

NOODLES & Co  
Form 10-Q  
November 07, 2013  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended October 1, 2013

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35987

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NOODLES & COMPANY  
(Exact name of registrant as specified in its charter)

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

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  No

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

Large accelerated filer  Accelerated filer

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Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

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

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

| Class  | Outstanding at November 7, 2013 |
|--|---------------------------------|
| Class A Common Stock, \$0.01 par value per share | 23,182,184 shares               |
| Class B Common Stock, \$0.01 par value per share | 6,292,640 shares                |

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## PART I

## Item 1. Financial Statements

## Noodles &amp; Company

## Consolidated Balance Sheets

(in thousands, except share and per share data)

|   | October 1,<br>2013<br>(unaudited) | January 1,<br>2013 |
|---|-----------------------------------|--------------------|
| Assets  |                                   |                    |
| Current assets:   |                                   |                    |
| Cash and cash equivalents   | \$589                             | \$581              |
| Accounts receivable   | 5,842                             | 4,566              |
| Inventories   | 7,082                             | 6,042              |
| Prepaid expenses and other assets   | 4,999                             | 3,970              |
| Income tax receivable   | —                                 | 995                |
| Total current assets  | 18,512                            | 16,154             |
| Property and equipment, net   | 158,413                           | 136,287            |
| Deferred tax assets, net  | 2,753                             | 2,791              |
| Other assets, net   | 2,132                             | 1,763              |
| Total long-term assets  | 163,298                           | 140,841            |
| Total assets  | \$181,810                         | \$156,995          |
| Liabilities and Stockholders' Equity  |                                   |                    |
| Current liabilities:  |                                   |                    |
| Accounts payable  | \$8,817                           | \$9,393            |
| Accrued payroll and benefits  | 8,871                             | 5,345              |
| Accrued expenses and other current liabilities  | 7,614                             | 7,249              |
| Income tax payable  | 909                               | —                  |
| Current deferred tax liabilities  | 1,351                             | 1,023              |
| Current portion of long-term debt   | —                                 | 750                |
| Total current liabilities   | 27,562                            | 23,760             |
| Long-term debt  | 1,714                             | 93,731             |
| Deferred rent   | 27,596                            | 23,013             |
| Other long-term liabilities   | 2,426                             | 2,483              |
| Total liabilities   | 59,298                            | 142,987            |
| Temporary equity:   |                                   |                    |
| Common stock subject to put options—0 and 296,828 shares as of October 1, 2013 and January 1, 2013, respectively  | —                                 | 3,601              |
| Stockholders' equity:   |                                   |                    |
| Preferred stock—\$0.01 par value, authorized 1,000,000 and 2,885,000 shares as of October 1, 2013 and January 1, 2013, respectively; no shares issued or outstanding  | —                                 | —                  |
| Common stock—\$0.01 par value, authorized 180,000,000 and 34,043,001 shares as of October 1, 2013 and January 1, 2013, respectively; 29,422,939 and 23,238,984 issued and outstanding as of October 1, 2013 and January 1, 2013, respectively | 294                               | 232                |
| Additional paid-in capital  | 114,318                           | 7,585              |
| Accumulated other comprehensive loss, net of tax  | —                                 | (24 )              |

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|  |           |           |
|--|-----------|-----------|
| Retained earnings                          | 7,900     | 2,614     |
| Total stockholders' equity                 | 122,512   | 10,407    |
| Total liabilities and stockholders' equity | \$181,810 | \$156,995 |

See accompanying notes to consolidated financial statements.

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## Noodles &amp; Company

## Consolidated Statements of Income

(in thousands, except share and per share data, unaudited)

|   | Fiscal Quarter Ended |                    | Three Fiscal Quarters Ended |                    |
|---|----------------------|--------------------|-----------------------------|--------------------|
|   | October 1,<br>2013   | October 2,<br>2012 | October 1,<br>2013          | October 2,<br>2012 |
| Revenue:  |                      |                    |                             |                    |
| Restaurant revenue  | \$87,864             | \$76,306           | \$256,744                   | \$220,261          |
| Franchising royalties and fees  | 1,072                | 793                | 2,711                       | 2,220              |
| Total revenue   | 88,936               | 77,099             | 259,455                     | 222,481            |
| Costs and expenses:   |                      |                    |                             |                    |
| Restaurant operating costs (exclusive of depreciation and amortization shown separately below): |                      |                    |                             |                    |
| Cost of sales   | 23,127               | 20,246             | 67,524                      | 58,423             |
| Labor   | 26,345               | 23,065             | 77,464                      | 66,002             |
| Occupancy   | 8,870                | 7,468              | 25,824                      | 21,669             |
| Other restaurant operating costs  | 11,315               | 9,488              | 32,962                      | 27,449             |
| General and administrative  | 6,939                | 7,464              | 27,808                      | 21,426             |
| Depreciation and amortization   | 5,238                | 4,334              | 15,074                      | 12,165             |
| Pre-opening   | 1,183                | 829                | 2,873                       | 2,000              |
| Asset disposals, closure costs and restaurant impairments                                       | 339                  | 201                | 837                         | 663                |
| Total costs and expenses  | 83,356               | 73,095             | 250,366                     | 209,797            |
| Income from operations  | 5,580                | 4,004              | 9,089                       | 12,684             |
| Debt extinguishment expense   | —                    | 2,646              | —                           | 2,646              |
| Interest expense  | 132                  | 1,118              | 2,199                       | 3,894              |
| Income before income taxes  | 5,448                | 240                | 6,890                       | 6,144              |
| Provision for income taxes  | 2,183                | 107                | 2,633                       | 2,540              |
| Net income  | \$3,265              | \$133              | \$4,257                     | \$3,604            |
| Earnings per share of Class A and Class B common stock, combined:                               |                      |                    |                             |                    |
| Basic   | \$0.11               | \$0.01             | \$0.17                      | \$0.16             |
| Diluted   | \$0.11               | \$0.01             | \$0.16                      | \$0.16             |
| Weighted average shares of Class A and Class B common stock outstanding, combined:              |                      |                    |                             |                    |
| Basic   | 29,399,650           | 23,238,984         | 25,382,805                  | 23,238,984         |
| Diluted   | 31,063,213           | 23,388,729         | 26,528,004                  | 23,250,745         |

See accompanying notes to consolidated financial statements.

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

|  | Fiscal Quarter Ended |                    | Three Fiscal Quarters Ended |                    |
|--|----------------------|--------------------|-----------------------------|--------------------|
|  | October 1,<br>2013   | October 2,<br>2012 | October 1,<br>2013          | October 2,<br>2012 |
| Net income   | \$3,265              | \$133              | \$4,257                     | \$3,604            |
| Other comprehensive income (loss):                           |                      |                    |                             |                    |
| Cash flow hedges:  |                      |                    |                             |                    |
| Loss recognized in accumulated other<br>comprehensive income | —                    | —                  | —                           | (186 )             |
| Reclassification of loss to net income                       | —                    | 104                | 39                          | 312                |
| Unrealized income on cash flow hedges                        | —                    | 104                | 39                          | 126                |
| Provision for income tax on cash flow hedges                 | —                    | (42 )              | (15 )                       | (104 )             |
| Other comprehensive income, net of tax                       | —                    | 62                 | 24                          | 22                 |
| Comprehensive income   | \$3,265              | \$195              | \$4,281                     | \$3,626            |

See accompanying notes to consolidated financial statements.

