

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 30, 2014

or

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

For the transition period from to

Commission File Number: 001-35987

**NOODLES & COMPANY**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

84-1303469

(IRS Employer  
Identification No.)

520 Zang Street, Suite D

80021

Broomfield, CO

(Address of Principal Executive Offices)

(Zip Code)

Registrant's telephone number, including area code: (720) 214-1900

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

Title of each class

Common stock, par value \$0.01 per share

Name of each exchange on which registered

NASDAQ (Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 (check one):

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

Large accelerated filer

Accelerated filer

Smaller reporting company

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates as of July 1, 2014, the last business day of the registrant's most recently completed second fiscal quarter, was \$438.8 million. This amount was calculated based on the closing price of the common stock on July 1, 2014 on the NASDAQ Global Select Market. All executive officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant.

As of February 19, 2015, there were 29,827,302 shares of the registrant's common stock, par value of \$0.01 per share, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

None.

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## PART I

### ITEM 1. Business

#### General

Noodles & Company is a high growth, fast casual restaurant concept offering lunch and dinner within a fast growing segment of the restaurant industry. We opened our first location in Denver, Colorado in 1995, offering noodle and pasta dishes, staples of many cuisines, with the goal of delivering fresh ingredients and flavors from around the world under one roof. Today, our globally inspired menu includes a wide variety of high quality, cooked-to-order dishes, including noodles and pasta, soups, salads, sandwiches and appetizers which are served on china by our friendly team members. We believe we offer our customers value with per person spend of \$8.25 for the fiscal year ended December 30, 2014. We have 439 restaurants, comprised of 386 company-owned and 53 franchised locations, across 32 states and the District of Columbia, as of December 30, 2014.

We offer more than 25 globally inspired Asian, Mediterranean and American dishes together on a single menu. We believe we will continue to benefit from trends in consumer preferences, wider availability of international cuisines and increasingly adventurous consumer tastes. At many restaurants, people are limited to a particular ethnic cuisine or type of dish, such as a sandwich, burrito or burger. At Noodles & Company, we aim to eliminate the "veto vote" by satisfying the preferences of a wide range of customers, whether a mother with kids, a group of coworkers, an individual or a large party.

We believe we are the only national fast casual restaurant concept offering a menu with a wide variety of noodle and pasta dishes, soups, salads, sandwiches and appetizers inspired by global flavors. We believe our attributes—global flavors, variety and fast service—allow us to compete against multiple segments throughout the restaurant industry and provide us a larger addressable market for lunch and dinner than competitors who focus on a single cuisine. We believe we provide a pleasant dining experience by quickly delivering fresh food with friendly service at a price point we believe is attractive to our customers.

Noodles & Company is a Delaware corporation that was organized in 2002. Noodles & Company and its subsidiaries are sometimes referred to as "we," "us," "our," and the "Company" in this report.

#### Our Concept and Business Strengths

*Variety.* We have purposefully chosen a range of healthy to indulgent dishes to satisfy carnivores and vegetarians. Our menu encourages customers to customize their meals to meet their tastes and nutritional preferences with our selection of 14 fresh vegetables and six proteins—beef, naturally raised pork, chicken, meatballs, shrimp and organic tofu. We believe our variety ensures that even the pickiest of eaters can find something to crave, which eliminates the "veto vote" and encourages people with different tastes to enjoy a meal together.

All of our dishes are cooked-to-order with fresh, high quality ingredients sourced from our carefully selected suppliers. Our commitment to the freshness of our ingredients is further demonstrated by our use of seasonal ingredients and healthy add-in options, such as organic tofu, and by the freshness of our ingredients. Our culinary team strives to develop new dishes and limited time offerings ("LTOs") to further reinforce our Your World Kitchen positioning and regularly provide our guests additional options. For example, in Fall of 2014 we introduced a Buffalo Chicken Mac & Cheese and Fig & Pig Flatbread to provide a hearty option as the country entered colder weather and to expand on our flatbread appetizer platform. This focus on culinary innovation, combined with our commitment to classic cooking methods, allows us to prepare and serve high quality food.

*Value.* The value we offer, the quality of our food and the welcoming ambiance of our restaurants create an overall customer experience that we believe is second-to-none. Our per person spend of approximately \$8.25 for the twelve months ended December 30, 2014 is competitive not only within the fast casual segment, but also within the quick-service segment. We believe the speed of our service and the quality of our food contributes to a value proposition that enables us to take market share from casual dining restaurants. We deliver value by combining a family-friendly dining environment with the opportunity to enjoy many dishes containing ingredients like our award-winning slow-braised, naturally raised pork.

*The Experience in Our Restaurants.* We design each location individually, which we believe creates an inviting restaurant environment. We believe the ambiance is warm and welcoming, with muted lighting and colors, comfortable seating and our own custom music mix, which is intended to make our customers feel relaxed and at home. We also enhance the experience by featuring

Coca-Cola Freestyle® machines in all our restaurants, offering our customers over 100 drink choices to complement their meal—again putting control in the customers' hands, so that they can create or match their drink to their meal.

We believe we deliver an exceptional overall dining experience. We think that our customers should expect not only great food from our restaurants, but also warm hospitality and attentive service. Whether you are a mother with kids or a businessperson with a laptop, you simply order your food, grab a drink and take a seat. We cook each dish to order in approximately five minutes and bring the food right to your table. Our customers may enjoy a relaxed meal or just eat and run.

Consistent with our culture of enhanced customer service, we seek to hire individuals who will deliver prompt, attentive service by engaging customers the moment they enter our restaurants. Our training philosophy empowers both our restaurant managers and team members to add a personal touch when serving our customers, such as coming out from behind the counter to explain our menu and guide customers to the right dish. Our restaurant managers are critical to our success, as we believe that their entrepreneurial spirit and outreach efforts build our brand in our communities. We call our cashiers "Noodle Ambassadors" to highlight their role in helping our customers explore our global menu.

After our customers order at the counter, their food is served on china and delivered to their table by our friendly team members. To further enhance our customers' dining experience, we check on them throughout their meal. We offer them drink refills, a glass of wine or dessert, so they do not have to leave their seats. No trash cans are visible to our customers in our restaurants: following the meal, our team quickly clears the table.

### **Restaurant Unit Growth**

We believe we have significant growth potential because of our brand positioning, strong unit economics, financial results and broad customer appeal. We have more than doubled our restaurant base in the last six years to 439 locations in 32 states and the District of Columbia as of December 30, 2014, including the 49 company-owned restaurants and 10 franchise restaurants opened in 2014. We also purchased 19 restaurants from two franchisees during 2014. We believe we are at an early stage of nationwide expansion, and that we can grow to 2,500 restaurants over the next 15 to 20 years across the United States based on our scalable infrastructure, broad appeal and flexible and portable real estate model, but this growth rate is not guaranteed. Our restaurants are typically 2,600 to 2,700 square feet and are located in end-cap, inline or free-standing locations across a variety of urban and suburban markets. Our near-term growth strategy will involve opening units in mature markets and expanding into new markets.

Although we expect the majority of our expansion to continue to be from company-owned restaurants, we are strategically expanding our base of franchise restaurants. Our franchise program is a low-cost and high-return model that allows us to expand our footprint and build brand awareness in markets that we do not plan to enter in the short to medium term. As of December 30, 2014, we have 53 franchise units in 15 states operated by 11 franchisees. We look for experienced, well-capitalized franchise partners who are able to leverage their existing infrastructure and local knowledge in a manner that benefits both our franchisees and ourselves. As of December 30, 2014, a total of 10 area developers have signed development agreements providing for the opening of 175 restaurants in their respective territories.

### **Site Development and Expansion**

We consider our site selection and development process critical to our long-term success. We use a combination of our own development team and outside real estate consultants to locate, evaluate and negotiate new sites using various criteria. In addition, because we offer a mix of dishes and a dining experience that differs from many other restaurant concepts, we believe our restaurants are highly sought after by real estate owners and developers. We often are made aware of opportunities early in their development process, allowing us to secure optimal locations.

In making site selection decisions, we also use several analytical tools designed to uncover the key site, demographic, business, retail, competitive and traffic characteristics that drive successful locations. These tools have been customized to leverage existing real estate information to project sales of a potential location and to assist in the development of local marketing plans.

Our ability to succeed in several different kinds of trade areas and real estate types has allowed us flexibility in our market development strategy. While we typically target end-cap or freestanding locations, we also have seen success in inline locations. Moreover, we perform well in various market sizes, from smaller markets to suburbs to central business districts. This flexibility also allows us to manage risk in our development portfolio by balancing higher cost locations—typically seen in urban areas—with those that are lower cost—typically seen in smaller markets.

Once a location has been approved by our executive-level selection committee, we begin a design process to match the characteristics and feel of the location to the trade area. For example, in a trade area with a high percentage of families we will utilize additional booth seating in the dining room, and in an urban location we will typically alter our kitchen design to enhance throughput for the busy lunch hours.

## **Restaurant Management and Operations**

*Friendly People.* We believe our genuine, nice people separate us from our competitors. We value the individuality of our team members, which we believe results in a management, operations and training philosophy distinct from that of our competitors. We make an effort to hire team members who share a passion for food, have a competitive spirit and will operate our restaurants in a way that is consistent with our high standards. We seek to hire individuals who will deliver prompt, attentive service by engaging customers the moment they enter our restaurants. We empower our team members to enrich the experience of our customers and directly address any concerns that may arise in a manner that contributes to the success of our business.

*Restaurant Management and Employees.* Each restaurant typically has a restaurant manager, an assistant manager and as many as 15 to 25 team members. We cross-train our employees in an effort to create a depth of competency in our critical restaurant functions. Consistent with our emphasis on customer interaction, we encourage our restaurant managers and team members to welcome and interact with customers throughout the day. To lead our restaurant management teams, we have area managers (each of whom is responsible for between five and 12 restaurants), as well as market directors (each of whom is responsible for between 50 and 80 restaurants).

*Training and Career Development.* We believe that our training efforts create a culture of continuous learning and professional growth that allows our team members to continue their career development with us. Within each restaurant, two to four team members are designated to lead the training efforts and ensure a consistent approach to team member development. We produce training materials that encourage individual contributions and participation from our team members, rather than providing rote, step-by-step scripts or rigid and extensively detailed policy manuals.

*Food Preparation and Quality.* Our teams use classic professional cooking methods, including hand-chopping, par boiling and sautéing many of our vegetables, in full kitchens resembling those of full service restaurants. All team members, including our restaurant managers, spend their first several days working solely with food and learning these techniques, and we spend a significant amount of time ensuring that each team member learns how to prepare and cook our food properly. Despite our more labor-intensive method of food preparation, we believe that we produce food with an efficiency that enables us to compete effectively.

The majority of our restaurants have exhibition-style kitchens. This design demonstrates our commitment to cooking fresh food in an accessible manner. We provide each customer with individual attention and make every effort to respond to customer suggestions and concerns in a personal and hospitable way.

We have designed our food safety and quality assurance programs to maintain high standards for our food and food preparation procedures. Our quality assurance manager oversees comprehensive restaurant and supplier audits based upon the potential food safety risk of each food. We also consider food safety and quality assurance when selecting our distributors and suppliers. Our suppliers are inspected by federal, state and local regulators or other reputable, qualified inspection services, which helps ensure their compliance with all federal food safety and quality guidelines. We regularly inspect our suppliers to ensure that the ingredients we buy conform to our quality standards and that the prices we pay are competitive. We also rely on our own recipes, specifications and protocols to ensure that our food is consistently the best quality possible when served, including a physical examination of ingredients when they arrive at our restaurants. We train our employees to pay detailed attention to food quality at every stage of the food preparation cycle and have developed a daily checklist that our employees use to assess the freshness and quality of food supplies. Finally, we encourage our customers to provide feedback regarding our food quality so that we can identify and resolve problems or concerns as quickly as possible.

## **Restaurant Marketing**

Our marketing efforts seek to increase sales through a variety of channels and initiatives. Community-based restaurant marketing, as well as online, social and other media tools, highlight our competitive strengths, including our varied and healthy menu offerings and the value we offer our customers.

- *Local Relationship Marketing.* We differentiate our business through an innovative, community-based approach to building brand awareness and customer loyalty. We use a wide range of local marketing initiatives to increase the frequency of and occasions for visits, and to encourage people to get to know us better, try our food and bring their friends. We empower our local restaurant managers to selectively organize events to bring new customers into our restaurants. For example, our team members will invite a customer to bring a group of his or her friends in for a "tasting," an exclusive menu tasting at their local Noodles location.
- *Our Menu Offerings.* We focus some of our marketing efforts on new menu offerings to broaden our appeal to our customers. We offer LTOs and featured items like the Buffalo Chicken Mac & Cheese, a twist on our core Wisconsin Mac & Cheese, which include ingredients and flavors that maintain customer interest. We promote these items through a variety of formats including market-wide public relations events, social media marketing, radio promotions, tastings and email blasts to our e-club. In addition to increasing brand awareness, these promotions also encourage prompt consumer action, resulting in more immediate increases in our customer traffic.
- *Creating New Meal Occasions.* We also focus on ways Noodles & Company can serve customers at different times and in new places. For example, customers who want to feed a large group can enjoy our Square Bowls, which are family-style take-out offerings of our noodles, pastas and salads that generally feed up to four people. We market this new offering in a variety of ways, including in-restaurant posters, as well as email Noodlegrams, Facebook posts and other communications outside our restaurants. During 2014 we also introduced a catering offering, which accommodates groups of twenty or more guests.
- *Making Noodles & Company Easier to Use.* Some of our marketing efforts focus on making our restaurants easier to use. We seek to deliver superior customer service at every opportunity, generating consumer awareness of menu offerings with in-restaurant communications by providing displays of our menu offerings and beer and wine selection visible upon entry, chalkboards featuring new menu offerings and fresh ingredients and table top cards that highlight healthy food offerings. By providing multiple points of access to our wide variety of menu offerings, we seek to optimize our customers' in-restaurant experience in order to increase the frequency of our customers' visits. Our efforts also make use of tools like online ordering.
- *Online, Social and Other Media Tools.* We rely on our website, [www.noodles.com](http://www.noodles.com), to promote our business and increase brand awareness. The information on or available through our website is not, and should not be considered, a part of this report. Our customers are encouraged to sign up to receive email communication or Noodlegrams, updating them on new menu offerings, LTOs and promotional opportunities. As of December 30, 2014, more than 1,100,000 of our customers have signed up to receive Noodlegrams. We also communicate with our customers using social media, such as our Facebook and Instagram pages, our YouTube channel and our Twitter feed. Our media tools also include placements in local, regional and national print media.

## Suppliers

Maintaining a high degree of quality in our restaurants depends in part on our ability to acquire fresh ingredients and other necessary supplies that meet our specifications from reliable suppliers. We carefully select suppliers based on quality and their understanding of our brand, and we seek to develop mutually beneficial long-term relationships with them. We work closely with our suppliers and use a mix of forward, fixed and formula pricing protocols. We have tried to increase, in some cases, the number of suppliers for our ingredients, which we believe can help mitigate pricing volatility, and we monitor industry news, trade issues, weather, crises and other world events that may affect supply prices.

## Seasonality

Seasonal factors and the timing of holidays 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.

## Competition

We face competition from the casual dining, quick-service and fast casual segments of the restaurant industry. These segments are highly competitive with respect to taste, price, food quality and presentation, service, location and the ambience and condition of each restaurant, among other things. Our competition includes a variety of locally owned restaurants and national and regional

chains who offer dine-in, carry-out and delivery services. Many of our competitors have existed longer and have a more established market presence with substantially greater financial, marketing, personnel and other resources than we have. Among our competitors are a number of multi-unit, multi-market fast casual restaurant concepts, some of which are expanding nationally. As we expand, we will face competition from these concepts and new competitors that strive to compete with our market segments.

We believe we are the only national fast casual restaurant concept offering a menu with a wide variety of noodle and pasta dishes, soups, salads and sandwiches inspired by global flavors. We believe our attributes—global flavors, variety and fast service—allow us to compete against multiple segments throughout the restaurant industry and provide us a larger addressable market for lunch and dinner than competitors who focus on a single cuisine. We believe we provide a pleasant dining experience by quickly delivering fresh food with friendly service at a price point we believe is attractive to our customer.

## **Franchising**

We had 11 franchisees who operated 53 franchise restaurants in 15 states as of December 30, 2014. A total of 10 area developers have signed area development agreements providing for the opening of 175 additional restaurants in their respective territories as of December 30, 2014. We expect to continue to offer development rights in markets where we do not intend to build company-owned restaurants. We may offer such rights to larger developers who commit to open 10 or more units, or to smaller developers who may commit to open significantly fewer restaurants. We do not currently intend to offer single-unit franchises. We believe the strength and attractiveness of our brand and unit growth opportunities in attractive undeveloped markets will attract experienced and well-capitalized area developers.

## **Intellectual Property and Trademarks**

We own a number of trademarks and service marks registered or pending with the U.S. Patent and Trademark Office ("PTO"). We have registered the following marks with the PTO: Noodles & Company, the Noodles & Company logo, Your World Kitchen, Square Bowl, Noodlegram, Crave Card and Wisconsin Mac & Cheese. We also have certain trademarks registered or pending in certain foreign countries. In addition, we have registered the Internet domain name *www.noodles.com*. The information on, or that can be accessed through, our website is not part of this report. We believe that our trademarks, service marks and other intellectual property rights have significant value and are important to the marketing of our brand, and it is our policy to protect and defend vigorously our rights to such intellectual property.

## **Governmental Regulation and Environmental Matters**

We are subject to extensive and varied federal, state and local government regulation, including regulations relating to public and occupational health and safety, sanitation and fire prevention. We operate each of our restaurants in accordance with standards and procedures designed to comply with applicable codes and regulations. However, an inability to obtain or retain health department or other licenses would adversely affect our operations. Although we have not experienced, and do not anticipate, any significant difficulties, delays or failures in obtaining required licenses, permits or approvals, any such problem could delay or prevent the opening of, or adversely impact the viability of, a particular restaurant or group of restaurants.

In addition, in order to develop and construct restaurants, we need to comply with applicable zoning, land use and environmental regulations. Federal and state environmental regulations have not had a material effect on our operations to date, but more stringent and varied requirements of local governmental bodies with respect to zoning, land use and environmental factors could delay or even prevent construction and increase development costs for new restaurants. We are also required to comply with the accessibility standards mandated by the U.S. Americans with Disabilities Act, which generally prohibits discrimination in accommodation or employment based on disability. We may in the future have to modify restaurants, for example by adding access ramps or redesigning certain architectural fixtures, to provide service to or make reasonable accommodations for disabled persons. While these expenses could be material, our current expectation is that any such actions will not require us to expend substantial funds.

A small amount of our revenues is attributable to the sale of alcoholic beverages. Alcoholic beverage control regulations require each of our restaurants to apply to a state authority and, in certain locations, county or municipal authorities for a license that must be renewed annually and may be revoked or suspended for cause at any time. Alcoholic beverage control regulations relate to numerous aspects of daily operations of our restaurants, including minimum age of patrons and employees, hours of operation, advertising, trade practices, wholesale purchasing, other relationships with alcohol manufacturers, wholesalers and distributors, inventory control and handling, storage and dispensing of alcoholic beverages. We are also subject in certain states to "dram shop" statutes, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment that

wrongfully served alcoholic beverages to the intoxicated person. We carry liquor liability coverage as part of our existing comprehensive general liability insurance. A small number of our restaurants do not have liquor licenses, typically because of the cost of a liquor license in jurisdictions having liquor license quotas.

In addition, we are subject to the U.S. Fair Labor Standards Act, the U.S. Immigration Reform and Control Act of 1986, the Occupational Safety and Health Act and various other federal and state laws governing similar matters including minimum wages, overtime, workplace safety and other working conditions. We are also subject to various laws and regulations relating to our current and any future franchise operations.

We are subject to federal, state and local environmental laws and regulations concerning waste disposal, pollution, protection of the environment, and the presence, discharge, storage, handling, release and disposal of, or exposure to, hazardous or toxic substances ("environmental laws"). These environmental laws can provide for significant fines and penalties for non-compliance and liabilities for remediation, sometimes without regard to whether the owner or operator of the property knew of, or was responsible for, the release or presence of the hazardous or toxic substances. Third parties may also make claims against owners or operators of properties for personal injuries and property damage associated with releases of, or actual or alleged exposure to, such substances. We are not aware of any environmental laws that will materially affect our earnings or competitive position, or result in material capital expenditures relating to our restaurants. However, we cannot predict what environmental laws will be enacted in the future, how existing or future environmental laws will be administered, interpreted or enforced, or the amount of future expenditures that we may need to make to comply with, or to satisfy claims relating to, environmental laws. It is possible that we will become subject to environmental liabilities at our properties, and any such liabilities could materially affect our business, financial condition or results of operations.

### **Management Information Systems**

All of our restaurants use computerized management information systems, which we believe are scalable to support our future growth plans. We use point-of-sale computers designed specifically for the restaurant industry. The system provides a touch screen interface, a graphical order confirmation display and integrated, high-speed credit card and gift card processing. The point-of-sale system is used to collect daily transaction data, which generates information about daily sales, product mix and average check that we actively analyze. All products sold and prices at our company-owned restaurants are programmed into the system from our central support office.

Our in-restaurant back office computer system is designed to assist in the management of our restaurants and provide labor and food cost management tools. These tools provide corporate and restaurant operations management quick access to detailed business data and reduces restaurant managers' administrative time. The system provides our restaurant managers the ability to submit orders electronically with our distribution network. The system also supplies sales, bank deposit and variance data to our accounting department on a daily basis. We use this data to generate daily sales information and weekly consolidated reports regarding sales and other key measures, as well as preliminary weekly detailed profit and loss statements for each location with final reports following the end of each period.

Franchisees use similar point of sale systems and are required to report sales on a daily basis through an on-line reporting network and submit their restaurant-level financial statements on a quarterly or annual basis.

### **Employees**

As of December 30, 2014, we had approximately 9,500 employees, including approximately 900 salaried employees and approximately 8,600 hourly employees. None of our employees are unionized or covered by a collective bargaining agreement, and we consider our current employee relations to be good.

### **Available Information**

We maintain a website at [www.noodles.com](http://www.noodles.com), including an investor relations section at [investor.noodles.com](http://investor.noodles.com), on which we routinely post important information, such as webcasts of quarterly earnings calls, and any related materials. You may access our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, as well as other reports relating to us that are filed with or furnished to the SEC, free of charge in the investor relations section of our website as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. The public may also read and copy materials we file with the SEC at the SEC's Public Reference Room, which is located at 100 F Street, NE, Room 1580, Washington, DC 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also



maintains a website that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov).

The contents of the websites mentioned above are not incorporated into and should not be considered a part of this report. The references to the URLs for these websites are intended to be inactive textual references only.

## Executive Officers of the Registrant

<b>Name</b>	<b>Age<sup>(1)</sup></b>	<b>Position</b>
Kevin Reddy	56	Chairman and Chief Executive Officer
Keith Kinsey	60	President, Chief Operating Officer and Director
Dave Boennighausen	37	Chief Financial Officer
Dan Fogarty	53	Executive Vice President of Marketing
Phil Petrilli	45	Executive Vice President of Operations
Paul Strasen	58	Executive Vice President, General Counsel and Secretary
Kathy Lockhart	50	Vice President and Controller

(1) As of February 23, 2015

*Kevin Reddy* has served as our Chief Executive Officer since April 2006. He became a member of our board of directors in May 2006, and Chairman of the Board in May 2008. Mr. Reddy was our President and Chief Operating Officer from April 2005 to April 2006, continuing to serve as our President until July 2012. Prior to joining us, he was the Chief Operating Officer, Chief Operations Officer and Restaurant Support Officer for Chipotle Mexican Grill. Mr. Reddy began his professional career with McDonald's Corporation in 1983 as a regional controller and progressed into positions of escalating responsibility. Mr. Reddy has received a number of awards in connection with his role as our Chief Executive Officer, including being named "Entrepreneur of the Year" by Restaurant Business Magazine in 2009 and was most recently included on the *Nation's Restaurant News* 2014 Builders List, created to feature people who are taking restaurant brands to the next level. He currently serves on the executive advisory board to the Daniels School of Business at the University of Denver. He received a BS in Accounting from Duquesne University.

*Keith Kinsey* has served as our President since July 2012 and our Chief Operating Officer since November 2007. Mr. Kinsey also served as our Chief Financial Officer from July 2005 to July 2012. He became a member of our board of directors in November 2008. Prior to joining us, he was the Pacific Regional Director for Chipotle Mexican Grill. Prior to that time, he held various management roles at McDonald's Corporation, PepsiCo Restaurant Group and Checkers Drive-In Restaurants. He received a BS in Accounting from the University of Illinois.

*Dave Boennighausen* has served as our Chief Financial Officer since July 2012. Mr. Boennighausen has been with the Company since 2004, and served as our Vice President of Finance from October 2007 to March 2011, and as our Executive Vice President of Finance from April 2011 to June 2012. He began his career with May Department Stores. He received a BS in Finance and Marketing from Truman State University and holds an MBA from the Stanford Graduate School of Business.

*Dan Fogarty* has served as our Executive Vice President of Marketing since October 2010. Mr. Fogarty has been with the Company since 2009, serving as Vice President of Marketing from June 2009 to October 2010. Prior to joining us, Mr. Fogarty was Vice President of Marketing for The Pump Energy Food from May 2008 until May 2009. Prior to that time, he worked at Potbelly Sandwich Works and Chipotle Mexican Grill. Mr. Fogarty began his career working for a number of advertising agencies and had his own brand consulting firm for five years. He received a BA in Journalism and Advertising from the University of Kansas.

*Phil Petrilli* has served as our Executive Vice President of Operations since May 2012. Prior to joining us, he worked for Chipotle Mexican Grill in multiple operations positions from June 1999 to May 2012, most recently as Regional Director-Northeast Region from 2008 to 2012, where he led a region of 268 restaurants. He received a degree in Industrial Psychology from the University of Illinois-Chicago.

*Paul Strasen* has served as our Executive Vice President, Secretary and General Counsel since January 2008. Prior to joining our company, Mr. Strasen was the Vice President, General Counsel and Secretary of Houlihan's Restaurants, Inc. and served as the General Counsel of Einstein/Noah Bagel Corp. He began his career at Bell Boyd & Lloyd, now part of K & L Gates. Mr. Strasen

received a BA in Humanities and Political Science from Valparaiso University and received a JD from The University of Chicago Law School.

*Kathy Lockhart* has served as our Vice President and Controller since August 2006. Prior to joining us, Ms. Lockhart served as the Vice President and Controller of several public and private restaurant and retail companies, including Einstein/Noah Bagel Corp., Boston Market, VICORP (parent company of Village Inn and Bakers Square restaurants) and Ultimate Electronics. She received a BA in Business Administration and Political Science from Western State College, and is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants.

## **ITEM 1A. Risk Factors**

### *Special Note Regarding Forward-Looking Statements*

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties, including but not limited to the risks and uncertainties discussed under Item 1A. "Risk Factors," Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 1. "Business." 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 involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. We discuss these risks, uncertainties and other factors in greater detail below. These statements reflect our current views with respect to future events and are based on currently available operating, financial and competitive information. Unless required by United States federal securities laws, we do not intend to update any of these forward-looking statements to reflect circumstances or events that occur after the statement is made.

### **Risks Related to Our Business and Industry**

***Our sales growth rate depends primarily on our ability to open new restaurants and is subject to many unpredictable factors.***

One of the key means of achieving our growth strategy will be through opening new restaurants and operating those restaurants on a profitable basis. We expect this to be the case for the foreseeable future. In 2014, we opened 49 company-owned restaurants, and 10 franchise restaurants, and we expect 12% to 14% system-wide unit growth in 2015. We may not be able to open new restaurants as quickly as planned. In the past, we have experienced delays in opening some restaurants and that could happen again. Delays or failures in opening new restaurants could materially and adversely affect our growth strategy and our expected results. As we operate more restaurants, our rate of expansion relative to the size of our restaurant base will eventually decline.

In addition, one of our biggest challenges is locating and securing an adequate supply of suitable new restaurant sites in our target markets. Competition for those sites is intense, and other restaurant and retail concepts that compete for those sites may have unit economic models that permit them to bid more aggressively for those sites than we can. There is no guarantee that a sufficient number of suitable sites will be available in desirable areas or on terms that are acceptable to us in order to achieve our growth plan. Our ability to open new restaurants also depends on other factors, including:

- negotiating leases with acceptable terms;
- identifying, hiring and training qualified employees in each local market;
- timely delivery of leased premises to use from our landlords and punctual commencement of our build-out construction activities;
- managing construction and development costs of new restaurants, particularly in competitive markets;
- avoiding the impact of inclement weather, natural disasters and other calamities;
- obtaining construction materials and labor at acceptable costs, particularly in urban markets;

- securing required governmental approvals, permits and licenses (including construction and other permits) in a timely manner and responding effectively to any changes in local, state or federal laws and regulations that adversely affect our costs or ability to open new restaurants; and
- accessing sufficient capital, which is expected to come from cash flow from operations and third party funding.

Our progress in opening new restaurants from quarter to quarter may occur at an uneven rate. If we do not open new restaurants in the future according to our current plans, the delay could materially adversely affect our business, financial condition or results of operations.

***Our long-term success is highly dependent on our ability to effectively identify and secure appropriate sites for new restaurants.***

We intend to develop new restaurants in our existing markets, expand our footprint into adjacent markets and selectively enter into new markets. In order to build new restaurants, we must first identify target markets where we can enter or expand our footprint, taking into account numerous factors, including the location of our current restaurants, local economic trends, population density, area demographics and geography. Then we must locate and secure appropriate sites, which is one of our biggest challenges. There are numerous factors involved in identifying and securing an appropriate site, including:

- identification and availability of locations with the appropriate size, traffic patterns, local retail and business attractions and infrastructure that will drive high levels of customer traffic and sales per unit;
- competition in new markets, including competition for restaurant sites;
- financial conditions affecting developers and potential landlords, such as the effects of macro-economic conditions and the credit market, which could lead to these parties delaying or canceling development projects (or renovations of existing projects), in turn reducing the number of appropriate locations available;
- developers and potential landlords obtaining licenses or permits for development projects on a timely basis;
- proximity of potential development sites to an existing location;
- anticipated commercial, residential and infrastructure development near our new restaurants; and
- availability of acceptable lease arrangements.

We may not be able to successfully develop critical market presence for our brand in new geographical markets, as we may be unable to find and secure attractive locations, build name recognition or attract new customers. If we are unable to fully implement our development plan, our business, financial condition or results of operations could be materially adversely affected.

***Our expansion into new markets may present increased risks.***

We plan to open restaurants in markets where we have little or no operating experience. Restaurants we open in new markets may take longer to reach expected sales and profit levels on a consistent basis and may have higher construction, occupancy or operating costs than restaurants we open in existing markets, thereby affecting our overall profitability. New markets may have competitive conditions, consumer tastes and discretionary spending patterns that are more difficult to predict or satisfy than our existing markets. We may need to make greater investments than we originally planned in advertising and promotional activity in new markets to build brand awareness. We may find it more difficult in new markets to hire, motivate and keep qualified employees who share our vision, passion and business culture. We may not be able to successfully develop critical market presence for our brand in new geographical markets, as we may be unable to find and secure attractive locations, build name recognition or attract new customers. We may also incur higher costs from entering new markets, if, for example, we assign area managers to manage comparatively fewer restaurants than we assign in more developed markets. As a result, these new restaurants may be less successful or may achieve target average unit volumes ("AUVs") at a slower rate. If we do not successfully execute our plans to enter new markets, our business, financial condition or results of operations could be materially adversely affected.

***New restaurants, once opened, may not be profitable, and the increases in average restaurant sales and comparable restaurant sales that we have experienced in the past may not be indicative of future results.***

Our new restaurants typically open with above-average volumes, which then decline after the initial sales surge that comes with interest in a restaurant's grand opening. Recent openings have stabilized in sales after approximately 32 to 36 weeks of operation, at which time the restaurant's sales typically begin to grow on a consistent basis. In new markets, the length of time before average sales for new restaurants stabilize is less predictable and can be longer as a result of our limited knowledge of these markets and consumers' limited awareness of our brand. New restaurants may not be profitable and their sales performance may not follow historical patterns. In addition, our average restaurant sales and comparable restaurant sales may not increase at the rates achieved over the past several years. Our ability to operate new restaurants profitably and increase average restaurant sales and comparable restaurant sales will depend on many factors, some of which are beyond our control, including:

- consumer awareness and understanding of our brand;
- general economic conditions, which can affect restaurant traffic, local labor costs and prices we pay for the food products and other supplies we use;
- changes in consumer preferences and discretionary spending;
- competition, either from our competitors in the restaurant industry or our own restaurants;
- temporary and permanent site characteristics of new restaurants; and
- changes in government regulation.

If our new restaurants do not perform as planned, our business and future prospects could be harmed. In addition, if we are unable to achieve our expected average restaurant sales, our business, financial condition or results of operations could be adversely affected.

***Our sales and profit growth could be adversely affected if comparable restaurant sales are less than we expect.***

The level of comparable restaurant sales, which represent the change in year-over-year sales for restaurants open for at least 18 full periods, will affect our sales growth and will continue to be a critical factor affecting profit growth because the profit margin on comparable restaurant sales is generally higher than the profit margin on new restaurant sales. Our ability to increase comparable restaurant sales depends in part on our ability to successfully implement our initiatives to build sales. It is possible such initiatives will not be successful, that we will not achieve our target comparable restaurant sales growth or that the change in comparable restaurant sales could be negative, which may cause a decrease in sales and profit growth that would materially adversely affect our business, financial condition or results of operations.

We have implemented strategies such as catering options in an effort to increase overall sales. Our catering program, in particular, is in an early phase and may not increase our sales to the degree we expect. Catering also introduces new operating procedures to our restaurants and we may not successfully execute these procedures, which could adversely impact the customer experience in our restaurants and thereby harm our sales and customer perception of our brand.

***Adverse weather conditions could affect our sales.***

Adverse weather conditions, such as regional winter storms, floods and hurricanes, could affect our sales at restaurants in locations that experience these weather conditions, which could materially adversely affect our business, financial condition or results of operations. It is possible that weather conditions may impact our business more than other businesses in our industry because of the significant concentration of our restaurants in the Upper Midwest, Rocky Mountain and Mid-Atlantic states.

***Our failure to manage our growth effectively could harm our business and operating results.***

Our growth plan includes opening a significant number of new restaurants. Our existing restaurant management systems, financial and management controls and information systems may be inadequate to support our planned expansion. Managing our growth effectively will require us to continue to enhance these systems, procedures and controls and to hire, train and retain managers and

team members. We may not respond quickly enough to the changing demands that our expansion will impose on our management, restaurant teams and existing infrastructure which could harm our business, financial condition or results of operations.

We believe our culture—from the restaurant level up through management—is an important contributor to our success. As we grow, however, we may have difficulty maintaining our culture or adapting it sufficiently to meet the needs of our operations. Among other important factors, our culture depends on our ability to attract, retain and motivate employees who share our enthusiasm and dedication to our concept. Our business, financial condition or results of operations could be materially adversely affected if we do not maintain our infrastructure and culture as we grow.

***The planned rapid increase in the number of our restaurants may make our future results unpredictable.***

In 2014, we opened 49 company-owned restaurants and 10 franchise restaurants, and in 2015 we expect 12% to 14% system-wide unit growth. Our growth strategy and the substantial investment associated with the development of each new restaurant may cause our operating results to fluctuate and be unpredictable or adversely affect our profits. Our future results depend on various factors, including successful selection of new markets and restaurant locations, local market acceptance of our restaurants, consumer recognition of the quality of our food and willingness to pay our prices, the quality of our operations and general economic conditions. In addition, as has happened when other restaurant concepts have tried to expand, we may find that our concept has limited appeal in new markets or we may experience a decline in the popularity of our concept in the markets in which we operate. Newly opened restaurants or our future markets and restaurants may not be successful or our system-wide average restaurant sales may not increase at historical rates, which could materially adversely affect our business, financial condition or results of operations.

***Opening new restaurants in existing markets may negatively affect sales at our existing restaurants.***

The consumer target area of our restaurants varies by location, depending on a number of factors, including population density, other local retail and business attractions, area demographics and geography. As a result, the opening of a new restaurant in or near markets in which we already have restaurants could adversely affect the sales of these existing restaurants. Existing restaurants could also make it more difficult to build our consumer base for a new restaurant in the same market. Our core business strategy does not entail opening new restaurants that we believe will materially affect sales at our existing restaurants, but we may selectively open new restaurants in and around areas of existing restaurants that are operating at or near capacity to effectively serve our customers. Sales cannibalization between our restaurants may become significant in the future as we continue to expand our operations and could affect our sales growth, which could, in turn, materially adversely affect our business, financial condition or results of operations.

***Competition from other restaurant companies could adversely affect us.***

We face competition from the casual dining, quick-service and fast casual segments of the restaurant industry. These segments are highly competitive with respect to taste, price, food quality and presentation, service, location and the ambience and condition of each restaurant, among other things. Our competition includes a variety of locally owned restaurants and national and regional chains who offer dine-in, carry-out and delivery services. Many of our competitors have existed longer and have a more established market presence with substantially greater financial, marketing, personnel and other resources than we have. Among our competitors are a number of multi-unit, multi-market fast casual restaurant concepts, some of which are expanding nationally. As we expand, we will face competition from these concepts and new competitors that strive to compete with our market segments. For example, additional competitive pressures come from the deli sections and in-store cafés of grocery store chains, as well as from convenience stores and online meal preparation sites. These competitors may have, among other things, lower operating costs, better locations, better facilities, better management, more effective marketing and more efficient operations.

Several of our competitors compete by offering menu items that are specifically identified as low in carbohydrates, gluten-free or healthier for consumers. In addition, many of our competitors emphasize lower-cost value options or meal packages or have loyalty programs, strategies we do not currently pursue. Any of these competitive factors may materially adversely affect our business, financial condition or results of operations.

***Negative publicity relating to one of our restaurants, including our franchised restaurants, could reduce sales at some or all of our other restaurants.***

Our success is dependent in part upon our ability to maintain and enhance the value of our brand, consumers' connection to our brand and positive relationships with our franchisees. We may, from time to time, be faced with negative publicity relating to food quality, restaurant facilities, customer complaints or litigation alleging illness or injury, health inspection scores, integrity of our or

our suppliers' food processing, employee relationships or other matters, regardless of whether the allegations are valid or whether we are held to be responsible. The negative impact of adverse publicity relating to one restaurant may extend far beyond the restaurant or franchise involved to affect some or all of our other restaurants. The risk of negative publicity is particularly great with respect to our franchised restaurants because we are limited in the manner in which we can regulate them, especially on a real-time basis. The considerable expansion in the use of social media over recent years can further amplify any negative publicity that could be generated by such incidents. A similar risk exists with respect to unrelated food service businesses, if consumers associate those businesses with our own operations.

Additionally, employee claims against us based on, among other things, wage and hour violations, discrimination, harassment or wrongful termination may also create negative publicity that could adversely affect us and divert our financial and management resources that would otherwise be used to benefit the future performance of our operations. A significant increase in the number of these claims or an increase in the number of successful claims could materially adversely affect our business, financial condition or results of operations. Consumer demand for our products and our brand's value could diminish significantly if any such incidents or other matters create negative publicity or otherwise erode consumer confidence in us or our products, which would likely result in lower sales and could materially adversely affect our business, financial condition or results of operations.

***Governmental regulation may adversely affect our ability to open new restaurants or otherwise adversely affect our business, financial condition or results of operations.***

We are subject to various federal, state and local regulations, including those relating to building and zoning requirements and those relating to the preparation and sale of food. Our restaurants are also subject to state and local licensing and regulation by health, alcoholic beverage, sanitation, food and occupational safety and other agencies. We may experience material difficulties or failures in obtaining the necessary licenses, approvals or permits for our restaurants, which could delay planned restaurant openings or affect the operations at our existing restaurants. In addition, stringent and varied requirements of local regulators with respect to zoning, land use and environmental factors could delay or prevent development of new restaurants in particular locations.

We are subject to the U.S. Americans with Disabilities Act ("ADA") and similar state laws that give civil rights protections to individuals with disabilities in the context of employment, public accommodations and other areas, including our restaurants. We may in the future have to modify restaurants, for example, by adding access ramps or redesigning certain architectural fixtures, to provide service to or make reasonable accommodations for disabled persons. The expenses associated with these modifications could be material.

Our operations are also subject to the U.S. Occupational Safety and Health Act, which governs worker health and safety, the U.S. Fair Labor Standards Act, which governs such matters as minimum wages and overtime, and a variety of similar federal, state and local laws that govern these and other employment law matters. In addition, federal, state and local proposals related to paid sick leave or similar matters could, if implemented, materially adversely affect our business, financial condition or results of operations.

***Food safety and foodborne illness concerns could have an adverse effect on our business.***

We cannot guarantee that our internal controls and training will be fully effective in preventing all food safety issues at our restaurants, including any occurrences of foodborne illnesses such as salmonella, E. coli and Hepatitis A. Further, we may be at a higher risk for food-borne illness outbreaks than some competitors due to our use of fresh ingredients rather than frozen, and our reliance on employees cooking with traditional methods rather than automation. The risk of illnesses associated with our food might also increase in connection with the expansion of our catering business or other situations in which our food is served in conditions that we cannot control. In addition, there is no guarantee that our franchise locations will maintain the high levels of internal controls and training we require at our company-owned restaurants. Furthermore, we and our franchisees rely on third-party vendors, making it difficult to monitor food safety compliance and increasing the risk that foodborne illness would affect multiple locations rather than a single restaurant. Some foodborne illness incidents could be caused by third-party vendors and transporters outside of our control. New illnesses resistant to our current precautions may develop in the future, or diseases with long incubation periods could arise, that could give rise to claims or allegations on a retroactive basis. One or more instances of foodborne illness in any of our restaurants or markets or related to food products we sell could negatively affect our restaurant sales nationwide if highly publicized on national media outlets or through social media. This risk exists even if it were later determined that the illness was wrongly attributed to us or one of our restaurants. A number of other restaurant chains have experienced incidents related to foodborne illnesses that have had a material adverse effect on their operations. The occurrence of a similar incident at one or more of our restaurants, or negative publicity or public speculation about an incident, could materially adversely affect our business, financial condition or results of operations.

***Compliance with environmental laws may negatively affect our business.***

We are subject to federal, state and local laws and regulations concerning waste disposal, pollution, protection of the environment, and the presence, discharge, storage, handling, release and disposal of, and exposure to, hazardous or toxic substances. These environmental laws provide for significant fines and penalties for noncompliance and liabilities for remediation, sometimes without regard to whether the owner or operator of the property knew of, or was responsible for, the release or presence of hazardous toxic substances. Third parties may also make claims against owners or operators of properties for personal injuries and property damage associated with releases of, or actual or alleged exposure to, such hazardous or toxic substances at, on or from our restaurants. Environmental conditions relating to releases of hazardous substances at prior, existing or future restaurant sites could materially adversely affect our business, financial condition or results of operations. Further, environmental laws, and the administration, interpretation and enforcement thereof, are subject to change and may become more stringent in the future, each of which could materially adversely affect our business, financial condition or results of operations.

***We rely heavily on certain vendors, suppliers and distributors, which could adversely affect our business.***

Our ability to maintain consistent price and quality throughout our restaurants depends in part upon our ability to acquire specified food products and supplies in sufficient quantities from third-party vendors, suppliers and distributors at a reasonable cost. We do not control the businesses of our vendors, suppliers and distributors and our efforts to specify and monitor the standards under which they perform may not be successful. Furthermore, certain food items are perishable, and we have limited control over whether these items will be delivered to us in appropriate condition for use in our restaurants. If any of our vendors or other suppliers are unable to fulfill their obligations to our standards, or if we are unable to find replacement providers in the event of a supply or service disruption, we could encounter supply shortages and incur higher costs to secure adequate supplies, which could materially adversely affect our business, financial condition or results of operations.

In addition, we use various third-party vendors to provide, support and maintain most of our management information systems. We also outsource certain accounting, payroll and human resource functions to business process service providers. The failure of such vendors to fulfill their obligations could disrupt our operations. Additionally, any changes we may make to the services we obtain from our vendors, or new vendors we employ, may disrupt our operations. These disruptions could materially adversely affect our business, financial condition or results of operations.

