iv) has been advised by Company to consult with an attorney before signing

this Agreement; and (v) was given no less than twenty-one days to consider whether to sign this Agreement. For a period of seven days after the effective date of this Agreement, Executive may, in his sole discretion, rescind this Agreement, by delivering a written notice of rescission to the Board. If Executive rescinds this Agreement within seven calendar days after the effective date, this Agreement shall be void, all actions taken pursuant to this Agreement shall be reversed, and neither this Agreement nor the fact of or circumstances surrounding its execution shall be admissible for any purpose whatsoever in any proceeding between the parties, except in connection with a claim or defense involving the validity or effective rescission of this Agreement. If Executive does not rescind this Agreement within seven calendar days after the Effective Date, this Agreement shall become final and binding and shall be irrevocable.

3. Capitalized terms not defined herein have the meaning specified in the Employment Agreement between the Company and the Executive dated June 13, 2017.

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL 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 our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

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

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

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

5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2017

/s/ DAVE BOENNIGHAUSEN

Dave Boennighausen

Chief Executive Officer
(Principal Executive Officer and Principal Financial Officer)

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

I, Dave Boennighausen, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Noodles & Company on Form 10-Q for the fiscal quarter ended July 4, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Noodles & Company.

Date: August 11, 2017

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

I, Susan Daggett, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Noodles & Company on Form 10-Q for the fiscal quarter ended July 4, 2017 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Noodles & Company.

Date: August 11, 2017

By:	/s/ SUSAN DAGGETT
Name:	Susan Daggett
Title:	Vice President of Finance and Interim 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.