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## Noodles &amp; Company

## Consolidated Statements of Cash Flows

(in thousands, unaudited)

|   | Three Fiscal Quarters Ended |                    |
|---|-----------------------------|--------------------|
|   | October 1,<br>2013          | October 2,<br>2012 |
| Operating activities  |                             |                    |
| Net income  | \$4,257                     | \$3,604            |
| Adjustments to reconcile net income to net cash provided by operating activities: |                             |                    |
| Depreciation and amortization   | 15,074                      | 12,165             |
| Provision for deferred income taxes   | 366                         | 4                  |
| Asset disposal, closure costs, and restaurant impairments                         | 837                         | 663                |
| Amortization of debt issuance costs and debt extinguishment expense               | 82                          | 3,170              |
| Stock-based compensation  | 4,065                       | 921                |
| Other noncash   | (205                        | ) (209             |
| Changes in operating assets and liabilities:                                      |                             |                    |
| Accounts receivable   | (1,276                      | ) 536              |
| Inventories   | (1,040                      | ) (1,025           |
| Prepaid expenses and other assets   | (1,050                      | ) (575             |
| Accounts payable  | 787                         | (805               |
| Deferred rent   | 4,583                       | 2,534              |
| Income taxes  | 1,904                       | 1,016              |
| Accrued expenses and other liabilities  | 4,078                       | 3,378              |
| Net cash provided by operating activities   | 32,462                      | 25,377             |
| Investing activities  |                             |                    |
| Purchases of property and equipment   | (39,788                     | ) (30,525          |
| Net cash used in investing activities   | (39,788                     | ) (30,525          |
| Financing activities  |                             |                    |
| Proceeds from issuances of notes payable  | 101,731                     | 60,128             |
| Payments on notes payable   | (194,498                    | ) (54,094          |
| Debt issuance costs   | —                           | (752               |
| Issuance of common stock, net of transaction expenses                             | 100,101                     | (48                |
| Net cash provided by financing activities   | 7,334                       | 5,234              |
| Net increase in cash and cash equivalents   | 8                           | 86                 |
| Cash and cash equivalents   |                             |                    |
| Beginning of year   | 581                         | 523                |
| End of year   | \$589                       | \$609              |

See accompanying notes to consolidated financial statements.



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NOODLES & COMPANY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

1. Business and Summary and Basis of Presentation

Business

Noodles & Company, a Delaware corporation (the "Company" or "Noodles & Company"), develops and operates fast casual restaurants that serve globally inspired noodle dishes and pasta dishes, soups, salads and sandwiches. As of October 1, 2013, there were 310 company-owned restaurants and 58 franchise restaurants in 29 states and the District of Columbia. The Company operates its business as one operating and reportable segment.

On July 2, 2013, the Company completed an initial public offering ("IPO") of shares of Class A common stock at \$18.00 per share. The Company issued 6,160,714 shares of Class A common stock, \$0.01 par value, including 803,571 shares sold to the underwriters in the IPO pursuant to their over-allotment option. After underwriter discounts and commissions and estimated offering expenses, the Company received net proceeds from the offering of approximately \$100.2 million. These proceeds were used to repay all but \$0.2 million of outstanding debt under the Company's credit facility.

The accompanying interim unaudited 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 generally accepted accounting principles in the United States ("U.S. 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 results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the audited financial statements and the related notes for the year ended January 1, 2013 included in the Company's final prospectus filed June 28, 2013.

Principles of Consolidation

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

Fiscal Year

The Company operates on a 52- or 53-week fiscal year ending on the Tuesday closest to December 31. Fiscal year 2013, which ends on December 31, 2013 and fiscal year 2012, which ended on January 1, 2013, each contain 52 weeks. Fiscal quarters each contain thirteen weeks, with the exception of the fourth quarter of a 53 week fiscal year, which contains fourteen weeks.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," which revises disclosure requirements related to components of other comprehensive income. The Company adopted ASU 2013-02 effective January 2, 2013. The adoption concerns presentation and disclosure only and did not have an impact on the Company's consolidated financial position or results of operations.

Reclassifications

In the third quarter of 2013, the Company changed the manner in which it reports marketing expenses between general and administrative expenses and other restaurant operating costs to more appropriately reflect only those costs directly related to restaurant-level marketing in other restaurant operating costs. Marketing costs previously reported as restaurant operating costs, that were not directly related to restaurant-level marketing, have been reclassified to general and administrative expense in the Company's consolidated financial statements in all periods presented. In the first two quarters of 2013 and the first two quarters of 2012, \$1.0 million and \$1.3 million, respectively, have been reclassified from restaurant operating costs to general and administrative expense. The change has no impact on income from operations.



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## 2. Supplemental Financial Information

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

|                                 | October 1,<br>2013 | January 1,<br>2013 |
|---------------------------------|--------------------|--------------------|
| Prepaid occupancy related costs | \$3,029            | \$2,700            |
| Other prepaid expenses          | 1,912              | 1,191              |
| Other current assets            | 58                 | 79                 |
|                                 | \$4,999            | \$3,970            |

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

|   | October 1,<br>2013 | January 1,<br>2013 |
|---|--------------------|--------------------|
| Leasehold improvements                    | \$164,498          | \$139,907          |
| Furniture, fixtures, and equipment        | 89,270             | 77,202             |
| Construction in progress                  | 5,865              | 7,878              |
|   | 259,633            | 224,987            |
| Accumulated depreciation and amortization | (101,220           | ) (88,700          |
|   | \$158,413          | \$136,287          |

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

|   | October 1,<br>2013 | January 1,<br>2013 |
|---|--------------------|--------------------|
| Accrued payroll and related liabilities | \$5,196            | \$2,537            |
| Accrued bonus                           | 2,303              | 1,981              |
| Insurance liabilities                   | 1,372              | 827                |
|   | \$8,871            | \$5,345            |

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

|                        | October 1,<br>2013 | January 1,<br>2013 |
|------------------------|--------------------|--------------------|
| Gift card liability    | \$1,633            | \$2,182            |
| Occupancy related      | 1,302              | 1,264              |
| Utilities              | 1,319              | 1,002              |
| Other accrued expenses | 3,360              | 2,801              |
|                        | \$7,614            | \$7,249            |

## 3. Borrowings

The Company has a credit facility with a borrowing capacity of \$45.0 million in the form of a revolving line of credit, expiring in July 2017. Prior to the IPO, the Company had a credit facility with a borrowing capacity of 120.0 million, consisting of a \$75.0 million senior term loan and a \$45.0 million revolving line of credit. In connection with the IPO, the Company repaid in full its outstanding \$75.0 million senior term loan and the majority of the revolving line of credit. The Company will continue to have access to the funds and the ability to borrow under the revolving line of credit; however, the amounts repaid on the senior term loan cannot be re-borrowed. As of October 1, 2013, the Company had \$1.7 million outstanding and \$41.3 million available for borrowing under the credit facility.

Outstanding letters of credit aggregating \$2.0 million reduce the amount of borrowings available under the agreement. The credit facility bore interest at rates ranging from 4.25% to 5.50% and 3.5% to 5.5% for the third quarter of 2013 and the first three quarters of 2013, respectively. The Company was in compliance with all of its debt covenants as of October 1, 2013.