***The effect of changes to healthcare laws in the United States may increase the number of employees who choose to participate in our healthcare plans, which may significantly increase our healthcare costs and negatively impact our financial results.***

In 2010, the Patient Protection and Affordable Care Act of 2010 (the "PPCA") was signed into law in the United States to require health care coverage for many uninsured individuals and expand coverage to those already insured. We currently offer and subsidize comprehensive healthcare coverage, primarily for our salaried employees. The healthcare reform law will require us, beginning in July 2015, to offer healthcare benefits to all full-time employees (including full-time hourly employees) that meet certain minimum requirements of coverage and affordability, or face penalties. We expect to offer healthcare benefits to all of our full-time employees beginning in July 2015 and to incur additional expense related to such benefits. It is likely that such benefits will not satisfy the "affordability" requirement of PPCA in all cases, and that we will incur penalties under PPCA as a consequence. Because the calculation of such penalties will depend in part on reporting of employee purchases of health benefits from public exchanges established under the PPCA, and such reporting may lag significantly behind the actual purchases, it may be difficult to estimate such penalties as they are incurred. The healthcare reform law also requires individuals to obtain coverage or face individual penalties, so employees who are currently eligible but elect not to participate in our healthcare plans may find it more advantageous to do so because of such requirement. It is also possible that by making changes or failing to make changes in the healthcare plans offered by us we will become less competitive in the market for our labor. Finally, implementing the requirements of healthcare reform is likely to impose additional administrative costs. The costs and other effects of these new healthcare requirements cannot be determined with certainty, but they may significantly increase our healthcare coverage costs and could materially adversely affect our, business, financial condition or results of operations.

***Unionization activities or labor disputes may disrupt our operations and affect our profitability.***

Although none of our employees are currently covered under collective bargaining agreements, our employees may elect to be represented by labor unions in the future. If a significant number of our employees were to become unionized and collective bargaining agreement terms were significantly different from our current compensation arrangements, it could adversely affect our business, financial condition or results of operations. In addition, a labor dispute involving some or all of our employees may harm our

reputation, disrupt our operations and reduce our revenues, and resolution of disputes may increase our costs. Potential changes in labor laws, including the possible passage of legislation designed to make it easier for employees to unionize, could increase the likelihood of some or all of our employees being subjected to greater organized labor influence, and could have an adverse effect on our business and financial results by imposing requirements that could potentially increase our costs, reduce our flexibility and impact our employee culture.

As an employer, we may be subject to various employment-related claims, such as individual or class actions or government enforcement actions relating to alleged employment discrimination, employee classification and related withholding, wage-hour, labor standards or healthcare and benefit issues. Such actions, if brought against us and successful in whole or in part, may affect our ability to compete or could materially adversely affect our business, financial condition or results of operations.

***Changes in employment laws may adversely affect our business.***

Various federal and state labor laws govern the relationship with our employees and affect operating costs. These laws include employee classification as exempt/non-exempt for overtime and other purposes, minimum wage requirements, unemployment tax rates, workers' compensation rates, immigration status and other wage and benefit requirements. Significant additional government-imposed increases in the following areas could materially affect our business, financial condition, operating results or cash flow:

- minimum wages;
- mandatory health benefits;
- vacation accruals;
- paid leaves of absence, including paid sick leave; and
- tax reporting.

In addition, various states in which we operate are considering or have already adopted new immigration laws or enforcement programs, and the U.S. Congress and Department of Homeland Security from time to time consider and may implement changes to federal immigration laws, regulations or enforcement programs as well. Some of these changes may increase our obligations for compliance and oversight, which could subject us to additional costs and make our hiring process more cumbersome, or reduce the availability of potential employees. Although we require all workers to provide us with government-specified documentation evidencing their employment eligibility, some of our employees may, without our knowledge, be unauthorized workers. We currently participate in the "E-Verify" program, an Internet-based, free program run by the United States government to verify employment eligibility, in all of our restaurants and in our corporate support office. However, use of the "E-Verify" program does not guarantee that we will properly identify all applicants who are ineligible for employment. Unauthorized workers are subject to deportation and may subject us to fines or penalties, and if any of our workers are found to be unauthorized we could experience adverse publicity that negatively impacts our brand and may make it more difficult to hire and keep qualified employees. Termination of a significant number of employees who were unauthorized employees may disrupt our operations, cause temporary increases in our labor costs as we train new employees and result in additional adverse publicity. We could also become subject to fines, penalties and other costs related to claims that we did not fully comply with all recordkeeping obligations of federal and state immigration compliance laws. These factors could materially adversely affect our business, financial condition or results of operations.

***We rely in part on our franchisees, and if our franchisees cannot develop or finance new restaurants, build them on suitable sites or open them on schedule, our growth and success may be affected.***

We rely in part on our franchisees and the manner in which they operate their locations to develop and promote our business. Although we have developed criteria to evaluate and screen prospective franchisees, we cannot be certain that our franchisees will have the business acumen or financial resources necessary to operate successful franchises in their franchise areas and state franchise laws may limit our ability to terminate or modify these franchise arrangements. Moreover, despite our training, support and monitoring, franchisees may not successfully operate restaurants in a manner consistent with our standards and requirements, or may not hire and train qualified managers and other restaurant personnel. The failure of our franchisees to operate their franchises successfully could have a material adverse effect on us, our reputation, our brand and our ability to attract prospective franchisees and could materially adversely affect our business, financial condition or results of operations.



Franchisees may not have access to the financial or management resources that they need to open the restaurants contemplated by their agreements with us, or be able to find suitable sites on which to develop them, or they may elect to cease development for other reasons. Franchisees may not be able to negotiate acceptable lease or purchase terms for the sites, obtain the necessary permits and government approvals or meet construction schedules. Any of these problems could slow our growth and reduce our franchise revenues. Additionally, our franchisees typically depend on financing from banks and other financial institutions, which may not always be available to them, in order to construct and open new restaurants. The lack of adequate financing could adversely affect the number and rate of new restaurant openings by our franchisees and adversely affect our future franchise revenues.

A franchisee bankruptcy could have a substantial negative impact on our ability to collect payments due under such franchisee's franchise arrangements. In a franchisee bankruptcy, the bankruptcy trustee may reject its franchise arrangements pursuant to Section 365 under the United States bankruptcy code, in which case there would be no further royalty payments from such franchisee, and there can be no assurance as to the proceeds, if any, that may ultimately be recovered in a bankruptcy proceeding of such franchisee in connection with a damage claim resulting from such rejection.

***Failure to support our expanding franchise system could have a material adverse effect on our business, financial condition or results of operations.***

Our growth strategy depends in part on expanding our franchise network, which will require the implementation of enhanced business support systems, management information systems, financial controls and other systems and procedures as well as additional management, franchise support and financial resources. We may not be able to manage our expanding franchise system effectively. Failure to provide our franchisees with adequate support and resources could materially adversely affect both our new and existing franchisees as well as cause disputes between us and our franchisees and potentially lead to material liabilities. Any of the foregoing could materially adversely affect our business, financial condition or results of operations.

***We have limited control over our franchisees and our franchisees could take actions that could harm our business.***

Franchisees are independent contractors and are not our employees, and we do not exercise control over their day-to-day operations. We provide training and support to franchisees, but the quality of franchised restaurant operations may be diminished by any number of factors beyond our control. Consequently, franchisees may not successfully operate restaurants in a manner consistent with our standards and requirements, or may not hire and train qualified managers and other restaurant personnel. If franchisees do not meet our standards and requirements, our image and reputation, and the image and reputation of other franchisees, may suffer materially and system-wide sales could decline significantly.

Franchisees, as independent business operators, may from time to time disagree with us and our strategies regarding the business or our interpretation of our, and their, rights and obligations under franchise and development agreements. This may lead to disputes with our franchisees in the future. These disputes may divert the attention of our management and our franchisees from operating our restaurants and affect our image and reputation and our ability to attract franchisees in the future, which could materially adversely affect our business, financial condition or results of operations.

***If we or our franchisees face labor shortages or increased labor costs, our growth and operating results could be adversely affected.***

Labor is a primary component in the cost of operating our restaurants. If we or our franchisees face labor shortages or increased labor costs because of increased competition for employees, higher employee turnover rates, increases in the federal, state or local minimum wage or other employee benefits costs (including costs associated with health insurance coverage), our operating expenses could increase and our growth could be adversely affected. In addition, our success depends in part upon our and our franchisees' ability to attract, motivate and retain a sufficient number of well-qualified restaurant operators and management personnel, as well as a sufficient number of other qualified employees, including customer service and kitchen staff, to keep pace with our expansion schedule. Qualified individuals needed to fill these positions are in short supply in some geographic areas. In addition, restaurants have traditionally experienced relatively high employee turnover rates. Although we have not yet experienced significant problems in recruiting or retaining employees, our and our franchisees' ability to recruit and retain such individuals may delay the planned openings of new restaurants or result in higher employee turnover in existing restaurants, which could have a material adverse effect on our business, financial condition or results of operations.

If we or our franchisees are unable to continue to recruit and retain sufficiently qualified individuals, our business and our growth could be adversely affected. Competition for these employees could require us or our franchisees to pay higher wages, which could result in higher labor costs. In addition increases in the minimum wage would increase our labor costs. Additionally, costs associated

with workers' compensation are rising, and these costs may continue to rise in the future. We may be unable to increase our menu prices in order to pass these increased labor costs on to consumers, in which case our margins would be negatively affected, which could materially adversely affect our business, financial condition or results of operations.

***We depend on the services of key executives, the loss of which could materially harm our business.***

Our senior executives have been instrumental in setting our strategic direction, operating our business, identifying, recruiting and training key personnel, identifying expansion opportunities and arranging necessary financing. Losing the services of any of these individuals could materially adversely affect our business until a suitable replacement is found. We believe that these individuals cannot easily be replaced with executives of equal experience and capabilities. Although we have employment agreements with our Chief Executive Officer and our President and Chief Operating Officer, we cannot prevent them from terminating their employment with us.

***Changes in economic conditions could materially affect our ability to maintain or increase sales at our restaurants or open new restaurants.***

The restaurant industry depends on consumer discretionary spending. The United States in general or the specific markets in which we operate may suffer from depressed economic activity, recessionary economic cycles, higher fuel or energy costs, low consumer confidence, high levels of unemployment, reduced home values, increases in home foreclosures, investment losses, personal bankruptcies, reduced access to credit or other economic factors that may affect consumers' discretionary spending. Economic conditions may remain volatile and may depress consumer confidence and discretionary spending. Traffic in our restaurants could decline if consumers choose to dine out less frequently or reduce the amount they spend on meals while dining out. Negative economic conditions (including negative economic conditions resulting from war, terrorist activities, global economic occurrences or trends or other geopolitical events) might cause consumers to make long-term changes to their discretionary spending behavior, including dining out less frequently on a permanent basis. If restaurant sales decrease, our profitability could decline as we spread fixed costs across a lower level of sales. Reductions in staff levels, asset impairment charges and potential restaurant closures could result from prolonged negative restaurant sales, which could materially adversely affect our business, financial condition or results of operations.

***Health concerns arising from outbreaks of viruses may have an adverse effect on our business.***

The United States and other countries have experienced, or may experience in the future, outbreaks of neurological diseases or other diseases or viruses, such as norovirus, influenza, H1N1 and Ebola. If a virus is transmitted by human contact, our employees or customers could become infected, or could choose, or be advised, to avoid gathering in public places, any one of which could materially adversely affect our business, financial condition or results of operations.

***Changes in food and supply costs could adversely affect our results of operations.***

Our profitability depends in part on our ability to anticipate and react to changes in food and supply costs. Shortages or interruptions in the availability of certain supplies caused by seasonal fluctuations, unanticipated demand, problems in production or distribution, food contamination, product recalls, government regulations, inclement weather or other conditions could adversely affect the availability, quality and cost of our ingredients, which could harm our operations. Weather related issues, such as freezes or drought, may also lead to temporary spikes in the prices of some ingredients such as produce or meats. Increasing weather volatility or other long-term changes in global weather patterns, including any changes associated with global climate change, could have a significant impact on the price or availability of some of our ingredients. Any increase in the prices of the food products most critical to our menu, such as pasta, beef, chicken, wheat flour, cheese and other dairy products, tofu and vegetables, could adversely affect our operating results. Although we try to manage the impact that these fluctuations have on our operating results, we remain susceptible to increases in food costs as a result of factors beyond our control, such as general economic conditions, seasonal fluctuations, weather conditions, demand, food safety concerns, generalized infectious diseases, product recalls and government regulations. For example, higher diesel prices have in some cases resulted in the imposition of surcharges on the delivery of commodities to our distributors, which they have generally passed on to us to the extent permitted under our arrangements with them.

If any of our distributors or suppliers performs inadequately, or our distribution or supply relationships are disrupted for any reason, our business, financial condition, results of operations or cash flows could be adversely affected. Although we often enter into contracts for the purchase of food products and supplies, we do not have long-term contracts for the purchase of all of such food products and supplies. As a result, we may not be able to anticipate or react to changing food costs by adjusting our purchasing practices or menu prices, which could cause our operating results to deteriorate. If we cannot replace or engage distributors or

suppliers who meet our specifications in a short period of time, that could increase our expenses and cause shortages of food and other items at our restaurants, which could cause a restaurant to remove items from its menu. If that were to happen, affected restaurants could experience significant reductions in sales during the shortage or thereafter, if customers change their dining habits as a result. Our focus on a limited menu would make the consequences of a shortage of a key ingredient more severe. In addition, because we provide moderately priced food, we may choose not to, or may be unable to, pass along commodity price increases to consumers. These potential changes in food and supply costs could materially adversely affect our business, financial condition or results of operations.

***Failure to receive frequent deliveries of fresh food ingredients and other supplies could harm our operations.***

Our ability to maintain our menu depends in part on our ability to acquire ingredients that meet our specifications from reliable suppliers. We currently import ingredients from many different countries. Shortages or interruptions in the supply of ingredients caused by unanticipated demand, problems in production or distribution, food contamination, inclement weather or other conditions could adversely affect the availability, quality and cost of our ingredients, which could harm our operations. If any of our distributors or suppliers performs inadequately, or our distribution or supply relationships are disrupted for any reason, our business, financial condition or results of operations could be adversely affected. If we cannot replace or engage distributors or suppliers who meet our specifications in a short period of time, that could increase our expenses and cause shortages of food and other items at our restaurants, which could cause a restaurant to remove items from its menu. If that were to happen, affected restaurants could experience significant reductions in sales during the shortage or thereafter, if customers change their dining habits as a result. Our focus on a limited menu would make the consequences of a shortage of a key ingredient more severe. This reduction in sales could materially adversely affect our business, financial condition or results of operations.

***New information or attitudes regarding diet and health could result in changes in regulations and consumer consumption habits that could adversely affect our results of operations.***

Regulations and consumer eating habits may change as a result of new information or attitudes regarding diet and health. Such changes may include federal, state and local regulations that impact the ingredients and nutritional content of the food and beverages we offer. The success of our restaurant operations is dependent, in part, upon our ability to effectively respond to changes in any consumer health regulations and our ability to adapt our menu offerings to trends in food consumption. If consumer health regulations or consumer eating habits change significantly, we may choose or be required to modify or delete certain menu items, which may adversely affect the attractiveness of our restaurants to new or returning customers. To the extent we are unwilling or unable to respond with appropriate changes to our menu offerings, it could materially affect consumer demand and have an adverse impact on our business, financial condition or results of operations.

Government regulation and consumer eating habits may impact our business as a result of changes in attitudes regarding diet and health or new information regarding the adverse health effects of consuming certain menu offerings. These changes have resulted in, and may continue to result in, laws and regulations requiring us to disclose the nutritional content of our food offerings, and they have resulted, and may continue to result in, laws and regulations affecting permissible ingredients and menu offerings. For example, a number of states, counties and cities have enacted menu labeling laws requiring multi-unit restaurant operators to disclose to consumers certain nutritional information, or have enacted legislation restricting the use of certain types of ingredients in restaurants. These requirements may be different or inconsistent with requirements under the Patient Protection and Affordable Care Act (the "PPACA"), which establishes a uniform, federal requirement for certain restaurants to post nutritional information on their menus. Specifically, the PPACA requires chain restaurants with 20 or more locations operating under the same name and offering substantially the same menus to publish the total number of calories of standard menu items on menus and menu boards, along with a statement that puts this calorie information in the context of a total daily calorie intake. These inconsistencies could be challenging for us to comply with in an efficient manner. The PPACA also requires covered restaurants to provide to consumers, upon request, a written summary of detailed nutritional information for each standard menu item, and to provide a statement on menus and menu boards about the availability of this information upon request. An unfavorable report on, or reaction to, our menu ingredients, the size of our portions or the nutritional content of our menu items could negatively influence the demand for our offerings.

Compliance with current and future laws and regulations regarding the ingredients and nutritional content of our menu items may be costly and time-consuming. Additionally, if consumer health regulations or consumer eating habits change significantly, we may be required to modify or discontinue certain menu items, and we may experience higher costs associated with the implementation of those changes. The risks and costs associated with nutritional disclosures on our menus could also impact our operations, particularly given differences among applicable legal requirements and practices within the restaurant industry with respect to testing and

disclosure, ordinary variations in food preparation among our own restaurants, and the need to rely on the accuracy and completeness of nutritional information obtained from third-party suppliers.

We may not be able to effectively respond to changes in consumer health perceptions or our ability to successfully implement the nutrient content disclosure requirements and to adapt our menu offerings to trends in eating habits. The imposition of menu labeling laws could materially adversely affect our business, financial condition or results of operations, as well as our position within the restaurant industry in general.

***We expect to need capital in the future, and we may not be able to raise that capital on acceptable terms.***

Developing our business will require significant capital in the future. To meet our capital needs, we expect to rely on our cash flow from operations and third-party financing. Third-party financing in the future may not, however, be available on terms favorable to us, or at all. Our ability to obtain additional funding will be subject to various factors, including market conditions, our operating performance, lender sentiment and our ability to incur additional debt in compliance with other contractual restrictions such as financial covenants under our credit facility or other debt documents. These factors may make the timing, amount, terms and conditions of additional financings unattractive. Our inability to raise capital could impede our growth and could materially adversely affect our business, financial condition or results of operations.

***We are subject to all of the risks associated with leasing space subject to long-term non-cancelable leases.***

We do not own any real property. Payments under our operating leases account for a significant portion of our operating expenses and we expect the new restaurants we open in the future will similarly be leased. Our leases generally have an initial term of ten years and generally can be extended only in five-year increments (at increased rates). All of our leases require a fixed annual rent, although some require the payment of additional rent if restaurant sales exceed a negotiated amount. Generally, our leases are "net" leases, which require us to pay all of the cost of insurance, taxes, maintenance and utilities. We generally cannot cancel these leases. Additional sites that we lease are likely to be subject to similar long-term non-cancelable leases. If an existing or future restaurant is not profitable, and we decide to close it, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. In addition, as each of our leases expires, we may fail to negotiate renewals, either on commercially acceptable terms or at all, which could cause us to pay increased occupancy costs or to close restaurants in desirable locations. These potential increased occupancy costs and closed restaurants could materially adversely affect our business, financial condition or results of operations.

***We may not be able to adequately protect our intellectual property, which could harm the value of our brand and adversely affect our business.***

Our intellectual property is material to the conduct of our business. Our ability to implement our business plan successfully depends in part on our ability to further build brand recognition using our trademarks, service marks, trade dress and other proprietary intellectual property, including our name and logos and the unique ambience of our restaurants. While it is our policy to protect and defend vigorously our rights to our intellectual property, we cannot predict whether steps taken by us to protect our intellectual property rights will be adequate to prevent misappropriation of these rights or the use by others of restaurant features based upon, or otherwise similar to, our concept. It may be difficult for us to prevent others from copying elements of our concept and any litigation to enforce our rights will likely be costly and may not be successful. Although we believe that we have sufficient rights to all of our trademarks and service marks, we may face claims of infringement that could interfere with our ability to market our restaurants and promote our brand. Any such litigation may be costly and divert resources from our business. Moreover, if we are unable to successfully defend against such claims, we may be prevented from using our trademarks or service marks in the future and may be liable for damages, which in turn could materially adversely affect our business, financial condition or results of operations.

***We may incur costs resulting from breaches of security of confidential consumer information related to our electronic processing of credit and debit card transactions.***

The majority of our restaurant sales are by credit or debit cards. Other restaurants and retailers have experienced security breaches in which credit and debit card information has been stolen. We may in the future become subject to claims for purportedly fraudulent transactions arising out of the actual or alleged theft of credit or debit card information, and we may also be subject to lawsuits or other proceedings relating to these types of incidents. In addition, most states have enacted legislation requiring notification of security breaches involving personal information, including credit and debit card information. Any such claim or proceeding could

cause us to incur significant unplanned expenses, which could have an adverse impact on our financial condition and results of operations. Further, adverse publicity resulting from these allegations may have a material adverse effect on us and our restaurants.

***We rely heavily on information technology, and any material failure, weakness, interruption or breach of security could prevent us from effectively operating our business.***

We rely heavily on information systems, including point-of-sale processing in our restaurants, for management of our supply chain, payment of obligations, collection of cash, credit and debit card transactions and other processes and procedures. Our ability to efficiently and effectively manage our business depends significantly on the reliability and capacity of these systems. Our operations depend upon our ability to protect our computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses and other disruptive problems. The failure of these systems to operate effectively, maintenance problems, upgrading or transitioning to new platforms, or a breach in security of these systems could result in delays in customer service and reduce efficiency in our operations. Remediation of such problems could result in significant, unplanned capital investments.

***We could be party to litigation that could adversely affect us by distracting management, increasing our expenses or subjecting us to material money damages and other remedies.***

Our customers occasionally file complaints or lawsuits against us alleging we caused an illness or injury they suffered at or after a visit to our restaurants, or that we have problems with food quality or operations. We are also subject to a variety of other claims arising in the ordinary course of our business, including personal injury claims, contract claims and claims alleging violations of federal and state law regarding workplace and employment matters, equal opportunity, discrimination and similar matters, and we could become subject to class action or other lawsuits related to these or different matters in the future. Regardless of whether any claims against us are valid, or whether we are ultimately held liable, claims may be expensive to defend and may divert time and money away from our operations and hurt our performance. A judgment in excess of our insurance coverage for any claims could materially and adversely affect our financial condition or results of operations. Any adverse publicity resulting from these allegations may also materially and adversely affect our reputation or prospects, which in turn could materially adversely affect our business, financial condition or results of operations.

We are subject to state and local "dram shop" statutes, which may subject us to uninsured liabilities. These statutes generally allow a person injured by an intoxicated person to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. Because a plaintiff may seek punitive damages, which may not be fully covered by insurance, this type of action could have an adverse impact on our financial condition or results of operations. A judgment in such an action significantly in excess of, or not covered by, our insurance coverage could adversely affect our business, financial condition or results of operations. Further, adverse publicity resulting from any such allegations may adversely affect us and our restaurants taken as a whole.

In addition, the restaurant industry has been subject to a growing number of claims based on the nutritional content of food products sold and disclosure and advertising practices. We may also be subject to this type of proceeding in the future and, even if we are not, publicity about these matters (particularly directed at the quick-service or fast casual segments of the industry) may harm our reputation and could materially adversely affect our business, financial condition or results of operations.

***Our current insurance may not provide adequate levels of coverage against claims.***

There are types of losses we may incur that cannot be insured against or that we believe are not economically reasonable to insure. Such losses could have a material adverse effect on our business and results of operations. In addition, we self-insure a significant portion of expected losses under our workers' compensation, general liability, employee health and property insurance programs. Unanticipated changes in the actuarial assumptions and management estimates underlying our reserves for these losses could result in materially different amounts of expense under these programs, which could have a material adverse effect on our financial condition, results of operations and liquidity. Failure to obtain and maintain adequate directors' and officers' insurance would likely adversely affect our ability to attract and retain qualified officers and directors.

***The Company is subject to the risks presented by acquisitions.***

As part of our expansion efforts, the Company has acquired some of its franchised restaurants in the past. In the future, the Company may, from time to time, consider opportunistic acquisitions of restaurants operated by franchisees or other operators. Any future acquisitions will be accompanied by the risks commonly encountered in acquisitions. These risks include among other things:

- the difficulty of integrating operations and personnel;
- the potential disruption to our ongoing business;
- the potential distraction of management, the inability to maintain uniform standards, controls procedures and policies; and
- impairment of relations with team members and guests as a result of changes in ownership and management.

***Failure to obtain and maintain required licenses and permits or to comply with alcoholic beverage or food control regulations could lead to the loss of our liquor and food service licenses and, thereby, harm our business.***

The restaurant industry is subject to various federal, state and local government regulations, including those relating to the sale of food and alcoholic beverages. Such regulations are subject to change from time to time. The failure to obtain and maintain these licenses, permits and approvals could adversely affect our operating results. Typically, licenses must be renewed annually and may be revoked, suspended or denied renewal for cause at any time if governmental authorities determine that our conduct violates applicable regulations. Difficulties or failure to maintain or obtain the required licenses and approvals could adversely affect our existing restaurants and delay or result in our decision to cancel the opening of new restaurants, which would adversely affect our business.

Alcoholic beverage control regulations generally require our restaurants to apply to a state authority and, in certain locations, county or municipal authorities for a license that must be renewed annually and may be revoked or suspended for cause at any time. Alcoholic beverage control regulations relate to numerous aspects of daily operations of our restaurants, including minimum age of patrons and employees, hours of operation, advertising, trade practices, wholesale purchasing, other relationships with alcohol manufacturers, wholesalers and distributors, inventory control and handling, storage and dispensing of alcoholic beverages. Any future failure to comply with these regulations and obtain or retain liquor licenses could adversely affect our business, financial condition or results of operations.

***Changes to accounting rules or regulations may adversely affect our results of operations.***

Changes to existing accounting rules or regulations may impact our future results of operations or cause the perception that we are more highly leveraged. Other new accounting rules or regulations and varying interpretations of existing accounting rules or regulations have occurred and may occur in the future. For instance, accounting regulatory authorities have indicated that they may begin to require lessees to capitalize operating leases in their financial statements in the next few years. If adopted, such change would require us to record significant capital lease obligations on our balance sheet and make other changes to our financial statements. This and other future changes to accounting rules or regulations could materially adversely affect our financial condition or results of operations.

***Pursuant to the recently enacted JOBS Act, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act for so long as we are an "emerging growth company."***

Section 404 of the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of our internal control over financial reporting, starting with the second annual report that we file with the SEC as a public company, and generally requires in the same report a report by our independent registered public accounting firm on the effectiveness of our internal control over financial reporting. However, under the recently enacted JOBS Act, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act until we are no longer an "emerging growth company." We could be an "emerging growth company" until the end of our 2018 fiscal year.

***Failure of our internal control over financial reporting could adversely affect our business and financial results.***

Our management is responsible for establishing and maintaining effective internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that we would prevent or detect a misstatement of our financial statements or fraud. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud. The identification of a material weakness could indicate a lack of controls adequate to generate accurate financial statements that, in turn, could cause a loss of investor confidence and decline in the market price of our common stock. We cannot assure you that we will be able to timely remediate any material weaknesses that may be identified in future periods or maintain all of the controls necessary for continued compliance. Likewise, we cannot assure you that we will be able to retain sufficient skilled finance and accounting personnel, especially in light of the increased demand for such personnel among publicly traded companies.

***Our principal stockholders and their affiliates own a substantial portion of our outstanding equity, and their interests may not always coincide with the interests of the other holders.***

As of December 30, 2014, Catterton, certain of its affiliates and Argentia beneficially owned in the aggregate shares representing approximately 48.0% of our outstanding voting power, assuming no conversion of Class B common stock into common stock. Persons associated with Catterton, Argentia and PSPIB currently serve on our board of directors. Catterton and certain of its affiliates beneficially own, in the aggregate, shares representing approximately 22.9% of our outstanding equity interests and approximately 24.2% of our outstanding voting power as of December 30, 2014. Argentia beneficially owns shares representing approximately 27.7% of our outstanding equity interests and approximately 23.8% of our outstanding voting power as of December 30, 2014. As a result, Catterton, certain of its affiliates and Argentia could continue to potentially have significant influence over all matters presented to our stockholders for approval, including election and removal of our directors and change in control transactions. The interests of Catterton, certain of its affiliates and Argentia may not always coincide with the interests of the other holders of our common stock.

***We do not intend to pay dividends for the foreseeable future.***

We have never declared or paid any cash dividends on our common stock, except for the Class C common stock dividend paid to Argentia, the previous holder of the one outstanding share of our Class C common stock, which was redeemed in connection with our initial public offering. For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and we do not anticipate paying any cash dividends on our common stock. See Item 5. "Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities-Dividends."

***Provisions in our charter documents and Delaware law may delay or prevent our acquisition by a third party.***

Our amended and restated certificate of incorporation and bylaws, and Delaware law, contain several provisions that may make it more difficult for a third party to acquire control of us without the approval of our board of directors. For example, we have a classified board of directors with three-year staggered terms, which could delay the ability of stockholders to change membership of a majority of our board of directors. These provisions may make it more difficult or expensive for a third party to acquire a majority of our outstanding equity interests. These provisions also may delay, prevent or deter a merger, acquisition, tender offer, proxy contest or other transaction that might otherwise result in our stockholders receiving a premium over the market price for their common stock.

**ITEM 1B. Unresolved Staff Comments**

None.

**ITEM 2. Properties**

As of December 30, 2014, we and our franchisees operated 439 restaurants in 32 states and the District of Columbia. Our restaurants are typically 2,600 to 2,700 square feet and are located in a variety of suburban, urban and small markets. We lease the property for our central support office and all of the properties on which we operate restaurants

The chart below shows the locations of our company-owned and franchised restaurants as of December 30, 2014.

<b>State</b>	<b>Company-owned</b>	<b>Franchised</b>	<b>Total</b>
California	16	—	16
Colorado	56	—	56
Connecticut	—	1	1
Delaware	3	—	3
District of Columbia	4	—	4
Florida	2	—	2
Idaho	3	—	3
Illinois	50	4	54
Indiana	21	—	21
Iowa	10	1	11
Kansas	9	—	9
Kentucky	1	3	4
Maryland	27	—	27
Massachusetts	—	2	2
Michigan	—	17	17
Minnesota	39	—	39
Missouri	4	7	11
Nebraska	—	6	6
New Hampshire	—	1	1
New Jersey	3	1	4
New York	—	1	1
North Carolina	11	—	11
North Dakota	—	3	3
Ohio	16	—	16
Oregon	5	—	5
Pennsylvania	11	—	11
South Dakota	—	2	2
Tennessee	5	1	6
Texas	8	—	8
Utah	14	—	14
Virginia	33	—	33
Washington	1	—	1
Wisconsin	34	3	37
	<b>386</b>	<b>53</b>	<b>439</b>



We are obligated under non-cancelable leases for our restaurants and our central support office. Our restaurant leases generally have initial terms of 10 years with two or more five-year extensions. Our restaurant leases generally have renewal options and may require us to pay a proportionate share of real estate taxes, insurance, common area maintenance charges and other operating costs. Some restaurant leases provide for contingent rental payments based on sales thresholds, although we generally do not expect to pay significant contingent rent on these properties based on the thresholds in those leases.

### **ITEM 3. Legal Proceedings**

As previously disclosed in the Quarterly Reports on Form 10-Q filed on April 30, 2014, August 14, 2014, and November 6, 2014, the Company is named as a defendant in an action filed in the Superior Court of Delaware in New Castle County, entitled The State of Delaware, William French v. Card Compliant, LLC, et. al. The case was filed under seal in June 2013 and was unsealed on March 26, 2014. The complaint in this case alleges that a number of large retailers and restaurant companies, including the Company, knowingly refused to fulfill obligations under Delaware's Abandoned Property Law by failing to report and deliver "unclaimed gift card funds" to the State of Delaware, and knowingly made, used or caused to be made or used, false statements and records to conceal, avoid or decrease an obligation to pay or transmit money to Delaware in violation of the Delaware False Claims and Reporting Act. The complaint seeks an order that the Company cease and desist from violating the Delaware False Claims and Reporting Act, monetary damages (including treble damages under the False Claims and Reporting Act), penalties, and attorneys' fees and costs. The case was removed to United States Federal District Court for the District of Delaware, and plaintiffs filed a motion to remand the case to the Superior Court for the State of Delaware, which was granted. The Company has also filed a motion to dismiss the complaint. The case is at an early stage and the Company is therefore unable to make a reasonable estimate of the probable loss or range of losses, if any, that might arise from this matter. The Company intends to vigorously defend this action.

In the normal course of business, the Company is subject to other proceedings, lawsuits and claims. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Consequently, the Company is unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters as of December 30, 2014. These matters could affect the operating results of any one financial reporting period when resolved in future periods. The Company believes that an unfavorable outcome with respect to these matters is remote or a potential range of loss is not material to its consolidated financial statements. Significant increases in the number of these claims, or one or more successful claims that result in greater liabilities than they currently anticipate, could materially and adversely affect our business, financial condition, results of operations or cash flows.

### **ITEM 4. Mine Safety Disclosures**

Not applicable.

**PART II****ITEM 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock has traded on the Nasdaq Global Select Market under the symbol NDLS since it began trading on June 28, 2013, the date of our initial public offering. The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock as reported on the Nasdaq Global Select Market.

	<b>High</b>	<b>Low</b>
<b>Fiscal Year 2014</b>		
First quarter (January 1, 2014 - April 1, 2014)	\$ 41.54	\$ 33.40
Second quarter (April 2, 2014 - July 1, 2014)	\$ 39.30	\$ 30.28
Third quarter (July 2, 2014 - September 30, 2014)	\$ 34.32	\$ 17.15
Fourth quarter (October 1, 2014 - December 30, 2014)	\$ 27.00	\$ 18.58
<b>Fiscal Year 2013</b>		
Second quarter (June 28, 2013 - July 2, 2013)	\$ 51.97	\$ 32.00
Third quarter (July 3, 2013 - October 1, 2013)	\$ 51.40	\$ 38.90
Fourth quarter (October 2, 2013 - December 31, 2013)	\$ 49.75	\$ 33.67

As of February 19, 2015, there were approximately 40 holders of record of our common stock. The number of holders of record is based upon the actual numbers of holders registered at such date and does not include holders of shares in "street name" or persons, partnerships, associates, corporations or other entities in security position listings maintained by depositories.

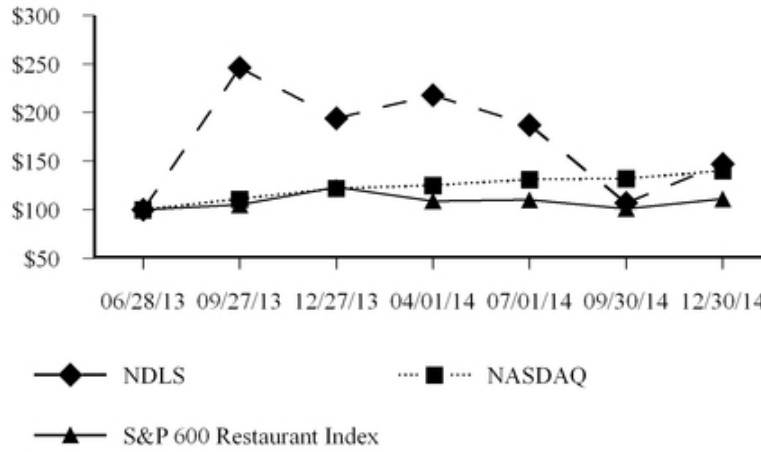
**Purchases of Equity Securities by the Issuer**

We had no share repurchases during the fourth quarter 2014 or during the fiscal year ended 2014.

**Stock Performance Graph**

The following graph compares the cumulative total shareholder return on our common stock from June 28, 2013 (using the price of which our shares of common stock were initially sold to the public) to December 30, 2014 to that of the total return of the Nasdaq Composite and the S&P 600 Restaurants Index. The comparison assumes \$100 was invested in our common stock on June 28, 2013 and in each of the forgoing indices on June 28, 2013 and assumes the reinvestment of dividends. This graph is furnished and not "filed" with the Securities and Exchange Commission or "soliciting material" under the Securities Exchange Act of 1934 and shall not be incorporated by reference into any such filings, irrespective of any general incorporation contained in such filing.

### Comparison of Cumulative Total Return



*The stock price performance included in this graph is not necessarily indicative of future stock price performance.*

#### Dividends

No dividends have been declared or paid on our shares of equity interests, except for the Class C common stock dividend paid to the previous holder of the one outstanding share of our Class C common stock, which we redeemed upon our initial public offering. We do not anticipate paying any cash dividends on shares of our Class A common stock, or any of our equity interests, in the foreseeable future. We currently intend to retain any earnings to finance the development and expansion of our business. Any future determination to pay dividends will be at the discretion of our board of directors and will be dependent upon then-existing conditions, including our earnings, capital requirements, results of operations, financial condition, business prospects and other factors that our board of directors considers relevant. Further, the Company's credit facility contains provisions that limit its ability to pay dividends on its common stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Certain Relationships and Related Transactions, and Director Independence" for additional information regarding our financial condition.

**ITEM 6. Selected Financial Data**

The following table summarizes the consolidated historical financial and operating data for the periods indicated. The statements of income data for the fiscal years ended December 30, 2014, December 31, 2013 and January 1, 2013 and the balance sheet data as of December 30, 2014 and December 31, 2013 have been derived from our audited consolidated financial statements included in Item 8. "Financial Statements and Supplementary Data," and the statements of income data from the fiscal years ended January 3, 2012 and December 28, 2010 and the balance sheet data as of January 1, 2013, January 3, 2012 and December 28, 2010 have been derived from our audited consolidated financial statements not included in this report.

The historical results presented below are not necessarily indicative of the results to be expected for any future period. This information should be read in conjunction with "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and the related notes included elsewhere in this report.

We operate on a 52- or 53-week fiscal year ending on the Tuesday closest to December 31. Fiscal year 2011, which ended on January 3, 2012, contained 53 weeks, and all other fiscal years presented below contained 52 weeks. We refer to our fiscal years as 2014, 2013, 2012, 2011 and 2010. Our fiscal quarters each contain thirteen weeks, with the exception of the fourth quarter of a 53-week fiscal year, which contains fourteen weeks.

	Fiscal Year Ended				
	December 30, 2014	December 31, 2013	January 1, 2013	January 3, 2012	December 28, 2010
(dollars in thousands)					
<b>Statements of Income Data:</b>					
<i>Revenue:</i>					
Restaurant revenue	\$ 398,993	\$ 347,140	\$ 297,264	\$ 253,467	\$ 218,560
Franchising royalties and fees	4,748	3,784	3,146	2,599	2,272
Total revenue	403,741	350,924	300,410	256,066	220,832
<i>Costs and Expenses:</i>					
Restaurant operating costs (exclusive of depreciation and amortization, shown separately below):					
Cost of sales	107,217	91,892	78,997	66,419	56,869
Labor	120,492	104,040	89,435	75,472	64,942
Occupancy	42,540	35,173	29,323	25,208	21,650
Other restaurant operating costs	52,580	44,078	36,380	32,031	27,403
General and administrative <sup>(1)</sup>	31,394	35,893	29,081	26,463	27,302
Depreciation and amortization	24,787	20,623	16,719	14,501	13,932
Pre-opening	4,425	3,809	3,145	2,327	2,088
Asset disposals, closure costs and restaurant impairments	1,391	1,164	1,278	1,629	2,815
Total costs and expenses	384,826	336,672	284,358	244,050	217,001
Income from operations	18,915	14,252	16,052	12,016	3,831
Debt extinguishment expense	—	624	2,646	275	—
Interest expense	365	2,196	5,028	6,132	1,819
Income before income taxes	18,550	11,432	8,378	5,609	2,012
Provision (benefit) for income taxes	7,122	4,767	3,215	1,780	(366)
Net income	\$ 11,428	\$ 6,665	\$ 5,163	\$ 3,829	\$ 2,378

	Fiscal Year Ended				
	December 30, 2014	December 31, 2013	January 1, 2013	January 3, 2012	December 28, 2010
(in thousands, except share and per share data)					
<b>Earnings per Class A and Class B common share, combined:</b>					
Basic	\$ 0.38	\$ 0.25	\$ 0.22	\$ 0.16	\$ 0.10
Diluted	\$ 0.37	\$ 0.24	\$ 0.22	\$ 0.16	\$ 0.09
<b>Weighted average Class A and Class B common shares outstanding, combined:</b>					
Basic	29,717,304	26,406,904	23,238,984	23,237,698	24,386,059
Diluted	31,001,099	27,688,629	23,265,542	23,237,698	25,226,989
<b>Selected Operating Data:</b>					
Company-owned restaurants at end of period	386	318	276	239	212
Franchise-owned restaurants at end of period	53	62	51	45	43
<b>Company-owned:</b>					
Average unit volumes <sup>(2)</sup>	\$ 1,147	\$ 1,179	\$ 1,178	\$ 1,147	\$ 1,126
Comparable restaurant sales <sup>(3)</sup>	0.3%	3.4%	5.2%	4.2%	3.2%
Restaurant contribution <sup>(4)</sup>	\$ 76,165	\$ 71,957	\$ 63,129	\$ 54,337	\$ 47,697
as a percentage of restaurant revenue	19.1%	20.7%	21.2%	21.4%	21.8%

	As of				
	December 30, 2014	December 31, 2013	January 1, 2013	January 3, 2012	December 28, 2010
(in thousands)					
<b>Balance Sheet Data: <sup>(5)</sup></b>					
Total current assets	\$ 22,776	\$ 18,333	\$ 16,154	\$ 12,879	\$ 214,498
Total assets	238,903	187,802	156,995	126,325	311,148
Total current liabilities	25,831	24,165	23,760	20,557	213,664
Total long-term debt	27,500	6,312	93,731	77,523	77,030
Total liabilities	98,788	63,329	142,987	118,802	309,070
Temporary equity	—	—	3,601	2,572	2,572
Total stockholders' equity	140,115	124,473	10,407	4,951	(494)

(1) 2010 included \$3.7 million of non-cash stock-based compensation expense and \$0.3 million of expense for our portion of payroll taxes related to the 2010 Equity Recapitalization. 2013 included \$0.5 million and 2012 and 2011 each included \$1.0 million of management fee expense, respectively, 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. 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 transaction payments to our Equity Sponsors. Additionally, we incurred \$0.7 million of expenses related to our follow-on offering which closed in December of 2013.

(2) AUVs consist of average annualized sales of all company-owned restaurants over the trailing 12 periods in a typical operating year.

(3) Comparable restaurant sales represent year-over-year sales for restaurants open for at least 18 full periods.

(4) Restaurant contribution represents restaurant revenue less restaurant operating costs which are cost of sales, labor, occupancy and other restaurant operating costs.

(5) As of December 28, 2010, the consolidated balance sheet included \$189.4 million in restricted cash and current liabilities that were temporarily held due to timing of the 2010 Equity Recapitalization.

## ITEM 7. 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 Item 6. "Selected Financial Data" and our consolidated financial statements and related notes included in Item 8. "Financial Statements and Supplementary Data." In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors including, but not limited to, those discussed in Item 1A. "Risk Factors" and elsewhere in this report.

We operate on a 52- or 53- week fiscal year ending on the Tuesday closest to December 31. Fiscal years 2014 and 2013, which ended on December 30, 2014 and December 31, 2013, respectively, each contained 52 weeks. Fiscal year 2011, which ended on January 3, 2012, contained 53 weeks. We refer to our fiscal years as 2014, 2013 and 2012. Our fiscal quarters each contained 13 operating weeks, with the exception of the fourth quarter of 2011, which had 14 operating weeks.

### NOODLES & COMPANY Your World Kitchen

#### Overview

Noodles & Company is a high growth, fast casual restaurant concept offering lunch and dinner within a fast growing segment of the restaurant industry. We opened our first location in 1995, offering noodle and pasta dishes, staples of many cuisines, with the goal of delivering fresh ingredients and flavors from around the world under one roof. Today, our globally inspired menu includes a wide variety of high quality, cooked-to-order dishes, including noodles and pasta, soups, salads and sandwiches, which are served on china by our friendly team members. We believe we offer our customers value with per person spend of approximately \$8.25 in 2014.

#### 2014 Highlights and Trends

*Restaurant Development.* New restaurants have contributed substantially to our revenue growth and in 2014, we opened 49 company-owned restaurants and 10 franchise restaurants for a total of 59 restaurants opened system-wide. The Company also purchased 19 restaurants from two franchisees during 2014. As of December 30, 2014, we had 386 company-owned restaurants and 53 franchise restaurants in 32 states and the District of Columbia. In 2015, we anticipate 12% to 14% system-wide unit growth.

*Comparable Restaurant Sales.* Comparable restaurant sales increased by 0.2% system-wide in 2014. Comparable restaurant sales represent year-over-year sales comparisons for restaurants open for at least 18 full periods.

*Catering.* During 2014 we rolled out a catering program to all of our restaurants system-wide. We believe there is significant demand for this offering, which is designed for groups of 20 or more people.

#### 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. As of 2014, 2013 and 2012, there were 295, 248 and 216 restaurants, respectively, in our comparable restaurant base for company-owned locations. 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 entrées sold, or changes in per person spend, calculated as sales divided by traffic. Per person spend can be influenced by changes in menu prices and the mix and number of items sold per person.

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

- consumer recognition of our brand and our ability to respond to changing consumer preferences;
- overall economic trends, particularly those related to consumer spending;
- our ability to operate restaurants effectively and efficiently to meet consumer expectations;
- pricing;
- 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.

