

POTBELLY CORP
Form 10-Q
November 04, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 27, 2015

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: 001-36104

Potbelly Corporation

(Exact name of registrant as specified in its charter)

Delaware 36-4466837
(State or Other Jurisdiction of (IRS Employer

Incorporation) Identification Number)
111 N. Canal Street, Suite 850

Chicago, Illinois 60606

(Address, including Zip Code, of Principal Executive Offices)

Registrant's telephone number, including area code: (312) 951-0600

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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 definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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:

Common stock, \$0.01 Par Value – 30,297,871 shares as of October 30, 2015

POTBELLY CORPORATION

QUARTERLY REPORT ON FORM 10-Q

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POTBELLY CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(amounts in thousands, except share and par value data, unaudited)

	September 27, 2015	December 28, 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$42,768	\$63,005
Accounts receivable, net of allowances of \$34 and \$19 as of September 27, 2015 and December 28, 2014, respectively	5,406	4,016
Inventories	2,830	2,768
Deferred income taxes, current	564	507
Prepaid expenses and other current assets	9,793	9,922
Total current assets	61,361	80,218
Property and equipment, net	96,001	85,704
Indefinite-lived intangible assets	3,404	3,404
Goodwill	1,428	1,428
Deferred income taxes, non-current	17,860	17,860
Deferred expenses, net and other assets	3,882	3,333
Total assets	\$183,936	\$191,947
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	\$3,442	\$3,301
Accrued expenses	21,920	16,349
Accrued income taxes	125	226
Current portion of long-term debt	—	1,008
Total current liabilities	25,487	20,884
Deferred rent and landlord allowances	17,083	14,012
Other long-term liabilities	676	726
Total liabilities	43,246	35,622
Equity		
Common stock, \$0.01 par value—authorized, 200,000,000 shares; outstanding 27,366,312 and 28,934,700 shares as of September 27, 2015 and December 28, 2014, respectively	303	298
Warrants	909	909
Additional paid-in-capital	398,416	391,972
Treasury stock, held at cost, 2,921,811 and 827,090 shares as of September 27, 2015, and December 28, 2014, respectively	(37,276)	(10,246)
Accumulated deficit	(222,481)	(226,874)
Total stockholders' equity	139,871	156,059
Non-controlling interest	819	266

Total equity	140,690	156,325
Total liabilities and equity	\$183,936	\$191,947

See accompanying notes to the unaudited condensed consolidated financial statements.

POTBELLY CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

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

	For the 13 Weeks Ended		For the 39 Weeks Ended	
	September	September	September	September
	27,	28,	27,	28,
	2015	2014	2015	2014
Revenues				
Sandwich shop sales, net	\$95,564	\$84,340	\$276,527	\$241,131
Franchise royalties and fees	475	335	1,229	1,045
Total revenues	96,039	84,675	277,756	242,176
Expenses				
Sandwich shop operating expenses				
Cost of goods sold, excluding depreciation	27,256	24,044	78,854	69,066
Labor and related expenses	27,663	23,772	79,415	68,637
Occupancy expenses	11,855	10,467	34,741	30,629
Other operating expenses	10,501	8,847	30,128	25,696
General and administrative expenses	9,232	7,623	27,706	24,310
Depreciation expense	5,510	5,039	15,949	14,540
Pre-opening costs	510	314	1,587	839
Impairment and loss on disposal of property and equipment	1,133	1,315	1,965	2,192
Total expenses	93,660	81,421	270,345	235,909
Income from operations	2,379	3,254	7,411	6,267
Interest expense	56	42	180	124
Income before income taxes	2,323	3,212	7,231	6,143
Income tax expense	866	1,260	2,780	2,476
Net income	1,457	1,952	4,451	3,667
Net income attributable to non-controlling interest	56	5	58	11
Net income attributable to Potbelly Corporation	\$1,401	\$1,947	\$4,393	\$3,656
Net income per common share attributable to common				
stockholders:				
Basic	\$0.05	\$0.07	\$0.15	\$0.12
Diluted	\$0.05	\$0.06	\$0.15	\$0.12
Weighted average shares outstanding:				
Basic	27,850,394	29,358,822	28,450,063	29,284,058
Diluted	28,369,775	30,044,456	29,137,537	30,463,093

See accompanying notes to the unaudited condensed consolidated financial statements.

POTBELLY CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statement of Equity

(amounts in thousands, except share data, unaudited)

	Common Stock Shares	Common Stock Amount	Treasury Stock	Warrants	Additional Paid-In- Capital	Accumulated Deficit	Non-Controlling Interest	Total Equity
Balance at December 29, 2013	29,148,029	\$ 291	\$—	\$ 909	\$ 383,077	\$ (231,232)	\$ 228	\$ 153,273
Net income	—	—	—	—	—	3,656	11	3,667
Issuance of unrestricted common stock	28,240	—	—	—	432	—	—	432
Exercise of stock options	338,946	4	—	—	2,964	—	—	2,968
Repurchases of common stock	(471,290)	—	(5,797)	—	—	—	—	(5,797)
Distribution to non- controlling interest	—	—	—	—	—	—	(34)	(34)
Amortization of stock-based compensation	—	—	—	—	1,590	—	—	1,590
Balance at September 28, 2014	29,043,925	\$ 295	\$ (5,797)	\$ 909	\$ 388,063	\$ (227,576)	\$ 205	\$ 156,099
Balance at December 28, 2014	28,934,700	\$ 298	\$ (10,246)	\$ 909	\$ 391,972	\$ (226,874)	\$ 266	\$ 156,325
Net income	—	—	—	—	—	4,393	58	4,451
Exercise of stock options	526,333	5	—	—	4,315	—	—	4,320
Excess tax benefits associated with exercise of stock options	—	—	—	—	334	—	—	334
Repurchases of common stock	(2,094,721)	—	(27,030)	—	—	—	—	(27,030)
Distribution to non- controlling interest	—	—	—	—	—	—	(85)	(85)
Contributions from	—	—	—	—	—	—	580	580

non-controlling interest								
Amortization of								
stock-based compensation	—	—	—	—	1,795	—	—	1,795
Balance at September 27, 2015	27,366,312	\$ 303	\$(37,276)	\$ 909	\$ 398,416	\$(222,481)	\$ 819	\$ 140,690

See accompanying notes to the unaudited condensed consolidated financial statements.

POTBELLY CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(amounts in thousands, unaudited)

	For the 39 Weeks Ended	
	September 27, 2015	September 28, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$4,451	\$ 3,667
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	15,949	