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## 4. Fair Value Measurements

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and all other current liabilities approximate fair values due to the short maturities of these instruments. The carrying amounts of borrowings approximate fair value as interest rates on the the line of credit borrowings vary with market interest rates and negotiated terms and conditions are consistent with current market rates.

## Assets and Liabilities Measured at Fair Value

The Company's deferred compensation plan, under which compensation deferrals began during the third quarter of 2013, is a non-qualified deferred compensation plan which allows highly compensated employees to defer a portion of their base salary and variable compensation each plan year. To offset its obligation, the Company purchases Company-owned whole-life insurance contracts on certain team members. As of October 1, 2013, \$460,000 and \$480,000 were included in other assets, net and other-long term liabilities, respectively, which represent the carrying value of both the liability for deferred compensation plan and associated life insurance policy equal to fair value.

## 5. Income Taxes

The following table presents the Company's provision for income taxes for the three quarters ended October 1, 2013 and October 2, 2012 (dollars in thousands):

|                            | October 1,<br>2013 | October 2,<br>2012 |   |   |
|----------------------------|--------------------|--------------------|---|---|
| Provision for income taxes | \$2,633            | \$2,540            |   |   |
| Effective tax rate         | 38.0               | % 41.3             | % | % |

The 2013 estimated annual effective tax rate is expected to be 39.2% compared to 38.4% for the full year 2012. The effective tax rate for the first three quarters of 2013 includes the discrete adjustment for certain transaction costs related to the IPO.

## 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 and incentive bonuses to employees, officers, non-employee 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 closing of the IPO shall not exceed 3,750,500.

The following table presents information related to the Stock Incentive Plan (in thousands, except for share and per share amounts):

|   | Fiscal Quarter Ended |                    | Three Fiscal Quarters Ended |                    |
|---|----------------------|--------------------|-----------------------------|--------------------|
|   | October 1,<br>2013   | October 2,<br>2012 | October 1,<br>2013          | October 2,<br>2012 |
| Outstanding, beginning of period                        | 3,474,398            | 2,789,212          | 2,973,168                   | 2,621,017          |
| Granted(1)  | —                    | 8,655              | 538,273                     | 176,850            |
| Exercised   | —                    | —                  | —                           | —                  |
| Canceled  | 1,961                | 129,949            | 39,004                      | 129,949            |
| Outstanding, end of period                              | 3,472,437            | 2,667,918          | 3,472,437                   | 2,667,918          |
| Weighted average fair market value on option grant date | N/A                  | \$—                | \$5.81                      | \$—                |
| Stock based compensation expense(2)                     | \$131                | \$315              | \$4,065                     | \$921              |
| Capitalized stock based compensation expense            | \$15                 | \$21               | \$56                        | \$57               |

(1) The stock options granted in the first three quarters of 2013 included 403,900 awards to two executive officers of which 50% vested at IPO and the remaining vest annually over four years on the anniversary of the grant in equal installments.

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(2) Stock-based compensation expense includes \$45,000 related to the Employee Stock Purchase Plan in the third quarter and first three quarters of 2013 and is included in general and administrative expense on the consolidated statements of income. Of the total stock-based compensation recognized in the first three quarters of 2013, \$2.0 million related to accelerated vesting of outstanding stock options at the IPO and \$1.2 million related to stock options granted at the IPO to 2 executive officers of which 50% were vested at the time of grant.

On October 1, 2013, 23,289 warrants previously issued to a consultant were exercised for Class B common stock at an exercise price of \$8.67 per share. Of the original warrants issued, 57,700 remain outstanding as of October 1, 2013.

During the third quarter of 2013, the Company commenced sales of common stock under its Employee Stock Purchase Plan ("ESPP") and has reserved 750,100 shares of common stock for issuance. Eligible employees may purchase common stock at 85% of the beginning or ending closing price, whichever is lower, for each quarterly purchase period. During the first three quarters of 2013, the Company issued 14,425 shares of common stock under the ESPP. As of October 1, 2013, the Company has 735,675 shares available for future issuance under the ESPP.

#### 7. Earnings Per Share

EPS is calculated by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during each period. Diluted earnings per share ("diluted EPS") is calculated using income available to common shareholders divided by diluted weighted-average shares of common stock outstanding during each period. Potentially dilutive securities include shares of common stock underlying stock options and warrants. The following table sets forth the computations of basic and diluted earnings per share:

|   | Fiscal Quarter Ended |                    | Three Fiscal Quarters Ended |                    |
|---|----------------------|--------------------|-----------------------------|--------------------|
|   | October 1,<br>2013   | October 2,<br>2012 | October 1,<br>2013          | October 2,<br>2012 |
| Net income (in thousands):                            | \$3,265              | \$133              | \$4,257                     | \$3,604            |
| Shares:   |                      |                    |                             |                    |
| Basic weighted average shares outstanding             | 29,399,650           | 23,238,984         | 25,382,805                  | 23,238,984         |
| Dilutive stock options and warrants                   | 1,663,563            | 149,745            | 1,145,199                   | 11,761             |
| Diluted weighted average number of shares outstanding | 31,063,213           | 23,388,729         | 26,528,004                  | 23,250,745         |
| Earnings per share:                                   |                      |                    |                             |                    |
| Basic EPS   | \$0.11               | \$0.01             | \$0.17                      | \$0.16             |
| Diluted EPS   | \$0.11               | \$0.01             | \$0.16                      | \$0.16             |

In the third quarter of 2013 and 2012 and in the first three quarters of 2013 and 2012, zero and 172,831, and 488,018 and 2,552,951 outstanding options, respectively, were excluded from the diluted earnings per share calculation because their inclusion would be antidilutive. All outstanding warrants are dilutive and were included in the calculation of diluted earnings per share.

#### 8. Supplemental Disclosures to Consolidated Statements of Cash Flows

The following table presents the supplemental disclosures to the consolidated statements of cash flows for the first three quarters ended October 1, 2013 and October 2, 2012 (in thousands):

|  | October 1,<br>2013 | October 2,<br>2012 |
|--|--------------------|--------------------|
| Interest paid (net of amounts capitalized)                                     | \$2,748            | \$4,744            |
| Income taxes paid  | 400                | 273                |
| (Payments for) purchases of property and equipment accrued in accounts payable | (1,363             | ) 2,025            |



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NOODLES & COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

9. Commitments and Contingencies

In the normal course of business, the Company is subject to 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 October 1, 2013. These matters could affect the operating results of any one financial reporting period when resolved in future periods. Management believes that an unfavorable outcome with respect to these matters is remote or a potential range of loss is not material to the Company's 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 the Company's business, financial condition, results of operations or cash flows.

The Company entered into employment agreements with two of its executives in connection with the IPO superseding the previous employment agreements with these executives. The agreements have an initial term of three years and automatically renew annually unless earlier terminated. Under each of the employment agreements, if the executive's employment is terminated by the Company without "cause" or by the executive with "good reason," (as such terms are defined in the applicable employment agreement) the executive is entitled to receive compensation equal to 18 months of the executive's then-current base salary, payable in equal installments over 18 months, a pro rata bonus for the year of termination and reimbursement of "COBRA" premiums for up to 18 months for the executive and his dependents. The severance payments are conditioned upon the executive entering into a mutual release of claims with the Company.