As a result of the 53-week fiscal year 2011, our fiscal year 2012 began one week later than our fiscal year 2011. Consistent with common industry practice, we present comparable restaurant sales on a calendar-adjusted basis that aligns current year sales weeks with comparable periods in the prior year, regardless of whether they belong to the same fiscal period or not. Since opening new company-owned and franchise restaurants will be a significant component of our revenue growth, comparable restaurant sales are only one measure of how we evaluate our performance.

### ***Restaurant Contribution***

Restaurant contribution is defined as restaurant revenue less restaurant operating costs which are cost of sales, labor, occupancy and other restaurant operating costs. 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 (benefit) for income taxes and depreciation and amortization. We define adjusted EBITDA as net income before interest expense, debt extinguishment expense, provision (benefit) for income taxes, asset disposals, closure costs and restaurant impairments, depreciation and amortization, stock-based compensation, management fees, IPO-related expenses, follow-on offering expenses, transaction costs and obsolete inventory.

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 Year Ended				
	December 30, 2014	December 31, 2013	January 1, 2013	January 3, 2012	December 28, 2010
(in thousands)					
Net income	\$ 11,428	\$ 6,665	\$ 5,163	\$ 3,829	\$ 2,378
Depreciation and amortization	24,787	20,623	16,719	14,501	13,932
Interest expense	365	2,196	5,028	6,132	1,819
Provision (benefit) for income taxes	7,122	4,767	3,215	1,780	(366)
EBITDA	\$ 43,702	\$ 34,251	\$ 30,125	\$ 26,242	\$ 17,763
Debt extinguishment expense	—	624	2,646	275	—
Asset disposals, closure costs and restaurant impairment	1,391	1,164	1,278	1,629	2,815
Management fees <sup>(a)</sup>	—	500	1,000	1,014	—
Stock-based compensation expense <sup>(b)</sup>	1,330	1,127	1,234	1,328	5,894
IPO-related expenses <sup>(c)</sup>	—	5,667	—	—	—
Follow-on offering expenses <sup>(d)</sup>	—	696	—	—	—
Transaction Costs <sup>(e)</sup>	100	—	—	—	—
Adjusted EBITDA <sup>(f)</sup>	\$ 46,523	\$ 44,029	\$ 36,283	\$ 30,488	\$ 26,472

- (a) Fiscal year 2013 included \$0.5 million in management fee expense, and fiscal years 2012 and 2011 each included \$1.0 million 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.
- (b) 2010 included \$3.7 million of non-cash stock-based compensation expense and \$0.3 million of expense for our portion of payroll taxes related to the 2010 Equity Recapitalization. The stock-based compensation expense for fiscal year 2013 that was previously reported in our earnings release and Annual Report on Form 10-K for the fiscal year ended December 31, 2013 included \$3.2 million of stock-based compensation related to the accelerated vesting of outstanding stock options upon our IPO that was also included in IPO-related expenses. Accordingly, fiscal year 2013 stock-based compensation expense presented in the table above has been revised accordingly.
- (c) 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 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.
- (d) Reflects \$0.7 million of offering expenses related to our follow-on offering completed in December of 2013.
- (e) Expenses related to the purchase of 19 franchise restaurants. See Note 2 of our consolidated financial statements, Business Combinations.
- (f) Adjusted EBITDA for the fiscal year 2013 that was previously reported in our earnings release and Annual Report on Form 10-K for the fiscal year ended December 31, 2013 included \$3.2 million of stock-based compensation related to the accelerated vesting of outstanding stock options at our IPO that was also included in IPO-related expenses. Accordingly, fiscal year 2013 adjusted EBITDA presented in the table above has been revised accordingly.



## **Key Financial Definitions**

### ***Cost of Sales***

Cost of sales includes the direct costs associated with the food, beverage and packaging of our menu items. Cost of sales also includes any costs related to discounted menu items. Cost of sales is a substantial expense and can be expected to grow proportionally as our restaurant revenue grows. Fluctuations in cost of sales are caused primarily by volatility in the cost of commodity food items and related contracts for such items. Other important factors causing fluctuations in cost of sales include seasonality, discounting activity and restaurant level management of food waste.

### ***Labor Costs***

Labor costs include wages, payroll taxes, workers' compensation expense, benefits and bonuses paid to our management teams. Like other expense items, we expect labor costs to grow proportionally as our restaurant revenue grows. Factors that influence fluctuations in our labor costs include minimum wage and payroll tax legislation, the frequency and severity of workers' compensation claims, health care costs and the performance of our restaurants.

### ***Occupancy Costs***

Occupancy costs include rent, common area maintenance and real estate tax expense related to our restaurants and is expected to grow proportionally as we open new restaurants.

### ***Other Restaurant Operating Costs***

Other restaurant operating costs include the costs of utilities, restaurant-level marketing, credit card processing fees, restaurant supplies, repairs and maintenance and other restaurant operating costs. Like other costs, it is expected to grow proportionally as restaurant revenue grows.

### ***General and Administrative Expense***

General and administrative expense is composed of payroll, other compensation, travel, marketing, accounting fees, legal fees and other expenses related to the infrastructure required to support our restaurants. General and administrative expense also includes the non-cash stock compensation expense related to our employee stock incentive plan. General and administrative expense can be expected to grow as we grow, including incremental legal, accounting, insurance and other expenses incurred as a public company.

### ***Depreciation and Amortization***

Our principal depreciation and amortization charges relate to depreciation of fixed assets, including leasehold improvements and equipment, from restaurant construction and ongoing maintenance.

### ***Pre-Opening Costs***

Pre-opening costs relate to the costs incurred prior to the opening of a restaurant. These include management labor costs, staff labor costs during training, food and supplies utilized during training, marketing costs and other related pre-opening costs. Pre-opening costs also include rent recorded between date of possession and opening date for our restaurants.

### ***Asset Disposals, Closure Costs and Restaurant Impairments***

Asset disposals, closure costs and restaurant impairments include the loss on disposal of assets related to retirements and replacement of leasehold improvements or equipment, non-cash restaurant closure and impairment charges.

### ***Debt Extinguishment***

In both 2013 and 2012, we amended our credit facility to extend the maturity date and to reduce interest rates on borrowings. As a result of these amendments, a portion of the existing and new fees were treated as debt extinguishment.

**Interest Expense**

Interest expense consists primarily of interest on our outstanding indebtedness and amortization of debt issuance costs over the life of the related debt reduced by capitalized interest.

**Provision for Income Taxes**

Provision for income taxes consists of federal, state and local taxes on our income.

**Restaurant Openings, Closures and Relocations**

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

	Fiscal Year Ended		
	December 30, 2014	December 31, 2013	January 1, 2013
<b>Company-Owned Restaurant Activity</b>			
Beginning of period	318	276	239
Openings <sup>(2)</sup>	49	43	39
Acquisitions <sup>(1)</sup>	19	—	—
Closures and relocations <sup>(2)</sup>	—	(1)	(2)
Restaurants at end of period	386	318	276
<b>Franchise Restaurant Activity</b>			
Beginning of period	62	51	45
Openings	10	11	6
Divestitures <sup>(1)</sup>	(19)	—	—
Restaurants at end of period	53	62	51
Total restaurants	439	380	327

(1) Represents franchise restaurants acquired by the Company.

(2) We account for relocated restaurants under both restaurant openings and closures and relocations. During 2012, we closed one restaurant and relocated another restaurant. In fiscal 2013, we closed one restaurant at the end of its lease term.

**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. Fiscal years 2014, 2013 and 2012 each contained 52 operating weeks. Each fiscal quarter contained 13 weeks.

	Fiscal Year Ended		
	December 30, 2014	December 31, 2013	January 1, 2013
<b>Revenue:</b>			
Restaurant revenue	98.8%	98.9%	99.0%
Franchising royalties and fees	1.2	1.1	1.0
Total revenue	100.0	100.0	100.0
<b>Costs and Expenses:</b>			
Restaurant operating costs (exclusive of depreciation and amortization, shown separately below): <sup>(1)</sup>			
Cost of sales	26.9	26.5	26.6
Labor	30.2	30.0	30.1
Occupancy	10.7	10.1	9.9
Other restaurant operating costs	13.2	12.7	12.2
General and administrative <sup>(2)</sup>	7.8	10.2	9.7
Depreciation and amortization	6.1	5.9	5.6
Pre-opening	1.1	1.1	1.0
Asset disposals, closure costs and restaurant impairments	0.3	0.3	0.4
Total costs and expenses	95.3	95.9	94.7
Income from operations	4.7	4.1	5.3
Debt extinguishment expense	—	0.2	0.9
Interest expense	0.1	0.6	1.7
Income before income taxes	4.6	3.3	2.8
Provision for income taxes	1.8	1.4	1.1
Net income	2.8%	1.9%	1.7%

(1) As a percentage of restaurant revenue.

(2) Fiscal year 2013 included \$500,000 of management fee expense and fiscal year 2012 included \$1.0 million 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. Additionally, we incurred \$0.7 million of expenses related to our follow-on offering which closed in December of 2013.

**Fiscal Year Ended December 30, 2014 compared to Fiscal Year Ended December 31, 2013**

Fiscal years 2014 and 2013 contained 52 operating weeks. The table below presents our operating results for 2014 and 2013, and the related year-over-year changes:

	Fiscal Year Ended		Increase / (Decrease)	
	December 30, 2014	December 31, 2013	\$	%
(dollars in thousands)				
<b>Statements of Income Data:</b>				
<i>Revenue:</i>				
Restaurant revenue	\$ 398,993	\$ 347,140	\$ 51,853	14.9 %
Franchising royalties and fees	4,748	3,784	964	25.5
Total revenue	403,741	350,924	52,817	15.1
<i>Costs and Expenses:</i>				
Restaurant operating costs (exclusive of depreciation and amortization, shown separately below):				
Cost of sales	107,217	91,892	15,325	16.7
Labor	120,492	104,040	16,452	15.8
Occupancy	42,540	35,173	7,367	20.9
Other restaurant operating costs	52,580	44,078	8,502	19.3
General and administrative <sup>(1)</sup>	31,394	35,893	(4,499)	(12.5)
Depreciation and amortization	24,787	20,623	4,164	20.2
Pre-opening	4,425	3,809	616	16.2
Asset disposals, closure costs and restaurant impairments	1,391	1,164	227	19.5
Total costs and expenses	384,826	336,672	48,154	14.3
Income from operations	18,915	14,252	4,663	32.7
Debt extinguishment expense	—	624	(624)	*
Interest expense	365	2,196	(1,831)	(83.4)
Income before income taxes	18,550	11,432	7,118	62.3
Provision for income taxes	7,122	4,767	2,355	49.4
Net income	\$ 11,428	\$ 6,665	\$ 4,763	71.5 %

\* Not meaningful.

(1) Fiscal year 2013 included \$500,000 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. Additionally, we incurred \$0.7 million of expenses related to our follow-on offering which closed in December of 2013.

**Revenue**

Restaurant revenue increased by \$51.9 million in 2014 compared to 2013. Restaurants not in the comparable restaurant base accounted for \$51.0 million of this increase, with the balance attributed to growth in comparable restaurant sales. Comparable restaurant sales increased by \$0.9 million or 0.3% in 2014, composed of an increase in price and product mix, offset by a decrease in traffic partially attributable to abnormally severe weather in the first quarter of 2014.

Franchise royalties and fees increased by \$1.0 million in 2014 due to 10 new restaurant openings, the cancellation of an area development agreement and an increase in marketing administrative fees from 0.5% in 2013 to 1.0% in 2014, offset by decreased comparable restaurant sales of 0.4% and the loss of royalties and fees from franchise restaurants purchased by the Company.

### **Cost of Sales**

Cost of sales increased by \$15.3 million in 2014 compared to 2013, due primarily to the increase in restaurant revenue in 2014. As a percentage of restaurant revenue, cost of sales increased to 26.9% in 2014 from 26.5% in 2013. This increase as a percentage of restaurant revenue was the result of increased promotional activity and an increase in ingredient costs.

### **Labor Costs**

Labor costs increased by \$16.5 million in 2014 compared to 2013, due primarily to the increase in restaurant revenue in 2014. As a percentage of restaurant revenue, labor costs increased to 30.2% in 2014 from 30.0% in 2013. The increase as a percentage of restaurant revenue was the result of an increased percentage of non-comparable base restaurants, which on average have higher labor costs as a percentage of revenue.

### **Occupancy Costs**

Occupancy costs increased by \$7.4 million in 2014 compared to 2013, due primarily to new restaurants. As a percentage of restaurant revenue, occupancy costs increased to 10.7% in 2014, from 10.1% in 2013. The increase was due to an increase in the percentage of restaurants not in the comparable base which, due to not reaching mature volumes, on average have higher occupancy costs as a percentage of revenue.

### **Other Restaurant Operating Costs**

Other restaurant operating costs increased by \$8.5 million in 2014 compared to 2013, due primarily to the increase in restaurant revenue in 2014. As a percentage of restaurant revenue, other restaurant operating costs increased to 13.2% in 2014 from 12.7% in 2013. The increase in other restaurant operating cost percentage was due to costs of restaurants not in the comparable base, as well as increased utility and maintenance costs in 2014.

### **General and Administrative Expense**

General and administrative expense decreased by \$4.5 million in 2014 compared to 2013, due primarily to \$5.7 million of expenses related to the closing of our IPO in the second quarter of 2013 and \$0.7 million of expenses related to the closing of our follow-on offering in the fourth quarter of 2013, offset by our biennial All Managers Conference, which was held during 2014, as well as increased spend in 2014 due to inflation and the support of additional restaurants. The \$5.7 million of expenses related to the closing of our IPO was comprised of \$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 and \$0.7 million of follow-on offering costs, general and administrative expense as a percentage of revenue decreased to 8.4% in 2013. The decrease to 7.8% in 2014 from 8.4% in 2013 is due to increasing revenue without proportionate increases in general and administrative costs or administrative personnel as well as a decrease in incentive compensation in 2014. General and administrative expense included \$1.5 million and \$4.3 million of stock-based compensation expense in 2014 and 2013, respectively, and \$500,000 of management fees in 2013.

### **Depreciation and Amortization**

Depreciation and amortization increased by \$4.2 million in 2014 compared to 2013, due primarily to an increased number of restaurants. As a percentage of revenue, depreciation and amortization increased to 6.1% in 2014 from 5.9% in 2013, due to depreciation on restaurants not in the comparable base that, on average, have a higher cost basis of assets, as well as investments in technology.

### **Pre-Opening Costs**

Pre-opening costs increased by \$0.6 million in 2014 compared to 2013, due to 49 restaurant openings in 2014 compared to 43 in 2013. As a percentage of revenue, pre-opening costs remained flat at 1.1% in 2014 and 2013.

***Asset Disposals, Closure Costs and Restaurant Impairments***

Asset disposals, closure costs and restaurant impairments increased by \$0.2 million in 2014 compared to 2013 due primarily to a \$0.5 million expense for the disposal of furniture and fixture inventory related to the dissolving of a relationship with an overseas vendor, offset by decreased disposals of other assets.

***Debt Extinguishment***

In 2013, debt extinguishment expense was \$0.6 million as a result the November 2013 amendment to our credit facility that extended the maturity date and reduced the interest rates on borrowings. A portion of the existing and new fees were treated as debt extinguishment expense.

***Interest Expense***

Interest expense decreased by \$1.8 million in 2014 compared to 2013. The decrease was primarily due to lower average borrowings in 2014 due to the payoff of the majority of our outstanding debt in conjunction with our IPO in 2013.

***Provision for Income Taxes***

Provision for income taxes increased by \$2.4 million in 2014 compared to 2013, due to an increase in pre-tax net income in 2014, offset by a decrease to our effective income tax rate. Our effective tax rate decreased to 38.4% in 2014 from 41.7% in 2013 primarily due to the impact of non-deductible follow-on offering transaction costs in 2013, offset by increased employment credits in 2014.

**Fiscal Year Ended December 31, 2013 compared to Fiscal Year Ended January 1, 2013**

Fiscal year 2013 and 2012 each contained 52 operating weeks. The table below presents our operating results for 2013 and 2012, and the related year-over-year changes:

	Fiscal Year Ended		Increase / (Decrease)	
	December 31, 2013	January 1, 2013	\$	%
(dollars in thousands)				
<b>Statements of Income Data:</b>				
<i>Revenue:</i>				
Restaurant revenue	\$ 347,140	\$ 297,264	\$ 49,876	16.8 %
Franchising royalties and fees	3,784	3,146	638	20.3
Total revenue	350,924	300,410	50,514	16.8
<i>Costs and Expenses:</i>				
Restaurant Operating Costs (exclusive of depreciation and amortization, shown separately below):				
Cost of sales	91,892	78,997	12,895	16.3
Labor	104,040	89,435	14,605	16.3
Occupancy	35,173	29,323	5,850	20.0
Other restaurant operating costs	44,078	36,380	7,698	21.2
General and administrative <sup>(1)</sup>	35,893	29,081	6,812	23.4
Depreciation and amortization	20,623	16,719	3,904	23.4
Pre-opening	3,809	3,145	664	21.1
Asset disposals, closure costs and restaurant impairments	1,164	1,278	(114)	(8.9)
Total costs and expenses	336,672	284,358	52,314	18.4
Income from operations	14,252	16,052	(1,800)	(11.2)
Debt extinguishment expense	624	2,646	(2,022)	*
Interest expense	2,196	5,028	(2,832)	(56.3)
Income before income taxes	11,432	8,378	3,054	36.5
Provision for income taxes	4,767	3,215	1,552	48.3
Net income	\$ 6,665	\$ 5,163	\$ 1,502	29.1 %

\* Not meaningful.

(1) Fiscal year 2013 included \$500,000 of management fee expense and 2012 included \$1.0 million 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. Additionally, we incurred \$0.7 million of expenses related to our follow-on offering which closed in December of 2013.

**Revenue**

Restaurant revenue increased by \$49.9 million in 2013 compared to 2012. Restaurants not in the comparable restaurant base accounted for \$40.6 million of this increase, with the balance attributed to growth in comparable restaurant sales. Comparable restaurant sales increased by \$9.3 million or 3.4% in 2013, composed primarily of a modest price increase during 2013 and increases in traffic at our comparable base restaurants.

Franchise royalties and fees increased by \$0.6 million due to 11 new restaurant openings and increased comparable restaurant sales of 0.6% during 2013.

### **Cost of Sales**

Cost of sales increased by \$12.9 million in 2013 compared to 2012, due primarily to the increase in restaurant revenue in 2013. As a percentage of restaurant revenue, cost of sales decreased to 26.5% in 2013 from 26.6% in 2012. This decrease as a percentage of restaurant revenue was the result of an increase in restaurant menu pricing, partially offset by a minimal increase in food cost.

### **Labor Costs**

Labor costs increased by \$14.6 million in 2013 compared to 2012, due primarily to the increase in restaurant revenue in 2013. As a percentage of restaurant revenue, labor costs decreased to 30.0% in 2013 from 30.1% in 2012. The decrease in labor cost percentage was driven primarily by lower incentive compensation expense.

### **Occupancy Costs**

Occupancy costs increased by \$5.9 million in 2013 compared to 2012, due primarily to new restaurants opened in each of these years. As a percentage of restaurant revenue, occupancy costs increased to 10.1% in 2013, from 9.9% in 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 \$7.7 million in 2013 compared to 2012, due primarily to the increase in restaurant revenue in 2013. As a percentage of restaurant revenue, other restaurant operating costs increased to 12.7% in 2013 from 12.2% in 2012. The increase in other restaurant operating cost percentage was the result of increased restaurant-level marketing costs in the 2013, as well as increased utilities and repair and maintenance costs.

### **General and Administrative Expense**

General and administrative expense increased by \$6.8 million in 2013 compared to 2012, due primarily to \$5.7 million of expenses related to the closing of our IPO in the second quarter of 2013 and \$0.7 million of expenses related to the closing of our follow-on offering in the fourth quarter of 2013. The \$5.7 million of expenses related to the closing of our IPO was comprised of \$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 and \$0.7 million of follow-on offering costs, general and administrative expense as a percentage of revenue decreased to 8.4% in the 2013 from 9.7% in 2012. The decrease is due to increasing revenue without proportionate increases in general and administrative costs or administrative personnel. General and administrative expense includes \$4.3 million and \$1.2 million of stock-based compensation expense in 2013 and 2012, respectively, and \$500,000 and \$1.0 million of management fees in 2013 and 2012, respectively.

### **Depreciation and Amortization**

Depreciation and amortization increased by \$3.9 million in 2013 compared to 2012, due primarily to an increased number of restaurants. As a percentage of revenue, depreciation and amortization increased to 5.9% in 2013 from 5.6% in 2012, due to depreciation on new restaurants and initiatives, partially offset by leverage of increased AUVs.

### **Pre-Opening Costs**

Pre-opening costs increased by \$0.7 million in 2013 compared to 2012, due to 43 restaurant openings in 2013, compared to 39 in 2012. As a percentage of revenue, pre-opening costs increased to 1.1% in 2013 compared to 1.0% in 2012 due to the timing of restaurant openings including rent incurred for locations opening in the first quarter of 2014.

### **Asset Disposals, Closure Costs and Restaurant Impairments**

Asset disposals, closure costs and restaurant impairments decreased by \$0.1 million in 2013 compared to 2012 due primarily to a lease termination and other related closing costs of one restaurant which closed in 2012, which was offset by increased loss on disposal of assets.



### Debt Extinguishment

Debt extinguishment expense was \$0.6 million in 2013 and \$2.6 million in 2012, as a result of amendments in November 2013 and August of 2012, respectively, to our credit facility that extended the maturity date and reduced the interest rates on borrowings. A portion of the existing and new fees were treated as debt extinguishment expense.

### Interest Expense

Interest expense decreased by \$2.8 million in 2013 compared to 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 our IPO, and the favorable borrowing rates resulting from the 2012 amendment to our credit facility.

### Provision for Income Taxes

Provision for income taxes increased by \$1.6 million in 2013 compared to 2012, due to an increase in pre-tax net income in 2013 and an increase to our effective income tax rate. Our effective tax rate increased to 41.7% in 2013 from 38.4% in 2012 primarily due to the impact of non-deductible follow-on offering transaction costs.

### Quarterly Financial Data

The following table presents select historical quarterly consolidated statements of operations data and other operations data for fiscal years 2014 and 2013. This quarterly information has been prepared using our unaudited consolidated financial statements and includes all adjustments consisting only of normal recurring adjustments necessary for a fair presentation of the results of the interim periods.

	Quarter Ended							
	Dec. 30, 2014	Sept. 30, 2014	July 1, 2014	April 1, 2014	Dec. 31, 2013	Oct. 1, 2013	July 2, 2013	April 2, 2013
	(dollars in thousands, unaudited)							
Total revenue	\$ 108,546	\$ 106,216	\$ 99,459	\$ 89,519	\$ 91,468	\$ 88,936	\$ 89,239	\$ 81,280
Net income	3,535	2,943	3,527	1,424	2,407	3,265	68	924
<b>Selected Operating Data:</b>								
Company-owned restaurants at end of period	386	370	343	331	318	310	295	284
Franchise-owned restaurants at end of period	53	55	67	63	62	58	53	51
Company-owned:								
Average unit volumes	1,147	1,152	1,156	1,163	1,179	1,181	1,184	1,180
Comparable restaurant sales	1.3%	1.6%	(0.6)%	(1.4)%	4.3%	2.4%	4.7%	2.2%
Restaurant contribution as a percentage of restaurant revenue <sup>(1)</sup>	20.0%	18.6%	20.4 %	17.3 %	21.0%	20.7%	22.4%	18.6%

(1) Restaurant contribution represents restaurant revenue less restaurant operating costs which are cost of sales, labor, occupancy and other restaurant operating costs.

## Liquidity and Capital Resources

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. We believe that expected cash flow from operations and planned borrowing capacity are adequate to fund debt service requirements, operating lease obligations, capital expenditures and working capital obligations for the next year.

While operations continue to provide cash, our primary use of cash is new restaurant development. Our total capital expenditures for 2014 were \$56.4 million, and we expect to incur capital expenditures of between \$55 million to \$60 million in 2015, of which \$45 million to \$50 million relates to our construction of new restaurants before any reductions for landlord reimbursements, and the remainder relates primarily to reinvestment in existing restaurants and investments in technology. In 2014, excluding two atypical urban sites, we spent on average \$796,000 in development and construction costs per restaurant, net of landlord reimbursements. For new restaurants to be opened in 2015, we anticipate average development costs will be \$750,000 to \$775,000, net of landlord reimbursements.

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

	Fiscal Year Ended		
	December 30, 2014	December 31, 2013	January 1, 2013
	(in thousands)		
Net cash provided by operating activities	\$ 49,027	\$ 43,634	\$ 32,069
Net cash used in investing activities	(72,060)	(54,429)	(47,384)
Net cash provided by financing activities	23,971	11,182	15,373
Net increase in cash and cash equivalents	<u>\$ 938</u>	<u>\$ 387</u>	<u>\$ 58</u>

### Operating Activities

Net cash provided by operating activities of \$49.0 million for 2014 resulted primarily from net income, adjusted for items such as depreciation and amortization and stock-based compensation expense. The \$5.4 million increase in 2014 over 2013, was primarily driven by an increase in net income and accounts payable due to the timing of payments, offset by the timing of accrued incentive compensation payments as well as investments in inventory items for catering.

Net cash provided by operating activities increased in 2013 from 2012 primarily due to increased net income, adjusted for items such as depreciation and amortization, stock-based compensation expense and the amortization and write-off of debt issuance costs. The increase was also impacted by changes in working capital including the collection of tenant improvement receivables, the change in deferred rent due to a larger restaurant base and an increase in accrued expenses and other liabilities due to growth.

### Investing Activities

Net cash used in investing activities was primarily related to new restaurant capital expenditures for the opening of 49, 43 and 39 restaurants, respectively, in 2014, 2013 and 2012, and infrastructure investment. The increase in investing activities in 2014 was also a result of purchasing 19 restaurants from two franchisees. We used approximately \$15.7 million of cash flows for acquisitions in 2014. We acquired substantially all of the assets of 16 restaurants from our Indiana franchisee and an additional three restaurants from our New Jersey franchisee. See Note 2 to the consolidated financial statements for further information with respect to our acquisition activity in 2014.

In addition to our standard refresh and remodel investments in 2014, 2013 and 2012, we also invested additional funds in our existing restaurant base as we finished the roll out of our "Your World Kitchen" merchandising in the first quarter of 2013.

## Financing Activities

Net cash provided by financing activities was \$24.0 million and \$11.2 million in 2014 and 2013, respectively. We used borrowings in both fiscal years to fund new restaurant capital expenditures. In 2014, we also used borrowings for investments in technology and acquisitions.

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, commissions 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. In November of 2013, we amended and restated our credit facility to provide more favorable borrowing rates and fees, to extend borrowing capacity through July 2018 and to effect certain changes to the covenants. The credit facility had been previously amended in August of 2012 to provide more favorable borrowing rates and extend borrowing capacity to July 2017.

Net cash provided by financing activities was \$15.4 million in 2012, driven by borrowings on our credit facility to fund capital expenditures.

## 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 \$10.0 million used to fund working capital requirements. On November 22, 2013, we amended and restated our credit facility to provide more favorable borrowing rates and fees, to extend borrowing capacity through July 2018 and to effect certain changes to the covenants. In connection with the IPO, we repaid our \$75.0 million senior term loan under our credit facility and the majority of the revolving line of credit. We had \$27.5 million of outstanding indebtedness, \$2.7 million of outstanding letters of credit and \$14.8 million available for borrowing under our revolving line of credit as of December 30, 2014. Borrowings under our amended and restated credit facility bear interest, at our option, at either (i) LIBOR plus 1.00 to 1.75%, based on the lease-adjusted leverage ratio or (ii) the highest of the following rates plus zero to 0.75%: (a) the federal funds rate plus 0.50%; (b) the Bank of America prime rate or (c) the one month LIBOR plus 1.00%. The facility includes a commitment fee of 0.125 to 0.25%, based on the lease-adjusted leverage ratio, per year on any unused portion of the facility. We also maintain outstanding letters of credit to secure obligations under our workers' compensation program and certain lease obligations.

Availability of borrowings under the revolving line of credit is conditioned on our compliance with specified covenants, including a maximum lease-adjusted leverage ratio and a minimum consolidated fixed charge coverage ratio. We are subject to a number of other customary covenants, including limitations on additional borrowings, acquisitions, dividend payments and lease commitments. As of December 30, 2014, 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 of the personal property assets of the Company and its subsidiaries.

## Contractual Obligations

Our contractual obligations at December 30, 2014 were as follows:

	Total	Payments Due by Period			
		Less than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years
		(in thousands)			
Lease obligations <sup>(1)</sup>	\$ 294,370	\$ 42,188	\$ 82,475	\$ 65,454	\$ 104,253
Purchase obligations <sup>(2)</sup>	24,292	13,093	6,399	4,800	—
Long-term debt <sup>(3)</sup>	27,500	—	—	27,500	—
Other liabilities <sup>(4)</sup>	1,324	—	—	—	1,324
	<u>\$ 347,486</u>	<u>\$ 55,281</u>	<u>\$ 88,874</u>	<u>\$ 97,754</u>	<u>\$ 105,577</u>

(1) We are obligated under non-cancelable leases for our restaurants, administrative offices and equipment. Some restaurant leases provide for contingent rental payments based on sales thresholds, which are excluded from this table. We also include capital leases for computer equipment of \$200,000.

(2) We enter into various purchase obligations in the ordinary course of business. Our binding purchase obligations relate to volume commitments for beverage and food products, as well as binding commitments for the construction of new restaurants.

- (3) Reflects full payment of our long-term debt at maturity of our credit facility in 2018.
- (4) Reflects the expected payments associated with our commitment under our non-qualified deferred compensation plan and capital lease obligations on equipment.

### **Off-Balance Sheet Arrangements**

We had no off-balance sheet arrangements or obligations as of December 30, 2014.

### **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. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements:

#### ***Revenue Recognition***

We record revenue from the operation of company-owned restaurants when sales occur. In the case of gift card sales, we record revenue when: (i) the gift card is redeemed by the customer and (ii) we determine the likelihood of the gift card being redeemed by the customer is remote (gift card breakage). We record royalties from franchise restaurant sales based on a percentage of restaurant revenues in the period the related franchised restaurants' revenues are earned. Area development fees and franchise fees are recognized as income when all material services or conditions relating to the sale of the franchise have been substantially performed or satisfied by us. Both franchise fees and area development fees are generally recognized as income upon the opening of a franchise restaurant or upon termination of the agreement(s).

#### ***Property and Equipment***

We state the value of our property and equipment, primarily leasehold improvements, restaurant equipment and furniture and fixtures, at cost, minus accumulated depreciation and amortization. We calculate depreciation using the straight-line method of accounting over the estimated useful lives of the related assets. We amortize our leasehold improvements using the straight-line method of accounting over the shorter of the lease term (including reasonably assured renewal periods) or the estimated useful lives of the related assets. We expense repairs and maintenance as incurred, but capitalize major improvements and betterments. We make judgments and estimates related to the expected useful lives of these assets that are affected by factors such as changes in economic conditions and changes in operating performance. If we change those assumptions in the future, we may be required to record impairment charges for these assets.

#### ***Business Combinations and Intangible Assets Including Goodwill***

We account for acquisitions using the purchase method of accounting. Accordingly, assets acquired and liabilities assumed are recorded at their estimated fair values at the acquisition date. The excess of purchase price over fair value of net assets acquired, including the amount assigned to identifiable intangible assets, is recorded as goodwill. Given the time it takes to obtain pertinent information to finalize the acquired company's balance sheet, it may be several quarters before we are able to finalize those initial fair value estimates. Accordingly, it is not uncommon for the initial estimates to be subsequently revised. The results of operations of acquired businesses are included in the consolidated financial statements from the acquisition date. Our recorded identifiable intangible assets primarily include the estimated value assigned to certain contract-based assets, primarily favorable or unfavorable lease arrangements, which are amortized on a straight-line basis over the remaining lease terms. At December 30, 2014, we had goodwill recorded in conjunction with franchise acquisitions of \$6.4 million. Under the accounting rules, goodwill is not amortized. Instead, goodwill is subject to annual reviews for impairment on the first day of the fourth fiscal quarter.

### ***Self-Insurance Programs***

We are self-insured for health, workers' compensation, general and liability and property damage. Predetermined loss limits have been arranged with insurance companies to limit our per occurrence cash outlay. Estimated costs to settle reported claims and incurred but unreported claims for health and workers' compensation self-insured plans are recorded in accrued payroll and benefits and for general and liability and property damage in accrued expenses and other liabilities.

### ***Rent***

We record rent expense for our leases, which generally have escalating rentals over the term of the lease, on a straight-line basis over the lease term. The lease term includes renewal options that are reasonably assured. Rent expense begins when we have the right to control the use of the property, which is typically before rent payments are due under the lease. We record the difference between the rent expense and rent paid as deferred rent in the consolidated balance sheet. Rent expense for the period prior to the restaurant opening is reported as pre-opening expense in the consolidated statements of income. Tenant incentives used to fund leasehold improvements are recorded in deferred rent and amortized as reductions of rent expense over the term of the lease.

Certain of our operating leases contain clauses that provide additional contingent rent based on a percentage of sales greater than certain specified target amounts. We recognize contingent rent expense when the achievement of specified targets is considered probable.

### ***Recent Accounting Pronouncements***

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updated ("ASU"), "Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." This update requires management of the Company to evaluate whether there is substantial doubt about the Company's ability to continue as a going concern. This update is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted. The Company does not expect this standard to have an impact on the Company's consolidated financial position or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The pronouncement was issued to clarify the principles for recognizing revenue and to develop a common revenue standard and disclosure requirements for U.S. GAAP and International Financial Reporting Standards ("IFRS"). The pronouncement is effective for reporting periods beginning after December 15, 2016. The adoption of ASU 2014-09 is not expected to significantly affect the Company's consolidated financial position or results of operations.

### ***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, shareholder advisory votes on golden parachute compensation and the extended transition period for complying with the new or revised accounting standards.

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

## **ITEM 7A. Quantitative and Qualitative Disclosure about Market Risk**

### ***Interest Rate Risk***

We are exposed to market risk from changes in interest rates on debt. Our exposure to interest rate fluctuations is limited to our outstanding bank debt, which bears interest at variable rates. As of December 30, 2014 there was \$27.5 million in outstanding borrowings under our 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 approximately \$275,000 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 materials used in the construction of new restaurants. Increases in the minimum wage directly affect our labor costs. Many of our leases require us to pay taxes, maintenance, repairs, insurance and utilities, all of which are generally subject to inflationary increases. Finally, the cost of constructing our restaurants is subject to inflationary increases in the costs of labor and material. Over the past five years, inflation has not significantly affected our operating results.

**ITEM 8. Financial Statements and Supplementary Data**

**Noodles & Company**

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*See accompanying notes to consolidated financial statements.*

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

	December 30, 2014	December 31, 2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,906	\$ 968
Accounts receivable	4,557	4,229
Inventories	9,415	7,223
Prepaid expenses and other assets	6,271	5,310
Income tax receivable	627	603
Total current assets	22,776	18,333
Property and equipment, net	205,573	167,614
Goodwill	6,400	—
Intangibles, net	1,927	351
Other assets, net	2,227	1,504
Total long-term assets	216,127	169,469
Total assets	\$ 238,903	\$ 187,802
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 10,865	\$ 8,167
Accrued payroll and benefits	4,704	7,121
Accrued expenses and other current liabilities	8,560	7,747
Current deferred tax liabilities, net	1,702	1,130
Total current liabilities	25,831	24,165
Long-term debt	27,500	6,312
Deferred rent	35,498	28,846
Deferred tax liabilities, net	6,512	1,146
Other long-term liabilities	3,447	2,860
Total liabilities	98,788	63,329
Stockholders' equity:		
Preferred Stock—\$0.01 par value, authorized 1,000,000 shares; no shares issued or outstanding	—	—
Common stock—\$0.01 par value, authorized 180,000,000 shares as of December 30, 2014 and December 31, 2013; 29,820,340 and 29,544,557 issued and outstanding as of December 30, 2014 and December 31, 2013, respectively	298	295
Treasury stock, at cost, 67,586 and 65,478 shares as of December 30, 2014 and December 31, 2013, respectively	(2,848)	(2,777)
Additional paid-in capital	120,929	116,647
Retained earnings	21,736	10,308
Total stockholders' equity	140,115	124,473
Total liabilities and stockholders' equity	\$ 238,903	\$ 187,802

*See accompanying notes to consolidated financial statements.*



**Noodles & Company**  
**Consolidated Statements of Income**  
(in thousands, except share and per share data)

	Fiscal Year Ended		
	December 30, 2014	December 31, 2013	January 1, 2013
<b>Revenue:</b>			
Restaurant revenue	\$ 398,993	\$ 347,140	\$ 297,264
Franchise royalties and fees	4,748	3,784	3,146
Total revenue	<u>403,741</u>	<u>350,924</u>	<u>300,410</u>
<b>Costs and expenses:</b>			
Restaurant operating costs (exclusive of depreciation and amortization, shown separately below):			
Cost of sales	107,217	91,892	78,997
Labor	120,492	104,040	89,435
Occupancy	42,540	35,173	29,323
Other restaurant operating costs	52,580	44,078	36,380
General and administrative	31,394	35,893	29,081
Depreciation and amortization	24,787	20,623	16,719
Pre-opening	4,425	3,809	3,145
Asset disposals, closure costs and restaurant impairments	1,391	1,164	1,278
Total costs and expenses	<u>384,826</u>	<u>336,672</u>	<u>284,358</u>
Income from operations	18,915	14,252	16,052
Debt extinguishment expense	—	624	2,646
Interest expense	365	2,196	5,028
Income before income taxes	<u>18,550</u>	<u>11,432</u>	<u>8,378</u>
Provision for income taxes	7,122	4,767	3,215
Net income	<u>\$ 11,428</u>	<u>\$ 6,665</u>	<u>\$ 5,163</u>
Earnings per Class A and Class B common stock, combined			
Basic	\$ 0.38	\$ 0.25	\$ 0.22
Diluted	\$ 0.37	\$ 0.24	\$ 0.22
Weighted average Class A and Class B common stock outstanding, combined			
Basic	29,717,304	26,406,904	23,238,984
Diluted	31,001,099	27,688,629	23,265,542

*See accompanying notes to consolidated financial statements.*

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

	<b>Fiscal Year Ended</b>		
	<b>December 30, 2014</b>	<b>December 31, 2013</b>	<b>January 1, 2013</b>
Net income	\$ 11,428	\$ 6,665	\$ 5,163
Other comprehensive income:			
Cash flow hedges:			
Loss recognized in accumulated other comprehensive income	—	—	(186)
Reclassification of loss to net income	—	—	382
Unrealized income on cash flow hedges	—	—	196
Provision for income tax on cash flow hedges	—	—	(168)
Other comprehensive income, net of tax	—	—	28
Comprehensive income	<u>\$ 11,428</u>	<u>\$ 6,665</u>	<u>\$ 5,191</u>

*See accompanying notes to consolidated financial statements.*

**Noodles & Company**  
**Consolidated Statements of Equity**  
(in thousands, except share data)

	Common Stock <sup>(1)</sup>		Treasury		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity	Temporary Equity
	Shares	Amount	Shares	Amount					
Balance—January 3, 2012	23,238,984	\$ 232 <sup>(2)</sup>	—	\$ —	\$ 6,291	\$ (52)	\$ (1,520)	\$ 4,951	\$ 2,572
Tax benefit on exercise of stock options	—	—	—	—	27	—	—	27	—
Stock-based compensation expenses	—	—	—	—	1,315	—	—	1,315	—
2010 Merger-transaction expenses	—	—	—	—	(48)	—	—	(48)	—
Temporary equity related to put options	—	—	—	—	—	—	(1,029)	(1,029)	1,029
Net income	—	—	—	—	—	—	5,163	5,163	—
Unrealized income on cash flow hedges, net of tax	—	—	—	—	—	28	—	28	—
Balance—January 1, 2013	23,238,984	232 <sup>(2)</sup>	—	—	7,585	(24)	2,614	10,407	3,601
Issuance of common stock in connection with IPO, net of transaction expenses	6,160,714	62	—	—	100,007	—	—	100,069	—
Elimination of temporary equity at IPO	—	—	—	—	2,572	—	1,029	3,601	(3,601)
Proceeds from exercise of stock options, warrants and employee stock purchase plan	144,907	1	—	—	1,981	—	—	1,982	—
Treasury shares acquired	—	—	65,478	(2,777)	—	—	—	(2,777)	—
Tax benefit on exercise of stock options	—	—	—	—	201	—	—	201	—
Stock-based compensation expense	—	—	—	—	1,098	—	—	1,098	—
Stock-based compensation expense related to acceleration of vesting	—	—	—	—	3,203	—	—	3,203	—
Other	(48)	—	—	—	—	24	—	24	—
Net Income	—	—	—	—	—	—	6,665	6,665	—
Balance—December 31, 2013	29,544,557	295 <sup>(2)</sup>	65,478	(2,777)	116,647	—	10,308	124,473	—
Proceeds from exercise of stock options, warrants and employee stock purchase plan	275,783	3	—	—	2,673	—	—	2,676	—
Treasury shares acquired	—	—	2,108	(71)	—	—	—	(71)	—
Tax benefit on exercise of stock options	—	—	—	—	253	—	—	253	—
Stock-based compensation expense	—	—	—	—	1,418	—	—	1,418	—
Other	—	—	—	—	(62)	—	—	(62)	—
Net Income	—	—	—	—	—	—	11,428	11,428	—
Balance—December 30, 2014	29,820,340	\$ 298 <sup>(2)</sup>	67,586	\$ (2,848)	\$ 120,929	\$ —	\$ 21,736	\$ 140,115	\$ —

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

(2) Includes 1,522,098 and 6,292,640 shares of Class B common stock as of December 30, 2014 and December 31, 2013, respectively, and one share of Class C common stock as of January 1, 2013

*See accompanying notes to consolidated financial statements.*

**Noodles & Company**  
**Consolidated Statements of Cash Flows**  
(in thousands)

	Fiscal Year Ended		
	December 30, 2014	December 31, 2013	January 1, 2013
<b>Operating activities</b>			
Net income	\$ 11,428	\$ 6,665	\$ 5,163
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	24,787	20,623	16,719
Provision for deferred income taxes	6,330	4,206	2,607
Excess tax benefit on stock-based compensation	(253)	(201)	(27)
Asset disposals, closure costs and restaurant impairments	1,391	1,164	1,278
Amortization of debt issuance costs and debt extinguishment expense	101	710	3,227
Stock-based compensation	1,330	4,230	1,234
Other noncash	—	(248)	(341)
Changes in operating assets and liabilities:			
Accounts receivable and income tax receivable	(75)	538	(1,124)
Inventories	(1,840)	(1,181)	(1,447)
Prepaid expenses and other assets	(1,768)	(1,518)	(644)
Accounts payable	2,661	(230)	(155)
Deferred rent	6,390	5,833	4,369
Income taxes	(24)	392	20
Accrued expenses and other liabilities	(1,431)	2,651	1,190
Net cash provided by operating activities	49,027	43,634	32,069
<b>Investing activities</b>			
Purchases of property and equipment	(56,352)	(54,429)	(47,384)
Acquisition of franchise restaurants	(15,708)	—	—
Net cash used in investing activities	(72,060)	(54,429)	(47,384)
<b>Financing activities</b>			
Proceeds from issuances of long-term debt	310,479	136,357	105,697
Payments on long-term debt	(289,292)	(224,526)	(89,549)
Debt issuance costs	—	(124)	(754)
Acquisition of treasury stock	(71)	(2,777)	—
Issuance of common stock, net of transaction expenses	—	100,069	(48)
Proceeds from exercise of stock options, warrants and employee stock purchase plan	2,676	1,982	—
Excess tax benefit on stock-based compensation	253	201	27
Other financing activities	(74)	—	—
Net cash provided by financing activities	23,971	11,182	15,373
Net increase in cash and cash equivalents	938	387	58
<b>Cash and cash equivalents</b>			
Beginning of year	968	581	523
End of year	\$ 1,906	\$ 968	\$ 581

*See accompanying notes to consolidated financial statements.*

**NOODLES & COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Business and Summary of Significant Accounting Policies**

***Business***

Noodles & Company (the "Company" or "Noodles & Company"), a Delaware corporation, develops and operates fast casual restaurants that serve globally inspired noodle and pasta dishes, soups, salads and sandwiches. As of December 30, 2014, there were 386 company-owned restaurants and 53 franchise restaurants in 32 states and the District of Columbia. The Company operates its business as one operating and reportable segment.

On December 5, 2013, the Company completed a follow-on offering of 4,500,000 shares of Class A common stock at a price of \$39.50 per share. All of the shares in the offering were offered by selling stockholders, except for 108,267 shares offered by the Company, the proceeds of which were used to repurchase the same number of shares from certain officers at the same net price per share. The Company did not receive any net proceeds from the offering. The selling stockholders paid all of the underwriting discounts and commissions associated with the sale of the shares; however, the Company incurred approximately \$696,000 in costs and expenses related to this offering.

