

POTBELLY CORP
Form 10-Q
May 03, 2017

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 March 26, 2017

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

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

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

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

Common stock, \$0.01 Par Value – 25,045,688 shares as of March 26, 2017

POTBELLY CORPORATION

QUARTERLY REPORT ON FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

POTBELLY CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

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

	March 26, 2017	December 25, 2016
Assets		
Current assets		
Cash and cash equivalents	\$27,376	\$23,379
Accounts receivable, net of allowances of \$120 and \$78 as of March 26, 2017 and December 25, 2016, respectively	4,861	3,787
Inventories	3,142	3,365
Prepaid expenses and other current assets	7,445	8,020
Total current assets	42,824	38,551
Property and equipment, net	106,460	107,074
Indefinite-lived intangible assets	3,404	3,404
Goodwill	2,222	2,222
Deferred income taxes, non-current	19,225	19,410
Deferred expenses, net and other assets	4,831	4,784
Total assets	\$178,966	\$175,445
Liabilities and Equity		
Current liabilities		
Accounts payable	\$4,308	\$3,111
Accrued expenses	24,202	23,082
Accrued income taxes	1,905	1,622
Total current liabilities	30,415	27,815
Deferred rent and landlord allowances	21,708	21,076
Other long-term liabilities	2,542	2,318
Total liabilities	54,665	51,209
Stockholders' Equity		
Common stock, \$0.01 par value—authorized, 200,000,000 shares; outstanding	310	309

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25,045,688 and 25,139,127 shares as of March 26, 2017 and		
December 25, 2016, respectively		
Warrants	909	909
Additional paid-in-capital	408,992	407,622
Treasury stock, held at cost, 5,905,970 and 5,753,412 shares as of		
March 26, 2017, and December 25, 2016, respectively		
Accumulated deficit	(74,309)	(72,321)
Total stockholders' equity	(212,351)	(213,034)
Non-controlling interest	123,551	123,485
Total stockholders' equity	750	751
	124,301	124,236
Total liabilities and equity	\$ 178,966	\$ 175,445

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	
	March 26, 2017	March 27, 2016
Revenues		
Sandwich shop sales, net	\$ 100,859	\$ 95,426
Franchise royalties and fees	840	529
Total revenues	101,699	95,955
Expenses		
Sandwich shop operating expenses		
Cost of goods sold, excluding depreciation	26,663	26,246
Labor and related expenses	30,462	28,162
Occupancy expenses	14,169	12,757
Other operating expenses	11,633	10,545
General and administrative expenses	10,352	10,523
Depreciation expense	6,199	5,664
Pre-opening costs	73	152
Impairment and loss on disposal of property and equipment	885	17
Total expenses	100,436	94,066
Income from operations	1,263	1,889
Interest expense	28	28
Income before income taxes	1,235	1,861
Income tax expense	553	733
Net income	682	1,128
Net income (loss) attributable to non-controlling interest	(1) 40
Net income attributable to Potbelly Corporation	\$ 683	\$ 1,088
Net income per common share attributable to common stockholders:		
Basic	\$ 0.03	\$ 0.04
Diluted	\$ 0.03	\$ 0.04
Weighted average shares outstanding:		
Basic	25,099,962	26,259,593
Diluted	26,082,478	26,733,055

See accompanying notes to the unaudited condensed consolidated financial statements.

POTBELLY CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements 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 27, 2015	26,304,261	\$ 303	\$(50,000)	\$ 909	\$ 399,458	\$(221,246)	\$ 789	\$ 130,213
Net income	—	—	—	—	—	1,088	40	1,128
Exercise of stock options	58,971	1	—	—	557	—	—	558
Excess tax benefits associated with exercise of stock options	—	—	—	—	6	—	—	6
Repurchases of common stock	(333,950)	—	(4,359)	—	—	—	—	(4,359)
Amortization of stock-based compensation	—	—	—	—	677	—	—	677
Balance at March 27, 2016	26,029,282	\$ 304	\$(54,359)	\$ 909	\$ 400,698	\$(220,158)	\$ 829	\$ 128,223
Balance at December 25, 2016	25,139,127	\$ 309	\$(72,321)	\$ 909	\$ 407,622	\$(213,034)	\$ 751	\$ 124,236
Net income (loss)	—	—	—	—	—	683	(1)	682
Exercise of stock options	59,119	1	—	—	550	—	—	551
Repurchases of common stock	(152,558)	—	(1,988)	—	—	—	—	(1,988)
Amortization of stock-based compensation	—	—	—	—	820	—	—	820
Balance at March 26, 2017	25,045,688	\$ 310	\$(74,309)	\$ 909	\$ 408,992	\$(212,351)	\$ 750	\$ 124,301

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 13 Weeks Ended	
	March 26, 2017	March 27, 2016
Cash flows from operating activities:		
Net income	\$682	\$1,128
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,199	5,664
Deferred income tax	185	70
Deferred rent and landlord allowances	632	207
Amortization of stock compensation expense	820	677
Excess tax deficiency (benefit) from stock-based compensation	89	(6)
Asset impairment, store closure and disposal of property and equipment	907	17
Amortization of debt issuance costs	9	7
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,074)	304
Inventories	223	208
Prepaid expenses and other assets	465	1,180
Accounts payable	865	(2,068)
Accrued and other liabilities	2,418	4,505
Net cash provided by operating activities	12,420	11,893
Cash flows from investing activities:		
Purchases of property and equipment	(6,927)	(6,618)
Net cash used in investing activities	(6,927)	(6,618)
Cash flows from financing activities:		
Procee		