The prior employment agreements with such executives, which were superseded by the agreements entered into in connection with the IPO, included a call option in favor of the Company and a put option in favor of the executive, for the Company to purchase certain shares at fair market value if the employment agreement was terminated prior to a qualified initial public offering. The put option did not result in the executive avoiding the risks and rewards of owning the shares. The fair value of the shares of common stock subject to such put options was presented as temporary equity in the Company's consolidated financial statements. In connection with the IPO, the put options were terminated and amounts previously presented in temporary equity were reclassified to permanent stockholders' equity in the Company's consolidated financial statements.

10. Related-Party Transactions

In the first three quarters of 2013 and the first three quarters of 2012, the Company paid \$375,000 and \$625,000, respectively, to Catterton Partners and Argentia Private Investments Inc. or their affiliates ("Equity Sponsors") for management service fees and Class C Dividends pursuant to a management services agreement and an agreement to pay dividends on its Class C common stock. In connection with the IPO, the management services agreement expired and the one share of Class C common stock was redeemed therefore no payments were made in the third quarter of 2013. Management service fees and Class C dividends paid in prior fiscal quarters varies due to the timing of payments.

In connection with the IPO during the second quarter of 2013, the Company paid \$1.7 million of transaction bonuses and related payroll taxes to employees of the Company and \$0.8 million in transaction payments to the Equity Sponsors.

11. Subsequent Events

The Company has evaluated subsequent events and found there to be no events requiring recognition or disclosure through the date of issuance of this report.





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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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited consolidated financial statements and related notes in Item 1 and with the audited consolidated financial statements and the related notes included in our final prospectus filed June 28, 2013. 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 year, which contains 14 operating weeks. Fiscal years 2013 and 2012 each contain 52 weeks.

Cautionary Note Regarding Forward-Looking Statements

In addition to historical information, this discussion and analysis contains forward-looking statements 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 assumptions and subject to risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements including, but not limited to, those discussed in "Special Note Regarding Forward-Looking Statements" and "Risk Factors" as filed in our final prospectus on June 28, 2013.

2013 Highlights and Trends

**Restaurant Development.** New restaurants have contributed substantially to our revenue growth, and in the third quarter of 2013, we opened 15 company-owned restaurants and five franchise restaurants bringing the total restaurants opened in 2013 to 35 company-owned and seven franchise. As of October 1, 2013, we had 310 company-owned restaurants and 58 franchise restaurants in 29 states and the District of Columbia. In 2013 we anticipate opening between 41 and 42 company-owned restaurants, net of one closure in the first quarter of 2013, and between nine and ten franchise restaurants, including the restaurants opened through the end of our third quarter.

**Comparable Restaurant Sales.** Comparable restaurant sales increased by 2.1% system-wide in the third quarter of 2013 and 2.7% in the first three quarters of 2013. Comparable restaurant sales growth in the third quarter was the result of both increases in traffic and per person spend. Comparable Restaurant Sales represent year-over-year sales comparisons for restaurants open for at least 18 full periods.

**Your World Kitchen.** We completed installation of "Your World Kitchen" interior signage in all of our company-owned restaurants during the second quarter of 2013. Installations in our company-owned restaurants began in 2012, and we began using the phrase to describe the breadth of our offering and our customers' dining experience.

**Initial Public Offering.** On July 2, 2013, we completed our initial public offering ("IPO") of Class A common stock at \$18.00 per share. We issued 6,160,714 shares, including 803,571 shares of Class A common stock sold to the underwriters in the IPO pursuant to their over-allotment option. After underwriter discounts and commissions and estimated offering expenses, net proceeds from the offering were \$100.2 million. We used these proceeds to repay all but \$0.2 million of our outstanding debt as of July 2, 2013, including the full repayment of our term loan.

As a result of the IPO and the repayment of nearly all our outstanding debt, we now benefit from savings on interest expense and management fees that we incurred as a private company, but we also incur incremental costs as a public company. Incremental public company costs include incremental legal, accounting, insurance and other compliance costs. We will continue to use our operating cash flows and borrowings on our revolving line of credit to fund capital expenditures to support restaurant growth as well as to invest in our existing restaurants and infrastructure and information technology. See "Liquidity and Capital Resources."

Further, in connection with the IPO, we incurred \$5.7 million of IPO related expenses, which includes \$3.2 million of stock-based compensation expenses related to stock option grants and accelerated stock option vesting related to the IPO, \$1.7 million of transaction bonuses and payroll tax, and \$0.8 million paid to our Equity Sponsors. Additionally,

the financial impact of the IPO will affect the comparability of our post-IPO financial performance to our pre-IPO financial performance.

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### 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 part of our financial success.

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

#### 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 equal to 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. Comparable restaurant sales growth is generated by increases in traffic, which we calculate as the number of entrees 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;

- per person spend and average check amount;

- marketing and promotional efforts;

- local competition;

- trade area dynamics;

- introduction of new and seasonal menu items and limited time offerings; and

- opening of new restaurants in the vicinity of existing locations.

Since opening new company-owned and franchise restaurants is an important part of our growth strategy, and we anticipate new restaurants will be a significant component of our revenue growth, comparable restaurant sales are only

one measure of how we evaluate our performance.

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## 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. We expect restaurant contribution to increase in proportion to the number of new restaurants we open and our comparable restaurant sales growth. 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 before interest expense, provision for income taxes and depreciation and amortization. We define adjusted EBITDA as net income before interest expense, debt extinguishment expense, provision for income taxes, asset disposals, closure costs and restaurant impairments, depreciation and amortization, stock-based compensation, management fees, and IPO related expenses.

EBITDA and Adjusted EBITDA provide clear pictures of our operating results by eliminating certain non-cash expenses that are not reflective of the underlying business performance. We use these metrics to facilitate a comparison of our operating performance on a consistent basis from period to period and to analyze the factors and trends affecting our business.

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

|  | Fiscal Quarter Ended      |                    | Three Fiscal Quarters Ended |                    |
|--|---------------------------|--------------------|-----------------------------|--------------------|
|  | October 1,<br>2013        | October 2,<br>2012 | October 1,<br>2013          | October 2,<br>2012 |
|  | (in thousands, unaudited) |                    |                             |                    |
| Net income   | \$3,265                   | \$133              | \$4,257                     | \$3,604            |
| Depreciation and amortization                            | 5,238                     | 4,334              | 15,074                      | 12,165             |
| Interest Expense   | 132                       | 1,118              | 2,199                       | 3,894              |
| Provision for income taxes                               | 2,183                     | 107                | 2,633                       | 2,540              |
| EBITDA   | \$10,818                  | \$5,692            | \$24,163                    | \$22,203           |
| Debt extinguishment expense                              | —                         | 2,646              | —                           | 2,646              |
| Asset disposals, closure costs and restaurant impairment | 339                       | 201                | 837                         | 663                |
| Management fees(1)                                       | —                         | 250                | 500                         | 750                |
| Stock-based compensation expense                         | 131                       | 315                | 873                         | 921                |
| IPO related expenses(2)                                  | —                         | —                  | 5,667                       | —                  |
| Adjusted EBITDA  | \$11,288                  | \$9,104            | \$32,040                    | \$27,183           |

The third quarter 2012 and the first three quarters of 2013 and 2012 included \$250,000, \$500,000 and \$750,000, respectively, of management fee expense in accordance with our management services agreement and through the (1) Class C common stock dividend paid to the holder of the one outstanding share of our Class C common stock. In connection with our IPO, the management services agreement expired and the one share of Class C common stock was redeemed.