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.

In December 2010, Catterton Partners ("Catterton") and Argentia Private Investments Inc. ("Argentia") completed an equity recapitalization to purchase approximately 90% of the Company's equity interests. Catterton and Argentia sold shares in the follow-on offering that closed in December of 2013 and own 50.6% of the Company's common shares outstanding as of December 30, 2014.

All share and per share data, including options, have been retroactively adjusted in the accompanying financial statements to reflect a reverse stock split. See Note 9 "Stockholders' Equity."

***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of Noodles & Company and its subsidiaries. All material 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 years 2014, 2013 and 2012, which ended on December 30, 2014, December 31, 2013 and January 1, 2013, respectively, each contained 52 weeks.

***Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

***Cash and Cash Equivalents***

The Company considers all highly liquid investment instruments with an initial maturity of three months or less when purchased to be cash equivalents. Amounts receivable from credit card processors are converted to cash shortly after the related sales transaction and are considered to be cash equivalents because they are both short-term and highly liquid in nature. Amounts receivable from credit card processors are considered cash equivalents, and as of December 30, 2014 and December 31, 2013 were \$1.2 million and \$1.5 million, respectively, and were offset on the consolidated balance sheets by outstanding checks. Book overdrafts, which are outstanding checks in excess of cash and cash equivalents, are recorded with accounts payable in the accompanying consolidated balance sheets and within operating activities in the accompanying statements of cash flows.

**NOODLES & COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**1. Business and Summary of Significant Accounting Policies (continued)**

***Accounts Receivable***

Accounts receivable consist primarily of tenant improvement receivables and vendor rebates receivable, as well as amounts due from franchisees and other miscellaneous receivables. The Company believes all amounts to be collectible. Accordingly, no allowance for doubtful accounts has been recorded as of December 30, 2014 or December 31, 2013.

***Inventories***

Inventories consist of food, beverages, supplies, and smallwares, and are stated at the lower of cost (first-in, first-out method) or market. Smallwares inventory, which consist of the plates, silverware, and cooking utensils used in the restaurants, are frequently replaced and are considered current assets. Replacement costs of smallwares inventory are recorded as other restaurant operating costs and are expensed as incurred. As of December 30, 2014 and December 31, 2013, smallwares inventory of \$6.2 million and \$4.5 million, respectively, were included on the consolidated balance sheets.

***Property and Equipment***

Property and equipment are stated at cost, less accumulated depreciation. Expenditures for major renewals and improvements are capitalized, while expenditures for minor replacements and maintenance and repairs are expensed as incurred. Upon retirement or disposal of assets, the accounts are relieved of cost and accumulated depreciation and the related gain or loss is reflected in earnings. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the estimated useful life or the lease term, which generally includes option periods that are reasonably assured to be exercised. Depreciation and amortization expense on property and equipment, including assets under capital lease, was \$24.8 million in 2014, \$20.6 million in 2013 and \$16.7 million in 2012.

The estimated useful lives for property and equipment are:

<b>Property and Equipment</b>	<b>Estimated Useful Lives</b>
Leasehold improvements	Shorter of lease term or estimated useful life, not to exceed 20 years
Furniture and fixtures	3 to 15 years
Equipment	3 to 7 years

The Company capitalizes internal payroll and payroll related costs directly related to the successful acquisition, development, design and construction of its new restaurants. Capitalized internal costs were \$2.9 million, \$2.6 million and \$2.3 million in 2014, 2013 and 2012, respectively. Interest incurred on funds used to construct company-owned restaurants is capitalized and amortized over the estimated useful life of the related assets. Capitalized interest totaled \$0.4 million in 2014, \$0.3 million in 2013 and \$0.3 million in 2012.

***Goodwill***

Goodwill represents the excess of purchase price over the fair value of identifiable net assets acquired and is not subject to amortization. The Company evaluates goodwill annually, on the first day of the Company's fourth fiscal quarter, to determine if there have been any events or circumstances that would trigger a more-likely-than-not reduction in the fair value of a reporting unit below its carrying amount. In 2014, no indications of impairment were identified.

***Intangibles, net***

Intangible, net consist primarily of reacquired franchise rights, favorable lease agreements, trademarks and transferable liquor licenses. The Company amortizes the fair value of reacquired franchise rights over the remaining contractual terms of the reacquired franchise area development agreements at the time of acquisition, which ranged from approximately 12 years to 19 years as of December 30, 2014. The Company amortizes the fair value of favorable lease agreements over the remaining related lease terms at the time of the acquisition, which ranged from approximately five years to 14 years as of December 30, 2014. Trademark rights are considered indefinite lived intangibles, the carrying value of which is analyzed for impairment at least annually. Transferable liquor licenses are carried at the lower of fair value or cost and are reviewed annually for impairment or changes in circumstances that indicate that the carrying amount may not be recoverable.

**NOODLES & COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**1. Business and Summary of Significant Accounting Policies (continued)**

***Other Assets***

Other assets consist primarily of unamortized debt issuance costs and long term deposits. Direct costs incurred for the issuance of debt are capitalized and amortized using the straight-line method, which approximates the effective interest method, over the term of the debt. During 2013 and 2012, the Company incurred debt issuance costs related to amendments of its credit facility in 2013 and 2012. See Note 5 "Borrowings."

Net debt issuance costs of \$0.4 million and \$0.5 million are recorded in other assets, net of accumulated amortization of \$0.3 million and \$0.2 million, as of December 30, 2014 and December 31, 2013, respectively. In 2013 and 2012, the Company amended and restated its credit facility. The Company wrote off \$0.6 million and \$2.6 million of debt issuance costs, net of accumulated amortization of \$0.3 million and \$0.8 million in 2013 and 2012, respectively.

***Impairment of Long-Lived Assets***

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparison of the carrying amount of the assets to the future undiscounted net cash flows expected to be generated by the assets. Identifiable cash flows are measured at the lowest level for which they are largely independent of the cash flows of other groups of assets and liabilities, generally at the restaurant level. If the assets are determined to be impaired, the amount of impairment recognized is the amount by which the carrying amount of the assets exceeds their fair value. Estimates of future cash flows are based on the Company's experience and knowledge of local operations. The Company recorded impairment charges of certain long-lived assets of \$57,000, \$54,000 and \$0.1 million in 2014, 2013 and 2012, respectively, which are included in asset disposals, closure costs and restaurant impairments in the consolidated statements of income. Fair value of the restaurants was determined using Level 3 inputs (as described in Note 6 "Fair Value Measurements") based on a discounted cash flows method through the estimated date of closure.

***Self-Insurance Programs***

The Company self-insures for health, workers' compensation, general liability and property damage. Predetermined loss limits have been arranged with insurance companies to limit the Company's per occurrence cash outlay. Estimated costs to settle reported claims and incurred but unreported claims for health and workers' compensation self-insured plans are recorded in accrued payroll and benefits and for general liability and property damage in accrued expenses and other liabilities.

***Concentrations of Credit Risk***

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company's cash balances may exceed federally insured limits. Credit card transactions at the Company's restaurants are processed by one service provider. Concentration of credit risk related to accounts receivable are limited, as the Company's receivables are primarily amounts due from landlords for the reimbursement of tenant improvements and the Company generally has the right to offset rent due for tenant improvement receivables.

***Revenue Recognition***

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

The Company sells gift cards which do not have an expiration date, and it does not deduct non-usage fees from outstanding gift card balances. The Company recognizes revenue from gift cards when the gift card is redeemed by the customer or the Company determines the likelihood of the gift card being redeemed by the customer is remote ("gift card breakage"). The determination of the gift card breakage rate is based upon Company-specific historical redemption patterns. The Company has determined that approximately 6% of gift cards will not be redeemed, which is recognized ratably over the estimated redemption period of the gift card, approximately 18 months. The Company recognized gift card breakage of \$0.2 million in each of 2014, 2013 and 2012, in restaurant revenue.

**NOODLES & COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**1. Business and Summary of Significant Accounting Policies (continued)**

Royalties from franchise restaurants are based on a percentage of restaurant revenues and are recognized in the period the related franchised restaurants' sales occur. Development fees and franchise fees, portions of which are collected in advance, are nonrefundable and are recognized in income when all material services or conditions relating to the sale of the franchise have been substantially performed or satisfied by the Company. Both franchise fees and development fees will generally be recognized upon the opening of a franchise restaurant or upon termination of the agreement(s) between the Company and the franchisee.

As of December 30, 2014, December 31, 2013, and January 1, 2013, there were 53, 62 and 51 franchise restaurants in operation, respectively. Franchisees opened 10, 11 and six restaurants in 2014, 2013 and 2012, respectively. The Company purchased 19 restaurants from franchisees in 2014. See Note 2 "Business Combinations."

***Pre-Opening Costs***

Pre-opening costs, including rent, wages, benefits and travel for the training and opening teams, food, beverage, and other restaurant operating costs, are expensed as incurred prior to a restaurant opening for business.

***Advertising and Marketing Costs***

Advertising and marketing costs are expensed as incurred and aggregated \$4.4 million, \$3.9 million and \$2.8 million in 2014, 2013 and 2012, respectively. These costs are included in restaurant operating costs, general and administrative expenses and pre-opening costs based on the nature of the advertising and marketing costs incurred.

***Rent***

Rent expense for the Company's leases, which generally have escalating rentals over the term of the lease, is recorded on a straight-line basis over the lease term. The lease term includes renewal options which are reasonably assured of being exercised and begins when the Company has control and possession of the leased property, which is typically before rent payments are due under the lease. The difference between the rent expense and rent paid is recorded as deferred rent in the consolidated balance sheets. Rent expense for the period prior to the restaurant opening is reported in pre-opening costs in the consolidated statements of income. Tenant incentives used to fund leasehold improvements are recorded in deferred rent and amortized as a reduction of rent expense over the term of the lease. Certain leases contain rental provisions based on the sales of the underlying restaurants; the Company has determined that the amount of these provisions is immaterial.

***Provision for Income Taxes***

Provision (benefit) for income taxes is accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those deferred amounts are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company's policy is to recognize interest to be paid on an underpayment of income taxes in interest expense and any related statutory penalties in provision (benefit) for income taxes in the consolidated statement of income.

***Comprehensive Income***

Comprehensive income consists of the net income and other gains and losses affecting stockholders' equity that, under accounting principles generally accepted in the United States, are excluded from net income. Other comprehensive income, presented in the consolidated statements of comprehensive income for 2012 consist of the unrealized income, net of tax, on the Company's cash flow hedges.

***Stock Compensation Expense***

The Company recognizes stock-based compensation using fair value measurement guidance for all share-based payments, including stock options and warrants. For option awards, expense is recognized ratably over the vesting period in an amount equal to the fair value of the stock-based awards on the date of grant determined using the Black-Scholes option pricing model. Warrants are valued using the fair value of the common stock as of the measurement date. See Note 10 "Stock-Based Compensation."



**NOODLES & COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**1. Business and Summary of Significant Accounting Policies (continued)**

***Earnings Per Share***

Basic earnings per share ("EPS") are 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 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 restricted stock. Diluted EPS considers the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of the potential common shares would have an anti-dilutive effect. See Note 11 "Earnings Per Share."

***Reclassification***

Certain amounts in the prior period financial statements have been reclassified to conform to the current period presentation. These reclassifications had no effect on reported net income.

***Recent Accounting Pronouncements***

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updated ("ASU"), "Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." This update requires management of the Company to evaluate whether there is substantial doubt about the Company's ability to continue as a going concern. This update is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted. The Company does not expect this standard to have an impact on the Company's consolidated financial position or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The pronouncement was issued to clarify the principles for recognizing revenue and to develop a common revenue standard and disclosure requirements for U.S. GAAP and International Financial Reporting Standards ("IFRS"). The pronouncement is effective for reporting periods beginning after December 15, 2016. The adoption of ASU 2014-09 is being evaluated and is not expected to significantly affect the Company's consolidated financial position or results of operations.

**2. Business Combinations**

During 2014, the Company acquired 19 restaurants from its franchisees, through two separate transactions. The total cash purchase price was \$15.7 million and the Company incurred acquisition costs related to the transactions of \$0.1 million reflected in General and Administrative expense for the year ended December 30, 2014. The consolidated statements of income include the results of operations for the restaurants from the date of acquisition. The pro forma impact of the acquisitions is not presented as the impact was not material to reported results.

The acquisition of the 19 restaurants was accounted for using the purchase method as defined in ASC 805, *Business Combination*. The goodwill generated by the acquisitions is not amortizable for book purposes but is amortizable and deductible for tax purposes. The assets acquired and liabilities assumed were recorded based on their fair values at the time of the acquisitions, as detailed below:

	Fair Value at December 30, 2014
Inventories	\$ 352
Prepaid expenses and other assets	33
Deferred tax asset	142
Property and equipment	7,564
Intangibles	1,567
Goodwill	6,400
Deferred rent and other liabilities	(319)
Total purchase price	<u>\$ 15,739</u>

**NOODLES & COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Business Combinations (continued)**

Of the \$1.6 million of intangible assets, \$1.4 million are related to reacquired franchise rights, which will be amortized on a straight-line basis over an average life of approximately 16 years and \$0.2 million are related to favorable leases, which will be amortized on a straight-line basis over an average life of nine years. The unfavorable leases, which were included in deferred rent in the accompanying condensed consolidated balance sheets, will be amortized on a straight-line basis over an average period of 11 years. The fair value measurement of tangible and intangible assets and liabilities as of the acquisition date is based on significant inputs not observed in the market and thus represents a Level 3 measurement that is subject to change.

**3. Supplemental Financial Information**

Accounts receivable consist of the following (in thousands):

	2014	2013
Tenant improvement receivables	\$ 2,588	\$ 2,532
Vendor rebate receivables	983	748
Franchise and other receivables	986	949
	<u>\$ 4,557</u>	<u>\$ 4,229</u>

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

	2014	2013
Prepaid occupancy related costs	\$ 4,135	\$ 3,318
Other prepaid expenses	1,997	1,917
Other current assets	139	75
	<u>\$ 6,271</u>	<u>\$ 5,310</u>

Property and equipment, net, consist of the following:

	2014	2013
Leasehold improvements	\$ 208,678	\$ 169,953
Furniture, fixtures and equipment	114,148	92,695
Construction in progress	12,074	11,209
	334,900	273,857
Accumulated depreciation and amortization	(129,327)	(106,243)
	<u>\$ 205,573</u>	<u>\$ 167,614</u>

Accrued payroll and benefits consist of the following:

	2014	2013
Accrued payroll and related liabilities	\$ 3,022	\$ 2,611
Accrued bonus	803	3,383
Insurance liabilities	879	1,127
	<u>\$ 4,704</u>	<u>\$ 7,121</u>

**NOODLES & COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3. Supplemental Financial Information (continued)**

Accrued expense and other current liabilities consist of the following:

	2014	2013
Gift card liability	\$ 2,701	\$ 2,289
Occupancy related	1,477	1,418
Utilities	1,523	1,321
Other accrued expenses	2,859	2,719
	<u>\$ 8,560</u>	<u>\$ 7,747</u>

**4. Goodwill and Intangible Assets**

The following table presents goodwill as of December 30, 2014 and December 31, 2013, (in thousands).

	2014	2013
Balance at beginning of year	\$ —	\$ —
Acquisitions	6,400	—
Balance at end of year	<u>\$ 6,400</u>	<u>\$ —</u>

The Company has had no goodwill impairment losses in the periods presented in the above table.

The following table presents intangible assets subject to amortization as of December 30, 2014 and December 31, 2013, (in thousands).

	2014	2013
<b>Amortized intangible assets:</b>		
Reacquired franchise rights	\$ 1,376	\$ —
Favorable leases	190	—
Less accumulated amortization	(45)	—
	<u>1,521</u>	<u>—</u>
<b>Non-amortized intangible assets:</b>		
Trademark rights and transferable liquor licenses	406	351
	<u>\$ 1,927</u>	<u>\$ 351</u>

The estimated aggregate future amortization expense as of December 30, 2014 is as follows, (in thousands):

2015	\$ 123
2016	117
2017	115
2018	115
2019	114
Thereafter	937
	<u>\$ 1,521</u>

**NOODLES & COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

## 5. Borrowings

### *Credit Facility*

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 November 2018. 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 the second quarter of 2013, the Company repaid its outstanding \$75.0 million senior term loan and the majority of the revolving line of credit.

As of December 30, 2014, the Company had \$27.5 million outstanding and \$14.8 million available for borrowing under the credit facility. Outstanding letters of credit aggregating \$2.7 million reduce the amount available to borrow. Borrowings under our amended and restated credit facility bear interest, at our option, at either (i) LIBOR plus 1.00 to 1.75%, based on the lease-adjusted leverage ratio or (ii) the highest of the following rates plus zero to 0.75%: (a) the federal funds rate plus 0.50%; (b) the Bank of America prime rate or (c) the one month LIBOR plus 1.00%. The facility includes a commitment fee of 0.125 to 0.25%, based on the lease-adjusted leverage ratio, per year on any unused portion of the facility. The credit facility bore interest at a range of 3.25% to 3.50% during 2014.

Availability of borrowings under the revolving line of credit is conditioned on compliance with specified covenants, including a maximum lease-adjusted leverage ratio and a minimum consolidated fixed charge coverage ratio. We are subject to a number of other customary covenants, including limitations on additional borrowings, acquisitions, dividend payments and lease commitments. As of December 30, 2014, the Company was in compliance with all of its debt covenants.

The credit facility is secured by a pledge of stock of substantially all of the Company's subsidiaries and a lien on substantially all of the personal property assets of the Company and its subsidiaries.

## 6. 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 the line of credit and term borrowings vary with market interest rates and negotiated terms and conditions are consistent with current market rates. Asset impairment charges are recorded at fair value on a nonrecurring basis.

### *Assets and Liabilities Measured at Fair Value*

The fair values are assigned a level within the fair value hierarchy, depending on the source of the inputs into the calculation.

*Level 1*—Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

*Level 2*—Quoted prices in markets that are not active or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

*Level 3*—Prices or valuation techniques which require inputs that are both significant to the fair value measurement and unobservable (*i.e.*, supported by little or no market activity).

## 7. Closed Restaurant Reserve

The Company provides for closed property operating lease liabilities using a discount rate to calculate the present value of the remaining non-cancelable lease payments after the closing date, net of estimated subtenant income. Following is a summary of the changes in the liability for closed properties as of December 30, 2014 and December 31, 2013 (in thousands).

	2014	2013
Closed restaurant reserves, beginning of period	\$ 583	\$ 788
Additions—store closing costs recognized, accretion	77	80
Decreases—payments	(216)	(285)
Closed restaurant reserves, end of period	\$ 444	\$ 583

### 7. Closed Restaurant Reserve (continued)

The current portion of the liability, \$0.2 million as of December 30, 2014 and December 31, 2013, is recorded in accrued expenses and other liabilities, and the long-term portion is reported in other noncurrent liabilities in the Company's consolidated balance sheets.

## 8. Income Taxes

The components of the provision for income taxes are as follows for 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
<b>Current tax provision:</b>			
Federal	\$ —	\$ —	\$ 49
State	792	561	559
	<u>792</u>	<u>561</u>	<u>608</u>
<b>Deferred tax provision:</b>			
Federal	5,662	3,923	2,591
State	668	283	16
	<u>6,330</u>	<u>4,206</u>	<u>2,607</u>
<b>Total provision for income taxes</b>	<u>\$ 7,122</u>	<u>\$ 4,767</u>	<u>\$ 3,215</u>

The reconciliation of income tax provision that would result from applying the federal statutory rate to pre-tax income as shown in the accompanying consolidated statements of income is as follows for 2014, 2013 and 2012 (in thousands):

**NOODLES & COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	2014	2013	2012
Federal income expense at federal rate	\$ 6,299	\$ 3,887	\$ 2,848
State income tax, net of related federal income tax benefit	972	653	420
Permanent differences	170	374	83
Foreign rate differential	6	26	106
Tax credits	(241)	(149)	—
Other items, net	(84)	(24)	(242)
Provision for income taxes	<u>\$ 7,122</u>	<u>\$ 4,767</u>	<u>\$ 3,215</u>
Effective income tax rate	<u>38.4%</u>	<u>41.7%</u>	<u>38.4%</u>

In 2014, 2013, and 2012 the Company recognized tax benefits on option exercises at fair value in excess of those utilized to record stock-based compensation for book purposes, totaling \$253,000, \$201,000, and \$27,000, respectively, as a credit to additional paid-in capital.

The company's total deferred tax assets and liabilities are as follows (in thousands):

	2014	2013
Deferred tax assets	23,001	20,605
Deferred tax liabilities	(31,216)	(22,881)
Total deferred tax liabilities, net	<u>(8,215)</u>	<u>(2,276)</u>

## 8. Income Taxes (continued)

Deferred income taxes arise because of the differences in the book and tax bases of certain assets and liabilities. Deferred income tax liabilities and assets consist of the following (in thousands):

	2014	2013
<b>Noncurrent deferred tax assets (liabilities):</b>		
Loss carry forwards	\$ 743	\$ 2,745
Deferred rent and franchise revenue	14,454	11,850
Property, equipment and intangible assets	(26,514)	(19,342)
Stock-based compensation	2,847	2,442
Tax credit carry forwards	897	565
Other	1,061	594
Total noncurrent net deferred tax assets (liabilities)	<u>(6,512)</u>	<u>(1,146)</u>
<b>Current deferred tax assets (liabilities):</b>		
Inventory smallwares	(2,405)	(1,737)
Other	702	607
Total current deferred tax liabilities	<u>(1,703)</u>	<u>(1,130)</u>
Net deferred tax assets (liability)	<u>\$ (8,215)</u>	<u>\$ (2,276)</u>

At December 30, 2014 and December 31, 2013, net operating loss carry forwards for federal income tax purposes of approximately \$22.9 million and \$22.7 million, respectively, were available to offset future taxable income through the year 2034 and 2033, respectively. The net operating loss carry forwards are primarily composed of excess tax deductions for equity compensation.

**NOODLES & COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Utilization of the net operating losses is subject to an annual limitation resulting from a change in control in 2007 and a change of control in 2010, pursuant to the change in ownership provisions of Section 382 of the Internal Revenue Code and similar provisions of state law. As a result of certain realization requirements of ASC 718, the deferred tax assets shown above include only realized tax deductions related to equity compensation equal to the compensation recognized for financial reporting during the years ended December 30, 2014 and December 31, 2013. Equity will be increased by up to \$7.0 million if and when the net operating loss is ultimately realized.

Uncertain tax positions are recognized if it is more likely than not that the Company will be able to sustain the tax position taken, and the measurement of the benefit is calculated as the largest amount that is more than 50% likely to be realized upon resolution of the benefit. The Company has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. There were no uncertain tax positions for the years ended December 30, 2014 or December 31, 2013. The only periods subject to examination for the Company's federal and state returns are 2010 through 2013.

### **9. Stockholders' Equity**

The Company has 181,000,000 shares of stock authorized, consisting of 150,000,000 shares of Class A common stock, par value \$0.01 per share; 30,000,000 shares of Class B common stock, par value \$0.01 and 1,000,000 shares of preferred stock, par value \$0.01 per share. Preferred stock rights will be determined by the Company's Board of Directors in the event that preferred shares are issued. The following summarizes the rights of common stock:

#### ***Reverse Stock Split***

On June 25, 2013, the Company effected a 1-for-0.577 reverse stock split of its Class A common stock and Class B common stock. Concurrent with the reverse stock split, the Company adjusted the number of shares subject to, and the exercise price of, outstanding stock option awards under the Plan such that the holders of the options are in the same economic position both before and after the reverse stock split.

*Voting*—Shares of Class A common stock and Class B common stock are entitled to one vote per share in all voting matters, with the exception that Class B common stock does not vote on the election or removal of directors. Class C common stock is entitled to vote only on amendments to the certificate of incorporation that would adversely affect the rights and preferences of the Class C common stock and reclassification or subdivision matters related to the Class C common stock.

### **9. Stockholders' Equity (continued)**

*Conversion*—Each share of Class A common stock held by one of the Equity Sponsors is convertible, at the option of the holder, into one share of Class B common stock. Each share of Class B common stock is convertible, at the option of the holder, into one share of Class A common stock.

*Dividends*—A Class C dividend agreement was entered in connection with the Merger Agreement between one of the Equity Sponsors and the Company, which provided that the new investor would receive, in the form of a dividend, an amount equal to the compensation payable to the other new investor under a Management Services Agreement. In connection with the IPO, the management services agreement expired and the one share of Class C common stock was redeemed. See additional information in Note 16 "Related-Party Transactions." Class A common stock and Class B common stock share equally if a dividend is declared or paid to either class, but do not have rights to any special dividend.

*Liquidation, Dissolution or Winding Up*—Class A common stock and Class B common stock share equally in distributions in liquidation, dissolution, or winding up of the corporation.

*Registration Rights*—The Equity Sponsors have the right to demand registration of 10% or more of the shares of the Company's common stock held by them. A few shareholders who are also Executive Officers of the Company or a member of the Company's Board of Directors have piggyback registration rights, but are not required to exercise these rights.

### **10. 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 ("SARs"), restricted stock, restricted stock units ("RSUs") and incentive bonuses to employees, officers, nonemployee directors and other service providers. The number of shares of common stock available for issuance pursuant to awards granted under the Stock Incentive Plan is 3,168,705 shares. The Plan is administered by the Compensation Committee of the board or another committee designated by the board, or in the absence of any such committee, the board itself (the

**NOODLES & COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

"administrator"). Stock options are granted at a price determined by the administrator at an exercise price that is not less than the fair market value of the underlying stock on the date of option is grant. The administrator may also grant SARs and RSUs with terms determined by the administrator in accordance with the Plan. The fair market value of shares prior to the IPO was determined by the Compensation Committee of the board, or the board using historical or current transactions, comparable public company valuations, historical transactions, third-party valuations and other factors. Stock options generally have a 10-year term and vest equally over four years from the date of grant.

Stock-based compensation expense is generally recognized on a straight-line basis over the service period of the options. In 2014, 2013 and 2012, non-cash stock-based compensation expense of \$1.4 million, \$4.3 million and \$1.2 million, respectively, is included in general and administrative expense. Stock-based compensation of \$88,000, \$71,000 and \$81,000 is included in capitalized internal costs in 2014, 2013 and 2012, respectively. Of the total stock-based compensation recognized in 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. Stock-based compensation expense also includes \$71,495 related to the Employee Stock Purchase Plan, see Note 12 "Employee Benefit Plans."

At December 30, 2014, options available for future share grants totaled 3,128,014. The intrinsic value associated with options exercised was \$6.0 million and \$5.1 million for the fiscal years ended December 30, 2014 and December 31, 2013, respectively.

The estimated fair value of each option granted is calculated using the Black-Scholes option-pricing model. Expected volatilities are based on the historical Company volatility, as well as volatilities from publicly traded companies operating in the Company's industry. The Company uses historical data to estimate expected employee forfeiture of stock options. The expected life of options granted is management's best estimate using recent and expected transactions. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

#### 10. Stock-Based Compensation (continued)

The weighted-average assumptions used in the model were as follows:

	2014	2013	2012
Risk-free interest	1.7%	1.1%	0.4%
Expected life (years)	5.0	4.3	3.4
Expected dividend yield	—	—	—
Volatility	36.5%	39.7%	32.7%
Weighted-average Black-Scholes fair value per share at date of grant	\$ 10.52	\$ 6.04	\$ 2.84

The tables below summarize the option activity under the Plan:



**NOODLES & COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	Shares	Weighted-Average Exercise Price
Outstanding—January 3, 2012	2,621,023	8.67
Granted	516,473	11.27
Forfeited	(164,329)	8.68
Exercised	—	—
Outstanding—January 1, 2013	2,973,167	9.12
Granted	555,273	18.06
Forfeited	(55,389)	11.89
Exercised	(163,179)	8.72
Outstanding—December 31, 2013	3,309,872	10.59
Granted	269,552	30.40
Forfeited	(73,673)	19.72
Exercised	(260,487)	8.85
Outstanding—December 30, 2014	3,245,264	\$ 12.17

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Years of Contractual Life	Aggregate Intrinsic Value <sup>(1)</sup> (in thousands)
Outstanding as of December 30, 2014	3,245,264	\$ 12.17	6.86	\$ 47,385
Vested and expected to vest	3,218,628	12.08	6.84	47,222
Exercisable as of December 30, 2014	2,504,436	9.80	6.34	41,561

(1) Aggregate intrinsic value represents the amount by which fair value of the Company's stock exceeds the exercise price of the option as of December 30, 2014.

As of December 30, 2014, there was \$3.5 million of unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Stock Incentive Plan, which is expected to be recognized over 2.89 years.

On March 10, 2011, the Company issued warrants to a consultant to purchase 86,550 shares of Class B common stock at \$8.67 per share, which are classified as equity awards. The warrants vest based on specified performance criteria and are considered stock-based compensation to nonemployees. Stock-based compensation expense related to the awards is recognized when the performance criteria are met, using the estimated fair value at the measurement date. During 2014 and 2013, the Company did not recognize stock-based compensation expense as no performance criteria were met. During 2013, 28,850 warrants were exercised by the consultant.

## 11. 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 restricted common stock. Diluted EPS considers the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of the potential common shares would have an anti-dilutive effect.

The following table sets forth the computations of basic and dilutive earnings per share:

**NOODLES & COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	2014	2013	2012
Net income (in thousands)	\$ 11,428	\$ 6,665	\$ 5,163
Shares:			
Basic weighted average shares outstanding	29,717,304	26,406,904	23,238,984
Dilutive stock options and warrants	1,283,795	1,281,725	26,558
Diluted weighted average number of shares outstanding	<u>31,001,099</u>	<u>27,688,629</u>	<u>23,265,542</u>
Earnings per share:			
Basic	\$ 0.38	\$ 0.25	\$ 0.22
Diluted	\$ 0.37	\$ 0.24	\$ 0.22

The Company excluded 248,000, 17,000 and 590,617 outstanding options from the diluted earnings per share calculation for 2014, 2013 and 2012, respectively, as the options were out of the money and to include them would have been antidilutive. All outstanding warrants were dilutive in the calculation of diluted earnings per share.

## 12. Employee Benefit Plans

### Defined Contribution Plan

In October 2003, the Company adopted a defined contribution plan, The Noodles & Company 401(k) Plan (the "401(k) Plan"). Company employees with six months of service, aged 21 or older, are eligible to participate in the 401(k) Plan. Under the provisions of the plan, the Company may, at its discretion, make contributions to the 401(k) Plan. Participants are 100% vested in their own contributions. The Company made no contributions during 2014, 2013 and 2012.

### Deferred Compensation Plan

The Company's deferred compensation plan, under which compensation deferrals began in 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 December 30, 2014, \$1.3 million was included in both other assets, net and other long term liabilities, which represent the carrying value of the liability for deferred compensation and the cash surrender value of the associated life insurance policy, respectively.

### Employee Stock Purchase Plan

In 2013, the Company adopted an Employee Stock Purchase Plan under which eligible team members may voluntarily contribute up to 15% of their salaries, subject to limitations, to purchase common stock at a price equal to 85% of the fair market value of a share of the Company's common stock on the first day of each offering period or 85% of the fair market value of a share of the Company's common stock on the last day of each offering period, whichever amount is less. In general, all of the Company's officers and team members who have been employed by the Company for at thirty days prior to the offering period and who are regularly scheduled to work more than twenty hours per week and for more than five months in any calendar year, are eligible to participate in this plan which operates in-line with the Company's fiscal quarters. A total of 750,000 shares of common stock are available for issuance under this plan. The Company has issued a total of 35,760 shares under this plan, of which 17,404 shares were issued during 2014. A total of 714,240 shares remain available for future issuance. For 2014, in accordance with the guidance for accounting for stock compensation, the Company estimated the fair value of the stock purchase plan using the Black-Scholes multiple-option pricing model. The average assumptions used in the model included a 0.030% risk-free interest rate; two billion four hundred ninety-three million one hundred fifty thousand six hundred eighty-five ten-billionths month expected life; expected

## 12. Employee Benefit Plans (continued)

volatility of 13.4%; and a zero percent dividend yield. The weighted average fair value per share at grant date was \$4.11. In 2014, the Company recognized \$71,495 of compensation expense related to this plan.

## 13. Leases

The Company leases restaurant facilities, office space and certain equipment under operating leases that expire on various dates through August 2035. Lease terms for traditional shopping centers generally include a base term of 10 years, with options to extend these leases for additional periods of five to 15 years. Typically, the lease includes rent escalations, which are expensed on a straight-

**NOODLES & COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

line basis over the lease term. The difference between rent expense and cash paid for rent is recognized as deferred rent. Rent expense for 2014, 2013 and 2012 was approximately \$35.7 million, \$29.5 million and \$24.6 million, respectively.

Future minimum lease payments required under existing leases as of December 30, 2014 are as follows (in thousands):

2015	\$	42,188
2016		42,713
2017		39,762
2018		34,957
2019		30,497
Thereafter		104,253
	<b>\$</b>	<b>294,370</b>

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

The following table presents the supplemental disclosures to the consolidated statements of cash flows (in thousands) for fiscal years 2014, 2013 and 2012:

	2014	2013	2012
Interest paid (net of amounts capitalized)	\$ —	\$ 2,506	\$ 4,400
Income taxes paid (net of refunds)	811	137	509
Purchases of property and equipment accrued in accounts payable	37	996	2,648

#### 15. Commitments and Contingencies

The Company is named as a defendant in an action filed in the Superior Court of Delaware in New Castle County, entitled The State of Delaware, William French v. Card Compliant, LLC, et. al. The case was filed under seal in June 2013 and was unsealed on March 26, 2014. The complaint in this case alleges that a number of large retailers and restaurant companies, including the Company, knowingly refused to fulfill obligations under Delaware's Abandoned Property Law by failing to report and deliver "unclaimed gift card funds" to the State of Delaware, and knowingly made, used or caused to be made or used, false statements and records to conceal, avoid or decrease an obligation to pay or transmit money to Delaware in violation of the Delaware False Claims and Reporting Act. The complaint seeks an order that the Company cease and desist from violating the Delaware False Claims and Reporting Act, monetary damages (including treble damages under the False Claims and Reporting Act), penalties and attorneys' fees and costs. The case was removed to United States Federal District Court for the District of Delaware, and the plaintiffs filed a motion to remand the case to the Superior Court for the State of Delaware, which was granted. The Company has also filed a motion to dismiss the complaint. The case is at an early stage, and the Company therefore is unable to make a reasonable estimate of the probable loss or range of losses, if any, that might arise from this matter. The Company intends to vigorously defend this action.

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 December 30, 2014. These matters

#### 15. Commitments and Contingencies (continued)

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.

**NOODLES & COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 canceled by either party within 90 days of the end of the initial term or anniversaries thereof. 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.

**16. Related-Party Transactions**

During 2013 and 2012, the Company paid \$375,000 and \$1.1 million, 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 one share of Class C common stock was redeemed. Management service fees and Class C dividends paid in each fiscal year vary due to the timing of payments. No such payments were made during fiscal 2014.

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.

In connection with the follow-on offering in the fourth quarter of 2013, the Company purchased 108,267 shares of common stock from certain of its officers at the net offering price per share in such follow-on offering. The Company did not receive any of the proceeds from the offering.

*Stockholders Agreement.* In connection with the IPO, the Company entered into a new stockholders agreement with the Equity Sponsors, the 2013 Stockholders Agreement. The 2013 Stockholders Agreement contains restrictions on sale, issuance or transfer of shares for each Equity Sponsor without the consent of the other Equity Sponsor except in a tag along sale under the Registration Rights Agreement or the earlier of the second anniversary of the offering and time at which such Sponsor holds less than 25% of the Company's outstanding stock and Class B stock. The 2013 Stockholders Agreement also grants the Equity Sponsors the right to nominate representatives to the Company's board of directors and committees of the board. Catterton and Argentia each have the right to designate two members to the Company's board of directors and the Equity Sponsors will agree to vote to elect such director designees. If at any time an Equity Sponsor owns more than 10% and less than 20% of outstanding Class A and Class B common stock, such Equity Sponsor has the right to designate one nominee for election to the Company's board of directors. If an Equity Sponsor's ownership level falls below 10% of outstanding Class A and Class B common stock, such Equity Sponsor will no longer have a right to designate a nominee. In addition, for so long as Catterton and Argentia hold at least 35% of the voting power of outstanding common stock, certain actions may not be taken without the approval of Catterton and Argentia.

**NOODLES & COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**17. Selected Quarterly Financial Data (unaudited)**

The following table presents selected unaudited quarterly financial data for the periods indicated (in thousands, except per share data):

	<b>2014</b>			
	December 30	September 30	July 1	April 1
Revenue	\$ 108,546	\$ 106,216	\$ 99,459	\$ 89,519
Operating income	5,474	5,045	5,941	2,456
Net income	3,535	2,943	3,527	1,424
Basic earnings per share	\$ 0.12	\$ 0.10	\$ 0.12	\$ 0.05
Diluted earnings per share	\$ 0.11	\$ 0.10	\$ 0.11	\$ 0.05
	<b>2013</b>			
	December 31	October 1	July 2	April 2
Revenue	\$ 91,468	\$ 88,936	\$ 89,239	\$ 81,280
Operating income	5,163	5,580	937	2,572
Net income	2,407	3,265	68	924
Basic earnings per share	\$ 0.09	\$ 0.11	\$ 0.01	\$ 0.04
Diluted earnings per share	\$ 0.08	\$ 0.11	\$ 0.01	\$ 0.04

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
Noodles & Company

We have audited the accompanying consolidated balance sheets of Noodles & Company (the Company) as of December 30, 2014 and December 31, 2013, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 30, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Noodles & Company as of December 30, 2014 and December 31, 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 30, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Denver, Colorado  
February 23, 2015

**ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**ITEM 9A. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Our management carried out an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

**Management's Annual Report on Internal Control Over Financial Reporting**

The management of Noodles & Company is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United State of America, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on our financial statements.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we carried out an evaluation of the effectiveness of our internal control over financial reporting as of December 30, 2014 based on the criteria in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 30, 2014.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm, because as an "emerging growth company" under the JOBS Act our independent registered public accounting firm is not required to issue such an attestation report.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting 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.

**ITEM 9B. Other Information**

None.

**PART III**

**ITEM 10. Directors, Executive Officers and Corporate Governance**

The names of our directors and certain information about them, including their ages as of February 23, 2015, are included below.

	<b>Class</b>	<b>Age</b>	<b>Position</b>	<b>Year Elected Director</b>	<b>Current Term Expires</b>
Scott Dahnke <sup>(1)</sup> <sup>(3)</sup> <sup>(4)</sup>	III	49	Director	2011	2016
Stuart Frenkiel <sup>(1)</sup> <sup>(3)</sup>	II	35	Director	2010	2015
Jeffrey Jones <sup>(2)</sup>	II	52	Director	2013	2015
Keith Kinsey	III	60	President, Chief Operating Officer and Director	2008	2016
Johanna Murphy <sup>(2)</sup>	I	44	Director	2014	2017
James Rand <sup>(2)</sup>	I	72	Director	2008	2017
Kevin Reddy	III	56	Chairman and Chief Executive Officer	2006	2016
Andrew Taub	II	46	Director	2010	2015

(1) Member of the Compensation Committee.

(2) Member of the Audit Committee.

(3) Member of the Nominating and Corporate Governance Committee.

(4) Lead Independent Director.

**Scott Dahnke** has been a member of our Board of Directors since September 2011. Mr. Dahnke has been a Managing Partner of Catterton since 2003, and has a broad range of business experience in private equity, consulting, management and finance. Catterton is an affiliate of the Company because, they, together with Argentia, own more than 50% of our capital stock and we entered into a stockholders agreement with them. These arrangements are discussed further in the "Certain Relationships and Related Transactions, and Director Independence" section of this report. Prior to joining Catterton, he was a Managing Director at Deutsche Bank Capital Partners and at AEA Investors, where he led AEA's consumer products investing efforts. Previously, Mr. Dahnke was the Chief Executive Officer of infoUSA, a leading publicly traded provider of business and consumer marketing products and services. Prior to joining infoUSA, Mr. Dahnke served clients on an array of strategic and operational issues as a Partner at McKinsey & Company. His early career also includes experience in the Merger Department of Goldman, Sachs & Co. and with General Motors. Mr. Dahnke received a BS, magna cum laude, in Mechanical Engineering from the University of Notre Dame. He also received academic honors while earning an MBA from the Harvard Business School. Mr. Dahnke brings expertise in the retail and consumer industry.

**Stuart Frenkiel** has been a member of our Board of Directors since December 2010. Mr. Frenkiel has been a Senior Director at PSPIB since December 2011. He joined PSPIB in March 2010. PSPIB is the parent of Argentia, which is an affiliate of the Company. Mr. Frenkiel serves on the board of directors of Ferrara Candy Company. From August 2008 to March 2010, he was an Associate Director in the mergers and acquisitions group of UBS Investment Bank. Prior to that, Mr. Frenkiel worked in the Office of Strategic Management at BMO Financial Group and held several finance roles at General Electric Company. Mr. Frenkiel received a Bachelor of Commerce degree from McGill University, holds an MBA from the Kellogg School of Management at Northwestern University, which he received in June 2008, and is a CFA charterholder. He brings to our Board of Directors a long-standing familiarity with our business, including industry and operational experience.

**Jeffrey Jones** has been a member of our Board of Directors since September 2013. Mr. Jones is the former Chief Financial Officer for Vail Resorts, Inc., where he was also a member of the Board of Directors, from 2008 through 2013, and President



of Lodging, Retail and Real Estate. Mr. Jones is currently a member of the Board of Directors of Hershey Entertainment and Resorts, where he chairs the Audit and Finance Committee, and Summit Hotel Properties, where he is a member of the Audit and Nominating Committees. He is also a member of the US Bank Advisory Board and a member of the board at the Leeds School of Business, University of Colorado at Boulder. Prior to joining Vail Resorts, Mr. Jones held CFO positions with Clark Retail Enterprises and Lids Corporation. Mr. Jones received a BA in Accounting and American Studies from Mercyhurst College and is a member of the AICPA. Mr. Jones provides our board with significant public company experience in financial positions including significant audit committee roles, as well as overall financial, operations and strategic development experience.

**Keith Kinsey** has served as our President since July 2012 and our Chief Operating Officer since November 2007. Mr. Kinsey also served as our Chief Financial Officer from July 2005 to July 2012. He became a member of our Board of Directors in November 2008. Prior to joining us, he was the Pacific Regional Director for Chipotle Mexican Grill. Prior to that time, he held various management roles at McDonald's Corporation, PepsiCo Restaurant Group and Checkers Drive-In Restaurants. He received a BS in Accounting from the University of Illinois. He brings to our Board of Directors leadership skills, strategic guidance and operational vision from prior experience in our industry.

**Johanna Murphy** joined our Board of Directors in June 2014. Since September 2013, Ms. Murphy has served as Chief Marketing Officer and Director of Digital for Ivanka Trump, where she is responsible for developing brand strategy and creating dynamic retail experience through traditional and innovative digital marketing techniques. From September 2011 to September 2013 Ms. Murphy served as Vice President of eCommerce at Kate Spade & Company, with a focus elevating the customer experience and service while exploring new customer acquisition tactics through digital strategies for kate spade new york, Kate Spade Saturday and Jack Spade. Prior to that time Ms. Murphy held several leadership roles at GSI Commerce (now eBay Enterprise), including as its Vice President of eCommerce, from January 2008 to September 2011, where she led the fashion and luxury practice and served clients such as Burberry, Calvin Klein, Donna Karan, Betsey Johnson and Tumi. Ms. Murphy brings to our Board of Directors substantial experience in developing marketing and digital strategies for major consumer brands.

**James Rand** has been a member of our Board of Directors since May 2008. Mr. Rand has served as an independent executive consultant in the retail and restaurant industries since his retirement as Senior Vice President of Worldwide Development at McDonald's Corporation in 2005. Mr. Rand began his career at McDonald's Corporation in 1973, where he gained experience in marketing research, marketing and real estate development, including leading the team that launched the Extra Value Meal strategy. Mr. Rand is also a director of Homemade Pizza Company and Chicago Apartment Finders, Inc. He received a BA in Mathematics from Saint Mary's College. He provides our Board of Directors with seasoned business judgment and valuable insights relevant to our industry.

**Kevin Reddy** has served as our Chief Executive Officer since April 2006. He became a member of our Board of Directors in May 2006, and Chairman of the Board in May 2008. Mr. Reddy was our President and Chief Operating Officer from April 2005 to April 2006, continuing to serve as our President until July 2012. Prior to joining us, he was the Chief Operating Officer, Chief Operations Officer and Restaurant Support Officer for Chipotle Mexican Grill. Mr. Reddy began his professional career with McDonald's Corporation in 1983 as a regional controller and progressed into positions of escalating responsibility. Mr. Reddy has received a number of awards in connection with his role as our Chief Executive Officer, including being named "Entrepreneur of the Year" by Restaurant Business Magazine in 2009 and was most recently included on the *Nation's Restaurant News* 2014 Builders List, created to feature people who are taking restaurant brands to the next level. He currently serves on the executive advisory board to the Daniels School of Business at the University of Denver. He received a BS in Accounting from Duquesne University. He brings to our Board of Directors leadership skills, strategic guidance and operational vision from prior experience in our industry.

**Andrew Taub** has been a member of our Board of Directors since December 2010. Mr. Taub is a Senior Partner at Catterton. He joined Catterton in 1996 and has previously served as a Vice President and Principal prior to becoming a Partner in the firm. Catterton is an affiliate of the Company because, together with Argentia, own more than 50% of our capital stock and we entered into a stockholders agreement with them. These arrangements are discussed further in the "Certain Relationships and Related Transactions, and Director Independence" section of this report. Mr. Taub has helped capitalize and grow over a dozen consumer companies including restaurants, retail, food and beverage and marketing services. Prior to joining Catterton, he spent three years as Vice President of Nantucket Holding Company, a merchant bank specializing in the acquisition and management of troubled companies, as well as the consolidation of fragmented industries. Previously he worked in Mergers and Acquisitions at Dean Witter Reynolds and Coopers & Lybrand. Mr. Taub received a BA from the University of Michigan and an MBA from Columbia Business School. Mr. Taub brings expertise in the retail and consumer industry.

***Code of Business Conduct and Ethics***

We have adopted a code of business conduct and ethics that applies to all of our officers and employees, including our Chief Executive Officer and Chief Financial Officer and those officers and employees responsible for financial reporting. We have also adopted a director code of business conduct and ethics that applies to our directors. Our codes of business conduct and ethics are posted on the investor relations section of our website at *investor.noodles.com*. We intend to disclose future amendments to our codes of business conduct and ethics, and any waivers of their provisions that we grant to our executive officers and directors, on our website within four business days following the date of the amendment or waiver.

***Audit Committee***

Our Audit Committee, is currently composed of Jeffrey Jones, Johanna Murphy and James Rand. Mr. Jones is our Audit Committee financial expert, as currently defined under SEC rules.

***Procedures for Nomination of Directors by Shareholders***

No change has occurred since the date of the Company's proxy statement filed in 2014 in the procedures through which stockholders may nominate directors for election at the Company's annual meeting of stockholders.

**ITEM 11. Executive Compensation**

**EXECUTIVE COMPENSATION**

Our named executive officers, or NEOs, for 2014, which consist of our principal executive officer and the next two most highly-compensated executives, are:

- Kevin Reddy, our Chairman and Chief Executive Officer;
- Keith Kinsey, our President and Chief Operating Officer; and
- Dave Boennighausen, our Chief Financial Officer.

**2014 Summary Compensation Table**

The following table summarizes the compensation awarded to, earned by or paid to our NEOs for 2014 and 2013:

Name and Principal Position	Year	Salary	Bonus <sup>(1)</sup>	Option Awards <sup>(2)</sup>	Non-equity incentive plan compensation <sup>(3)</sup>	All other Compensation <sup>(4)</sup>	Total
Kevin Reddy	2014	\$ 689,385	\$ —	\$ 218,182	\$ —	\$ 26,675	\$ 934,242
<i>Chairman and Chief Executive Officer</i>	2013	655,769	1,000,000	1,508,748	542,430	17,752	3,724,699
Keith Kinsey	2014	490,154	—	218,182		12,994	721,330
<i>President and Chief Operating Officer</i>	2013	472,308	500,000	838,193	308,582	9,254	2,128,337
Dave Boennighausen	2014	262,384	—	218,182		11,266	491,832
<i>Chief Financial Officer</i>	2013	239,808	50,000	20,898	104,468	9,504	424,678

(1) Amounts shown in this column represent bonuses paid in connection with our initial public offering.

(2) Amounts represent the aggregate grant date fair value of stock options awarded in 2014 and 2013, calculated in accordance with FASB Accounting Standards Codification Topic 718. Each of our NEOs receives a regular annual grant of nonqualified stock options at or about the time of our annual meeting of stockholders. A description of the methodologies and assumptions we use to value options awards and the manner in which we recognize the related expense are described in Note 10, Stock-Based Compensation, to our consolidated financial statements, for the year ended December 30, 2014. These amounts may not correspond to the actual value eventually realized by each NEO because the value depends on the market value of our common stock at the time the option is exercised.

(3) Amounts shown in this column represent cash bonus awards granted to our named executive officers for performance during 2013. No cash bonuses will be paid to our named executive officers for 2014 because we did not achieve our EBITDA targets. For each year, we maintained bonus plans that provided each NEO with the opportunity to earn a bonus based on achievement of adjusted EBITDA goals for the applicable year. The target bonuses were 100% of base salary for Mr. Reddy, 80% and 75% of base salary for Mr. Kinsey in 2014 and 2013, respectively, and 50% of base salary for Mr. Boennighausen for 2014 and 2013. The Compensation Committee of the Board reserves the right to exercise discretion to increase or decrease such bonuses based on other factors, which can include the executive officers' individual performance and other bonus compensation, such as that paid in connection with our initial public offering.

(4) Amounts shown in this column are detailed in the table below:

Name	Year	Car Allowance	Life Insurance	Health & Wellness	Total Other Compensation
Kevin Reddy	2014	\$ 19,903	\$ 5,932	\$ 840	\$ 26,675
	2013	9,508	5,674	2,570	17,752
Keith Kinsey	2014	4,751	7,417	826	12,994
	2013	1,553	7,087	614	9,254
Dave Boennighausen	2014	8,332	2,094	840	11,266
	2013	6,804	2,094	607	9,505

#### Outstanding Equity Awards at December 30, 2014

The following table sets forth information regarding outstanding option awards at the end of 2014 for each of the named executive officers. None of the named executive officers held any outstanding stock awards at the end of 2014.

Name	Number of securities underlying unexercised options exercisable	Number of securities underlying unexercised options unexercisable	Option exercise price	Option expiration date
Kevin Reddy	806,790	—	\$ 8.67	12/27/2020
	162,281	97,369 <sup>(1)</sup>	\$ 18.00	06/27/2023
	—	20,000 <sup>(3)</sup>	\$ 31.53	05/13/2024
Keith Kinsey	588,540	—	\$ 8.67	12/27/2020
	17,310	—	\$ 9.53	05/14/2022
	90,156	54,094 <sup>(1)</sup>	\$ 18.00	06/27/2023
	—	20,000 <sup>(3)</sup>	\$ 31.53	05/13/2024
Dave Boennighausen	63,333	—	\$ 8.67	12/27/2020
	22,503	—	\$ 9.53	05/14/2022
	—	43,275 <sup>(2)</sup>	\$ 12.13	12/06/2022
	—	20,000 <sup>(3)</sup>	\$ 31.53	05/13/2024

(1) The options vest equally on each of June 27, 2015, 2016 and 2017.

(2) These options vest on December 6, 2015.

(3) These options vest in 25% increments on each of May 13, 2015, 2016, 2017 and 2018.

#### Potential Payments and Acceleration of Equity upon Termination or Termination in Connection with a Change in Control

##### Employment and Severance Agreements

We are a party to employment agreements with each of the Messrs. Reddy and Kinsey (the “Employment Agreements”). Each of the Employment Agreements has a three-year term that commenced on the date of our initial public offering and continues for three years unless earlier terminated. The Employment Agreements automatically extend at the end of the initial term and annually thereafter in each case, for a one year term, unless either party provides at least ninety days’ prior written notice of nonextension.

Pursuant to the employment agreements, Mr. Reddy received a \$1.0 million cash bonus, and Mr. Kinsey received a \$500,000 cash bonus, upon the completion of our initial public offering. In addition, Mr. Reddy was granted 259,650 stock options and Mr. Kinsey 144,250 stock options upon completion of our initial public offering pursuant to our Amended and Restated 2010 Stock Incentive Plan, subject to the terms of that plan. One-half of those options were vested upon grant and the other half will vest in equal increments on the first through fourth anniversaries of the grant date.

In the event Mr. Reddy or Mr. Kinsey is terminated without cause, resigns for good reason or dies or becomes disabled while employed by the Company, a pro rata portion of the next vesting installment of any outstanding options will vest. In addition, if Mr. Reddy or Mr. Kinsey is terminated without cause or resigns for good reason within 12 months following a change in control, any remaining unvested portion of all outstanding options will vest.

Each Employment Agreement provides for the payment of base salary and bonus, as well as customary employee benefits. 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 us.

Each of the Employment Agreements also restricts the executive from engaging in a competitive business during his employment and for 18 months thereafter, or soliciting employees at or above the level of vice president or above during his employment and for 12 months thereafter. For this purpose, "competitive business" is defined as any business engaged in the fast casual restaurant business in North America that derives 20% or more of its revenues from the sale of noodle or pasta dishes.

In addition, we are a party to a Severance Agreement with Mr. Boennighausen dated December 19, 2012 (the "Severance Agreement"). Pursuant to the Severance Agreement, Mr. Boennighausen is an "at-will" employee. If the Company terminates Mr. Boennighausen's employment without "cause," (as such term is defined in the Severance Agreement) Mr. Boennighausen is entitled to receive compensation equal to nine months of his then-current base salary, payable in equal installments over nine months, a pro rata bonus for the year of termination and reimbursement of "COBRA" premiums for up to nine months for Mr. Boennighausen and his dependents. The severance payments are conditioned upon Mr. Boennighausen entering into a mutual release of claims with us. The Severance Agreement also includes similar noncompetition and nonsolicitation covenants as the Employment Agreements, except that the duration of the covenants apply to Mr. Boennighausen during his employment and for nine months thereafter.

In addition, Mr. Boennighausen's outstanding unvested options provide that in the event his employment is terminated without cause within 12 months following a change in control, any remaining unvested portion of such options will vest.

#### ***Payments Upon Termination or Change in Control***

None of our NEOs is entitled to receive payments or other benefits upon termination of employment or a change in control, except as provided in the Employment Agreements and Severance Agreement described above.

#### **Certain Other Compensation Plans**

##### ***401(k) Plan***

We maintain a tax-qualified retirement plan that provides eligible U.S. employees with an opportunity to save for retirement on a tax-advantaged basis. Eligible employees are able to defer eligible compensation subject to applicable annual Code limits. No employer contributions were made to the 401(k) plan in 2013 or 2014. Contributions are allocated to each participant's individual account and are then invested in selected investment alternatives according to the participants' directions. The 401(k) plan is intended to be qualified under Section 401(a) of the Code.

##### ***Pension Benefits***

Our NEOs did not receive any benefits from the Company under any pension or retirement plan we sponsored during 2014.

##### ***Nonqualified Deferred Compensation***

On May 16, 2013 the Company adopted The Executive Non-Qualified "Excess" Plan (the "Excess Plan"). The Excess Plan provides supplementary benefits to the eligible participants whose benefits under the Company's 401(k) Plan are limited because of the restriction on annual additions that may be made to a qualified defined contribution plan and/or the limitation on compensation that may be taken into account in calculating contributions to such a plan. Our NEOs did not earn any nonqualified deferred compensation benefits from us during 2014 under the Excess Plan or otherwise.

#### **Director Compensation**

We have adopted a non-employee director compensation plan covering non-employee directors other than directors affiliated with Catterton or PSPIB. Under the plan, each non-employee director covered by the plan receives an annual cash retainer for board service, an annual cash retainer for committee service and an annual cash retainer for serving as chair of a committee. The board has currently fixed the retainer for board service at \$50,000 per year, and it has fixed each of the retainers for committee service and committee chair at \$10,000 per year. In addition, at the close of business on the date of the Company's annual meeting of stockholders,

each non-employee director covered by the plan will receive an annual retainer stock option under the plan, which shall vest on the date of the next annual meeting of stockholders. The annual retainer grant has a value, as determined by the Board of Directors in good faith using the Black-Scholes valuation formula, of \$50,000.

Directors who are also employees, such as Mr. Reddy and Mr. Kinsey, do not and will not receive any compensation for their services as directors. In addition, directors appointed by Catterton and Argentia have not received any compensation for their services as directors and shall not receive any such compensation for two years following the closing date of our IPO in June 2013. Thereafter, the Company will pay the directors appointed by Catterton and Argentia an annual fee of \$100,000 (or such other amount that may be determined by the Board of Directors to be payable to non-employee directors) for each such director serving on the Board of Directors; provided, that any fees otherwise payable to directors appointed by Catterton shall instead be paid directly to Catterton Management Company, L.L.C. and any fees otherwise payable to directors appointed by Argentia shall instead be paid directly to Argentia.

Directors have been and will continue to be reimbursed for travel, food, lodging and other expenses directly related to their activities as directors. Directors are also entitled to the protection provided by their indemnification agreements and the indemnification provisions in our certificate of incorporation and bylaws, as well as the protection provided by director and office liability insurance provided by us.

The following table sets forth compensation information for the fiscal year ended December 30, 2014, with respect to non-employee directors who received compensation:

Director Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) <sup>(4)(5)</sup>	Total (\$)
Jeffrey Jones	\$ 70,000 <sup>(1)</sup>	\$ 62,522	\$ 132,522
Johanna Murphy	30,000 <sup>(2)</sup>	—	30,000
James Rand	60,000 <sup>(3)</sup>	62,522	122,522

- (1) This amount includes a \$10,000 annual fee for serving as the chairman of the audit committee and \$10,000 annual fee for serving as a member of the audit committee.
- (2) This amount includes \$25,000 in fees for board service and \$5,000 in fees for serving as a member of the audit committee, for Ms. Murphy's service in 2014 since joining the board in June 2014.
- (3) This amount includes a \$10,000 annual fee for serving as a member of the audit committee.
- (4) The annual retainer grant in 2014 had a value of \$62,522 and covered the period from the adoption of the Non-Employee Directors Compensation Plan in 2013 through the 2014 fiscal year.
- (5) The outstanding options for Messrs Jones and Rand as of December 30, 2014 were 5,511 and 31,476, respectively. Ms. Murphy had no outstanding options as of December 30, 2014.

#### Compensation Committee Interlocks and Insider Participation

None of the members of our Compensation Committee is, or has at any time been, an officer or employee of the Company. None of our executive officers currently serves, or in the past year has served, as a member of the Board of Directors or Compensation Committee of any other entity that has one or more executive officers serving on our Board of Directors or Compensation Committee. No directors served on the Compensation Committee in 2014 other than Messrs. Dahnke and Frenkiel, the two directors currently serving on such committee, and James Pittman, who resigned as a director of the Company in June 2014.

**ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The following table sets forth certain information with respect to the beneficial ownership of Class A and Class B of our common stock as of February 19, 2015 for:

- each stockholder known by us to be the beneficial owner of more than 5% of any class of our outstanding shares of common stock;
- each of our directors;
- each of our named executive officers; and
- all of our directors and executive officers as a group.

As of February 19, 2015, Argentia beneficially owned 1,522,098 shares of Class B common stock, which represented 100% of the outstanding shares of Class B common stock on that date. Class B common stock has the same rights as the common stock except that holders of Class B common stock will not be entitled to vote in the election or removal of directors unless converted into Class A common stock.

We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of our common stock that they beneficially own, subject to applicable community property laws.

Applicable percentage ownership in the following table is based on 29,827,302 shares of common stock outstanding as of February 19, 2015 of which 28,305,204 were Class A common stock and 1,522,098 were Class B common stock), unless otherwise indicated in the footnotes below. In computing the number of shares of common stock beneficially owned by a person or entity and the percentage ownership of that person or entity, we deemed to be outstanding all shares of common stock subject to options or other convertible securities held by that person or entity that are currently exercisable or exercisable within 60 days of February 19, 2015. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o Noodles & Company, 520 Zang Street, Suite D, Broomfield, CO 80021.

Name and Address of Beneficial Owner	Total Shares Beneficially Owned		Class A Voting Shares Beneficially Owned	
	Shares	%	Shares	%
<b>Stockholders owning more than 5%</b>				
Entities affiliated with Catterton Partners <sup>(1)</sup>	6,834,884	22.91%	6,834,884	24.15%
Argentia Private Investments Inc. <sup>(2)</sup>	8,264,310	27.71%	6,742,212	23.82%
<b>Named Executive Officers and Directors</b>				
Kevin Reddy <sup>(3)</sup>	969,071	3.15%	969,071	3.31%
Keith Kinsey <sup>(4)</sup>	720,942	2.36%	720,942	2.49%
Dave Boennighausen <sup>(5)</sup>	87,336	*	87,336	*
Dan Fogarty <sup>(6)</sup>	138,624	*	138,624	*
Phil Petrilli <sup>(7)</sup>	95,320	*	95,320	*
Paul Strasen <sup>(8)</sup>	152,078	*	152,078	*
Kathy Lockhart <sup>(9)</sup>	27,252	*	27,252	*
Scott A. Dahnke <sup>(1)</sup>	6,834,884	22.91%	6,834,884	24.15%
Stuart Frenkiel	—	—	—	—
Jeffrey Jones	—	—	—	—
James Pittman	—	—	—	—
James Rand <sup>(10)</sup>	47,981	*	47,981	*
Andrew Taub	—	—	—	—
<b>All Executive Officers and Director as a Group (13 individuals)</b>	<b>2,238,604</b>	<b>7.51%</b>	<b>2,238,604</b>	<b>7.91%</b>

\* Indicates ownership of less than one percent.

- (1) All of the shares of Class A common stock are held by Catterton-Noodles, LLC, an entity affiliated with Catterton. Scott Dahnke is a Managing Partner of Catterton, and in such capacity has voting and investment control over the securities. Mr. Dahnke disclaims beneficial ownership of such securities except to the extent of his pecuniary interest therein. The principal business address of Catterton Partners is 599 West Putnam Avenue, Greenwich, CT 06830.
- (2) Consists of 6,742,212 shares of Class A common stock and 1,522,098 shares of Class B common stock held by Argentia, which is affiliated with the Public Sector Pension Investment Board (“PSP Investments”), a Canadian Crown Corporation. John Valentini is Interim President and Chief Executive Officer and Interim Chief Investment Officer of PSP Investments. He is also a director and President of Argentia. Derek Murphy is Senior Vice President, Private Equity of PSP Investments and is a director and Vice President of Argentia. In such capacities, Mr. Valentini and Mr. Murphy have investment control over such securities. Mr. Murphy and Stephanie Lachance, Vice President, Responsible Investment and Corporate Secretary of PSP Investments, have voting control over such securities on behalf of Argentia. Mr. Valentini, Mr. Murphy and Ms. Lachance disclaim beneficial ownership of such securities. The principal business address of Argentia is 1250 René Lévesque Boulevard West, Suite 900, Montreal, Quebec, Canada H3B 4W8.
- (3) Includes options to purchase 969,071 shares of our Class A common stock exercisable within 60 days.
- (4) Includes options to purchase 696,006 shares of our Class A common stock exercisable within 60 days.
- (5) Includes options to purchase 85,836 shares of our Class A common stock exercisable within 60 days.
- (6) Includes options to purchase 138,624 shares of our Class A common stock exercisable within 60 days.
- (7) Includes options to purchase 90,320 shares of our Class A common stock exercisable within 60 days.
- (8) Includes options to purchase 147,135 shares of our Class A common stock exercisable within 60 days.
- (9) Includes options to purchase 25,802 shares of our Class A common stock exercisable within 60 days.
- (10) Includes options to purchase 31,476 shares of our Class A common stock exercisable within 60 days.



## Equity Compensation Plan Information

The following table summarizes information as of December 30, 2014, about shares of common stock that may be issued under our equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options and warrants (a)	Weighted-average exercise price of outstanding options and warrants (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders <sup>(1)</sup>	3,302,964	\$ 12.17	3,840,146
Equity compensation plans not approved by security holders	—	—	—
Total	3,302,964	\$ 12.17	3,840,146

(1) Includes in column (a) 2,245,264 shares of Class A common stock issuable upon exercise of options outstanding under the Company's Stock Incentive Plan and 57,700 shares of Class B common stock issuable upon exercise of a warrant granted to a consultant. Includes in column (c) 3,125,906 shares of Class A common stock available for issuance upon exercise of future grants under the Company's Stock Incentive Plan and 714,240 shares of Class A common stock available for future issuance under the Company's Employee Stock Purchase Plan.

## ITEM 13. Certain Relationships and Related Transactions, and Director Independence

### Certain Relationships and Related Transactions

The following is a description of each transaction since January 1, 2014 to which we have been a party, in which the amount involved exceeded or will exceed \$120,000, and in which any of our directors, executive officers or beneficial holders of more than 5% of either our Class A or our Class B Common Stock had or will have a direct or indirect material interest.

*Stockholders Agreement.* In connection with our initial public offering, we entered into a stockholders agreement with our Equity Sponsors that became effective upon the completion of the initial public offering. The stockholders agreement contains agreements with respect to restrictions on the sale, issuance or transfer of shares that prevent either Equity Sponsor from transferring its shares without the consent of the other Equity Sponsor, except in connection with a tag along sale of common stock by both Equity Sponsors or pursuant to the registration rights agreement, which is described below, until the earlier of the second anniversary of the offering and the time at which such Equity Sponsor holds less than 25% of our outstanding Class A common stock and Class B Common Stock. The stockholders agreement also grants our Equity Sponsors the right, subject to certain conditions, to nominate representatives to our Board of Directors and committees of our Board of Directors. Catterton and Argentia each will have the right to designate two members to our Board of Directors, and the parties to the stockholders agreement will agree to vote to elect such director designees. If at any time an Equity Sponsor owns more than 10% and less than 20% of our outstanding Class A and Class B common stock, such Equity Sponsor has the right to designate one nominee for election to our Board of Directors. If an Equity Sponsor's ownership level falls below 10% of our outstanding Class A and Class B common stock, such Equity Sponsor will no longer have a right to designate a nominee. In addition, for so long as Catterton and Argentia hold at least 35% of the voting power of our outstanding common stock, certain actions may not be taken without the approval of Catterton and Argentia, including:

- any merger, recapitalization or other adjustment in voting rights, if following such event, Catterton and Argentia would not together have sufficient voting power or otherwise be entitled to elect a majority of the Board;
- any sale of all or substantially all the assets of the Company;
- the issuance of any capital stock of us or any of our subsidiaries, other than certain issuances upon the grant of equity awards;
- create any new class or series of shares of equity securities having rights, preferences or privileges senior to or on a parity with the Common Stock; or
- any amendment of our certificate of incorporation, bylaws or equivalent organization documents of the Company or any Subsidiary of the Company in a manner that could reasonably be expected to adversely affect the rights of Catterton or Argentia.

*Control Relationships.* Catterton and Argentia each own approximately 28% of our equity interests; however, the terms of the certificate of incorporation prevent control by either Equity Sponsor acting on its own. However, under the stockholders agreement our Equity Sponsors have agreed to elect each other's director nominees and to not take certain actions affecting us

without the consent of the other Equity Sponsor. See "—Stockholders Agreement", above, for a description of the material provisions of the stockholders agreement. As a result, our Equity Sponsors could potentially have significant influence over all matters presented to our stockholders for approval, including election and removal of our directors and change in control transactions.

*Registration Rights.* Pursuant to the terms of a registration rights agreement between us and certain holders of our stock, including Catterton, certain of its affiliates and Argentia, certain holders of our stock are entitled to demand and piggyback rights:

- *Demand Registrations.* Under the registration rights agreement, both Catterton and Argentia are able to require us to file a registration statement under the Securities Act, covering at least 10% of our equity interests, and we are required to notify holders of such securities in the event of such request (a "Demand Registration Request"). Each of Catterton and Argentia can issue unlimited Demand Registration Requests, unless we are ineligible to use Form S-3, in which case we will not be obligated to grant more than three Demand Registration Requests to each of Catterton and Argentia during such period of ineligibility.
- *Piggyback Registrations.* Under the Registration Rights Agreement, if at any time we propose or are required to register any of our equity securities under the Securities Act (other than a demand registration or pursuant to an employee benefit or dividend reinvestment plan), we will be required to notify each eligible holder of its right to participate in such registration and to use commercially reasonable efforts to cause all eligible securities requested to be included in the registration to be so included.

*Procedures for Approval of Related Party Transactions.* Our policies on related party transactions, which are included in our Audit Committee charter, Nominating and Corporate Governance Committee charter, and our Employee Code of Business Conduct and Ethics, address the policies and procedures for review and approval of related party transactions. These policies cover certain relationships and material obligations and interests. These policies provide that, in determining whether or not to recommend the initial approval or ratification of a related party transaction, all relevant facts and circumstances available shall be considered. The Nominating and Corporate Governance Committee and Audit Committee are both responsible for approval and ratification of certain related person transactions pursuant to the applicable policies and procedures.

## **Director Independence**

Under the listing requirements and NASDAQ rules, independent directors must comprise a majority of a listed company's Board of Directors. Our Principles of Corporate Governance (the "Principles") provide that an "independent" director is a director who meets the NASDAQ definition of independence and the Principles also provide that, under applicable NASDAQ rules, the members of each of the Audit, Nominating and Corporate Governance and Compensation Committees are subject to additional, heightened independence criteria applicable to directors serving on these committees. The Principles are published on our website at <http://investor.noodles.com/governance.cfm>. Our Board of Directors has undertaken a review of its composition, the composition of its committees and the independence of each director (both generally, and, where applicable, under heightened independence criteria applicable to certain committees). Based upon information requested from and provided by each director concerning his background, employment and affiliations, including family relationships, our Board of Directors has determined, based on the recommendation of our Nominating and Corporate Governance Committee, that each of Messrs. Dahnke, Frenkiel, Jones, Rand and Taub and Ms. Murphy is "independent" under NASDAQ rules. In making the independence determinations, our Board of Directors assessed the current and prior relationships that each non-employee director has with us and all other relevant facts and circumstances, including the beneficial ownership of our capital stock by each non-employee director. Based on these assessments, for each director deemed to be independent, our Board of Directors made a determination that, because of the nature of the director's relationships and / or the amounts involved, the director had no relationships with our company or our management that, in the judgment of the Board, would impair the director's independence.

Messrs. Frenkiel and Dahnke are currently members of the Compensation Committee and are affiliated with Argentia and Catterton, respectively. Pursuant to applicable SEC and NASDAQ requirements, the Board of Directors considered all factors specifically relevant to determining whether either of these directors had or has a relationship which is material to that director's ability to be independent from management in connection with their duties as members of the Compensation Committee, including these affiliations, and the Board determined that these directors are independent for purposes of serving on the Board of Directors and its Compensation Committee.

**ITEM 14. Principal Accounting Fees and Services**

**Audit and Related Fees**

The following table sets forth the aggregate fees billed for professional services rendered by Ernst & Young for the audit of our financial statements for 2014 and 2013 and the aggregate fees for other services rendered by Ernst & Young billed in those periods:

	<u>2014</u>	<u>2013</u>
Audit fees <sup>(1)</sup>	\$ 425,000	\$ 1,323,234
Audit Related fees <sup>(2)</sup>	—	2,150
Tax fees <sup>(3)</sup>	87,385	94,355
Total audit and related fees	<u>\$ 512,385</u>	<u>\$ 1,419,739</u>

- (1) 2014 and 2013 audit fees and expenses related to the fiscal year audit and interim reviews, notwithstanding when the fees and expenses were billed or when the services were rendered, and additional work performed in connection with the Company's initial public offering and follow-on offering.
- (2) Represents fees for a subscription to an Ernst & Young online services used for accounting research purposes.
- (3) Tax fees relate to professional services rendered for tax compliance, tax return review and preparation and related tax advice.

In connection with our initial public offering, the Board of Directors adopted a written policy for the pre-approval of certain audit and non-audit services which Ernst & Young provides. The policy balances the need to ensure the independence of Ernst & Young while recognizing that in certain situations Ernst & Young may possess both the technical expertise and knowledge of the Company to best advise the Company on issues and matters in addition to accounting and auditing. In general, the Company's independent registered public accounting firm cannot be engaged to provide any audit or non-audit services unless the engagement is pre-approved by the Audit Committee. Certain services may also be pre-approved by the Chairman of the Audit Committee under the policy. All of the fees identified in the table above were approved in accordance with SEC requirements and, following our initial public offering, pursuant to the policies and procedures described above.

All of the services of Ernst & Young for 2014 and 2013 described above were pre-approved by the Audit Committee.

**PART IV**

**ITEM 15. Exhibits, Financial Statement Schedules**

1. Our Consolidated Financial Statements and Notes thereto are included in Item 8 of this Annual Report on Form 10-K. See "Index to Financial Statements and Supplementary Data" for more detail.
2. All financial schedules have been omitted either because they are not applicable or because the required information is provided in our Consolidated Financial Statements and Notes thereto, included in Item 8 of this Annual Report on Form 10-K.
3. The Index to Exhibits, which appears immediately following the signature page and is incorporated herein by reference, is filed as part of this 10-K.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 23, 2015.

**NOODLES & COMPANY**

By: /s/ Dave Boennighausen

\_\_\_\_\_  
Dave Boennighausen

*Chief Financial Officer*

**POWER OF ATTORNEY**

Know all persons by these presents, that each person whose signature appears below constitutes and appoints Keith Kinsey, Dave Boennighausen or Paul Strasen, or any of them, as such person's true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for such person and in such person's name, place and stead, in any and all capacities, to sign any and all amendments to this Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as such person might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or any of them or their or such person's substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b><u>Signature</u></b>	<b><u>Title</u></b>	<b><u>Date</u></b>
<hr/> <u>/s/ KEVIN REDDY</u> Kevin Reddy	Chairman and Chief Executive Officer <i>(principal executive officer)</i>	February 23, 2015
<hr/> <u>/s/ KEITH KINSEY</u> Keith Kinsey	President, Chief Operating Officer and Director	February 23, 2015
<hr/> <u>/s/ DAVE BOENNIGHAUSEN</u> Dave Boennighausen	Chief Financial Officer <i>(principal financial officer)</i>	February 23, 2015
<hr/> <u>/s/ KATHY LOCKHART</u> Kathy Lockhart	Vice President and Controller <i>(principal accounting officer)</i>	February 23, 2015
<hr/> <u>/s/ SCOTT A. DAHNKE</u> Scott A. Dahnke	Director	February 23, 2015
<hr/> <u>/s/ STUART FRENKIEL</u> Stuart Frenkiel	Director	February 23, 2015
<hr/> <u>/s/ JEFFREY JONES</u> Jeffrey Jones	Director	February 23, 2015
<hr/> <u>/s/ JAMES RAND</u> James Rand	Director	February 23, 2015
<hr/> <u>/s/ ANDREW TAUB</u> Andrew Taub	Director	February 23, 2015
<hr/> <u>/s/ JOHANNA MURPHY</u> Johanna Murphy	Director	February 23, 2015

**EXHIBITS****Description of Exhibit Incorporated Herein by Reference**

<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Form</b>	<b>File No.</b>	<b>Filing Date</b>	<b>Exhibit Number</b>	<b>Filed Herewith</b>
3.1	Amended and Restated Certificate of Incorporation	S-1	333-192402	November 19, 2013	3.1	
3.2	Amended and Restated Bylaws	S-1	333-192402	November 19, 2013	3.2	
4.1	Specimen Stock Certificate	S-1/A	333-188783	June 17, 2013	4.1	
10.1	Noodles & Company Amended and Restated 2010 Stock Incentive Plan	S-1/A	333-188783	June 17, 2013	10.1	
10.2	Noodles & Company 2013 Employee Stock Purchase Plan	S-1/A	333-188783	June 17, 2013	10.2	
10.3	Registration Rights Agreement, dated December 27, 2010, by and among Noodles & Company and certain of its stockholders	S-1/A	333-188783	June 17, 2013	10.3	
10.4	Amendment No. 1 to Registration Rights Agreement, dated as of July 8, 2014, among Noodles & Company and certain of its stockholders	10-Q	001-35987	November 6, 2014	10.1	
10.5	Amended and Restated Credit Agreement, dated as of November 22, 2013, among Noodles & Company, the other Loan Parties thereto, Bank of America, N.A., as Administrative Agent, L/C Issuer and Swing Line Lender and the other lenders party thereto	8-K	001-35987	November 26, 2013	10.1	
10.6	Security Agreement, dated February 28, 2011, by and between Noodles & Company and Bank of America, N.A., as administrative agent	S-1	333-188783	May 23, 2013	10.13	
10.7	Pledge Agreement, dated February 28, 2011, by and between Noodles & Company and Bank of America, N.A., as administrative agent	S-1	333-188783	May 23, 2013	10.14	
10.8	Form of Indemnification Agreement by and between Noodles & Company and each of its directors and executive officers	S-1/A	333-188783	June 17, 2013	10.15	

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10.9	Form of Area Development Agreement					X
10.10	Form of Franchise Agreement					X
10.11	Severance Agreement with Dave Boennighausen, dated December 19, 2012	10-K	001-35987	March 7, 2014	10.1	
10.12	Employment Agreement, dated June 7, 2013, by and between Noodles & Company and Kevin Reddy	S-1/A	333-188783	June 17, 2013	10.20	
10.13	Employment Agreement, dated June 7, 2013, by and between Noodles & Company and Keith Kinsey	S-1/A	333-188783	June 17, 2013	10.21	
10.14	Noodles & Company Compensation Plan For Non-Employee Directors	S-1	333-192402	November 19, 2013	10.16	
10.15	The Executive Nonqualified "Excess" Plan Adoption Agreement, adopted by Noodles & Company on May 16, 2013	S-1/A	333-188783	June 17, 2013	10.22	
10.16	Amended and Restated Stockholders Agreement, dated as of July 2, 2013, among Noodles & Company, Catterton-Noodles, LLC and Argentia Private Investments Inc.	S-1	333-192402	November 19, 2013	10.18	
21.1	List of Subsidiaries of Noodles & Company					X
23.1	Consent of Ernst & Young LLP					X
24.1	Power of Attorney (included on signature page of this report)					X
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1	Certification of Chief Executive Officer and Chief Financial Officer Section 302 of the Sarbanes-Oxley Act of 2002					X



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101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X



**NOODLES & COMPANY  
AREA DEVELOPMENT AGREEMENT**

**Area Operator Name:**

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**Date of Agreement:**

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**Development Area:**

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**NOODLES & COMPANY  
AREA DEVELOPMENT AGREEMENT**

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**Exhibits**

- A. Term and Development
- B. Area Operator Information
- C. Principal Owners' Personal Guaranty of Area Operator's Obligations
- D. Investor Personal Covenants Regarding Confidentiality and Non-Competition

**NOODLES & COMPANY**  
**AREA DEVELOPMENT AGREEMENT**

This Area Development Agreement (this "Agreement") is made as of the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_ between Noodles & Company ("Franchisor," "we," "us" or "Noodles & Company"), a Delaware corporation, with its principal place of business located at 520 Zang Street, Suite D, Broomfield, CO 80021 and \_\_\_\_\_ ("Area Operator" or "you"), a(n) \_\_\_\_\_ whose principal address is \_\_\_\_\_.

**1. INTRODUCTION.**

1.01 Noodles & Company Restaurants. We own, operate, and franchise Noodles & Company Restaurants, serving noodle dishes, salads, sandwiches, soups, desserts, breads, beverages, beer, wine, and other menu items, and merchandise related to the Noodles & Company concept as we may authorize from time to time. We have developed and own a comprehensive system for developing and operating Noodles & Company restaurants, including trademarks, trade dress, signage, building designs, and layouts, equipment, ingredients, specifications, and recipes for authorized food products, methods of inventory control, training programs, and certain operational and business standards, policies and procedures, all of which we may improve, further develop or otherwise modify from time to time.

1.02 Your Acknowledgments. You acknowledge that you have read and understand this Agreement and our Franchise Disclosure Document and accept the terms, conditions, and covenants contained in this Agreement as being reasonably necessary to maintain our high standards of quality and service and the uniformity of those standards at each Noodles & Company Restaurant and thereby to protect and preserve the goodwill of the Marks. You acknowledge that you have conducted an independent investigation of the business venture contemplated by this Agreement and recognize that, like any other business, the nature of the business conducted by a Noodles & Company Restaurant may evolve and change over time; that an investment in a Noodles & Company Restaurant involves business risks; and that your business abilities and efforts are vital to the success of the venture. You understand that the restaurant industry is highly competitive, that market conditions evolve and change over time, and that an investment in a Noodles & Company franchise involves business risks. You acknowledge that, in all of their dealings with you, our officers, directors, employees, and agents act only in a representative, and not in an individual, capacity. All business dealings between you and such persons as a result of this Agreement are solely between you and us. You further acknowledge that we have advised you to have this Agreement reviewed and explained to you by an attorney and you acknowledge that you have reviewed the Agreement with your attorney or you waive your right to do so.

1.03 Your Representations. You and your Principal Owners jointly and severally represent and warrant to us as an inducement to our entering into this agreement that: (a) all statements you have made and all materials you have submitted to us in connection with your application to us are accurate and complete and that you have made no material misrepresentations or material omissions in obtaining the franchise; (b) neither you nor any of your Principal Owners has made any untrue statement of any material fact or has failed to state material fact in the ADA Application, the Personal Profile, or any other written information in obtaining the rights granted hereunder; (c) neither you nor any of your Owners has any direct or indirect legal or beneficial interest in any

business that may be deemed a Competitive Business, except as otherwise completely and accurately disclosed in your Personal Profile; and (d) the execution and performance of this Agreement will not violate any other agreement to which you or any of your Owners may be bound. You recognize that we have executed this Agreement in reliance on all of the statements you and your Owners have made in the Personal Profile, the ADA Application, and any other written information.

**1.04 Certain Definitions.\*** The terms listed below have the meanings throughout this Agreement and include the plural as well as the singular. He, his, or him means she, hers, or her as applicable. Other terms are defined elsewhere in this Agreement in the context in which they arise.

**"ADA Application"** - The area development agreement application submitted to us by you and/or your Owners.

**"Affiliate"** - Any person or entity that directly or indirectly owns or controls the referenced party that is directly or indirectly owned or controlled by the referenced party, or that is under common control with the referenced party. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of an entity, whether through ownership of voting securities, by contract or otherwise.

**"Area Operator"** - The term Area Operator is applicable to one or more persons, a corporation, limited liability company, or a partnership, and its owners as the case may be.

**"Competitive Business"** - Any business that operates or franchises one or more restaurants: (1) whose sales of Specified Dishes (as defined below) collectively constitute more than 10% of restaurant operating revenues; (2) that are the same as, or substantially similar to, the Noodles & Company concept as it evolves or changes over time; or (3) that operate in a fast casual or quick casual format. As used in this Agreement, "Specified Dishes" means noodle dishes, pasta dishes, Asian dishes, Italian or Mediterranean dishes and any other dishes that are the same or substantially similar to the dishes on the Noodles & Company menu ("Noodles & Company Dishes") as it may evolve or change over time. Restrictions in this Agreement on competitive activities do not apply to: (a) the ownership or operation of other Noodles & Company restaurants we or our Affiliates licenses; (b) the ownership of shares of a class of securities that are listed on a public stock exchange or traded on the over-the-counter market and that represent less than five percent (5%) of that class of securities; or (c) any restaurant concept whose per person average check during the preceding twelve (12) months was more than fifty percent (50%) higher or lower than Noodles & Company per person average check for the same period. Revenue of a restaurant, as used in this definition means the aggregate amount of all sales of food, beverages and other products sold in or by such restaurant, whether for cash or credit, but excluding all federal, state or municipal sales or service taxes collected from customers and paid to the appropriate taxing authorities, all coupons, promotions, discounts and refunds.

**"Confidential Information"** - Our proprietary and confidential information relating to the development and operation of Noodles & Company restaurants, including: (1) ingredients, recipes, and methods of preparation and presentation of authorized food products; (2) site selection criteria for Noodles & Company restaurants and plans and specifications for the

development of Noodles & Company restaurants; (3) sales, marketing, and advertising programs and techniques for Noodles & Company restaurants; (4) identity of suppliers and knowledge of specifications, processes, procedures, and equipment, and pricing for authorized food products, materials, supplies, and equipment; (5) knowledge of operating results and financial performance of Noodles & Company restaurants, other than Noodles & Company restaurants you own; (6) methods of inventory control, storage, product handling, training, food cost and management relating to Noodles & Company restaurants; (7) computer systems and software programs used or useful in Noodles & Company restaurants; (8) this Agreement and the terms hereof; and (9) any information that we provide you that is labeled proprietary or confidential.

"Development Area" - As defined in Section 2.02.

"Development Fee" - As defined in Section 2.01.

"Development Obligations" - As defined in Section 2.03.

"Development Period" - Means each of the time periods indicated on Exhibit A during which Area Operator shall have the right and obligation to construct, equip, open, and thereafter continue to operate Noodles & Company Restaurants in accordance with the Area Development Agreement.

"Development Rights" - As defined in Section 2.02.

"Development Term" - As defined in Section 2.01.

"Development Schedule" - As defined in Section 2.03.

"Entity" - Business corporation, partnership, limited liability company or other legal entity.

"Franchise Agreement" - As defined in Section 3.04.

"Franchise Fee" - As defined in Section 3.04.

"Immediate Family" - Spouse, parents, brothers, sisters, and children, whether natural or adopted.

"Limited Access Highway" - means that portion of a highway with oasis or service center facilities for motorists and truckers. Includes highways with limited access from surface roads, often commonly referred to as freeways or Interstate Highways.

"Marks" - The current and future trade names, trademarks, service marks, and trade dress used to identify the services and/or products Noodles & Company restaurants offer, including the mark "Noodles & Company" and the distinctive Noodles & Company restaurants' building design and color scheme.

"Noodles & Company restaurants" - Restaurants that we or any of our Affiliates own, operate, or franchise and which use the Marks and the System.

"Non-Traditional Venues" - As defined in Section 2.02.

"Operating Partner" - The individual you designate in Exhibit B and any replacement we approve.

"Owner" - Each person or entity that has a direct or indirect legal or beneficial ownership interest in you, if you are an entity.

"Personal Profile" - The personal, financial, business, and other information relating to you and your Owners set forth in our personal profile form(s) which you and your Owners have completed and submitted to us prior to or together with the ADA Application.

"Principal Owner" - Each Owner that has a ten percent (10%) or greater interest in you, if you are an entity or an individual that owns ten percent (10%) or more of the interest in the ADA.

"Protected Area" - As defined in Section 2.04.

"Publicly Held Entity" - An entity for which any of the following are true: (1) securities of such entity would be required to be registered pursuant to the Securities Act of 1933, as amended, or such securities would be owned by more than thirty five (35) persons; or (2) after such issuance or sale, such entity (or you) would be required to comply with the reporting and information requirements of the Securities Exchange Act of 1934, as amended.

"Site Approval Form" - As defined in Section 3.02.

"Site Package" - As defined in Section 3.02.

"System" - The business methods, designs, and arrangements for developing and operating Noodles & Company restaurants, including the Marks, building design and layouts, equipment, ingredients, recipes, methods of preparation and specifications for authorized food products, food safety procedures, training, methods of inventory control and certain operating and business standards, policies and procedures, all of which we may improve, further develop or otherwise modify from time to time.

"Term" - As defined in Section 2.01.

"Transfer the Development Rights" - or similar words - The voluntary, involuntary, direct or indirect sale, assignment, transfer, license, sublicense, sublease, collateral assignment, grant of a security, collateral or conditional interest, inter vivos transfer, testamentary disposition or other disposition of this Agreement, of any interest in or right under this Agreement, or any form of ownership interest in Area Operator, including: (1) any transfer, redemption or issuance of a legal or beneficial ownership interest in the capital stock of, or a partnership interest in, Area Operator or of any interest convertible to or exchangeable for capital stock of, or a partnership interest in, Area Operator; (2) any merger or consolidation of Area Operator, whether or not Area Operator is the surviving corporation; (3) any transfer in, or as a result of, a divorce, insolvency, corporate or partnership dissolution proceeding or otherwise by operation of law; or (4) any transfer upon the death of Area

Operator or any Principal Owner of Area Operator by will, declaration or transfer in trust or under the laws of intestate succession.

\*Any capitalized term not defined herein shall have the same meaning as that prescribed in the Franchise Agreement.

## **2. DEVELOPMENT RIGHTS.**

2.01 Term and Development Fee. Unless sooner terminated in accordance with Section 8, the term of this Agreement (the "Term") starts on the date hereof and expires on the earlier of the expiration date set forth in Exhibit A or the date upon which Area Operator opens for operation the cumulative number of Noodles & Company restaurants in the Development Area (as such term is defined in Section 2.02 hereof) set forth in Exhibit A. At the time you sign this Agreement, you must pay us the nonrefundable Development Fee ("Development Fee") set forth in Exhibit A.

### 2.02 Development Rights.

(a) Upon the terms and subject to the conditions of this Agreement, Company hereby grants to Area Operator, and Area Operator hereby accepts, the right and obligation, during the Term (defined below), to develop Noodles & Company Restaurants in the geographic area defined as the Development Area defined below (the "Development Rights"). You shall have no right to subfranchise, sublicense, or otherwise grant sub rights to anyone.