Reflects certain expenses incurred in conjunction with the closing of our initial public offering. Amount includes \$2.0 million of stock-based compensation related to accelerated vesting of outstanding stock options, \$1.2 million (2) of stock-based compensation related to stock options granted to our Chief Executive Officer and President and Chief Operations Officer of which 50% were vested at grant, \$1.7 million of transaction bonuses and related payroll tax and \$0.8 million in transaction payments to our Equity Sponsors.

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## Restaurant Openings, Closures and Relocations

The following table shows restaurants opened, closed or relocated in the periods indicated.

|                                   | Fiscal Quarter Ended |                    | Three Fiscal Quarters Ended |                    |
|-----------------------------------|----------------------|--------------------|-----------------------------|--------------------|
|                                   | October 1,<br>2013   | October 2,<br>2012 | October 1,<br>2013          | October 2,<br>2012 |
| Company-Owned Restaurant Activity |                      |                    |                             |                    |
| Beginning of period               | 295                  | 253                | 276                         | 239                |
| Openings                          | 15                   | 8                  | 35                          | 22                 |
| Closures and relocations(1)       | —                    | —                  | (1                          | ) —                |
| Restaurants at end of period      | 310                  | 261                | 310                         | 261                |
| Franchise Restaurant Activity     |                      |                    |                             |                    |
| Beginning of period               | 53                   | 46                 | 51                          | 45                 |
| Openings                          | 5                    | 2                  | 7                           | 3                  |
| Closures and relocations(1)       | —                    | —                  | —                           | —                  |
| Restaurants at end of period      | 58                   | 48                 | 58                          | 48                 |
| Total restaurants                 | 368                  | 309                | 368                         | 309                |

(1) We account for relocated restaurants under both restaurant openings and closures and relocations. In first quarter of 2013, we closed one restaurant at the end of its lease term.

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## Results of Operations

The following table summarizes key components of our results of operations for the periods indicated as a percentage of our total revenue, except for the components of restaurant operating costs, which are expressed as a percentage of restaurant revenue. The reclassification of restaurant-level marketing costs, as discussed in the accompanying notes to our unaudited consolidated financial statements, is reflected in all periods presented.

|  | Fiscal Quarter Ended |                    | Three Fiscal Quarters Ended |                    |   |
|--|----------------------|--------------------|-----------------------------|--------------------|---|
|  | October 1,<br>2013   | October 2,<br>2012 | October 1,<br>2013          | October 2,<br>2012 |   |
| Revenue:   |                      |                    |                             |                    |   |
| Restaurant revenue   | 98.8                 | % 99.0             | % 99.0                      | % 99.0             | % |
| Franchising royalties and fees   | 1.2                  | 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  | 26.3                 | 26.5               | 26.3                        | 26.5               |   |
| Labor  | 30.0                 | 30.2               | 30.2                        | 30.0               |   |
| Occupancy  | 10.1                 | 9.8                | 10.1                        | 9.8                |   |
| Other restaurant operating costs   | 12.9                 | 12.4               | 12.8                        | 12.5               |   |
| General and administrative(2)  | 7.8                  | 9.7                | 10.7                        | 9.6                |   |
| Depreciation and amortization  | 5.9                  | 5.6                | 5.8                         | 5.5                |   |
| Pre-opening  | 1.3                  | 1.1                | 1.1                         | 0.9                |   |
| Asset disposals, closure costs and restaurant impairments  | 0.4                  | 0.3                | 0.3                         | 0.3                |   |
| Total costs and expenses   | 93.7                 | 94.8               | 96.5                        | 94.3               |   |
| Income from operations   | 6.3                  | 5.2                | 3.5                         | 5.7                |   |
| Debt extinguishment expense  | —                    | 3.4                | —                           | 1.2                |   |
| Interest expense   | 0.1                  | 1.5                | 0.8                         | 1.8                |   |
| Income before income taxes   | 6.1                  | 0.3                | 2.7                         | 2.8                |   |
| Provision for income taxes   | 2.5                  | 0.1                | 1.0                         | 1.1                |   |
| Net income   | 3.7                  | % 0.2              | % 1.6                       | % 1.6              | % |

(1) As a percentage of restaurant revenue.

In the second quarter of 2013, we incurred \$5.7 million of IPO related expenses: \$2.0 million of stock-based compensation related to accelerated vesting of outstanding stock options, \$1.2 million of stock-based compensation related to stock options granted to our Chief Executive Officer and President and Chief Operating Officer of which 50% were vested at grant, \$1.7 million of transaction bonuses and related payroll taxes and \$0.8 million in (2) transaction payments to our Equity Sponsors. Additionally, the third quarter of 2012 and the first three quarters of 2013 and 2012 included \$250,000, \$500,000 and \$750,000, respectively, of management fee expense in accordance with our management services agreement and through the Class C common stock dividend paid to the holder of the one outstanding share of our Class C common stock. In connection with our IPO, the management services agreement expired and the one share of Class C common stock was redeemed.



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Third Quarter Ended October 1, 2013 compared to Third Quarter Ended October 2, 2012

Our fiscal quarters each contain thirteen weeks with the exception of the fourth quarter of a 53 week fiscal year, which contains fourteen weeks. The table below presents our unaudited operating results for the third quarter of 2013 and 2012, and the related quarter-over-quarter changes:

|   | Fiscal Quarter Ended |                    | Increase/ (Decrease) |         |    |
|---|----------------------|--------------------|----------------------|---------|----|
|   | October 1,<br>2013   | October 2,<br>2012 | \$                   | %       |    |
| (in thousands, except percentages)  |                      |                    |                      |         |    |
| Revenue:  |                      |                    |                      |         |    |
| Restaurant revenue  | \$87,864             | \$76,306           | \$11,558             | 15.1    | %  |
| Franchising royalties and fees  | 1,072                | 793                | 279                  | 35.2    |    |
| Total revenue   | 88,936               | 77,099             | 11,837               | 15.4    |    |
| Costs and expenses:   |                      |                    |                      |         |    |
| Restaurant operating costs (exclusive of depreciation and amortization shown separately below): |                      |                    |                      |         |    |
| Cost of sales   | 23,127               | 20,246             | 2,881                | 14.2    |    |
| Labor   | 26,345               | 23,065             | 3,280                | 14.2    |    |
| Occupancy   | 8,870                | 7,468              | 1,402                | 18.8    |    |
| Other restaurant operating costs  | 11,315               | 9,488              | 1,827                | 19.3    |    |
| General and administrative  | 6,939                | 7,464              | (525)                | (7.0)   | )  |
| Depreciation and amortization   | 5,238                | 4,334              | 904                  | 20.9    |    |
| Pre-opening   | 1,183                | 829                | 354                  | 42.7    |    |
| Asset disposals, closure costs and restaurant impairments                                       | 339                  | 201                | 138                  | 68.7    |    |
| Total costs and expenses  | 83,356               | 73,095             | 10,261               | 14.0    |    |
| Income from operations  | 5,580                | 4,004              | 1,576                | 39.4    | %  |
| Debt extinguishment expense   | —                    | 2,646              | (2,646)              | (100.0) | )  |
| Interest expense  | 132                  | 1,118              | (986)                | (88.2)  | )% |
| Income before income taxes  | 5,448                | 240                | 5,208                | *       |    |
| Provision for income taxes  | 2,183                | 107                | 2,076                | *       |    |
| Net income  | \$3,265              | \$133              | \$3,132              | *       |    |
| Company owned:  |                      |                    |                      |         |    |
| Average unit volumes  | \$1,181              | \$1,174            | \$7                  | 0.6     | %  |
| Comparable restaurant sales   | 2.4                  | % 3.4              | %                    |         |    |

\*Not meaningful

#### Revenue

Restaurant revenue increased by \$11.6 million in the third quarter of 2013 compared to the same period of 2012.