(b) No right or license is granted to Area Operator hereunder to use any trademarks, trade names, service marks, logotypes, insignias, trade dress, or designs owned by Noodles & Company, such right and license being granted solely pursuant to Franchise Agreements. Without limiting the generality of the foregoing, nothing in this Agreement shall permit Area Operator to own or operate a Noodles & Company Restaurant, except pursuant to duly executed and substituting Franchise Agreement, and Area Operator shall not use such trademarks, trade names, service marks, logotypes, insignias, trade dress, or designs without the prior express written consent of Noodles & Company.

(c) During the Term, and provided you and your Affiliates are in compliance with this Agreement and all other agreements with us or any of our Affiliates (including Franchise Agreements signed pursuant to this Agreement), we will: (i) grant to you, in accordance with Section 3, that cumulative number of franchises for Noodles & Company restaurants set forth in Exhibit A, all of which are to be located within the geographical area described in Exhibit A and within the specific trade areas as agreed to by us and you therein ("the Development Area"); and (ii) not operate (directly or through an Affiliate), nor grant the right to operate, any Noodles & Company restaurants located within the Development Area, except for: (1) franchises granted pursuant to this Agreement; (2) Noodles & Company restaurants open (or under lease, construction, or other commitment to open) as of the date hereof; and (3) as set forth below in Sections 2.02(d) and (e).

(d) You acknowledge, however, that certain locations within the Development Area are by their nature unique and separate in character from the sites to which we intend to grant you a franchise or area Development Rights pursuant to this Agreement; such sites are referred to as "Non-Traditional Venues." As a result, you agree that Non-Traditional Venues are excluded from the Development Area (and any Protected Area under any Franchise Agreement) and we shall have the right to develop (by direct ownership, franchising, licensing or other means) such locations, even if such sites are located within the Development Area (and any Protected Area under any Franchise Agreement) and regardless of the proximity of such sites to any Noodles & Company restaurant for which you have or might have in the foreseeable future a franchise. Non-Traditional



Venues include, for example: (i) transportation facilities, including airports, train stations, subways and rail, and bus stations; (ii) military bases and government offices; (iii) sports facilities, including stadiums and arenas; (iv) amusement parks, zoos, and convention centers; (v) car and truck rest stops, and travel centers and Limited Access Highway oasis and rest and service areas; (vi) casinos, (vii) food courts; (viii) Indian reservations; and (ix) museums.

(e) **Additional Reservation of Rights.** Except for the rights specifically granted to you, we reserve all other rights, including, for example, the following rights:

(i) We reserve the right to manufacture and sell anywhere products that are the same or similar to products sold in Noodles & Company restaurants using brand names that are similar to or the same as the Marks through any channel of distribution, including, for example, grocery stores, supermarkets, convenience stores, caterers and gas stations.

(ii) We reserve the right to sell products and services through other channels of distribution including Internet, wholesale, mail order and catalog. The Internet is a channel of distribution reserved exclusively to us and you may not independently market on the Internet or conduct e-commerce except as we approve, in our sole discretion.

(iii) We reserve the right to operate and franchise and license others to operate other concept restaurants.

(iv) We reserve the right to develop and/or own other franchise systems for the same or similar products and services using different trademarks than those licensed to you.

(v) We reserve the right to produce, license, manufacture, sell, distribute and market Noodles & Company brand named products, and products bearing other marks, including food and beverage products, clothing, souvenirs, and novelty items through any channel of distribution, including, for example, grocery stores, supermarkets, convenience stores, caterers, and gas stations.

(vi) We reserve the right to purchase or be purchased by, or merge or combine with, competing businesses wherever located.

**2.03 Development Obligations.** You must have open and operating continuously in the Development Area in accordance with and pursuant to Franchise Agreements, that cumulative number of Noodles & Company restaurants set forth in Exhibit A by the corresponding dates set forth therein ("Development Schedule"). Time is of the essence in this Agreement. In the event you fail to develop and operate Noodles & Company restaurants (i) in accordance with the Development Schedule; (ii) on an accepted site; (iii) in accordance with our then current design, construction, and equipment specifications; (iv) consistent with the plans accepted for said site; and (v) in accordance with the System, you would be in material breach of this Agreement; however, except as provided in Section 3.04(e) our right to terminate this Agreement shall be our exclusive remedy for your failure to meet the Development Schedule. If your right to develop Noodles & Company restaurants expires, is terminated in accordance with this Agreement or is otherwise terminated, we shall have the right thereafter to develop and operate, or to allow others to develop and operate, Noodles & Company restaurants, and to use, and to allow others to use, the Marks and the System in the Development Area, subject to such protection granted via the Protected Area as may be granted pursuant to previously executed Franchise Agreements executed pursuant hereto. Notwithstanding any other term or condition of this Section 2.03, you shall not be deemed to be in breach of this Section 2.03 or the Development Schedule set forth in Exhibit A if your failure to timely open the requisite number of Noodles & Company restaurants results solely from substantial and significant weather delays, fires or other natural disasters not exceeding twenty (20) days in the aggregate for all such delays; any delay resulting from any of such causes shall

extend performance only as mutually agreed upon by the parties, but in any event not to exceed in the aggregate twenty (20) days during the Term of this Agreement and the Franchise Agreement.

2.04 Protected Area. Each of the restaurants you develop will have a Protected Area, as such is designated in the Franchise Agreement for such restaurant. The Protected Area may be designated as a radius, polygon or other geometric shape or as a specific trade area as Noodles and Company shall determine prior to execution of the Franchise Agreement for such restaurant.

2.05 Restrictions on Debt. In connection with the development of the Development Area and operation of the Franchised Noodles & Company Restaurants, including payment to us of the development fee set forth in Exhibit A of the Area Development Agreement, the payment of franchise fees and the costs and expenses to be incurred pursuant to Franchise Agreements, you and each Owner represent, warrant, covenant and agree that neither you nor any Owner borrowed any funds or otherwise incurred any debt to obtain any funds for the payment of any such fees, costs and expenses, except as specifically permitted in this Section 2.05. You and each Owner shall not, without our prior written consent, which shall not be unreasonably withheld, directly or indirectly borrow any money or incur any debt or liability (other than lease obligations for each Restaurant's land and building and trade payables in the ordinary course of business ) to develop the Development Area or to establish, operate and maintain Noodles & Company Restaurants, which may be established in the Development Area pursuant to this Agreement, except as provided in this Section 2.05. You may incur debt in connection with the development of Noodles & Company Restaurants hereunder, provided that (a) you will, in connection with the development of each such Restaurant, receive equity contributions from your Owners equal to not less than 25% of the total development cost of the Restaurant (which shall consist for this purpose of the cost of all leasehold improvements, furniture, fixtures and equipment) and (b) from and after the first anniversary of the opening of your first Restaurant hereunder, at no time shall your total indebtedness outstanding at any time during any fiscal year exceed 4.0 times your earnings (determined in accordance with generally accepted accounting principles consistently applied) before interest, taxes, depreciation and amortization (EBITDA) minus any distributions to Owners for such fiscal year. You agree to provide within 90 days after the end of each fiscal year a statement certified by one of your executive officers setting forth the amount of your EBITDA and distributions to Owners (if any) for such year and your indebtedness at year end. Such debt shall have an initial amortization schedule of no more than ten (10) years from inception. You shall not extend, renew, refinance, modify or amend any debt or liability permitted by this Section 2.05 without our prior written consent, which consent shall not be unreasonably withheld.

Furthermore, any debt instrument must provide to us the following protections, and any others that we from time to time require, (i) Franchisor shall be provided notice of any default of any such debt instrument simultaneous with notice being provided to you and Owners; (ii) Franchisor shall have a right of first refusal to purchase any restaurant to be sold, disposed of, or otherwise transferred by the lender of such debt instrument; (iii) Franchisor shall have the right, but not the obligation, to cure your and Owner's default under such debt instruments; and (iv) Franchisor shall have the right to operate the restaurant(s) that is the subject of the debt instrument upon your or Owner's default of such instrument. In the event you default on your debt and we elect to pursue any of the foregoing protections available to us, your right to cure such default shall expire as of the date we pursue any such protections notwithstanding any longer cure period set forth elsewhere in any agreement between you and us. Additionally you shall be liable for the full amount we pay to cure your default plus interest at eighteen percent (18%) per annum, or the highest rate allowable by law, and all costs we incur, including legal fees and appraisal fees relating

to the evaluation of and exercise of any such protections. Breach of this Section 2.05 is a material breach of this Agreement.

### **3. GRANT OF FRANCHISES.**

3.01 Site Selection Assistance. We will furnish you with our site selection criteria for Noodles & Company restaurants, as we may establish from time to time. We also will provide such on-site evaluation of sites proposed pursuant hereto as we deem necessary or appropriate.

3.02 Site Evaluation and Acceptance. We will accept sites for the cumulative number of Noodles & Company restaurants set forth in Exhibit A located within the Development Area in accordance with the following provisions:

(a) We will provide you our then current site criteria upon notice from you that you are actively seeking a site for one of your restaurants. You must submit to us, in accordance with procedures we establish from time to time, a complete Site Package, as we may establish from time to time (the "Site Package"), containing all information that we reasonably require for each site for a Noodles & Company restaurant that you propose to develop and operate and that meets our then current standard site selection criteria for Noodles & Company restaurants. The Site Package shall be submitted in a format defined by Noodles & Company to allow submittal and presentation to the Real Estate Site Approval Committee (currently submitted electronically). The Real Estate Site Approval Committee meets approximately every two (2) weeks, and Area Operators are responsible for submitting their sites for approval at least one (1) week prior to the meeting. FAO's are required to attend meetings or participate via conference call. It is a material obligation of yours under this Agreement that you select and submit the required information for sites that are acceptable to us in a timely manner to cause your compliance with the Development Schedule;

(b) We will approve or reject each site for which you submit to us a complete Site Package in accordance with Section 3.02(a) and, if we approve the site, we will do so by delivering our standard Site Approval Form. Our Site Approval Form, duly executed by us, is the exclusive means by which we approve a proposed site, and no other direct or indirect representation, approval or acceptance, whether in writing or verbally, by any of our officers, employees or agents, shall be effective or bind us. We will use all reasonable efforts to make a site approval decision and, if the site is accepted, deliver a Site Approval Form to you within forty-five (45) days after we receive the complete Site Package and any other materials we have requested. In deciding whether to approve or reject a site you propose, we may consider such factors as we, in our sole discretion, deem appropriate, including, but not limited to, the general location and neighborhood, demographic information, traffic patterns, access, visibility, site economics, location of other retail food establishments (including other Noodles & Company restaurants) and size, condition trade dress, configuration, appearance, and other physical characteristics of the site. Noodles & Company reserves the right to require you to prepare and submit a prediction of sales volumes derived from software that has been approved by Noodles & Company in its sole discretion. Neither our approval of a proposed site, nor any information communicated to you regarding our standard site selection criteria or the proposed site constitute a warranty or representation of any kind, express or implied, as to the suitability of the proposed site for a Noodles & Company restaurant or for any other purpose. Our approval of a proposed site merely signifies that we are willing to grant a franchise for a Noodles & Company restaurant at that location in accordance with the terms of this Agreement. Your decision to develop and

operate a Noodles & Company restaurant at any site is based solely on your own independent investigation of the suitability or success of the site for a Noodles & Company restaurant. In consideration of our approval of a proposed site, you and your Owners agree to release us, and our Affiliate, officers, directors, employees and agents from any and all loss, damages, and liability arising from or in connection with the selection and/or approval of such site for the development of a Noodles & Company restaurant. Your restaurants may not be relocated without our prior written consent and compliance with our then current site criteria.

(c) Within sixty (60) days following the execution of the Area Development Agreement, the Area Operator shall prepare and submit to Noodles & Company a Trade Area Map, derived from mapping software that has been approved in writing by Noodles & Company in its sole discretion, that defines the proposed real estate strategy for the entire franchise territory. The Trade Area Map shall outline all of the proposed trade areas that are targeted for a Noodles & Company restaurant, and rank the trade areas as follows:

**Primary Trade Area:** This would be a premier trade area in the market that tends to attract customers from throughout the market or region. Such trade areas may include entertainment districts, regional shopping centers, universities, hospital complexes, sports arenas and other similar activities that provide brand awareness to a larger portion of the population. Such trade areas should be targeted for the first two (2) to three (3) restaurants to open in the market.

**Secondary Trade Area:** This would be a solid, good performing trade area that primarily serves customers working or living within the trade area boundary. Such trade areas commonly include concentrated employment centers, and a variety of quality shopping centers serving daily needs. Secondary trade areas typically make up the largest number of trade areas in a market, and should be targeted to immediately follow the initial primary trade areas.

**Tertiary Trade Areas:** These would be good trades areas that are distinctly independent of Primary and Secondary Trade Areas, but would likely not perform as well on average as the other trades areas. Tertiary Trade Areas would typically be the last trade areas developed in a market.

The Area Operator may be asked to provide the Trade Area Map along with supporting information to Noodles & Company on an annual basis, but not more frequently than twice per year.

(d) No lease for an approved site may be entered into without our prior written consent, which shall not be unreasonably withheld.

**3.03 Financial Qualifications.** In conjunction with our decision whether to accept or reject a proposed site, we may require that you and your Principal Owners furnish us financial statements (historical and pro forma), of the sources and uses of capital funds, budgets and other information regarding yourself, your Principal Owners and each legal entity, if any, involved in the development, ownership and operation of any Noodles & Company restaurant you propose, as well as any then existing Noodles & Company restaurants you or your Affiliates own. We may require some if not all of the following information, and reserve the right to make additional reasonable requests for information:

- Audited financial statements for the last three (3) fiscal years
- Interim unaudited financial statements consisting of a balance sheet, income statement and statement of cash flows, prepared in accordance with generally accepted accounting principles, for the current fiscal year
- Restaurant level income statements for the last three (3) years and current interim period for other franchise operations owned containing at a minimum a disclosure of net sales, comparables, cost of goods sold, labor, taxes and benefits, controllable expenses, occupancy costs and non-controllable expenses
- Calculation of restaurant same store sales for the last three (3) years and current interim period for all other franchise restaurants owned

All such information shall be verified by you and your Principal Owners as being complete and accurate in all respects, shall be submitted to us in accordance with our requirements and will be relied on by us in determining whether to grant a franchise for the proposed Noodles & Company restaurant. We may refuse to grant you a franchise for a Noodles & Company restaurant; (i) if you fail to demonstrate sufficient financial and management capabilities to properly develop and operate the proposed Noodles & Company restaurant and the then-existing Noodles & Company restaurants you and your Affiliates own; (ii) you have failed to properly develop and operate on a continuous basis the then-existing Noodles & Company restaurants you and your Affiliates own; (iii) you have failed to fully comply with this Agreement and any franchise agreements between you and us, including the Development Schedule within the Development Periods; or (iv) you are ineligible to hold or will be, in our opinion, unable to obtain a liquor license for each Noodles & Company restaurant contemplated by this Agreement. We will evaluate such financial and management capabilities in accordance with the then-current standards we use to establish Noodles & Company restaurants in other comparable market areas. We may also require you to submit a business plan for any proposed site. The absence of any of the failures described in Section 3.03 (i) through (iv) herein is each a condition precedent to any obligation of Noodles & Company to grant a franchise agreement for any proposed site or other performance of this Agreement.

**3.04 Grant of Franchise.** If we accept a proposed site pursuant to Section 3.02, and you demonstrate the requisite financial and management capabilities (if requested by us) pursuant to Section 3.03 and have satisfied all conditions precedent, then we agree to offer you a franchise to operate a Noodles & Company restaurant at the proposed site by delivering to you our then-current form of franchise agreement, together with all standard ancillary documents (including exhibits, riders, collateral assignments of leases, Principal Owner guarantees and other related documents) that we then customarily use in granting franchises for the operation of Noodles & Company restaurants in the state in which the Noodles & Company restaurant is to be located ("the Franchise Agreement") subject to the following terms and conditions.

(a) The Franchise Agreement and all ancillary documents must be executed by you and your Owners and returned to us not earlier than five (5) days and not later than thirty (30) days after signing a lease for a Noodles & Company premises or when construction begins, whichever first occurs. If we do not receive the fully executed Franchise Agreement and payment of the Franchise Fee as required hereunder, we may revoke our offer to grant you a franchise to operate

a Noodles & Company restaurant at the proposed site and may revoke our acceptance of the proposed site.

(b) The Development Fee shall be \$10,000.00 per restaurant listed on Exhibit A for each restaurant, except the Development Fee for the first restaurant developed pursuant to this Agreement shall be \$35,000. All Development Fees must be paid in full on or before the day we execute this Agreement. See Exhibit A for the total amount due upon execution of this Agreement. You acknowledge and agree that no portion of the Development Fee shall be refundable for any Noodles & Company restaurants that you have failed (for any reason or no reason) to develop in accordance with the terms of this Agreement. The Development Fee and each Franchise Fee is fully earned by Noodles & Company at such time it is paid.

(c) The Franchise Fee payable for each Noodles & Company restaurant required to be developed by Area Operator pursuant to this Agreement shall be \$35,000.00, payable in accordance with the payment requirements of this Agreement and the Franchise Agreement. The Franchise Fee for the first restaurant shall be deemed paid when the Development Fee is paid in full. Additionally, for each subsequent restaurant, the first \$10,000 of the Franchise Fee for such restaurants shall be deemed paid when the Development Fee is paid in full. The balance of the Franchise Fee shall be payable in accordance with the due date set forth in the Franchise Agreement, except as set forth in Section 3.04(e). You acknowledge and agree that no portion of the Development Fee shall be refundable for any Noodles & Company restaurants that you have failed (for any reason or no reason) to develop or open in accordance with the terms of this Agreement and the Franchise Fee or Franchise Agreement. The Development Fee and each Franchise Fee is fully earned by Noodles & Company at such time it is paid; and

(d) The Royalty Fees shall not exceed the percentage set forth in our standard form Franchise Agreement being offered as of the date of this Agreement.

(e) Notwithstanding anything to the contrary in the Franchise Agreement, the Franchise Fee for a restaurant to be developed hereunder must be paid by the Required Opening Date as set forth in Exhibit A, regardless of whether the Franchise Agreement for the restaurant has been signed or the restaurant is open for operation or under construction. The obligation to pay the Franchise Fee for restaurants that were required to be open prior to termination of this Agreement shall survive termination of this Agreement.

#### **4. YOUR ORGANIZATION AND MANAGEMENT.**

4.01 Organizational Documents. You must be a business corporation, partnership, limited liability company or other legal entity formed for the sole purpose of developing and holding franchises to operate Noodles & Company restaurants. You and each of your Owners represent, warrant and agree that: (a) you are duly organized and validly existing under the laws of the state of your organization, and you are duly qualified to transact business in the state(s) in which the Development Area is located; (b) you have the authority to execute and deliver this Agreement and to perform your obligations hereunder; (c) true and complete copies of the articles of incorporation, partnership agreement, bylaws, subscription agreements, buy-sell agreements, voting trust agreements and all other documents relating to your ownership, organization, capitalization, management, and control have been delivered to us and all amendments thereto shall be promptly delivered to us; (d) your entity's activities are restricted to those necessary solely for the development, ownership, and operation of Noodles & Company restaurants in accordance

with this Agreement and in accordance with any other agreements entered into with us or our Affiliate if applicable; (e) the articles of incorporation, partnership agreement, or other organizational documents recite that the issuance, transfer, or pledge of any direct or indirect legal or beneficial ownership interest is restricted by the terms of this Agreement; (f) all certificates representing direct or indirect legal or beneficial ownership interests now or hereafter issued must bear a legend in conformity with applicable law reciting or referring to such restrictions; and (g) you will deliver to us a Secretary/Clerk's Certificate or attestation or other evidence satisfactory to us that the execution, delivery and performance of this Agreement, each Franchise Agreement as it is executed, and all other agreements and ancillary documents contemplated hereby or thereby have been duly authorized by all necessary action by your corporation, partnership, limited liability company, or other legal entity, as applicable. You may not change the form of your entity unless we mutually agree in writing that such a change is warranted. Neither you, your partners, shareholders, members of an LLC nor the entity formed to operate the restaurants may be, or become, during the term of this Agreement and any other agreements between us, including the Franchise Agreement, a Publicly Held Entity.

4.02 Disclosure of Ownership Interests. You and each of your Owners represent, warrant and agree that Exhibit B is current, complete and accurate and shall not be changed without our prior written consent. You agree that updated Exhibits B will be furnished promptly to us, so that Exhibit B (as so revised and signed by you) is at all times current, complete and accurate. Failure to promptly provide us a revised and corrected Exhibit B, and to obtain our prior written consent prior to such changes, is a material breach and default of this Agreement. Each person who is or becomes a Principal Owner must execute an agreement in the form we prescribe, undertaking to be bound jointly and severally by the terms of this Agreement, the current form of which is attached hereto as Exhibit C. Each person who is or becomes an Owner or an Operating Partner must execute an agreement in the form we prescribe, undertaking to be bound by the confidentiality and non-competition covenants contained in the Agreement, the current form of which is attached hereto as Exhibit D. Each Owner must be an individual acting in his individual capacity, unless we waive this requirement. The initial owners who execute this agreement as of its effective date shall at all times continue to own and have voting authority of at least fifty-one percent (51%) of the ownership and voting rights under this agreement.

4.03 Operating Partner/Management of Business. You must designate in Exhibit B as the "Operating Partner" an individual accepted by us who must: (a) have completed our Operating Partner training program to our satisfaction; (b) be the senior management individual who is involved in day-to-day operations of your Noodles & Company restaurants; (c) be the person with whom we communicate as to development, operations and Area Operator matters; (d) have the authority to bind you regarding all operational decisions with respect to your Noodles & Company restaurants; and (e) have primary residency in the Development Area continuously during the term of this Agreement.

Your Operating Partner: (a) shall exert full-time and best efforts to the development and operation of your Noodles & Company restaurants and all other Noodles & Company restaurants you own; and (b) may not engage in any other business or activity, directly or indirectly, that requires substantial management responsibility or time commitments or otherwise may conflict with your obligations hereunder. You agree to provide us with an executed copy of any arrangement, agreement, or contract, and all amendments thereto, with your Operating Partner. We shall have no responsibility, liability or obligation to any party to any such arrangement, agreement, or contract, or any amendments thereto, on account of our approval thereof or

otherwise, and you agree to indemnify and hold us, and our Affiliates if applicable, harmless with respect thereto. Your Noodles & Company restaurants at all times must be managed by your Operating Partner or by an on-site general or assistant manager or a shift supervisor who has completed the appropriate training programs.

Prior to opening your first Noodles & Company restaurant, you, your Operating Partner, general managers and any other personnel who are intended to have, or who actually have, responsibilities for operating any Noodles & Company restaurant must complete the appropriate training program to our satisfaction.

Thereafter, subsequently hired personnel must complete the appropriate training program that is approved by or provided by Noodles & Company personnel to our satisfaction before assuming their position in accordance with our then-current Operations Manual.

## **5. RELATIONSHIP OF THE PARTIES.**

5.01 Independent Contractors. Neither this Agreement nor the dealings of the parties pursuant to this Agreement shall create any fiduciary relationship or any other relationship of trust or confidence between or among the parties. Franchisor and Area Operator, as between themselves, are and shall be independent contractors.

If applicable law shall imply a covenant of good faith and fair dealing in this Agreement, the parties agree that such covenant shall not imply any rights or obligations that are inconsistent with a fair construction of the terms of this Agreement. Additionally, if applicable law shall imply such covenant, we and you acknowledge and agree that: (a) this Agreement (and the relationship of the parties which arises from this Agreement) grants us the discretion to make decisions, take actions, and/or refrain from taking actions not inconsistent with your explicit rights and obligations hereunder that may affect favorably or adversely your interests; (b) we will use our judgment in exercising such discretion based on our assessment of our own interests and balancing those interests against the interests of the owners of Noodles & Company restaurants generally (including ourselves, and our Affiliates and other Area Operators), and specifically without considering your individual interests or the interests of any other particular Area Operator; (c) we will have no liability to you for the exercise of our discretion in this manner so long as such discretion is not exercised in bad faith toward you; and (d) in the absence of such bad faith, no trier of fact in any legal action or arbitration proceeding shall substitute its judgment for our judgment so exercised.

Nothing contained in this Agreement, or arising from the conduct of the parties hereunder, is intended to make either party a general or special agent, joint venturer, partner, or employee of the other party for any purpose whatsoever. You must conspicuously identify yourself in all dealings with customers, lessors, contractors, suppliers, public officials, employees and others as the FAO granted hereunder and must place such other notices of independent ownership on such forms, business cards, stationery, advertising, and other materials as we may require from time to time.

You may not make any express or implied agreements, warranties, guarantees, or representations or incur any debt in our name or on our behalf or represent that the relationship of the parties hereto is anything other than that of independent contractors. We will not be obligated by or have any liability under any agreements made by you with any third party or for any representations made by you to any third party. We will not be obligated for any damages to any person or property arising directly or indirectly out of the operation of your business hereunder.



5.02 Indemnification. You agree to indemnify us, our Affiliates and our respective directors, officers, employees, shareholders, agents, successors, and assigns (collectively "Indemnitees"), and to hold the Indemnitees harmless to the fullest extent permitted by law, from any and all losses and expenses (as defined below) incurred in connection with any litigation or other form of adjudicatory procedure, claim, demand, investigation, formal or informal inquiry (regardless of whether it is reduced to judgment) or any settlement thereof which arises directly or indirectly from, or as a result of, a claim of a third party against any one or more of the Indemnitees in connection with the development, ownership, operation or closing of any of your Noodles & Company restaurants (collectively "Event"), and regardless of whether it resulted from any strict or vicarious liability imposed by law on the Indemnitees, provided, however, that this indemnity will not apply to any liability arising from the negligent acts of Indemnitees (except to the extent that joint liability is involved, in which event the indemnification provided herein will extend to any finding of comparative or contributory negligence attributable to you). The term "losses and expenses" includes compensatory, exemplary, and punitive damages; fines and penalties; attorneys' fees; experts' fees; court costs; costs associated with investigating and defending against claims; settlement amounts; judgments; compensation for damages to our reputation and goodwill; and all other costs associated with any of the foregoing losses and expenses. We agree to give you reasonable notice of any Event of which we become aware for which indemnification may be required and we may elect (but are not obligated) to direct the defense thereof, provided that the selection of counsel shall be subject to your consent, which consent shall not be unreasonably withheld or delayed. We shall not be required to consent to any settlement that admits any fault, directly or indirectly, on our part. We may, in our reasonable discretion, take such actions as we deem necessary and appropriate to investigate, defend or settle any Event or take other remedial or corrective actions with respect thereto as may be necessary for the protection of Indemnitees or Noodles & Company restaurants generally, provided however, that any settlement shall be subject to your consent, which consent shall not be unreasonably withheld or delayed. Further, notwithstanding the foregoing, if the insurer on a policy or policies obtained in compliance with your Franchise Agreement agrees to undertake the defense of an Event (an "Insured Event"), we agree not to exercise our right to select counsel to defend the Event if such would cause your insurer to deny coverage so long as your insurer provides suitable skilled counsel to defend the action. We reserve the right to retain counsel to represent us with respect to an Insured Event. This Section 5.02 shall continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement.

5.03 Ownership of the Marks. You acknowledge that we, or our Affiliates, if applicable, own the Marks and that you are not granted the right under this Agreement to use the Marks. Your right to use the Marks arises solely from, and is limited to, Franchise Agreements entered into between you and us. You may not use any Mark (or any abbreviation, modification or colorable imitation) as part of any corporate or legal business name or in any other manner not explicitly authorized in writing by us. You may not, at any time during or after the Term, contest, or assist any other person or entity in contesting, the validity or ownership of any of the Marks.

If we determine that it becomes advisable at any time for us and/or you to modify or discontinue use of any Mark and/or use one or more additional or substitute trademarks, service marks or trade dress, you agree to comply with our directions within fourteen (14) days after notice. Neither we nor any of our Affiliates shall have any liability or obligation whatsoever with respect to any such required modification or discontinuance of any Mark or the promotion of a substitute trademark, service mark or trade dress.

## 6. RESTRICTIVE COVENANTS.

6.01 Confidential Information. We will disclose parts of our Confidential Information to you solely for your use in connection with this Agreement and only as specifically permitted by the Operations Manual. The Confidential Information is proprietary and includes our trade secrets. During the Term and indefinitely thereafter: (a) you and your Owners may not use the Confidential Information in any other business or capacity (you acknowledge such use is an unfair method of competition); (b) you and your Owners must exert your best efforts to maintain the confidentiality of the Confidential Information; (c) you and your Owners may not make unauthorized copies of any portion of the Confidential Information disclosed in written, electronic or other form; (d) you and your Owners must implement all reasonable procedures we prescribe from time to time to prevent unauthorized use or disclosure of the Confidential Information, including the use of nondisclosure agreements with your Owners, officers, directors and general managers, and you and your Owners must deliver such agreements to us; and (e) you and your Owners must not disclose or distribute the Confidential Information except as permitted by us in writing prior to such disclosure. At the end of the Term, you and your Owners must deliver to us all such Confidential Information in your possession, except for such information as you are permitted to retain pursuant to Franchise Agreements then in effect. Your restrictions on disclosure and use of Confidential Information do not apply to information or techniques which are or become generally known in the restaurant industry (other than through your own disclosure or the wrongful disclosure of another), provided you obtain our prior written consent to such disclosure or use.

6.02 In-Term Covenants. During the Term, you shall not, without Noodles & Company's prior written consent, either directly or indirectly, for yourself, or through, on behalf of, or in conjunction with any person, persons, partnership, limited liability company, or corporation:

(a) Divert or attempt to divert any business or customer of any Noodles & Company Restaurant to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with Noodles & Company's Marks or the System.

(b) Recruit, except for general solicitation, or hire any person who is or was within a period of six (6) months prior to such recruiting or hiring an employee of ours or of any Noodles & Company Restaurant operated by us, our Affiliates or another Area Operator of ours, without obtaining the employer's consent, which consent may be withheld for any reason. We may elect, in our sole discretion, to require you to pay to us, our Affiliate or other Area Operator, as liquidated damages an amount equal to two (2) times the annual salary of the person(s) involved in such violation plus an amount equal to our costs and attorney's fees incurred in connection with such violation.

(c) Own, maintain, advise, be employed by, consult for, make loans to, operate, engage in or have an ownership interest (including any right to share in revenues or profits) in any Competitive Business which is, or is intended to be located within:

- (1) the Protected Area;
- (2) a radius of fifteen (15) miles from your Noodles & Company Restaurant;
- (3) a radius of fifteen (15) miles of any Noodles & Company Restaurant; or

(4) the United States.

6.03. Post-Term Covenants. For a continuous uninterrupted period commencing upon the expiration or termination of this Agreement and for two (2) years thereafter, you shall not, without Noodles & Company's prior written consent, either directly or indirectly, for yourself, or through, on behalf of, or in conjunction with any person, persons, partnership, limited liability company, or corporation:

(a) Divert or attempt to divert any business or customer of any Noodles & Company Restaurant to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with Noodles & Company's Marks or the System.

(b) Recruit, except for general solicitation, or hire any person who is or was within a period of six (6) months prior to such recruiting or hiring an employee of ours or of any Noodles & Company Restaurant operated by us, our Affiliates or another Area Operator of ours. In addition to any other rights and remedies available to us under this Agreement, we may elect, in our sole discretion, to require you to pay to us, our Affiliate or other Area Operator, as liquidated damages an amount equal to two (2) times the annual salary of the person(s) involved in such violation plus an amount equal to our costs and attorney's fees incurred in connection with such violation.

(c) Own, maintain, advise, be employed by, consult for, make loans to, operate, engage in or have an ownership interest (including any right to share in revenues or profits) in any Competitive Business which is, or is intended to be located within:

(1) the Protected Area;

(2) a radius of fifteen (15) miles from your Noodles & Company Restaurant;

(3) a radius of fifteen (15) miles of any Noodles & Company Restaurant; or

(4) any Designated Market Area (as defined by Nielsen Media Research) where a Noodles & Company Restaurant is located.

6.04 Independent Covenant. The parties agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant is held unreasonable or unenforceable by a court or agency having valid jurisdiction, the parties desire the court to reform the covenant to render the covenant enforceable, but only to the extent required to render the covenant enforceable, so that Noodles & Company may obtain the greatest possible level of protection from the misuse of Confidential Information, the diversion of customers, the solicitation of its employees and unfair competition; and in such event, you expressly agree to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately state in and made a part of this Agreement.

6.05 Reduction in Scope. You understand and acknowledge that Noodles & Company shall have the right, in its sole discretion, to reduce the scope of any covenant set forth in this Agreement, or any portion thereof, without your consent, effective immediately upon written notice to you. You shall comply forthwith with any covenant as so modified, which shall be fully enforceable notwithstanding the provisions hereof.

6.06 Offset/Counterclaim. You expressly agree that the existence of any claims you may have against Noodles & Company, whether or not arising from this Agreement, shall not constitute a defense to the enforcement by Noodles & Company of the covenants in this Section 6.

6.07 Injunctive Relief. You acknowledge and agree: (a) that any failure to comply with the covenants in this Agreement shall constitute a default hereunder; (b) that a violation of the requirements of this Agreement would result in irreparable injury to Noodles & Company for which no adequate remedy at law may be available; and (c) therefore, Noodles & Company shall be entitled, in addition to any other remedies which it may have hereunder, at law, or in equity, to obtain specific performance of or an injunction against the violation of the requirement of this Agreement, without the necessity of showing actual or threatened damage and without being required to furnish a bond or other security.

6.08 Information Exchange. All recipes, processes, ideas, concepts, methods, and techniques used or useful to a restaurant, grocery store, or other business offering restaurant products, whether or not constituting protectable intellectual property, that you create, or that are created on your behalf, in connection with the development or operation of your Noodles & Company restaurants must be promptly disclosed to us. If we adopt any of them as part of the System, they will be deemed to be our sole and exclusive property and deemed to be works made-for-hire for us. You hereby assign and further agree to sign whatever further assignment or other documents we request to evidence our ownership or to assist us in securing intellectual property rights in such ideas, concepts, techniques, or materials.

6.09 Confidentiality and Non-Compete Agreements. You agree to cause each of your Owners and Operating Partners and any other management personnel primarily involved in Noodles & Company to enter into and comply with the confidentiality and non-compete agreement referred to in Section 4.02 hereof.

## **7. AREA OPERATOR'S RIGHT TO TRANSFER.**

7.01 Franchisor's Approval. Your rights and duties under this Agreement are personal to you and your Principal Owners. Accordingly, neither you nor any of your Owners may Transfer the Development Rights or any direct or indirect interest therein without our prior written consent, which may be withheld in our sole discretion. If we are required by applicable law to permit a transfer, the criteria in Section 7.02 must be met and you must obtain our approval. Any such transfer without such approval or compliance constitutes a breach of this Agreement and is void and of no force or effect. You may not, under any circumstances, directly or indirectly, subfranchise or sublicense any of your rights hereunder. If applicable law does not require us to permit a transfer, no transfer shall be permitted and Section 7.02 will not apply.

7.02 Conditions for Approval. If we have not exercised our right of first refusal under Section 7.06, and we are required by law to permit a transfer of this Agreement, we will not unreasonably withhold our approval of a Transfer of the Development Rights that meets all of the restrictions, requirements and conditions we impose on the transfer, the transferor(s) and the transferee(s), including without limitation the following:

(a) you and your Owners and Affiliates must be in compliance with the provisions of this Agreement, all Franchise Agreements executed pursuant hereto and all other agreements with us or our Affiliate, if applicable;

(b) the proposed transferee must be a corporation, partnership, limited liability company or other legal entity; transferee and its owners must provide us on a timely basis all information we request, and the owners must be individuals acting in their individual capacities who are of good character and reputation, who must have sufficient business experience, aptitude and financial resources to develop Noodles & Company restaurants pursuant to this Agreement, and who must otherwise meet our then current standards for approval;

(c) the proposed transferee may not be, or become, an entity, or be, or become, affiliated with an entity, that is a Publicly Held Entity;

(d) the transferee and its owners must agree to be bound by all of the provisions of our then current Area Development Agreement for the remainder of the Term;

(e) the transferee must acquire, in a concurrent transaction, all of your rights and the rights of your Owners and Affiliates under all agreements between you or your Affiliates and us or our Affiliate, regarding all restaurants contemplated by this agreement not yet developed and/or operating;

(f) you or the transferee must pay us a transfer fee in an amount equal to \$7,500, plus \$3,500 for each Noodles & Company restaurant for which a Franchise Agreement has been executed, or is contemplated by the terms of this Agreement, plus any transfer fee required by any other agreement between you or your Affiliates and us or our Affiliates and all costs associated with such transfer;

(g) you and your Owners and Affiliates must, except to the extent limited or prohibited by applicable law, execute a general release, in form and substance satisfactory to us, of any and all claims against us, our Affiliates and stockholders, officers, directors, employees, agents, successors, and assigns;

(h) we must not have disapproved the material terms and conditions of such transfer on the basis that they are so burdensome as to be likely, in our reasonable judgment, to adversely affect the transferee's operation of Noodles & Company restaurants or its compliance with its franchise agreements, any area development agreements and any other agreements being transferred;

(i) if you (or any of your Owners or Affiliates) finance any part of the sale price of the transferred interest, you and/or your Owners or Affiliates must agree that all obligations of the transferee, and security interests reserved by any of them in the assets transferred, will be subordinate to the transferee's obligations to pay all amounts due us and our Affiliates and to

otherwise comply with this Agreement, any Franchise Agreement being transferred or any franchise agreement to be executed by the transferee;

(j) you and your Owners must execute a noncompetition covenant, in form and substance satisfactory to us, in favor of us and the transferee agreeing that, for a period of two (2) years, starting on the effective date of the transfer, you and your Owners will not, directly or indirectly (such as through a member of his or their Immediate Families), own any legal or beneficial interest in, or render services or give advice to: (1) any Competitive Business; or (2) any entity that grants franchises, licenses, or other interests to others to operate any Competitive Business in any Designated Market Area (as defined by Nielsen Media Research) where a Noodles & Company Restaurant is located, whether Company-owned or franchised, or within any area that is or was within an Area Development Area or a Protected Area, as those terms are defined in the Area Development Agreement and Franchise Agreement;

(k) we determine that no applicable federal or state statute, regulation, rule, or law, which is enacted, promulgated, or amended after the date hereof, may have a material adverse effect on our rights, remedies, or discretion with respect to our relationship with the proposed transferee;

(l) you and your Owners and Affiliates must execute such other documents and do such other things as we reasonably require to protect our rights under this Agreement, any Franchise Agreements, and any other agreements being transferred;

(m) transferee must demonstrate that it is eligible to hold and shall be able to obtain liquor licenses for each Noodles & Company restaurant contemplated by this Agreement;

(n) transferee must have obtained an acceptable assignment of Lease(s) from each landlord for each Noodles & Company restaurant contemplated by this Agreement and as to each restaurant which is proposed to be transferred and

(o) transferee, after the transfer, must own the minimum number of Noodles & Company restaurants we require of other Area Operators.

7.03 Effect of Approval. Our approval of a Transfer of the Development Rights does not constitute: (a) a representation as to the fairness of the terms of any agreement or arrangement between you or your Owners and the transferee or as to the prospects for success by the transferee; or (b) a release of you and your Owners, a waiver of any claims against you or your Owners, or a waiver of our right to demand the transferee's compliance with this Agreement. Any approval shall apply only to the specific Transfer of the Development Rights being proposed and shall not constitute our approval of, or have any bearing on, any other proposed Transfer of the Development Rights.

7.04 Special Transfers. Neither Section 7.06 nor Section 7.02(f) shall apply to any Transfer of the Development Rights among any of your then current Owners. Following our receipt of thirty (30) days' notice to us, you may, if you are a partnership, transfer this Agreement, in conjunction with a transfer of all of the Franchise Agreements executed pursuant hereto and all of the assets of the Noodles & Company restaurants operated pursuant thereto, by an agreement in form and substance approved by us, to a business corporation or limited liability company which conducts no business other than the development and operation of Noodles & Company restaurants, and of which you own and control all of the equity and voting power of all issued and outstanding capital

stock. None of the foregoing assignments shall relieve you or your Principal Owners of your obligations hereunder, and you and your Principal Owners shall remain jointly and severally liable for all obligations hereunder. We will also permit transfers among partners so long as the transfer is to a prior existing partner that was previously approved by us and who meets our then current requirements for Area Operators and Franchisees.

7.05 Death or Disability of Operating Partner or Area Operator. Upon your death or permanent disability, or the death or permanent disability of your Operating Partner or an Owner of a controlling interest in Area Operator, if we have not exercised our Right of First Refusal, the executor, administrator, or other personal representative of such person shall transfer his interest in this Agreement or his interest in Area Operator to a third party approved by us in accordance with all of the applicable provisions of Section 7 within a reasonable period of time, not to exceed six (6) months from the date of death or permanent disability. We agree not to exercise our right of first refusal in the case of death or disability if the proposed purchaser or transferee is a family member who meets our then current requirements for Area Operators and Franchisees or is a prior existing partner that was previously approved by us and who meets our then current requirements for Area Operators and Franchisees.

7.06 Noodles & Company's Right of First Refusal. If you or any of your Owners desires to Transfer the Development Rights for legal consideration, you or such Owner(s) must obtain a *bona fide*, executed written offer from a responsible and fully disclosed purchaser and must deliver immediately to us a complete and accurate copy of such offer. If the offeror proposes to buy any other property or rights from you or any of your Owners or Affiliates (other than rights under Area Development and Franchise Agreements for Noodles & Company restaurants) as part of the *bona fide* offer, the proposal for such property or rights must be set forth in a separate, contemporaneous offer that is fully disclosed to us, and the price and terms of purchase offered to you or your Owners for the transfer of the Development Rights must reflect the *bona fide* price offered therefore and not reflect any value for any other property or rights.

We have the option, exercisable by notice delivered to you or your Owners within sixty (60) days from the date of delivery of a complete and accurate copy of such offer to us to purchase such interest for the price and on the terms and conditions contained in such offer, provided that: (a) we may substitute cash for any form of payment proposed in such offer; (b) our credit shall be deemed equal to the credit of any proposed purchaser; and (c) we shall have not less than ninety (90) days from the option exercise date to consummate the transaction. We have the right to investigate and analyze the business, assets, and liabilities and all other matters we deem necessary or desirable in order to make an informed investment decision with respect to the fairness of the terms of the right of first refusal and we may conduct such investigation and analysis in any manner we deem reasonably appropriate, and you and your Owners agree to cooperate fully with us in connection therewith.

If we decide to exercise our option to purchase, we are then entitled to purchase such interest subject to all representations and warranties, closing documents and indemnities as we reasonably may require, provided if we exercise our option as a result of a written offer reflected in a fully negotiated definitive agreement with the proposed purchaser, we will not be entitled to any additional representations, warranties, closing documents, or indemnities that will have a materially adverse effect on your rights and obligations under the definitive agreement. If we do not exercise our option to purchase, you or your Owners may complete the sale to such offeror pursuant to and on the exact terms of such offer, subject to our approval of the transfer as provided in Sections 7.01 and 7.02; provided that we will have another option to purchase if the sale to such offeror is not completed within ninety (90) days after we elect not to exercise our option to purchase, or if there is a material change in the terms of the offer. You will promptly notify us in either event and we will have an additional thirty-day (30) period to exercise our option following receipt of that notice.

7.07 Securities Offerings. Neither you nor any of your Owners shall issue or sell, or offer to issue or sell, any of your securities or any securities of any of your Affiliates, regardless of whether such sale or offer would be required to be registered pursuant to the provisions of the Securities Act of 1933, as amended, or the securities laws of any other jurisdiction, without our mutual written agreement and complying with all of our requirements and restrictions concerning use of information about us and our Affiliate, if applicable. Neither you nor any of your Owners may issue or sell your securities or any securities of any of your Affiliates if: (a) such securities would be required to be registered pursuant to the Securities Act of 1933, as amended, or such securities would be owned by more than thirty-five (35) persons; or (b) after such issuance or sale, you or such Affiliate would be required to comply with the reporting and information requirements of the Securities Exchange Act of 1934, as amended, hereinafter defined as "Publicly Held Entity," or (c) the result would be that the initial Owners would own less than fifty-one percent (51%) of your and/or your Affiliates' securities and voting rights.

Any proposed private placement of your securities or the securities of your Affiliates must be approved by us and our legal counsel prior to the offering of securities. You shall pay the costs of our review and associated legal fees.