Restaurants not in the comparable restaurant base accounted for \$9.9 million of this increase, with the balance attributed to growth in comparable restaurant sales. Comparable restaurant sales increased by \$1.7 million, or 2.4%, in the third quarter of 2013 compared to the same period in 2012, composed of a modest price increase we took during 2013, as well as menu mix and traffic at our comparable base restaurants.

Franchise royalties and fees increased by \$279,000 in the third quarter of 2013 compared to the same period of 2012 due to five new restaurant openings and increased comparable restaurant sales of 0.5% in the third quarter of 2013.

#### Cost of Sales

Cost of sales increased by \$2.9 million in the third quarter of 2013 compared to the same period of 2012, due primarily to the increase in restaurant revenue in the third quarter of 2013. As a percentage of restaurant revenue, cost of sales decreased to



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26.3% in the third quarter of 2013 from 26.5% in third quarter of 2012. The decrease in cost of sales was the result of an increase in restaurant menu pricing, partially offset by food cost inflation.

Labor Costs

Labor costs increased by \$3.3 million in the third quarter of 2013 compared to the same period of 2012, due primarily to the increase in restaurant revenue in the third quarter of 2013. As a percentage of restaurant revenue, labor costs decreased to 30.0% in the third quarter of 2013 from 30.2% in the third quarter of 2012. The decrease in labor cost percentage was driven by a decrease in restaurant incentive compensation in the third quarter of 2013, partially offset by an increased percentage of new restaurants.

Occupancy Costs

Occupancy costs increased by \$1.4 million in the third quarter of 2013 compared to the third quarter of 2012, due primarily to 49 net restaurants opened since the third quarter of 2012. As a percentage of revenue, occupancy costs increased to 10.1% in third quarter of 2013, compared to 9.8% in the third quarter of 2012. The increase was due to an increase in the percentage of restaurants not in the comparable base restaurants which, due to not reaching mature volumes yet, on average have higher occupancy costs as a percentage of revenue.

Other Restaurant Operating Costs

Other restaurant operating costs increased by \$1.8 million in the third quarter of 2013 compared to the third quarter of 2012, due primarily to increased restaurant revenue in the third quarter of 2013. As a percentage of restaurant revenue, other restaurant operating costs increased to 12.9% in the third quarter of 2013 from 12.4% in the third quarter of 2012. The increase as a percentage of restaurant revenue was due to increased supplies and smallwares, utilities, and repairs and maintenance.

General and Administrative Expense

General and administrative expense decreased by \$0.5 million in the third quarter of 2013 compared to the third quarter of 2012. As a percentage of revenue, general and administrative expense decreased to 7.8% in the third quarter of 2013 compared to 9.7% in third quarter of 2012. Incremental costs associated with being a public company and the costs associated with supporting an increased number of restaurants were offset by increased revenue. Additionally, general and administrative expense in the third quarter of 2012 included \$355,000 of severance expense and \$250,000 of management fee expense that did not reoccur in the third quarter of 2013. Stock-based compensation expense included in general and administrative expense decreased \$180,000 in the third quarter of 2013, compared to the third quarter of 2012, due to accelerated vesting of the majority of outstanding options in conjunction with our IPO.

Depreciation and Amortization

Depreciation and amortization increased by \$0.9 million in the third quarter of 2013 compared to the third quarter of 2012, due primarily to the increase in the number of restaurants. As a percentage of revenue, depreciation and amortization increased to 5.9% in the third quarter of 2013, compared to 5.6% in the third quarter of 2012 due to depreciation on new restaurants and initiatives, partially offset by leverage on increased AUVs.

Pre-Opening Costs

Pre-opening costs increased by \$0.4 million in the third quarter of 2013 compared to the third quarter of 2012. As a percentage of revenue, pre-opening costs increased to 1.3% in the third quarter of 2013 compared to 1.1% in the third quarter of 2012. Both of these increases were due to an increased number of openings in the third quarter of 2013 compared to the third quarter of 2012.

Debt Extinguishment Expense

Debt extinguishment expense was \$2.6 million in the third quarter of 2012, as a result of an amendment to our credit facility to extend the maturity date to July 2017 and reduce interest rates on borrowings. A portion of the new fees were treated as debt extinguishment, which resulted in a non-cash write-off of \$2.3 million.

Interest Expense

Interest expense decreased by \$1.0 million in the third quarter of 2013 compared to the same period of 2012. The decrease was due to lower average borrowings in the third quarter of 2013 compared to the third quarter of 2012 due to the payoff of the majority of our outstanding debt in conjunction with the IPO.



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## Provision for Income Taxes

Provision for income taxes increased \$2.1 million in the third quarter of 2013, compared to same period of 2012 due to an increase in pre-tax net income of \$5.2 million in third quarter of 2013 from the third quarter of 2012.

Three Quarters Ended October 1, 2013 compared to Three Quarters Ended October 2, 2012

Our fiscal quarters each contain thirteen weeks. The table below presents our unaudited operating results for the first three quarters of 2013 and 2012, and the related period-over-period changes:

|   | Three Fiscal Quarters Ended |                    | Increase / (Decrease) |         |   |
|---|-----------------------------|--------------------|-----------------------|---------|---|
|   | October 1,<br>2013          | October 2,<br>2012 | \$                    | %       |   |
| (in thousands, except percentages)  |                             |                    |                       |         |   |
| Revenue:  |                             |                    |                       |         |   |
| Restaurant revenue  | \$256,744                   | \$220,261          | \$36,483              | 16.6    | % |
| Franchising royalties and fees  | 2,711                       | 2,220              | 491                   | 22.1    |   |
| Total revenue   | 259,455                     | 222,481            | 36,974                | 16.6    |   |
| Costs and Expenses:   |                             |                    |                       |         |   |
| Restaurant Operating Costs (exclusive of depreciation and amortization shown separately below): |                             |                    |                       |         |   |
| Cost of sales   | 67,524                      | 58,423             | 9,101                 | 15.6    |   |
| Labor   | 77,464                      | 66,002             | 11,462                | 17.4    |   |
| Occupancy   | 25,824                      | 21,669             | 4,155                 | 19.2    |   |
| Other restaurant operating costs  | 32,962                      | 27,449             | 5,513                 | 20.1    |   |
| General and administrative(1)   | 27,808                      | 21,426             | 6,382                 | 29.8    |   |
| Depreciation and amortization   | 15,074                      | 12,165             | 2,909                 | 23.9    |   |
| Pre-opening   | 2,873                       | 2,000              | 873                   | 43.7    |   |
| Asset disposals, closure costs and restaurant impairments                                       | 837                         | 663                | 174                   | 26.2    |   |
| Total costs and expenses  | 250,366                     | 209,797            | 40,569                | 19.3    |   |
| Income from operations  | 9,089                       | 12,684             | (3,595)               | (28.3)  | ) |
| Debt extinguishment cost  | —                           | 2,646              | (2,646)               | (100.0) | ) |
| Interest expense  | 2,199                       | 3,894              | (1,695)               | (43.5)  | ) |
| Income before income taxes  | 6,890                       | 6,144              | 746                   | 12.1    | % |
| Provision for income taxes  | 2,633                       | 2,540              | 93                    | 3.7     |   |
| Net income  | \$4,257                     | \$3,604            | \$653                 | 18.1    | % |
| Company owned:  |                             |                    |                       |         |   |
| Average unit volumes  | \$1,181                     | \$1,174            | \$7                   | 0.6     | % |
| Comparable restaurant sales   | 3.1                         | % 5.6              | %                     |         |   |

In the second quarter of 2013, we incurred \$5.7 million of IPO related expenses: \$2.0 million of stock-based compensation related to accelerated vesting of outstanding stock options, \$1.2 million of stock-based compensation related to stock options granted to our Chief Executive Officer and President and Chief Operating Officer of which 50% were vested at grant, \$1.7 million of transaction bonuses and related payroll taxes and \$0.8 million in (1) transaction payments to our Equity Sponsors. Additionally, the first three quarters of 2013 and 2012 included \$500,000 and \$750,000, respectively, of management fee expense in accordance with our management services agreement and through the Class C common stock dividend paid to the holder of the one outstanding share of our Class C common stock. In connection with our IPO, the management services agreement expired and the one share of Class C common stock was redeemed.



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Revenue

Restaurant revenue increased by \$36.5 million in the first three quarters of 2013 compared to the same period of 2012. Restaurants not in the comparable restaurant base accounted for \$30.3 million of this increase, with the balance attributed to growth in comparable restaurant sales. Comparable restaurant sales increased by \$6.2 million, or 3.1%, in first three quarters of 2013, composed primarily of increases in traffic at our comparable base restaurants and a modest price increase we took during 2013.

Franchise royalties and fees increased by \$0.5 million due to seven new restaurant openings and increased comparable restaurant sales of 0.3% in the first three quarters of 2013.

Cost of Sales

Cost of sales increased by \$9.1 million in the first three quarters of 2013 compared to the same period of 2012, due primarily to the increase in restaurant revenue in 2013. As a percentage of restaurant revenue, cost of sales decreased to 26.3% in the first three quarters of 2013 from 26.5% in the first three quarters of 2012. The decrease in cost of sales was the result of an increase in restaurant menu pricing, partially offset by food cost inflation.

Labor Costs

Labor costs increased by \$11.5 million in the first three quarters of 2013 compared to the same period of 2012, due primarily to the increase in restaurant revenue in 2013. As a percentage of restaurant revenue, labor costs increased to 30.2% in the first three quarters of 2013 from 30.0% in the first three quarters of 2012. The increase in labor cost percentage was driven by an increased percentage of new restaurants, which on average have higher labor costs as a percentage of revenue.

Occupancy Costs

Occupancy costs increased by \$4.2 million in the first three quarters of 2013 compared to the same period of 2012, due primarily to new restaurants opened since the third quarter of 2012. As a percentage of restaurant revenue, occupancy costs increased to 10.1% for the first three quarters of 2013, compared to 9.8% in the first three quarters of 2012. The increase was due to an increase in the percentage of restaurants not in the comparable base restaurants which, due to not reaching mature volumes yet, on average have higher occupancy costs as a percentage of revenue.

Other Restaurant Operating Costs

Other restaurant operating costs increased by \$5.5 million in the first three quarters of 2013 compared to the same period of 2012, due primarily to the increase in restaurant revenue in 2013. As a percentage of restaurant revenue, other restaurant operating costs increased to 12.8% in the first three quarters of 2013, compared to 12.5% in the first three quarters of 2012. The increase as a percentage of restaurant revenue was the result of restaurant-level marketing costs in the first quarter of 2013, as well as increased repair and maintenance costs.

General and Administrative Expense

General and administrative expense increased by \$6.4 million in the first three quarters of 2013 compared to the same period of 2012, due primarily to \$5.7 million of one time expenses related to the closing of our IPO in the second quarter of 2013. We recognized \$2.0 million of stock-based compensation related to accelerated vesting of outstanding stock options, \$1.2 million of stock-based compensation related to stock options granted to our Chief Executive Officer and President and Chief Operating Officer of which 50% were vested at grant, \$1.7 million of transaction bonuses and related payroll taxes and \$0.8 million in transaction payments to our Equity Sponsors. Excluding the impact of the \$5.7 million of IPO related expense, general and administrative expense as a percentage of revenue decreased to 8.5% in the first three quarters of 2013 from 9.6% in the first three quarters of 2012. The decrease is due to increasing revenue without proportionate increases in general and administrative costs or administrative personnel. General and administrative expense includes \$0.9 million of stock-based compensation expense in the first three quarters of 2013 and 2012, and \$0.5 million and \$0.8 million of management fees in the first three quarters of both 2013 and 2012, respectively.

Depreciation and Amortization

Depreciation and amortization increased by \$2.9 million in the first three quarters of 2013 compared to the same period of 2012, due primarily to an increased number of restaurants. As a percentage of revenue, depreciation and amortization increased to 5.8% in the first three quarters of 2013 from 5.5% in the same period of 2012, due to depreciation on new restaurants and initiatives, partially offset by leverage of increased AUVs.





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## Pre-Opening Costs

Pre-opening costs increased by \$0.9 million in the first three quarters of 2013 compared to the same period of 2012, due to 35 restaurants opened in the first three quarters of 2013, compared to 22 in the same period of 2012. As a percentage of revenue, pre-opening costs increased to 1.1% in first three quarters of 2013 compared to 0.9% in the same period of 2012 due to the timing of restaurant openings.

## Debt Extinguishment Expense

Debt extinguishment expense was \$2.6 million in the first three quarters of 2012, as a result of an amendment to our credit facility to extend the maturity date to July 2017 and reduce interest rates on borrowings. A portion of the new fees were treated as debt extinguishment, which resulted in a non-cash write-off of \$2.3 million.

## Interest Expense

Interest expense decreased by \$1.7 million in the first three quarters of 2013 compared to the same period of 2012. The decrease was primarily due to lower average borrowings in the first three quarters of 2013 due to the payoff of the majority of our outstanding debt in conjunction with the IPO, and the favorable borrowing rates resulting from the 2012 amendment to our credit facility.

## Provision for Income Taxes

Pre-tax net income increased \$0.7 million in the first three quarters of 2013 compared to the same period of 2012. The decrease in pre-tax net income was driven by decreases in debt extinguishment expense and interest expense, offset by an increase in income from operations.

## Liquidity and Capital Resources

## Summary of Cash Flows

Our primary sources of liquidity and cash flows are operating cash flows and borrowings on our revolving line of credit. We use this cash to fund capital expenditures for new restaurant openings, reinvest in our existing restaurants, invest in infrastructure and information technology and maintain working capital. Our working capital position benefits from the fact that we generally collect cash from sales to customers the same day, or in the case of credit or debit card transactions, within several days of the related sale, and we typically have at least 30 days to pay our vendors.