## **8. TERMINATION OF THE AGREEMENT.**

8.01 Immediate Termination. You are in material breach of this Agreement, and this Agreement will automatically terminate without notice, at our discretion, if you become insolvent by reason of your inability to pay your debts as they mature or if you admit your inability to pay your debts as they mature; if you are adjudicated bankrupt or insolvent; if you file a petition in bankruptcy, reorganization, or similar proceeding under the bankruptcy laws of the United States or have such a petition filed against you, which is not discharged within thirty (30) days; if a receiver or other custodian, permanent or temporary, is appointed for your business, assets or property; if you request the appointment of a receiver or make a general assignment for the benefit of creditors; if a final judgment against you in the amount of \$25,000 or more remains unsatisfied of record for thirty (30) days or longer; if your bank accounts, property, or accounts receivable are attached; if execution is levied against your business or property; if suit is filed to foreclose any lien or mortgage against any of your assets and such suit is not dismissed within thirty (30) days; or if you voluntarily dissolve or liquidate or have a petition filed for corporate or partnership dissolution and such petition is not dismissed within thirty (30) days.



8.02 Termination Upon Notice. In addition to our right to terminate pursuant to other provisions of this Agreement or under applicable law, we may terminate this Agreement, effective upon delivery of notice of termination to you, if you or any of your Principal Owners or Affiliates:

(a) fail to meet the Development Schedule and not cure such failure as soon as possible, and in any event within twenty (20) days after receipt of notice, unless no cure is possible, in which case there shall be no cure period;

(b) make an unauthorized Transfer of the Development Rights or fail to Transfer the Development Rights or the interest of a deceased or disabled Owner as required hereby;

(c) make any material misstatement or omission in the Personal Profile, the ADA Application, or in any other written information provided to us;

(d) are convicted of, or plead no contest to, a felony or other crime or offense that we reasonably believe may adversely affect the System or the goodwill associated with the Marks;

(e) fail to comply with any other provision of this Agreement and do not correct such failure within thirty (30) days after written notice of such failure to comply is delivered to you;

(f) are in breach of any Franchise Agreement such that we have the right to terminate the Franchise Agreement, whether or not we elect to exercise our right to terminate the Franchise Agreement;

(g) make any unauthorized use or disclosure of the Confidential Information;

(h) are in breach of any other agreement between you or any of your Affiliates and us or our Affiliate, if applicable, such that we have a right to terminate any such agreement, whether or not we elect to exercise our right to terminate such agreement;

(i) if we determine that any applicable federal or state statute, regulation, rule, or law, which is enacted, promulgated, or amended after the date hereof, may have a material adverse effect on our rights, remedies, or discretion in franchising Noodles & Company restaurants;

(j) shall default in any material obligations of any Lease, any agreement between Noodles & Company (or its Affiliate) and Area Operator, any obligations to any Advertising Cooperative of which you are a member or to any vendor of Noodles & Company related Proprietary and Non-Proprietary Products, construction suppliers, or providers of services, and not cure such failure as soon as possible, and in any event within twenty (20) days after receipt of notice, unless no cure is possible, in which case there shall be no cure period;;

(k) violate any law that materially impacts the Agreement or the franchise;

(l) fail to construct the Premises in the manner and with the materials from Approved Suppliers and Designated Suppliers as required by the Franchise Agreement and not cure such failure as soon as possible, and in any event within twenty (20) days after receipt of notice, unless no cure is possible, in which case there shall be no cure period;

(m) fail to timely obtain and continue in force all licenses and permits, including liquor licenses necessary to open and construct the restaurant and not cure such failure as soon as possible and in any event within twenty (20) days after receipt of notice unless no cure is possible, in which case there shall be no cure period;;

(n) shall default in three (3) or more material obligations within the Term of the Agreement for which written notice has been provided, if required, or for which no notice was given if none was required, such repeated course of conduct, which need not be the same or identical breaches, shall itself be grounds for termination of this Agreement without further notice or an opportunity to cure; or

(o) fail to operate in accordance with the System and not cure such failure as soon as possible, and in any event within twenty (20) days after receipt of notice, unless no cure is possible, in which case there shall be no cure period.

(p) violate any of the covenants relating to non-competition in Sections 6.02 and 6.03 and in Exhibit D.

(q) failure to timely and successfully complete Operating Partners training as described in Section 4.03 to our satisfaction, or failure to timely and successfully complete the training program described in any Franchise Agreement.

Each of the foregoing (a) through (q) are material breaches and material defaults.

The Development Fee shall be fully earned by us upon execution of this Agreement for administrative and other expenses incurred by us and for the development opportunities lost or deferred as a result of the rights granted to you herein. We have no obligation whatsoever to refund any portion of the Development Fee upon any termination.

8.03. Statutory Limitations. Notwithstanding anything to the contrary contained in this Section 8, in the event any valid, applicable law of a competent Governmental Authority having jurisdiction over this Agreement and the parties hereto shall limit Noodles & Company's rights of termination hereunder or shall require longer notice periods than those set forth above, this Agreement shall be deemed amended to conform to the minimum notice periods or restrictions upon termination required by such laws and regulations. Noodles & Company shall not, however, be precluded from contesting the validity, enforceability, or application of such laws or regulations in any action, arbitration, hearing or dispute relating to this Agreement or the termination thereof.

## **9. EFFECT OF TERMINATION AND EXPIRATION.**

9.01 Continuing Obligations. All obligations under this Agreement, which expressly or by their nature survive the expiration or termination of this Agreement, shall continue in full force and effect until they are satisfied in full or by their nature expire. Expiration or termination of this Agreement does not of itself terminate any Franchise Agreements between us.

9.02 Post-Term Covenants. Without limiting the generality of Section 9.01 hereof, the Post-Term covenants provided in Section 6.03 of this Agreement shall apply up on the expiration or termination of this Agreement.

You and each of your Owners expressly acknowledge the possession of skills and abilities of a general nature and other opportunities for exploiting such skills in other ways, so that enforcement of the covenants contained in this Agreement will not deprive any of you of your personal goodwill or ability to earn a living. If you or any of your Owners fail or refuse to abide by any of the foregoing covenants and we obtain enforcement in a judicial or arbitration proceeding, the obligations under the breached covenant will continue in effect for a period of time ending two (2) years after the date such person starts compliance with the order enforcing the covenant.

## **10. DISPUTE RESOLUTION.**

10.01 Mediation, Jurisdiction and Venue. Except for claims by either party for payments owed by one party to the other and except for claims requesting injunctive relief, any controversy or claim arising out of or relating to this Agreement or the making, interpretation, or performance hereof, shall first be submitted to mediation. The parties shall agree on a single mediator within thirty (30) days after notice by the complaining party, and if no mediator is mutually agreed upon within such thirty (30) days, then the mediation shall be submitted by the complaining party to the American Arbitration Association's ("AAA's") regional office located closest to our principal place of business. The mediation proceedings shall be conducted in the city where we then have our principal place of business. You agree and acknowledge that Noodles & Company may, through manuals, or otherwise in writing, designate different procedures or rules for any mediation.

Subject to the foregoing, you and your Owners irrevocably submit to the jurisdiction of the Federal Courts of the United States in the state in which our principal place of business is located (which is Colorado as of the date hereof) and of the state courts of the city and county in which our principal place of business is located (which is as of the date hereof, the State of Colorado, City and County of Broomfield) in any suit, action, or proceeding, arising out of or relating to this Agreement or any other dispute between you and us. You irrevocably agree that all claims in respect of any such suit, action, or proceeding brought by you must be brought therein. You irrevocably waive, to the fullest extent you may lawfully do so, the defense of an inconvenient forum to the maintenance of such suit, action, or proceeding, and the defense of lack of personal jurisdiction.

You agree that service of process for purposes of any such suit, action, or proceeding arising out of this Agreement may be made by serving a person of suitable age and discretion (such as the person in charge of the office) at the notice address specified on the signature page of this Agreement.

10.02 Injunctive Relief. Notwithstanding the above, we may obtain in any court of competent jurisdiction any injunctive relief, including temporary restraining orders and preliminary injunctions, against conduct or threatened conduct for which no adequate remedy at law may be available or which may cause us irreparable harm. We may pursue such injunctive relief, without bond, but upon due notice, in addition to such further and other relief as may be available at equity or law, and your sole remedy in the event of the entry of such injunction, shall be its dissolution, if warranted, upon hearing duly held (all claims for damages by reason of the wrongful issuance of any such injunction being expressly waived). You and each of your Owners acknowledge that any violation of Sections 5 or 6 would result in irreparable injury to us for which no adequate remedy at law may be available. Accordingly, you and each of your Owners consent to the issuance of an injunction at our request prohibiting any conduct in violation of any of those Sections and agree that the

existence of any claim you or any of your Owners may have against us, whether arising from this Agreement, shall not constitute a defense to the enforcement of any of those Sections.

10.03 Attorneys' Fees. If any party brings an action or arbitration against another party, with respect to the subject matter of this Agreement, the prevailing party, if any, shall be entitled to recover from the adverse party all of the reasonable expenses of the prevailing party, including attorney's fees.

10.04 Governing Law. Except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. 1051 et seq.) or other federal law, this Agreement shall be interpreted under the laws of the State of Colorado, excluding its choice of laws rules. This Agreement shall be construed under the laws of the State of Colorado, provided the foregoing shall not constitute an unlawful waiver of your rights under any applicable franchise law of another state. Otherwise, in the event of any conflict of law, Colorado law will prevail, without regard to its conflict of law principles. However, if any provision of this Agreement would not be enforceable under Colorado law, and if the Development Area is predominantly located outside of Colorado and such provision would be enforceable under the laws of the state in which the Development Area is predominantly located, then such provision shall be construed under the laws of that state. Nothing in this Section 10 is intended to subject this Agreement to any franchise or similar law, rule, or regulation of the State of Colorado or any other state or political subdivision to which it otherwise would not be subject.

10.05 Limitations on Legal Actions.

(a) Waiver of Punitive and Exemplary Damages. Except with respect to your obligations regarding use of the Marks in Section 5 and the Confidential Information in Section 6.01, Franchisor and Area Operator (and its Owners) each waives, to the fullest extent permitted by law, any right to or claim for any punitive or exemplary damages against the other.

(b) Claims Barred After One Year. Any and all claims, controversies or disputes arising out of or relating to this Agreement, or the performance of Noodles & Company hereunder, shall be commenced by you against Noodles & Company within one (1) year from the occurrence first giving rise to such claim, controversy or dispute, or such claim controversy or dispute shall be barred.

(c) Prohibition Against Class and Collective Action. You agree that, for our franchise system to function properly, we should not be burdened with the costs of litigating system-wide disputes. Accordingly, any disagreement between you (and your Owners) and us shall be considered unique as to its facts and shall not be brought as a class action, and you (and each of your Owners) waive any right to proceed against us or our Affiliate, if applicable, officers, directors, employees, agents, successors, and assigns by way of class action, or by way of a multi-plaintiff, consolidated, or collective action. In any legal action between the parties, the court shall not be precluded from making its own independent determination of the issues in question, notwithstanding the similarity of issues in any other legal action involving us and any other Area Operator, and each party waives the right to claim that a prior disposition of the same or similar issues precludes such independent determination.

**(d) Waiver of Jury Trial. Furthermore, the parties agree that any legal action in connection with this Agreement shall be tried to the court sitting without a jury, and all parties hereto waive any right to have any action tried by jury.**

The provisions of this Section 10 shall continue in full force and effect subsequent to and notwithstanding expiration or termination of this Agreement.

## **11. MISCELLANEOUS.**

11.01 Severability and Substitution of Provisions. Every part of this Agreement shall be considered severable. If for any reason any part of this Agreement is held to be invalid, that determination shall not impair the other parts of this Agreement. If any covenant herein, which restricts competitive activity, is deemed unenforceable by virtue of its scope or in terms of geographical area, type of business activity-prohibited, and/or length of time it shall be reformed to make it enforceable to the maximum extent permitted by law; but if such provision could not be rendered enforceable by reducing or reforming any part or all of it, you and we agree that it will be enforced to the fullest extent permissible under applicable law and public policy.

If any applicable law requires a greater prior notice of the termination than is required hereunder, a different standard of "good cause" to terminate this Agreement, or the taking of some other action not required hereunder, the prior notice, the "good cause" standard, and/or the other action required by such law shall be substituted for the comparable provisions hereof. If any provision of this Agreement is invalid or unenforceable under applicable law, we have the right, after consultation with you, in our sole discretion, to modify such invalid or unenforceable provision to the extent required to make it valid and enforceable.

11.02 Waiver of Obligations. You and we may, by written instrument, unilaterally waive or reduce any obligation of the other under this Agreement. Any such waiver granted shall be without prejudice to any other rights the waiving party may have, will be subject to continuing review by such party, and may be revoked, in such party's sole discretion, at any time and for any reason, effective upon delivery to the other party of ten (10) days' prior notice. You and we shall not be deemed to have waived any right reserved by this Agreement or be deemed to have modified this Agreement by virtue of any custom or practice of the parties at variance with it.

11.03 Exercise of Rights. Except as otherwise expressly provided herein, the rights of Noodles & Company and Area Operator hereunder are cumulative and no exercise or enforcement by Noodles & Company or Area Operator of any right or remedy hereunder shall preclude the exercise or enforcement by Noodles & Company or Area Operator of any other right or remedy hereunder, which Noodles & Company or Area Operator is entitled to enforce by applicable law. Notwithstanding the foregoing, and except as otherwise prohibited or limited by applicable law, any failure, neglect, or delay of a party to assert any breach or violation of any legal or equitable right arising from or in connection with this Agreement, shall constitute a waiver of such right and shall preclude the exercise or enforcement of any legal or equitable remedy arising therefrom (however, such violations may be considered in evaluating any request to renew or transfer the franchise), unless written notice specifying such breach or violation is provided to the other party within twenty-four (24) months after the later of: (a) the date of such breach or violation; or (b) the date of discovery of the facts (or the date the facts could have been discovered, using reasonable diligence) giving rise to such breach or violation.

11.04 Successors and Assigns. This Agreement is binding on the parties hereto and their respective executors, administrators, heirs, assigns, and successors in interest. This Agreement is fully transferable and assignable by us, whether by operation of law or otherwise, and shall inure to the benefit of any transferee or other legal successor to our interest herein.

11.05 Construction. The language of this Agreement shall be construed according to its fair meaning and not strictly against any party. The introduction, personal guarantees, exhibits, and riders (if any) to this Agreement are a part of this Agreement, which constitutes the entire agreement of the parties. Except as otherwise expressly provided herein, there are no other oral or written agreements, understandings, representations, or statements between us and you relating to the subject matter of this Agreement, other than our Franchise Disclosure Document and Franchise Agreement, that either party may or does rely on or that will have any force or effect. Nothing in this Agreement is intended or shall be deemed to confer any rights or remedies on any person or legal entity not a party hereto. This Agreement shall not be modified except by mutual agreement of the parties evidenced by written agreement signed by both parties.

The headings of the Sections are for convenience only and do not limit or construe their contents. The term "including" shall be construed to include the words "without limitation." The term "Area Operator" or "you" is applicable to one or more persons, a corporation, limited liability company, or a partnership, and its owners, as the case may be. If two or more persons are at any time Area Operator hereunder, whether as partners, joint venturers, or otherwise, their obligations and liabilities to us shall be joint and several. References to a controlling interest in an entity shall mean more than fifty percent (50%) of the equity or voting control of such entity.

This Agreement may be executed in multiple copies, each of which shall be deemed an original. Time is of the essence in this Agreement.

11.06 Approvals and Consents. Whenever this Agreement requires the approval, acceptance, or consent of either party, the other party shall make written request therefore, and such approval, acceptance, or consent shall be obtained in writing; provided, however, unless specified otherwise in this Agreement, such party may withhold approval, acceptance, or consent, for any reason or for no reason at all. Furthermore, unless specified otherwise in this Agreement, no such approval, acceptance, or consent shall be deemed to constitute a warranty or representation of any kind, express or implied, and the approving, accepting, or consenting party shall have no responsibility, liability, or obligation arising therefrom.

11.07 Notices. All notices, requests, and reports permitted or required to be made by the provisions of this Agreement shall be in writing and shall be deemed delivered: (a) at the time delivered by hand to the recipient party or any officer, director or partner of the recipient party; (b) on the same date of the transmission by facsimile, telegraph, or other reasonably reliable electronic communication system, provided verification of receipt is retained and it is a business day (otherwise on the next business day); (c) one (1) business day after being placed in the hands of a commercial courier service for guaranteed overnight delivery; or (d) five (5) days after placement in the United States Mail by Registered or Certified Mail, Return Receipt Requested, postage prepaid. All notices to us must include a copy to our General Counsel and our Chief Financial Officer to be effective. Such notices, requests, and reports shall be sent to the addresses identified in this Agreement unless and until a different address has been designated by appropriate written notice to the other party.

11.08 Additional Services. We may, upon your request or in our sole discretion, provide additional services to you. The then-current Operations Manual will include the fees we are entitled to charge you for said services.

11.09 Receipt of Franchise Disclosure Document. You acknowledge having received our FDD fourteen (14) days before you (a) sign any agreement with us, or (b) make any payment to us.

**[SIGNATURE PAGE FOLLOWS]**

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement on the day and year first above written.

**FRANCHISOR**

Noodles & Company,  
A Delaware Corporation

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**Notice to Noodles & Company  
shall be sent to:**

**Noodles & Company  
520 Zang Street, Suite D  
Broomfield, Colorado 80021**

**To the attention of:**

**General Counsel**

**AREA OPERATOR**

**If a corporation, partnership, limited liability company or  
other legal entity:**

\_\_\_\_\_  
(Name of corporation, partnership, limited liability company or  
other legal entity)

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**If Individuals:**

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Print Name)

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Print Name)

**Notice to Area Developer shall be sent to:**

**To the attention of:**



**EXHIBIT A**

**TO THE AREA DEVELOPMENT AGREEMENT  
BETWEEN NOODLES & COMPANY AND**

---

DATED \_\_\_\_\_, \_\_\_\_\_

**TERM AND DEVELOPMENT**

1. The term expires on: \_\_\_\_\_ (“expiration date”).
2. The Development Area is the geographical area described as follows and shown on the map attached hereto as Exhibit A-1:  
  
City, County, State and other similar municipal governmental boundaries shall be considered fixed as of the date of this Agreement and shall not change for the purpose hereof, notwithstanding a political reorganization or change to such boundaries or regions. All street boundaries shall be deemed to end at the street center line unless otherwise specified above.
3. You must have open and in operation in the Development Area, pursuant to Franchise Agreements, the cumulative number of Noodles & Company restaurants set for below as of each of the following dates:

Number of Noodles & Company Restaurants to be Opened	Required Opening Date	Cumulative Number of Noodles & Company Restaurants

For purposes hereof, no Noodles & Company restaurants that are open and operating as of the date of this Agreement shall be counted for purposes of the Development Schedule. In addition, a Noodles & Company restaurant that is permanently closed after having been opened, other than as a result of noncompliance by you with the terms of the applicable Franchise Agreement or other agreement by and between the parties, shall be deemed open for a period of six (6) months after the last day it was open for business, provided that: (i) during such period of time, you continuously and diligently take such actions as may be required to develop and open a substitute Noodles & Company restaurant within the Development Area pursuant to a new Franchise Agreement therefore; and (ii) by the end of such period you have the substitute Noodles & Company restaurant open and operating in compliance with the Franchise Agreement thereof.

4. The development fee shall be \$\_\_\_\_\_ and has been determined by multiplying ten thousand dollars (\$10,000) by the total number of Franchise Agreements to be entered into pursuant to this Agreement for restaurants 2- \_\_\_\_\_, plus thirty-five thousand dollars (\$35,000) for the first restaurant.

[SIGNATURE PAGE TO FOLLOW]

**EXHIBIT A**  
**TO THE AREA DEVELOPMENT AGREEMENT**

(continued)

**FRANCHISOR**

Noodles & Company,  
A Delaware Corporation

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**AREA OPERATOR**

**If a corporation, partnership, limited liability company or  
other legal entity:**

\_\_\_\_\_  
(Name of corporation, partnership, limited liability company or  
other legal entity)

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**If Individuals:**

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Print Name)

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Print Name)

**EXHIBIT A-1**  
**MAP OF DEVELOPMENT AREA**  
(attach)

April 2014 A-3 Exhibit B to the Franchise Disclosure Document

Area Development Agreement

**EXHIBIT B**

**AREA OPERATOR INFORMATION  
TO THE AREA DEVELOPMENT AGREEMENT BETWEEN  
NOODLES & COMPANY AND**

---

DATED \_\_\_\_\_, \_\_\_\_\_

**AREA OPERATOR INFORMATION**

1. Operating Partner. The name and home address of the Operating Partner is as follows:

\_\_\_\_\_

2. Form of Entity of Area Operator. (Complete the applicable paragraph below.)

(a) Corporation or Limited Liability Company. Area Operator was organized on \_\_\_\_\_, \_\_\_\_\_, under the laws of the State of \_\_\_\_\_. Its Federal Identification Number is \_\_\_\_\_. It has not conducted business under any name other than its corporate or company name. The following is a list of all Area Operator's directors and officers or managing members as of \_\_\_\_\_, \_\_\_\_\_.

Name of Each Director/Officer/Managing Member

Position(s) Held

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(b) Partnership. Area Operator is a [general] [limited] partnership formed on \_\_\_\_\_ under the laws of the State of \_\_\_\_\_. Its Federal Identification Number is \_\_\_\_\_. It has not conducted business under any name other than its partnership name. The following is a list of all of Area Operator's general partners as of \_\_\_\_\_.

Name of Each General Partner

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**EXHIBIT B**  
**TO THE AREA DEVELOPMENT AGREEMENT**  
(continued)

3. Owners. Area Operators and each of its Owners represents and warrants that the following is a complete and accurate list of all Owners of Area Operator, including the full name and mailing address of each Owner, and fully describes the nature and extent of each Owner's interest in Area Operator. Area Operator and each Owner as to his ownership interest, represents, and warrants that each Owner is the sole and exclusive legal and beneficial owner of his ownership interest in Area Operator, free and clear of all liens, restrictions, agreements, and encumbrances of any kind or nature, other than those required or permitted by this Agreement.

<u>Owner's Name and Address</u>	<u>Percentage and Nature of Ownership Interest</u>
---------------------------------	--

<hr/>	<hr/>
<hr/>	<hr/>
<hr/>	<hr/>
<hr/>	<hr/>

Submitted by Area Operator on

Accepted by Franchisor and made a part of the Area Development Agreement as of

---

---

NOODLES & COMPANY,  
a Delaware corporation

(Name of corporation or partnership)

By: \_\_\_\_\_

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

**Owners:**

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Print Name)

\_\_\_\_\_  
(Signature)

\_\_\_\_\_

(Print Name)

**EXHIBIT C**  
**TO THE AREA DEVELOPMENT AGREEMENT**

**PRINCIPAL OWNERS' PERSONAL GUARANTY**  
**OF AREA OPERATOR'S OBLIGATIONS**

In consideration of, and as an inducement to, the execution of the NOODLES & COMPANY Area Development Agreement dated as of \_\_\_\_\_, \_\_\_\_\_ (the "Agreement") by and between NOODLES & COMPANY ("Franchisor"), and ("Area Operator"), each of the undersigned Principal Owners of a ten percent (10%) or greater interest in Area Operator hereby personally, unconditionally, and irrevocably, jointly and severally: (1) guarantees to Franchisor and its successors and assigns, for the term of the Agreement and thereafter as provided in the Agreement, that Area Operator shall timely perform each and every undertaking, agreement, and covenant set forth in the Agreement (and any amendments), including the timely performance of all financial obligations, and that each and every representation of Area Operator made in connection with the Agreement (and any amendments) are true, correct and complete in all respects at and as of the time given; and (2) agrees personally to be bound by each and every provision in the Agreement (and any amendments). Notwithstanding the foregoing, the undersigned shall have no obligation under Section 6.02 or 6.03 of the Agreement after the second anniversary of the later of (a) the date the undersigned ceases to have an ownership interest in The Area Operator or (b) the date the undersigned ceases to render services to the Area Operator.

Each of the undersigned waives: (a) acceptance and notice of acceptance by Franchisor of the foregoing undertakings; (b) notice of demand for payment of any indebtedness or nonperformance of any obligations hereby guaranteed; (c) protest and notice of default to any party with respect to the indebtedness or nonperformance of any obligations hereby guaranteed; (d) any right he or she may have to require that an action be brought against Area Operator or any other person as a condition of liability; (e) notice of any amendment to the Agreement; and (f) any and all other notices and legal or equitable defenses to which he or she may be entitled.

Each of the undersigned consents and agrees that: (i) his or her direct and immediate liability under this guaranty shall be joint and several; (ii) he or she shall render any payment or performance required under the Agreement upon demand if Area Operator fails or refuses to do so timely; (iii) such liability shall not be contingent or conditioned upon pursuit by Franchisor of any remedies against Area Operator or any other person; and (iv) such liability shall not be diminished, relieved, or otherwise affected by any extension of time, credit or other indulgence which Franchisor may from time to time grant to Area Operator or to any other person including, without limitation, the acceptance of any partial payment or performance or the compromise or release of any claims, none of which shall in any way modify or amend this guaranty, which shall be continuing and irrevocable until satisfied in full.

Except for claims by either party for payments owed by one party to the other and except for claims requesting injunctive relief, any controversy or claim arising out of or relating to this Agreement or the making, interpretation, or performance hereof, shall first be submitted to mediation. The parties shall agree on a single mediator within thirty (30) days after notice by the complaining party, and if no mediator is mutually agreed upon within such thirty (30) days, then the mediation shall be submitted by the complaining party to the American Arbitration Association's ("AAA's") regional office located closest to our principal place of business. The mediation proceedings shall be conducted in the city where we then have our principal place of business.

Subject to the foregoing, you and your Owners irrevocably submit to the jurisdiction of the Federal Courts of the United States in the state in which our principal place of business is located (which is Colorado as of the date here of) and of the state courts of the city and county in which our principal place of business is located (which is as of the date hereof, the State of Colorado, City and County of Broomfield) in any suit, action, or proceeding, arising out of or relating to this Agreement or any other dispute between you and us. You irrevocably agree that all claims in respect of any such suit, action, or proceeding brought by you must be brought therein. You irrevocably waive, to the fullest extent you may lawfully do so, the defense of an inconvenient forum to the maintenance of such suit, action, or proceeding, and the defense of lack of personal jurisdiction.

You agree that service of process for purposes of any such suit, action, or proceeding arising out of this Agreement may be made by serving a person of suitable age and discretion (such as the person in charge of the office) at the notice address specified on the signature page of this Agreement.

**You agree that any legal action in connection with this Agreement shall be tried to the court sitting without jury, and all parties hereto waive any right to have any action tried by jury.**

IN WITNESS WHEREOF, each of the undersigned has hereunto affixed his signature, under seal, on the same day and year as the Agreement was executed.

**PERCENTAGE OF OWNERSHIP**

**GUARANTOR(S) INTERESTS IN AREA OPERATOR**

(Signature)

(Print Name)

(Signature)

(Print Name)

(Signature)

(Print Name)

(Signature)

(Print Name)

Subscribed and sworn to before me this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_

Notary Public  
My Commission expires:





**EXHIBIT D**  
**TO THE AREA DEVELOPMENT AGREEMENT**

**CONFIDENTIALITY AND NON-COMPETITION AGREEMENT**

(To be executed by all owners  
and Operating Partners)

In conjunction with your investment in or provision of services to ("Area Operator"), you ("Investor" or "you") acknowledge and agree as follows:

1. Area Operator owns and operates, or is developing, Noodles & Company restaurants pursuant to an Area Development Agreement, ("Area Development Agreement") with Noodles & Company, a copy of which is attached hereto. The Area Development Agreement requires persons with legal or beneficial ownership interests in Area Operator under certain circumstances to be personally bound by the confidentiality and non-competition covenants contained in the Area Development Agreement. You are entering into this Agreement to induce Noodles & Company to enter into the Area Development Agreement. All capitalized terms contained herein and not otherwise defined herein shall have the same meaning set forth in the Area Development Agreement.
2. You acknowledge and agree that your execution of this Agreement is a condition to Noodles & Company entering into the Area Development Agreement that you have received good and valuable consideration for executing this Agreement. Noodles & Company may enforce this Agreement directly against you and your Owners (as defined below).
3. If you are a corporation, partnership, limited liability company, or other entity, all persons who have a legal or beneficial interest in you, including your Director of Operations ("Owners") must also execute this Agreement.
4. You and your Owners, if any, may gain access to parts of Noodles & Company's Confidential Information as a result of investing in Area Operator. The Confidential Information is proprietary and includes Noodles & Company's trade secrets. You and your Owners hereby agree that while you and they have a legal or beneficial ownership interest in Franchisee and indefinitely thereafter you and they: (a) will not use the Confidential Information in any other business or capacity (such use being an unfair method of competition); (b) will exert best efforts to maintain the confidentiality of the Confidential Information; (c) will not make unauthorized copies of any portion of the Confidential Information disclosed in written, electronic, or other form; and, will not distribute, disclose, or otherwise cause the distribution of any Noodles & Company Confidential Information. If you or your Owners cease to have an interest in Franchisee, you and your Owners, if any, must deliver to Noodles & Company any such Confidential Information in your or their possession.
5. During the term of the Development Agreement, you and your Owners shall not, without Noodles & Company's prior written consent, either directly or indirectly, for yourself, or through, on behalf of, or in conjunction with any person, persons, partnership, limited liability company, or corporation:

(a) Divert or attempt to divert any business or customer of any Noodles & Company Restaurant to any competitor, by direct or indirect inducement or otherwise, or do or perform,

directly or indirectly, any other act injurious or prejudicial to the goodwill associated with Noodles & Company's Marks or the System.

(b) Recruit, except for general solicitation, or hire any person who is or was within a period of six (6) months prior to such recruiting or hiring an employee of ours or of any Noodles & Company Restaurant operated by us, our Affiliates or another Area Operator of ours, without obtaining the employer's consent, which consent may be withheld for any reason. We may elect, in our sole discretion, to require you to pay to us, our Affiliate or other Area Operator, as liquidated damages an amount equal to two (2) times the annual salary of the person(s) involved in such violation plus an amount equal to our costs and attorney's fees incurred in connection with such violation.

(c) Own, maintain, advise, be employed by, consult for, make loans to, operate, engage in or have an ownership interest (including any right to share in revenues or profits) in any Competitive Business which is, or is intended to be located within:

- (1) the Protected Area;
- (2) a radius of fifteen (15) miles from your Noodles & Company Restaurant;
- (3) a radius of fifteen (15) miles of any Noodles & Company Restaurant; or
- (4) the United States.

6. For a continuous uninterrupted period commencing upon the expiration or termination of the Development Agreement and for two (2) years thereafter, you and your Owners, shall not, without Noodles & Company's prior written consent, either directly or indirectly, for yourself, or through, on behalf of, or in conjunction with any person, persons, partnership, limited liability company, or corporation:

(a) Divert or attempt to divert any business or customer of any Noodles & Company Restaurant to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with Noodles & Company's Marks or the System.

(b) Recruit, except for general solicitation, or hire any person who is or was an employee of ours or of any Noodles & Company Restaurant operated by us, our Affiliates or another Area Operator of ours. This restriction shall apply, except as otherwise approved by us in writing in our sole discretion, 1) within the Protected Area and within fifteen (15) miles of any then-existing Noodles & Company Restaurant, and 2) for six (6) months from the last day of such employee's employment. In addition to any other rights and remedies available to us under this Agreement, we may elect, in our sole discretion, to require you to pay to us, our Affiliate or other Area Operator, as liquidated damages an amount equal to two (2) times the annual salary of the person(s) involved in such violation plus an amount equal to our costs and attorney's fees incurred in connection with such violation.

(c) Own, maintain, advise, be employed by, consult for, make loans to, operate, engage in or have an ownership interest (including any right to share in revenues or profits) in any Competitive Business which is, or is intended to be located within:

- (1) the Protected Area;
- (2) a radius of fifteen (15) miles from your Noodles & Company Restaurant;
- (3) a radius of fifteen (15) miles of any Noodles & Company Restaurant; or

(4) any Designated Market Area (as defined by Nielsen Media Research) where a Noodles & Company Restaurant is located.

7. Notwithstanding the foregoing, you will have no obligation under Section 5 or Section 6 after the second anniversary of the later of (a) the date you cease to have an ownership interest in Franchisee or (b) the date you cease to render services to Franchisee.

8. You and each of your Owners expressly acknowledge the possession of skills and abilities of a general nature and the opportunity to exploit such skills in other ways, so that enforcement of the covenants contained in Sections 5 and 6 will not deprive any of you of your personal goodwill or ability to earn a living. If any covenant herein, which restricts competitive activity, is deemed unenforceable by virtue of its scope or in terms of geographical area, type of business activity prohibited, and/or length of time, but could be rendered enforceable by reducing any part or all of it, you and we agree that it will be enforced to the fullest extent permissible under applicable law and public policy. Noodles & Company may obtain in any court of competent jurisdiction any injunctive relief, including temporary restraining orders and preliminary injunctions, against conduct or threatened conduct for which no adequate remedy at law may be available or which may cause it irreparable harm. You, and each of your Owners, acknowledge that any violation of Sections 4, 5, or 6 hereof would result in irreparable injury for which no adequate remedy at law may be available. If Noodles & Company files a claim to enforce this Agreement and prevails in such proceeding, you agree to reimburse Noodles & Company for all its costs and expenses, including reasonable attorneys' fees.

9. Except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. 1051 et seq.) or other federal law, this Agreement shall be interpreted under the laws of the State of Colorado, excluding its choice of laws rules. This Agreement shall be construed under the laws of the State of Colorado, provided the foregoing shall not constitute a waiver of any of your rights under any applicable franchise law of another state. Otherwise, in the event of any conflict of law, Colorado law will prevail, without regard to its conflict of law principles. However, if any provision of this Agreement would not be enforceable under Colorado law, and if your Noodles & Company Restaurant is located outside of Colorado and such provision would be enforceable under the laws of the state in which your Noodles & Company Restaurant is located, then such provision shall be construed under the laws of that state.

10. You understand and acknowledge that Noodles & Company shall have the right, in its sole discretion, to reduce the scope of any covenant set forth in this Agreement, or any portion thereof, without your consent, effective immediately upon written notice to you. You shall comply forthwith with any covenant as so modified, which shall be full enforceable notwithstanding the provisions hereof.

11. The parties agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant is held unreasonable or unenforceable by a court or agency having valid jurisdiction, the parties desire the court to reform the covenant to render the covenant enforceable, but only to the extent required to render the covenant enforceable, so that Noodles & Company may obtain the greatest possible level of protection from the misuse of Confidential Information, the diversion of customers, the solicitation of its employees and unfair competition; and in such event, you expressly agree to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the

maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Agreement.

IN WITNESS WHEREOF, the undersigned have executed and delivered this Agreement on the day of \_\_\_\_\_, \_\_\_\_\_.

**INVESTOR**

If an Individual:

If a corporation, partnership, limited liability company or other legal entity:

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Name of entity

\_\_\_\_\_  
Print Name

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

**OWNERS**

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

By: \_\_\_\_\_

Print Name: \_\_\_\_\_



**NOODLES & COMPANY  
FRANCHISE AGREEMENT**

**Area Operator Name:**

---

**Date of Agreement:**

---

**Location:**

---

**NOODLES & COMPANY  
FRANCHISE AGREEMENT**

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**EXHIBITS**

EXHIBIT A - DISCLOSURE OF OWNERSHIP INTERESTS

EXHIBIT B - PRINCIPAL OWNERS' PERSONAL GUARANTY OF  
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EXHIBIT C - CONFIRMATION OF TERM COMMENCEMENT DATE

EXHIBIT D - INVESTOR PERSONAL COVENANTS REGARDING  
CONFIDENTIALITY AND NON-COMPETITION

EXHIBIT E - PROTECTED AREA EXHIBIT

**NOODLES & COMPANY  
FRANCHISE AGREEMENT**

This Franchise Agreement (this "Agreement") is made as of this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_, between NOODLES & COMPANY ("Franchisor", "we", "us" or "Noodles & Company"), a Delaware corporation, with its principal place of business located at 520 Zang Street, Broomfield, CO 80021 and \_\_\_\_\_ ("Franchisee" or "Area Operator" or "you"), a(n) \_\_\_\_\_, whose principal address is: \_\_\_\_\_.

This Agreement is a legal document that grants a franchise to the Franchisee subject to certain terms and conditions. While the relationship under the law is that of Franchisor and Franchisee, we will also refer to you throughout this Agreement as the Area Operator because we think it better conveys the way we value you as an operator of Noodles & Company Restaurants.

1. INTRODUCTION.

1.01 Noodles & Company Restaurants. We own, operate and franchise Noodles & Company Restaurants (each, a "Restaurant"), specializing in noodle dishes, salads, sandwiches, soups, desserts, breads, beverages, beer, wine, and other menu items, and merchandise related to the Noodles & Company Restaurant concept, as we may authorize from time to time. We have developed and own a comprehensive system for developing and operating Noodles & Company Restaurants, including trademarks, trade dress, signage, building specifications, designs and layouts, equipment, ingredients, specifications and recipes for authorized food products, methods of inventory control, training programs and certain operational and business standards, policies and procedures, all of which we may improve, further develop or otherwise modify from time to time.

1.02 Your Acknowledgments. You acknowledge that you have read this Agreement and our Franchise Disclosure Document and accept the terms, conditions and covenants contained in this Agreement as being reasonably necessary to maintain our high standards of quality and service and the uniformity of those standards at each Noodles & Company Restaurant and thereby to protect and preserve the goodwill of the Marks. You acknowledge that you have conducted an independent investigation of the business venture contemplated by this Agreement and recognize that, like any other business, the nature of the business conducted by a Noodles & Company Restaurant may evolve and change over time; that an investment in a Noodles & Company Restaurant involves business risks; and that your business abilities and efforts are vital to the success of the venture. You understand that the Restaurant industry is highly competitive, that market conditions evolve and change over time, and that an investment in a Noodles & Company franchise involves business risks. You acknowledge that, in all of their dealings with you, our officers, directors, employees and agents act only in a representative, and not in an individual, capacity. All business dealings between you and such persons as a result of this Agreement are solely between you and us. You further acknowledge that we have advised you to have this agreement reviewed and explained to you by an attorney and that you have reviewed this Agreement with your attorney or that you waive your right to do so.

1.03 Your Representations. You and your Principal Owners, jointly and severally if applicable, represent and warrant to us as an inducement to our entering into this Agreement that: (a) all statements you have made and all materials you have submitted to us in connection with your application to us are accurate and complete and that you have made no material



misrepresentations or material omissions in obtaining the franchise; (b) neither you nor any of your Principal Owners has made any untrue statement of any material fact or has omitted to state any material fact in the written information you have submitted in obtaining the rights granted hereunder; (c) neither you nor any of your Owners has any direct or indirect legal or beneficial interest in any business that may be deemed a Competitive Business, except as you have otherwise completely and accurately disclosed in writing to us in connection with obtaining the rights granted hereunder; and (d) the execution and performance of this Agreement will not violate any other agreement to which you or any of your Owners may be bound. You recognize that we have executed this Agreement in reliance of all of the statements you and your Owners have made in writing in connection with this Agreement.

1.04 Certain Definitions. \* The terms listed below have the meanings throughout this agreement and include the plural as well as the singular. He, his or him means she, hers or her, as applicable. Other terms are defined elsewhere in this Agreement in the context in which they arise.

"Affiliate" – Any person or entity that directly or indirectly owns or controls the referenced party, that is directly or indirectly owned or controlled by the referenced party, or that is under common control with the referenced party. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of an entity, whether through ownership of voting securities, by contract or otherwise.

"Alternative (Alternate) Approved Supplier" – Any supplier you or another Area Operator has proposed to supply Non-Proprietary Products and who we have approved to do so in accordance with the terms of this Agreement.

"Approved Supplier" – Any supplier we authorize to supply Non-Proprietary Products and other supplies and construction materials, as defined in Section 9.04.

"BDF" – Brand Development Fund as defined in Section 10.01.

"Competitive Business" – Any business that operates or franchises one or more restaurants: (1) whose sales of Specified Dishes (as defined below) collectively constitute more than 10% of restaurant operating revenues; (2) that are the same as, or substantially similar to, the Noodles & Company concept as it evolves or changes over time; or (3) that operate in a fast casual or quick casual format. As used in this Agreement, "Specified Dishes" means noodle dishes, pasta dishes, Asian dishes, Italian or Mediterranean dishes and any other dishes that are the same or substantially similar to the dishes on the Noodles & Company menu ("Noodles & Company Dishes") as it may evolve or change over time. Restrictions in this Agreement on competitive activities do not apply to: (a) the ownership or operation of other Noodles & Company restaurants we or our Affiliates licenses; (b) the ownership of shares of a class of securities that are listed on a public stock exchange or traded on the over-the-counter market and that represent less than five percent (5%) of that class of securities; or (c) any restaurant concept whose per person average check during the preceding twelve (12) months was more than fifty percent (50%) higher or lower than Noodles & Company per person average check for the same period. Revenue of a restaurant, as used in this definition means the aggregate amount of all sales of food, beverages and other products sold in or by such restaurant, whether for cash or credit, but excluding all federal, state or municipal sales or service taxes collected from customers

and paid to the appropriate taxing authorities, all coupons, promotions, discounts and refunds.

**"Confidential Information"** – Our proprietary and confidential information relating to the development and operation of Noodles & Company Restaurants, including: (1) ingredients, recipes and methods of preparation and presentation of authorized food products; (2) site selection criteria for Noodles & Company Restaurants and plans and specifications for the development of Noodles & Company Restaurants; (3) sales, marketing and advertising programs and techniques for Noodles & Company Restaurants; (4) identity of suppliers and knowledge of specifications, processes, procedures and equipment, contract terms, and pricing for authorized food products, materials, supplies and equipment; (5) knowledge of operating results and financial performance of Noodles & Company Restaurants, other than Noodles & Company Restaurants you own; (6) methods of inventory control, storage, product handling, training, food cost and management relating to Noodles & Company Restaurants; (7) computer systems and software programs used or useful in Noodles & Company Restaurants; (8) this Agreement and the terms hereof; and (9) any information that we provide you that is labeled proprietary or confidential.

**"Commencement of Construction"** – Means the first day on which any construction is begun on the Premises, including ground break if the Restaurant is being built by you, or demolition if you are converting an existing structure.

**"Designated Supplier"** – Any supplier whom we authorize to manufacture Proprietary Products.

**"Development Area"** – The development area defined in a Development Agreement between Noodles and Company and an Area Operator.

**"Entity"** – Business corporation, partnership, limited liability company or other legal entity.

**"FMF"** – Field Marketing Funds, as defined in Section 10.02.

**"Grand Opening Marketing Program"** – The marketing program required by Sections 3.05 and 10.03 for the purpose of marketing each new Restaurant you open.

**"Immediate Family"** – Spouse, parents, brothers, sisters and children, whether natural or adopted.

**"Ingredients"** – Noodles & Company proprietary sauces and other ingredients from which the distinctive Company products are made.

**"Internet"** – Means any of one or more local or global interactive communications media, that is now available, or that may become available, and includes Web sites and domain names. Unless the context otherwise indicates, Internet includes methods of accessing limited access electronic networks, such as Intranets, Extranets, and WANs.

**"Limited Access Highway"** – Means that portion of a highway with oasis or service centers facilities for motorists and truckers. Includes highways with limited access from surface roads, often commonly referred to as freeways or Interstate Highways.

"MAF" – The Marketing Administration Fee as defined in Section 10.04.

"Marks" – The current and future trade names, trademarks, service marks and trade dress used to identify the services and/or products Noodles & Company Restaurants offer, including the mark "Noodles & Company" and the distinctive Noodles & Company Restaurants' building design and color scheme whether owned by Noodles & Company or one of its affiliates.

"Multi-Area Marketing Programs" – Means regional, national, or international programs designed to increase business including multi-area customer, national customer, commercial customer, Internet, event, yellow pages, directory, affinity, vendor, and co-branding programs. Such programs may require your cooperation (including refraining from certain channels of marketing and distribution), participation (including payment of commissions or referral fees), and adherence to maximum pricing to the extent permitted by law. All such programs are our proprietary trade secrets.

"Net Royalty Sales" – The aggregate amount of all sales of food, beverages, wine and beer, and other products and merchandise sold and services rendered at the Premises or otherwise rendered in connection with your Noodles & Company Restaurant or your use of the Marks, including sales at or away from your Noodles & Company Restaurant, whether for cash or credit, and regardless of collection in the case of credit, but excluding: (1) all federal, state or municipal sales or service taxes collected from customers and paid to the appropriate taxing authority; and (2) all *bona fide*, documented (i) customer promotional discounts approved by us; (ii) refunds; (iii) voids, and (iv) employee meal discounts.

"Non-Traditional Venues" – As defined in Section 2.02.

"Noodles & Company Restaurants" – Restaurants that we or any of our Affiliates own or operate or franchise and that use the Marks and the System.

"Operating Partner" – The individual you designate in Exhibit A, and any replacement we approve.