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

|  | Three Fiscal Quarters Ended |                    |
|--|-----------------------------|--------------------|
|  | October 1,<br>2013          | October 2,<br>2012 |
| Net cash provided by operating activities      | \$32,462                    | \$25,377           |
| Net cash used in investing activities          | (39,788                     | ) (30,525          |
| Net cash provided by financing activities      | 7,334                       | 5,234              |
| Cash and cash equivalents at the end of period | \$589                       | \$609              |

## Operating Activities

Net cash provided by operating activities of \$32.5 million for the first three quarters ended October 1, 2013 resulted primarily from net income, adjusted for items such as depreciation and amortization, stock-based compensation expense and the amortization of debt issuance costs. The \$7.1 million increase over the prior year was primarily driven by an increase in the change of deferred rent due to a larger restaurant base and a decrease in accounts payable due to a decreased number of restaurants under construction at the end of the third quarter of 2013.

## Investing Activities

Net cash flows used in investing activities increased \$9.3 million from \$30.5 million in the first three quarters of 2012 to \$39.8 million in the first three quarters of 2013. The increase over the prior year is primarily due to investments in new restaurant openings.

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### Financing Activities

Net cash provided by financing activities was \$7.3 million and \$5.2 million in the first three quarters of 2013 and 2012, respectively. We used borrowings in both fiscal years to fund new restaurant capital expenditures. In addition, on July 2, 2013, we closed our IPO in which we sold 6,160,714 shares of Class A common stock at \$18.00 per share and received net proceeds of approximately \$100.2 million (after underwriting discounts and offering expenses). These net proceeds were used to pay off our outstanding term loan and repay all but \$0.2 million of our revolving line of credit.

### Capital Resources

**Future Capital Requirements.** Our capital requirements are primarily dependent upon the pace of our real estate development program and resulting new restaurants. 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 capacity additions in our existing restaurants as well as information technology and other general corporate capital expenditures.

We currently estimate capital expenditures for the remainder of 2013 to be in the range of approximately \$6.2 million to \$10.2 million, for a total of \$46 million to \$50 million for the year. This is primarily related to the anticipated opening of seven to eight additional restaurants in the last quarter of 2013, the start of construction of restaurants to be opened in early 2014, and normal maintenance related capital expenditures for our existing restaurants.

**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 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.

### Credit Facility

We maintain a \$45.0 million revolving line of credit under our credit facility. The revolving line of credit includes a swing line loan of \$5.0 million used to fund everyday working capital requirements. In August 2012, we amended the credit facility to provide more favorable borrowing rates and to extend borrowing capacity through July 2017. In connection with the IPO, the Company repaid the entire \$75.0 million senior term loan under our credit facility and the majority of the revolving line of credit.

Borrowings under the credit facility bear interest, at our option, at either (i) LIBOR plus 2.00 to 4.25%, based on the lease-adjusted leverage ratio or (ii) the highest of the following rates plus 1.00 to 3.25%: (a) the federal funds rate plus 0.50%; (b) the Bank of America prime rate or (c) the one month LIBOR plus 1.00%. We also maintain outstanding letters of credit to secure obligations under our workers' compensation program and certain lease obligations. The letters of credit reduce the amount of future borrowings available under the agreement and aggregated \$2.0 million as of October 1, 2013. As of October 1, 2013, there was \$1.7 million outstanding under our revolving line of credit and \$41.3 million available for borrowing under the credit facility. The credit facility bore interest at rates ranging from 4.25% to 5.50% and 3.5% to 5.5% for the third quarter of 2013 and the first three quarters of 2013, respectively.

Availability of borrowings under the revolving line of credit is conditioned on our compliance with specified covenants, including a maximum lease-adjusted leverage ratio, a maximum 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 October 1, 2013, we were in compliance with all of our debt covenants.

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

Based on our forecasts, we believe that we will be able to maintain compliance with our financial covenants under our credit facility for the next twelve months. We believe that the cash flow from operating activities as well as available borrowings under our revolving credit facility will be sufficient to meet our liquidity needs over the same period.

### Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements or obligations as of October 1, 2013.



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Critical Accounting Policies and Estimates

Our consolidated financial statements and accompanying notes are prepared in accordance with US GAAP. Preparing consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by the application of our accounting policies. Our significant accounting policies are described in Note 1 to our consolidated financial statements. Critical accounting estimates are those that require application of management's most difficult, subjective or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods. While we apply our judgment based on assumptions believed to be reasonable under the circumstances, actual results could vary from these assumptions. It is possible that materially different amounts would be reported using different assumptions. Our critical accounting estimates are identified and described in our annual consolidated financial statements and the related notes included in our final prospectus filed June 28, 2013.

Recent Accounting Pronouncements

JOBS Act

We qualify as an "emerging growth company" pursuant to the provisions of the 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.

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.

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Item 3. Quantitative and Qualitative Disclosure about Market Risk

Interest Rate Risk

We are exposed to market risk from changes in interest rates on debt and changes in commodity prices. Our exposure to interest rate fluctuations is limited to our outstanding bank debt, which bears interest at variable rates. As of October 1, 2013, there was \$1.7 million outstanding under our revolving line of credit and \$41.3 million available for borrowing under the credit facility. A plus or minus 1.0% in the effective interest rate applied on these loans would have resulted in a pre-tax interest expense fluctuation of \$17,000 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 labor 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. Over the past five years, inflation has not significantly affected our operating results.

Item 4. Controls and procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of October 1, 2013. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

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

We have not engaged an independent registered accounting firm to perform an audit of our internal control over financial reporting as of any balance sheet date or for any period reported in our financial statements. Presently, we are not an accelerated filer, as such term is defined by Rule 12b-2 of the Exchange Act and therefore, our management is not presently required to perform an annual assessment of the effectiveness of our internal control over financial reporting. This requirement could apply as early as our Annual Report on Form 10-K for the year ending December 30, 2014 if certain triggers requiring accelerated filing deadlines are met prior to that. Our independent public registered accounting firm will first be required to attest to the effectiveness of our internal control over financial reporting for our Annual Report on Form 10-K for the first year we are no longer an "emerging growth company."

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 Matters

In the normal course of business, we are subject to 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 October 1, 2013. 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 and 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 final prospectus filed June 28, 2013. There have been no material changes to our Risk Factors as previously reported.

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

On October 1, 2013, the Company issued 23,289 shares of its Class B common stock to a consultant pursuant to the partial exercise of the consultant's rights to purchase the Company's Class B common stock at an exercise price of \$8.67 under a Warrant dated March 10, 2011. The fair market value at exercise was \$44.96 per share. The exercise price was paid through net share settlement. The Class B shares were issued by the Company in reliance on the exemption from registration afforded by Section 3(a)(9) of the Securities Act of 1933, as amended. The Class B shares were converted into an equal number of shares of the Company's Class A common stock on October 11, 2013.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.



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Item 6. Exhibit Index

| Exhibit Number | Description of Exhibit  |
|----------------|---|
| 31.1           | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                         |
| 31.2           | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                         |
| 32.1           | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS        | XBRL Instance 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 Financial Officer

Date November 7, 2013