"Operations Manual" – Our confidential operations manual, as amended from time to time, which may consist of one or more manuals in any combination of paper, video, digital or other format, including any Noodles & Company operating system manual, management training manual and other training manuals, containing our mandatory and suggested standards, specifications and operating procedures relating to the development and operation of Noodles & Company Restaurants and other information relating to your obligations under this Agreement. The term "Operations Manual" also includes alternative or supplemental means of communicating such information by other media whenever such communications specifically reference that they are to be considered part of the Operations Manual, including bulletins, e-mails, videotapes, audio tapes, compact discs, computer diskettes, CD-ROMs, and websites.

"Owner" – Each person or entity that has a direct or indirect legal or beneficial ownership interest in you, if you are an entity.

"Personnel" – All persons you employ to develop, manage or operate your Noodles & Company Restaurants, including persons in general and area management positions, assistant managers, shift supervisors, hourly associates and all other persons employed at your Noodles & Company Restaurants, including outside support, such as accountants, office staff, etc.

"Premises" – The location identified in Section 2.01.

"Principal Owner" – Each Owner that has a ten percent (10%) or greater interest in you, if you are an entity or an individual that owns ten percent (10%) or more of the interest in the FA.

"Proprietary Products" – As defined in Section 9.03.

"Protected Area" – The protected area identified in Section 2.02 and as depicted in the Protected Area Exhibit, Exhibit E, if applicable.

"Publicly Held Entity" – As defined in Section 14.07.

"Reporting Period" – As defined in Section 6.02.

"Royalty Fee" - Five percent (5.0%) of Net Royalty Sales.

"Sweep Period" – As defined in Section 6.02.

"System" – The business methods, designs and arrangements for developing and operating Noodles & Company Restaurants, including the Marks, building specifications, design and layouts, trade dress, signage, equipment, ingredients, recipes, methods of preparation and specifications for authorized food products, food safety procedures, training, methods of inventory control, vendor base, and certain operating and business standards, policies and procedures, all of which we may improve, further develop or otherwise modify from time to time.

"Then Current Franchise Agreement" – Means the Franchise Agreement being offered to and executed by new Franchisees as of the relevant date.

"Transfer" or "Transfer the Franchise" – Or similar words - The voluntary, involuntary, direct or indirect sale, assignment, transfer, license, sublicense, sublease, collateral assignment, grant of a security, collateral or conditional interest, inter vivos transfer, testamentary disposition or other disposition of this Agreement, any interest in or right under this Agreement, or any form of ownership interest in you or the assets, revenues or income of your Noodles & Company Restaurants including: (1) any transfer, redemption or issuance of a legal or beneficial ownership interest in the capital stock of, or other ownership interest in, you or of any interest convertible to or exchangeable for capital stock of, or other ownership interest in, Area Operator; (2) any merger or consolidation between you and another entity, whether or not you are the surviving corporation; (3) any transfer in, or as a result of, a divorce, insolvency, corporate or partnership dissolution proceeding or otherwise by operation of law; (4) any transfer upon your death or the death of any of your Principal Owners by will, declaration of or transfer in trust or under the laws of interstate succession; or (5) any foreclosure upon your Noodles & Company Restaurants or the

transfer, surrender or loss by you of possession, control or management of your Noodles & Company Restaurants.

"Your Noodles & Company Restaurant" or "the Restaurant" – The Noodles & Company Restaurants you operate at the Premises. The plural includes all your Noodles & Company Restaurants.

\* Any capitalized term not defined herein shall have the same meaning as that prescribed in the Franchise Agreement.

## 2. GRANT OF RIGHTS.

2.01 Grant of Franchise and Term. Subject to the terms of this Agreement, we grant to you the right, and you assume the obligation, to operate a Noodles & Company Restaurant at the location set forth on the front page of this Agreement (the "Premises") and to use the Marks and System solely in connection therewith, for a term of twenty (20) years, starting on the date of the opening of your Noodles & Company Restaurant (the "Term"). Immediately after the opening date, Noodles & Company may, at its discretion, deliver a Confirmation of Term Commencement Date in the form of Exhibit C hereto. You must conduct the business of your Noodles & Company Restaurant at the Premises for the duration of the Term. You may not conduct the business of your Noodles & Company Restaurant or use the System at any site other than the Premises, or relocate your Noodles & Company Restaurant, without our consent. For the duration of the Term, you have the obligation to relocate a closed Noodles & Company Restaurant at a mutually acceptable location, unless we determine otherwise at our discretion. In the event Noodles & Company develops and implements an approved catering program, you shall have the right to cater to businesses or other locations within the Protected Area if you follow all procedures and menu requirements, purchase all supplies, products and ingredients through Approved Suppliers and Designated Suppliers, and otherwise follow the Operations Manual as to catering.

2.02 Your Protected Area. During the Term, we will not operate (directly or through an Affiliate), nor grant to another person the right to operate, any Noodles & Company Restaurant located within the geographical area depicted on the attached Exhibit E, Protected Area Exhibit, as the "Protected Area," unless such Restaurant(s) was in operation, under lease or construction or other commitment to open prior to execution of this Agreement, which Restaurant(s) is expressly excluded from this clause.

You acknowledge, however, that certain locations within the Protected Area are by their nature unique and separate in character from the sites to which we intend to grant you a franchise; such sites are referred to as "Non-Traditional Venues." As a result, you agree that Non-Traditional Venues are excluded from the Protected Area and we shall have the right to develop (by direct ownership, franchising, licensing or other means) such locations even if such sites are located within the Protected Area and regardless of the proximity of such sites to any Noodles & Company Restaurant for which you have, or might have in the future, a franchise. Non-Traditional Venues include, for example: (i) transportation facilities, including airports, train stations, subways and rail, and bus stations; (ii) military bases and government offices; (iii) sports facilities, including stadiums and arenas; (iv) amusement parks, zoos, and convention centers; (v) car and truck rest stops, and travel centers and Limited Access Highway oasis and rest and service areas; (vi) casinos; (vii) food courts; (viii) Indian reservations; and (ix) museums.

**2.03 Additional Reservation of Rights.** Except for the rights specifically granted to you, we reserve all other rights, including, for example, the following rights:

(i) We reserve the right to manufacture and sell anywhere products that are the same or similar to products sold in Noodles & Company Restaurants using brand names that are similar to or the same as the Marks through any channel of distribution, including, for example, grocery stores, supermarkets, convenience stores, caterers, and gas stations.

(ii) We reserve the right to sell products and services through other channels of distribution including Internet, wholesale, mail order and catalog. The Internet is a channel of distribution reserved exclusively to us and you may not independently market on the Internet or conduct e-commerce except as we approve.

(iii) We reserve the right to operate and franchise and license others to operate other concept Restaurants.

(iv) We reserve the right to develop and/or own other franchise systems for the same or similar products and services using different trademarks than those licensed to you.

(v) We reserve the right to produce, license, manufacture, sell, distribute and market Noodles & Company brand named products, and products bearing other marks, including food and beverage products, clothing, souvenirs and novelty items through any channel of distribution, including, for example, grocery stores, supermarkets, convenience stores, caterers, and gas stations.

(vi) We reserve the right to purchase or be purchased by, or merge or combine with, competing businesses wherever located.

**3. DEVELOPMENT OF YOUR NOODLES & COMPANY RESTAURANT.** (See also Development Milestones Checklist attached hereto, which is a brief summary of the development process. In the event of a discrepancy or ambiguity, the text of the Agreement, and not the Development Milestones Checklist, shall control).

**3.01 Site Investigation and Acceptance.** You agree that our approval of the Premises and any information communicated to you regarding our site selection criteria for Noodles & Company Restaurants does not constitute a warranty or representation of any kind, express or implied, as to the suitability of the Premises for a Noodles & Company Restaurant or for any other purpose. Our approval of the Premises merely signifies that we are willing to grant a franchise for a Noodles & Company Restaurant at that location; we make no representation to you of the site suitability. Your decision to develop and operate a Noodles & Company Restaurant at the Premises is based solely on your own independent investigation of the suitability of the Premises for a Noodles & Company Restaurant.

Area Operator shall submit to Noodles & Company such demographic and other information regarding the proposed site(s) and neighboring areas as we shall require on our Site Package. The Site Package shall be submitted in a format defined by Noodles & Company to allow submittal and presentation to the Real Estate Site Approval Committee. We will provide training to assist you in completing a typical Site Package for your first Restaurant. The Real Estate Site Approval Committee meets approximately every two weeks, and Area Operators are responsible for submitting their sites for approval at least 1 week prior to the meeting. Area Operators are required to attend meetings or participate via conference call. Noodles & Company shall evaluate the site request within forty-five (45) days of submission of a fully completed Site Package and any additional information we request.

In consideration of our approval of the Premises, you and your Owners release and hold harmless us, our Affiliate, officers, directors, employees and agents from any and all loss, damages and liability arising from or in connection with the selection and/or approval of the Premises for development as a Noodles & Company Restaurant, agree to timely pay the Franchise Fee, as hereinafter defined for such approved site, and agree not to locate such Noodles & Company Restaurant at any other location without completing the entire site selection process for said new site. You agree to execute this Franchise Agreement and pay the Franchise Fee within thirty (30) days of your signing the lease for the Premises, or when Construction is commenced, whichever first occurs.

**3.02 Purchase or Lease of Premises.** You must lease, sublease or purchase the Premises simultaneously upon execution of this Agreement or prior to signing this Agreement in conformity with Section 3.01 above. We have the right to approve and modify the terms of any lease, sublease or purchase contract for the Premises, and you agree to deliver a copy to us for our approval before you sign it. Beginning with the Lease for your third Restaurant, we may charge you for our Lease review at the rates listed in our then current Operations Manual. You agree that any lease or sublease for the Premises must, in form and substance satisfactory to us, include all of the provisions set forth in the Addendum to Lease Form, as modified from time to time and which is contained in the Operations Manual, shall be for an aggregate term of (at least) twenty (20) years in a combination of initial term and renewals, and shall include any other provisions as we may determine desirable from time to time. You may not execute a lease, sublease or purchase contract or any modification thereof without our approval. Our approval of the lease, sublease or purchase contract does not constitute a warranty or representation of any kind, express or implied, as to its fairness or suitability or as to your ability to comply with its terms and we do not assume any liability or responsibility to you or to any third parties due to such approval. You must deliver a copy to us of the fully signed lease, sublease or purchase contract within five (5) days after its execution. If the lease terminates for any reason prior to expiration of this Agreement, Noodles & Company shall have the option to require you to locate and secure an alternative approved site within three (3) months, or such other time period as we mutually agree, of the termination or Noodles & Company may, at its option, terminate the Agreement as to such Restaurant. We also require that any lease in which you enter into for the Premises that you or an Affiliate owns, contain terms and conditions and payments that are commercially reasonable in our opinion.

You must promptly begin the permitting, licensing and approval process to ensure that construction commences within sixty (60) days of the date the lease or purchase of the premises is consummated. If permitting and licensing is anticipated to take longer than sixty (60) days, you must advise us in writing of the date on which you anticipate obtaining such permits and licenses and the reasons for the extended time period. Failure to comply with this provision is a material breach of the Agreement.

### 3.03 Development of the Premises.

(a) Space Plan/Signage Plan. We will provide the Area Operator with a space plan layout and exterior signage plan for the first three Restaurants developed by the Area Operator. Except in the case where you are an Affiliate of an existing area operator of Noodles & Company restaurants who has opened Noodles & Company restaurants prior to your opening Noodles & Company restaurants, during the preparation of the Space Plans and Signage Plans, Noodles & Company will provide the Area Operator, and their respective architect/designer, with design training and criteria so that the Area Operator will be prepared to complete the space plan and signage plan on all units after the first three (3) Restaurants. Noodles & Company will prepare the space plan and signage plan for additional units for the fee defined in the then current Operations Manual. All space plans and signage plans prepared by the Area Operator must be submitted to Noodles & Company for approval. Noodles & Company reserves the right to make any changes to the space plans or signage plans when submitted. Noodles & Company shall provide approval, or approval with changes, within fourteen (14) days of submittal of plans. All space plans and signage drawings must be submitted electronically in AutoCad V. 2004 software or later.

(b) Plans and Licensed Architect. Upon completion and approval of the space plan and signage plan for each Restaurant, the Area Operator shall be responsible for developing construction drawings and specifications by a licensed architect and engineer for building permit submittal. You shall submit to us your final plans, including all construction plans and specifications and design specifications, for our acceptance before starting to develop the Premises. All final plans must be prepared by a licensed architect. You acknowledge that the design and materials used in the construction of Noodles & Company Restaurants is important to us and you agree to adhere to our design and constructions specifications and to use the materials and suppliers we require. You are solely responsible for developing your Noodles & Company Restaurant, for all expenses associated with it and for compliance with the requirements of any applicable federal, state or local law, code or regulation, including those concerning the Americans with Disabilities Act or similar rules governing public accommodations for persons with disabilities. Our review and acceptance of your plans is not designed to assess compliance with federal, state or local laws, codes, and regulations, including the Americans with Disabilities Act, as compliance with such laws is your sole responsibility. All development and any signage must be in accordance with the plans and specifications we have approved and must comply with all applicable laws, ordinances and local laws, codes, and regulations. Within two (2) weeks of opening the Restaurant, you must submit all revised or "as built" plans and specifications.

(c) Construction. You must start construction of your Noodles & Company Restaurant (i) within sixty (60) days after you have leased, subleased or acquired the Premises or (ii) upon receipt of all necessary permits and licenses, provided such permits were promptly requested, whichever is later, unless we mutually agree otherwise. We reserve the right to require that you obtain our acceptance of your choice of general contractor. You must procure all applicable construction insurance in amounts and coverages in accordance with the Noodles & Company Operations Manual. You must obtain lien waivers from your general contractor and all subcontractors who furnish any materials or services in the construction of your Noodles & Company Restaurant. You must complete construction of your Noodles & Company Restaurant within one hundred-twenty (120) days after the start of construction, unless we agree otherwise. You must open your Noodles & Company Restaurant within fourteen (14) days after the date construction is completed and all necessary approvals have been obtained. Time is of the essence in the construction and opening of your Noodles & Company Restaurants and failure to comply



with all deadlines relating thereto is a material breach or default of this Agreement. Any extensions of time are subject to our approval, which we may withhold at our discretion.

The requirement to complete construction of your Noodles & Company Restaurant includes obtaining all required construction and occupancy licenses, permits and approvals, all beer and wine licenses, developing the Premises (including all outdoor features, patios, and landscaping of the Premises), installing all required fixtures, furnishings, equipment and signs, and doing all other things as may be required pursuant to this Agreement or by practical necessity to have your Noodles & Company Restaurant ready to open for business. You must notify us fourteen (14) days prior to opening, and we may, at our discretion and expense, conduct a pre-opening inspection of the Premises. Your Noodles & Company Restaurant may not be opened for business until we have notified you that your Noodles & Company Restaurant meets our training requirements for opening and is properly staffed and equipped to provide a positive Noodles & Company guest experience.

Notwithstanding anything to the contrary contained in this Section 3.03, you shall not be deemed to be in breach of this Section 3.03 if your failure to start construction, finish construction or open your Noodles & Company Restaurant as above provided results solely from significant and substantial weather delays, fires or other natural disasters not exceeding twenty (20) days in the aggregate for all such delays; any delay resulting from any of such causes shall extend performance, in whole or in part, only as we mutually agree upon, but in no event for an aggregate of more than twenty (20) days for all such occurrences.

(d) Construction Orientation and Visits During Construction. Noodles & Company will provide a construction orientation for the Area Operator and the selected general contractor for the first Restaurant developed by the Area operator. The orientation shall be conducted in a manner and location deemed appropriate by Noodles & Company, and shall review the construction standards and procedures commonly employed to construct a Noodles & Company Restaurant. The Area Operator may request additional construction orientations at a cost defined in the then current Operations Manual. The Area Operator must provide us with progress reports during construction in a format and timing that is acceptable to us. We have the right to visit and inspect, at our sole discretion, the site during the construction phase without assuming any liability or responsibility to you or to any third parties. Such inspections shall be solely for the purpose of assuring compliance with our standards and shall not be construed as any express or implied representation or warranty that your Noodles & Company Restaurant complies with any applicable laws, codes or regulations (including the Americans with Disabilities Act or any other federal, state, or local law or ordinance regulating standards for the access to, use of, or modifications of buildings for any persons whose disabilities are protected by law) or that the construction thereof is sound or free from defects. Such visits shall be at our expense, except for visits made upon your request, which shall be at your expense. All prototype and modified plans and specifications for your Noodles & Company Restaurant remain our sole and exclusive property, and you may claim no interest therein.

(e) Equipment, Furniture, Fixtures and Signs. You agree to purchase or lease all required equipment, furnishings, fixtures and signs for your Noodles & Company Restaurant from Designated Suppliers and Approved Suppliers as applicable. You agree to purchase or lease only such types, brands and models of fixtures, furniture, equipment, signs and supplies that we approve for Noodles & Company Restaurants as meeting our standards and specifications, including standards and specifications for quality, design, warranties, appearance, function and performance. You may purchase or lease approved types, brands or models of fixtures, furniture, equipment,

signs and supplies only from suppliers approved by us. From time to time, we may modify the list of approved types, brands, models and/or suppliers, and you may not, after receipt of notice of such modification, reorder any type, brand or model from any supplier that is no longer approved. If you propose to purchase any fixtures, furniture, equipment, signs or supplies of a type, brand or model, or propose to purchase from a supplier, that we have not previously approved, you must notify us and submit to us such information as we may request and comply with Section 9.

3.04 Right to Open. You shall be permitted to open the Restaurant when all of the following conditions have been met:

(a) Compliance with Agreements. You are not in default under this Agreement or any agreement with Noodles & Company or any of its Affiliates, you are not in default beyond the applicable cure period under any real estate lease, equipment lease or financing instrument relating to the Noodles & Company Restaurant, you are not in default beyond the applicable cure period with any vendor or supplier to the Noodles & Company Restaurant, and, for the last six (6) months, you have not been in default beyond the applicable cure period under any agreement with Noodles & Company or its Affiliates.

(b) No Monetary Defaults. You are current on all monetary obligations due Noodles & Company.

(c) Architect Certification. Your registered architect has certified to Noodles & Company in writing that the Noodles & Company Restaurant was constructed substantially in accordance with the plans consented to by Noodles & Company.

(d) Lease. If the premises are leased, Noodles & Company has received a fully executed copy of the lease (that has been approved by Noodles & Company in writing).

(e) Liquor License. You have applied for and made a good-faith effort to obtain a liquor license authorizing the sale of wine and beer at the Noodles & Company Restaurant, unless otherwise agreed to by us in writing.

(f) Certificates. You have obtained a certificate of occupancy and any other required health, safety or fire department certificates.

(g) Approval of the Restaurant and Staffing. Noodles & Company has determined that the Noodles & Company Restaurant has been constructed, equipped and staffed substantially in accordance with the requirements of this Agreement.

(h) Training. You have complied with the pre-opening training requirements set forth in this Agreement.

(i) Insurance Policies. Noodles & Company has been furnished with copies of all insurance policies required by Section 9.08 of this Agreement or such other evidence of insurance coverage and payment of premiums as Noodles & Company may request.

3.05 Grand Opening Marketing Program. You agree to conduct a grand opening advertising and promotional program for your Noodles & Company Restaurant in accordance with a Grand Opening Marketing Program approved in writing by us for the Restaurant. At least sixty (60) days prior to opening you must submit your grand opening promotional program to us

for our prior written approval. As of the date hereof, our Grand Opening Marketing Program requires that you spend a minimum of \$15,000 for the first two (2) Restaurants in each discreet market and \$12,000 per Restaurant for each grand opening thereafter for a grand opening advertising and promotional program. These funds should be spent on a grand opening marketing plan developed by you and approved by us in writing. Amounts spent on food and beverages to be offered as part of the Grand Opening Marketing Program shall be determined based on your cost of such food and beverages. You must use the types of marketing and advertising programs specified in Section 10 of the Franchise Agreement and you must conduct your Grand Opening Marketing Program in accordance with the time frame set forth in the program. We will provide to you our guidelines for Grand Opening Marketing Programs for your use in designing your program and we will use such guidelines in evaluating the program you submit for acceptance.

3.06 Opening Assistance. If you (or any of your Affiliates) have not previously owned or managed a Noodles & Company Restaurant, we will provide you with such opening operational assistance as we deem appropriate to assist you in starting your operations, including on-site opening assistance for not more than five (5) days, as scheduled by us, to include up to three (3) persons at your Noodles & Company Restaurant for the first Restaurant you open (or 15 person day equivalents, at our discretion) and up to two (2) persons at your Noodles & Company Restaurant for not more than two (2) days, as scheduled by us, for the second Restaurant you open (or 4 person day equivalents, at our option). Should you request or Noodles & Company deem additional days of training support is necessary, you agree to pay for such training plus all associated costs, including fully-burdened salaries and expenses for days or hours of such training, travel and lodging costs, meals, etc., or the then current amount set forth in the then-current Operations Manual.

3.07 Restrictions on Debt. In connection with the development of the Development Area and operation of the Franchised Noodles & Company Restaurants, including payment to us of the development fee set forth in Exhibit A of the Area Development Agreement, the payment of franchise fees and the costs and expenses to be incurred pursuant to Franchise Agreements, you and each Owner represent, warrant, covenant and agree that neither you nor any Owner borrowed any funds or otherwise incurred any debt to obtain any funds for the payment of any such fees, costs and expenses, except as specifically permitted in this Section 3.07. You and each Owner shall not, without our prior written consent, which shall not be unreasonably withheld, directly or indirectly borrow any money or incur any debt or liability (other than lease obligations for each Restaurant's land and building and trade payables in the ordinary course of business ) to develop the Development Area or to establish, operate and maintain Noodles & Company Restaurants, which may be established in the Development Area pursuant to this Agreement, except as provided in this Section 3.07. You may incur debt in connection with the development of Noodles & Company Restaurants hereunder, provided that (a) you will, in connection with the development of each such Restaurant, receive equity contributions from your Owners equal to not less than 25% of the total development cost of the Restaurant (which shall consist for this purpose of the cost of all leasehold improvements, furniture, fixtures and equipment) and (b) from and after the first anniversary of the opening of your first Restaurant hereunder, at no time shall your total indebtedness outstanding at any time during any fiscal year exceed 4.0 times your earnings (determined in accordance with generally accepted accounting principles consistently applied) before interest, taxes, depreciation and amortization (EBITDA) minus any distributions to Owners for such fiscal year. You agree to provide within 90 days after the end of each fiscal year a statement certified by one of your executive officers setting forth the amount of your EBITDA and distributions to Owners (if any) for such year and your indebtedness at year end. Such debt shall have an initial amortization schedule of no more than ten (10) years from inception. You shall not extend, renew, refinance, modify or amend

any debt or liability permitted by this Section 3.07 without our prior written consent, which consent shall not be unreasonably withheld.

Furthermore, any debt instrument must provide to us the following protections, and any others that we from time to time require, (i) Franchisor shall be provided notice of any default of any such debt instrument simultaneous with notice being provided to you and Owners; (ii) Franchisor shall have a right of first refusal to purchase any restaurant to be sold, disposed of, or otherwise transferred by the lender of such debt instrument; (iii) Franchisor shall have the right, but not the obligation, to cure your and Owner's default under such debt instruments; and (iv) Franchisor shall have the right to operate the restaurant(s) that is the subject of the debt instrument upon your or Owner's default of such instrument. In the event you default on your debt and we elect to pursue any of the foregoing protections available to us, your right to cure such default shall expire as of the date we pursue any such protections notwithstanding any longer cure period set forth elsewhere in any agreement between you and us. Additionally you shall be liable for the full amount we pay to cure your default plus interest at eighteen percent (18%) per annum, or the highest rate allowable by law, and all costs we incur, including legal fees and appraisal fees relating to the evaluation of and exercise of any such protections. Breach of this Section 3.07 is a material breach of this Agreement.

#### 4. TRAINING AND GUIDANCE.

4.01 Our Training Programs. If you (or your Operating Partner) or any of your general managers have not completed the appropriate certified training programs as set forth in our then current Operations Manual, then prior to opening your Noodles & Company Restaurant, you and your Operating Partner and all such general managers must attend and successfully complete the appropriate Owner, Operating Partner and general manager certified training programs, as applicable, conducted at such time(s) and place(s) as we designate, including in our Company-owned Restaurants if we so elect. Thereafter, any person who replaces your Operating Partner or any general managers must successfully complete the appropriate certified training program before assuming the particular position. In lieu of attending the current training program, a general manager may be "certified" by Franchise Operations. We may require you and your Operating Partner and Restaurant management personnel to attend and successfully complete periodic or additional training programs. We may require you and your general managers to attend additional training, or other informational programs from time to time as we deem necessary for re-training, new product roll-outs, new equipment usage, fair treatment of employees, etc. Except in the case where you are an Affiliate of an existing area operator of Noodles & Company restaurants who has opened Noodles & Company restaurants prior to your opening Noodles & Company restaurants, we will not charge any fees for attendance at any such training programs for your initial Area Operator training, Operating Partner training and the first two (2) general managers' training for the first two (2) Restaurants you open (for an aggregate total of four (4) general managers being trained). Subsequent or additional training shall be provided upon your request or based on our determination that such training is necessary or desirable, at the cost set forth in our then current Operations Manual. You will be responsible for all compensation and expenses (including travel, meals and lodging and fully-burdened salaries and expenses for days or hours of such training) incurred by you and your Personnel in attending any training programs. You must immediately replace any individual who fails to successfully complete any training program. Our training programs are more fully described in the Noodles & Company Operations Manual. The scheduling, content and duration of our training programs are at our discretion and we reserve the right to modify such training, including the materials, equipment and support used.

Your Personnel must complete our approved training program for the positions in which they will be employed, as set forth in our Operations Manual and as amended or modified from time to time.

4.02 On-Going Guidance. We will furnish you periodic guidance with respect to the System, including improvements and changes to the System. Such guidance, at our discretion, will be furnished in the form of the Operations Manual, bulletins and other written materials, consultations by telephone or in person, or by any other means of communications. At your request, we may provide special assistance at your place of business for which you will be required to pay the per diem fees and charges we may establish from time to time.

4.03 Your Certified Training Programs. We may, from time to time, require you to implement, at your expense, programs for the training of all or some of your Personnel. Prior to training any of your Personnel, your training programs must be certified by us. We may require you to have a certified training Restaurant approved by us upon the opening of your third Restaurant. You will be required to obtain re-certification of your training programs from time to time, and we may withhold certification if we determine, in our sole discretion, that your training programs do not meet our high standards. You will be charged the fees for such certification in accordance with the fee schedule in our then current Operations Manual.

4.04 Certified Management Representation. You must have at least one member of management in each of your Noodles & Company Restaurants who has successfully completed the Noodles & Company certified management training program or certified by Franchise Operations.

4.05 Control by Noodles & Company. Notwithstanding anything to the contrary herein, both parties recognize and agree that Noodles & Company does not exercise any day to day control of the Premises, security at the Premises, food preparation, the hiring and firing of employees, or other forms of day-to-day control.

## 5. TRADEMARKS.

5.01 Ownership of the Marks. You acknowledge that Noodles & Company, and/or our Affiliate, as applicable, own the Marks. Your right to use the Marks is derived solely from this Agreement and is limited to conducting business pursuant to and in compliance with this Agreement. Your unauthorized use of any of the Marks constitutes a breach of this Agreement and an infringement of our, and/or our Affiliate's, as applicable, rights to the Marks. This Agreement does not confer on you any goodwill or other interests in the Marks. Your use of the Marks and any goodwill established thereby inures to the exclusive benefit of us and/or our Affiliate, as applicable. All provisions of this Agreement applicable to the Marks apply to any additional or substitute trademarks, service marks and trade dress we authorize you to use. You may not, at any time during or after the Term, contest, or assist any other person or entity in contesting, the validity or ownership of any of the Marks.

5.02 Use of the Marks. You agree to use the Marks as the sole identification of your Noodles & Company Restaurant, provided you identify yourself as the independent owner thereof in the manner we prescribe. You agree to use only the Marks as we prescribe in connection with your Noodles & Company Restaurant and the sale of authorized food products, beverages and services. You may not use any Mark (or any abbreviation, modification or colorable imitation) as part of any corporate or legal business name or in any other manner (including any Internet related use such

as an electronic media identifier, for web sites, web pages or domain names) not expressly authorized by us in writing. You may not have a website that uses any Noodles & Company logos, Marks or the Noodles & Company name without our prior written consent, which we may withhold in our discretion.

5.03 Discontinuance of Use of Marks. If it becomes advisable at any time for us and/or you to modify or discontinue use of any Mark and/or use one or more additional or substitute trademarks, service marks or trade dress, you agree to comply with our directions within fourteen (14) days after notice. Neither we nor our Affiliate shall have any liability or obligation whatsoever with respect to any such required modification or discontinuance of any Mark or the promotion of a substitute trademark, service mark or trade dress.

5.04 Notification of Infringements and Claims. You must notify us immediately of any apparent infringement of or challenge to your use of any Mark, or any claim by another person of any rights in any Mark. You may not communicate with any person, other than your legal counsel, us, and our applicable Affiliate and its legal counsel, in connection with any such infringement, challenge or claim. We, and our applicable Affiliate, will have sole discretion to take such action as we deem appropriate and will have the right to control exclusively any litigation or U.S. Patent and Trademark Office proceeding arising out of any such infringement, challenge or claim or otherwise relating to any Mark. You must sign any and all documents, render such assistance and do such things as may be advisable in the opinion of our or our applicable Affiliate's counsel, to protect our interests in any litigation or U.S. Patent and Trademark Office proceeding or other administrative proceeding or otherwise to protect our interests in the Marks.

5.05 Indemnification of Area Operator.

(a) We agree to indemnify you against, and to reimburse you for, all damages for which you are held liable in any proceeding arising out of your authorized use of any Mark pursuant to and in compliance with this Agreement as to any claim that you have infringed any trademark registered by the United States Patent and Trademark Office and, except as provided herein, for all costs you reasonably incur in defending any such claim brought against you, provided you have timely notified us of such claim and provided further that you and your Owners and Affiliates are in compliance with this Agreement and all other agreements entered into with us or any of our Affiliates. We, and our applicable Affiliate, at our respective sole discretion, are entitled to prosecute, defend and/or settle any proceeding arising out of your use of any Mark pursuant to this Agreement, and, if we, or our applicable Affiliate, undertake to prosecute, defend and/or settle any such matter, we have no obligation to indemnify or reimburse you for any fees or disbursements of any legal counsel retained by you. If we choose not to defend you and it is ultimately determined that you were entitled to a defense under this provision, we agree to pay reasonable legal fees at a maximum per hour rate at which your insurance carrier or our insurance carrier (whichever is less) would pay for a similar claim under your or our applicable policy.

(b) We agree to indemnify you against, and to reimburse you for, all damages for which you are held liable in any proceeding arising out of any claim made against you as a result of your having properly utilized the then current (i) point of sale marketing materials provided to you by Noodles & Company or those developed by Noodles & Company and (ii) the recipes and required ingredients ("Indemnified Claim"); however, under no circumstances does Indemnified Claim include any claim resulting from, based on, or related to, a food borne illness, foreign or other object in the food that was not prescribed in the recipe or intended to be in the dish; allergic reactions of any kind; verbal information provided to customers; slip and fall and such other personal

injuries or accidents. We, and our applicable Affiliate, at our respective sole discretion, are entitled to prosecute, defend and/or settle any proceeding arising out such an Indemnified Claim, and, if we, or our applicable Affiliate, undertake to prosecute, defend and/or settle any such matter, we have no obligation to indemnify or reimburse you for any fees or disbursements of any legal counsel retained by you. If we choose not to defend you and it is ultimately determined that you were entitled to a defense under this provision, we agree to pay reasonable legal fees at a maximum per hour rate at which your insurance carrier or our insurance carrier (whichever is less) would pay for a similar claim under your applicable policy.

(c) Further, we, and our applicable Affiliate, at our respective sole discretion, are entitled, but not obligated, to prosecute, defend and/or settle any proceeding arising out of any claim made against you, that, in our opinion, could have an adverse impact on the brand, system or other Noodles & Company Company-owned or Area Operator owned Restaurants. We, and our applicable Affiliate, have no obligation to indemnify or reimburse you for any fees or disbursements of any legal counsel retained by you or to pay any settlement ourselves; however, we shall be entitled to settle and defend the claim. We will work with your insurance carrier to reach terms and provide a defense that is acceptable to your insurance carrier, if your insurance carrier has a right of acceptance, and we shall endeavor to do so provided doing so does not jeopardize the Company's rights and defenses or the brand, system or other Noodles & Company owned or Area Operator owned Restaurants.

(d) Notwithstanding anything to the contrary in this Agreement, in the event that Noodles & Company's insurance does not cover either the costs of defense or attorney's fees, or any portion of them, or damages, liability or settlement amounts, or any portion of them, associated with any Indemnified Claim or other claim for which Area Operator is otherwise entitled to indemnification, Noodles & Company is not obligated to indemnify Area Operator to the extent that Noodles & Company's insurance does not provide coverage. Furthermore, Noodles & Company's obligation to indemnify, defend or pay for damages of any claim for which Area Operator would otherwise be entitled to indemnification arises only if and to the extent that Area Operator's insurance coverage does not or would not (absent any right to indemnification by Noodles & Company) provide coverage for such claims. In the event that Area Operator has failed to obtain and keep in force all policies that it is obligated to carry under the terms of its agreements with Noodles & Company and one or more of such policies would or could have provided coverage for the claim, then Noodles & Company is not obligated to indemnify, defend or pay damages, settlements, or have any liability for such claim.

## 6. FEES.

6.01 Franchise Fee. You agree to pay us a nonrefundable franchise fee of \$35,000 ("Franchise Fee"). The Franchise Fee is payable upon execution of this Agreement or when Construction is Commenced for the Premises for such Noodles & Company Restaurant, whichever first occurs. The Franchise Fee is non-refundable, in whole or in part, under any circumstances. The Franchise Fee for the first Restaurant developed by you (and the first \$10,000 of the Franchise Fee for each other Restaurant) is deemed paid so long as the Development Fee under the Development Agreement has been timely paid in full; accordingly, the balance of the \$25,000 for each Restaurant after the first one shall be paid upon execution of the Franchise Agreement, when Construction is Commenced or the date the franchised restaurant is required to be open under The Area Development Agreement, whichever first occurs.

6.02 Royalty Fees. You agree to pay us a continuing royalty fee in the amount of five percent (5.0%) of Net Royalty Sales (the "Royalty Fee") for each Reporting Period. A Reporting

Period shall be defined as each one week period commencing on Wednesday and ending on Tuesday, or such other period as we shall determine from time to time. A Sweep Period shall be the period of time for which a Sweep of Area Operator's account has been made by Noodles & Company to obtain the Royalty Fee for Net Royalty Sales that have occurred, but for which a prior Sweep was not made.

6.03 Continuing Royalty Upon Default. Should this Agreement terminate due to a material breach or default by you, or should you fail to continuously operate your Noodles & Company Restaurant without our prior written approval to cease continuous operations, you shall pay to us for each Reporting Period remaining in the entire initial term of the Agreement a continuing royalty in an amount equal to the total Royalty Fees due from you for the preceding fifty-two (52) Reporting Periods divided by fifty-two (52). If your Noodles & Company Restaurant was open fewer than fifty-two (52) Reporting Periods, then the average of all Reporting Periods for which you were open shall be used.

6.04 Designated Account. Prior to the opening of your Noodles & Company Restaurant, and as a condition thereof, you shall establish a designated bank account from which we shall be authorized to withdraw in any manner which we prescribe, which may include account transfer or wire transfer, any amounts due to us or our Affiliate from you under this Agreement, including Royalty Fees and Marketing Funds, as hereinafter defined (such withdrawals shall be defined as a Sweep). We shall have the authority to Sweep the account at anytime; however, we agree not to Sweep the account more frequently than once each week so long as Area Operator is not in default of this Agreement or any other Agreement between Area Operator and Noodles & Company. We have the right to review your sales numbers on a daily basis. As early as the first business day, or any day we choose thereafter, following a Reporting Period, we shall calculate the Royalty Fee due for that Reporting Period and Sweep such amount and any other amounts due under this Agreement, including any advertising and marketing fees set forth under Section 10, directly from the designated account. All costs and expenses of establishing and maintaining such designated account, including transaction fees and wire transfer fees, shall be paid by you. You agree to maintain at all times sufficient funds in such designated bank accounts for such Sweeps and your failure to do so is a material breach of this Agreement. You agree to execute all forms necessary to permit Noodles & Company to accomplish all Sweeps in a timely and efficient manner. You agree not to terminate our right to withdraw funds from the designated account during The Term of this Agreement without our prior written consent.

6.05 Interest On Late Payments. All payments of the Royalty Fees, Marketing Funds and other payments due us from you shall be due and payable on the first day following the close of the Reporting Period ("Due Date"). Any payment or report not actually received by us on or before Due Date shall be deemed overdue. If any payment is overdue, you shall pay to us, in addition to the overdue amount, interest on such amount from the date it was due until paid, at a rate which is the lesser of one-and-one-half percent (1 ½ %) per month or the maximum rate permitted by law. Entitlement to such interest shall be in addition to any other remedies we may have. Your failure to have sufficient funds available in the designated account in an amount equal to any amount then due or your failure to pay all amounts when due, constitutes grounds for termination of this Agreement, as provided in Section 15, and shall be a default of all other agreements by and between you and us and shall constitute grounds for termination of said agreements.

6.06 Application of Payments. We may apply any payments by you to any of your past due indebtedness for Royalty Fees, Marketing Fund contributions or any other indebtedness to us or any of our Affiliates, notwithstanding any designation by you. We may also apply said



payments first to interest payments due. We may also collect any and all fees, payments or other amounts due from you by electronic withdrawal.

6.07 Letter of Credit. Noodles & Company may require Area Operator to provide a letter of credit from a national bank and on terms set forth in the Operations Manual equal to one hundred and fifty percent (150%) of all fees (including Royalty Fees, Marketing Funds, interest and other payments to us) anticipated to be due annually under all agreements between the parties in the event of any failure of Area Operator to timely pay all fees due. Area Operator shall supply said letter of credit within fifteen (15) days of our request. Failure to timely provide the letter of credit shall be a material breach and default of this Agreement.

## 7. RESTRICTIVE COVENANTS.

7.01 Confidential Information. We will disclose parts of our Confidential Information to you solely for your use in the operation of your Noodles & Company Restaurant. The Confidential Information is proprietary and includes our trade secrets. During the Term and indefinitely thereafter: (a) you and your Owners may not use the Confidential Information in any other business or capacity (you and your Owners acknowledge such use is an unfair method of competition); (b) you and your Owners must exert your best efforts to maintain the confidentiality of the Confidential Information; (c) you and your Owners may not make unauthorized copies of any portion of the Confidential Information disclosed in written, electronic or other form; (d) you and your Owners must implement all reasonable procedures we prescribe from time to time to prevent unauthorized use or disclosure of the Confidential Information, including the use of nondisclosure agreements with your Owners, officers, directors and general managers, and you and your Owners must deliver such agreements to us; and (e) you and your Owners must not disclose or distribute the Confidential Information except as permitted by us in writing prior to such disclosure. You may only disclose such confidential information as we agree in writing it may be disclosed. At the end of the Term, you and your Owners must deliver to us all such Confidential Information in your possession. Your restrictions on disclosure and use of Confidential Information do not apply to information or techniques which are or become generally known in the Restaurant industry (other than through your own disclosure or the wrongful disclosure by someone else), provided you obtain our prior written consent to such disclosure or use. Prior to any training at Noodles & Company Central Support Office or at any Noodles & Company Restaurant, all your trainees must first execute the Confidentiality Agreement.

7.02 In-Term Covenants. During the Term, you shall not, without Noodles & Company's prior written consent, either directly or indirectly, for yourself, or through, on behalf of, or in conjunction with any person, persons, partnership, limited liability company, or corporation:

(a) Divert or attempt to divert any business or customer of any Noodles & Company Restaurant to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with Noodles & Company's Marks or the System.

(b) Recruit, except for general solicitation, or hire any person who is or was within a period of six (6) months prior to such recruiting or hiring an employee of ours or of any Noodles & Company Restaurant operated by us, our Affiliates or another Area Operator of ours, without obtaining the employer's consent, which consent may be withheld for any reason. We may elect, in our sole discretion, to require you to pay to us, our Affiliate or other Area Operator, as liquidated damages an amount equal to two (2) times the annual salary of the person(s) involved in such

violation plus an amount equal to our costs and attorney's fees incurred in connection with such violation.

(c) Own, maintain, advise, be employed by, consult for, make loans to, operate, engage in or have an ownership interest (including any right to share in revenues or profits) in any Competitive Business which is, or is intended to be located within:

- (1) the Protected Area;
- (2) a radius of fifteen (15) miles from your Noodles & Company Restaurant;
- (3) a radius of fifteen (15) miles of any Noodles & Company Restaurant; or
- (4) the United States.

**7.03 Post-Term Covenants.** For a continuous uninterrupted period commencing upon the expiration or termination of this Agreement and for two (2) years thereafter, you shall not, without Noodles & Company's prior written consent, either directly or indirectly, for yourself, or through, on behalf of, or in conjunction with any person, persons, partnership, limited liability company, or corporation:

(a) Divert or attempt to divert any business or customer of any Noodles & Company Restaurant to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with Noodles & Company's Marks or the System.

(b) Recruit, except for general solicitation, or hire any person who is or was within a period of six (6) months prior to such recruiting or hiring an employee of ours or of any Noodles & Company Restaurant operated by us, our Affiliates or another Area Operator of ours. In addition to any other rights and remedies available to us under this Agreement, we may elect, in our sole discretion, to require you to pay to us, our Affiliate or other Area Operator, as liquidated damages an amount equal to two (2) times the annual salary of the person(s) involved in such violation plus an amount equal to our costs and attorney's fees incurred in connection with such violation.

(c) Own, maintain, advise, be employed by, consult for, make loans to, operate, engage in or have an ownership interest (including any right to share in revenues or profits) in any Competitive Business which is, or is intended to be located within:

- (1) the Protected Area;
- (2) a radius of fifteen (15) miles from your Noodles & Company Restaurant;
- (3) a radius of fifteen (15) miles of any Noodles & Company Restaurant; or
- (4) any Designated Market Area (as defined by Nielsen Media Research) where a Noodles & Company Restaurant is located.

**7.04 Independent Covenant.** The parties agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant is held unreasonable or unenforceable by a court or agency having valid jurisdiction, the parties desire the court to reform the covenant to render the covenant enforceable, but only to the extent required to render the covenant enforceable, so that Noodles & Company may obtain the greatest possible level of protection from the misuse of Confidential Information, the diversion of customers, the solicitation of its employees and unfair competition; and in such event, you expressly agree to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately state in and made a part of this Agreement.

7.05 Reduction in Scope. You understand and acknowledge that Noodles & Company shall have the right, in its sole discretion, to reduce the scope of any covenant set forth in this Agreement, or any portion thereof, without your consent, effective immediately upon written notice to you. You shall comply forthwith with any covenant as so modified, which shall be fully enforceable notwithstanding the provisions hereof.

7.06 Offset/Counterclaim. You expressly agree that the existence of any claims you may have against Noodles & Company, whether or not arising from this Agreement, shall not constitute a defense to the enforcement by Noodles & Company of the covenants in this Section 7.

7.07 Injunctive Relief. You acknowledge and agree: (a) that any failure to comply with the covenants in this Agreement shall constitute a default hereunder; (b) that a violation of the requirements of this Agreement would result in irreparable injury to Noodles & Company for which no adequate remedy at law may be available; and (c) therefore, Noodles & Company shall be entitled, in addition to any other remedies which it may have hereunder, at law, or in equity, to obtain specific performance of or an injunction against the violation of the requirement of this Agreement, without the necessity of showing actual or threatened damage and without being required to furnish a bond or other security.

7.08 Information Exchange. All recipes, processes, ideas, concepts, supplier relationships, methods and techniques used or useful to a restaurant, or other business offering restaurant products, whether or not constituting protectable intellectual property, that you create, or that are created on your behalf, in connection with the development or operation of your Noodles & Company Restaurants must be promptly disclosed to us. If we adopt any of them as part of the System, they will be deemed to be our sole and exclusive property and deemed to be works made-for-hire for us. You hereby assign and further agree to sign whatever further assignment or other documents we request to evidence our ownership or to assist us in securing intellectual property rights in such ideas, concepts, techniques or materials.

7.09 Confidentiality and Non-Compete Agreements. You agree to cause each of your Owners and Operating Partners to enter into and comply with the confidentiality and non-compete agreement referred to in Section 8.02 hereof.

## 8. YOUR ORGANIZATION AND MANAGEMENT.

8.01 Organization Documents. You must be a legal entity such as a business corporation, partnership, limited liability company or other legal entity formed for and used for the purpose of developing and holding franchises to operate Noodles & Company Restaurants. You and each of your Principal Owners represent, warrant and agree that: (a) you are duly organized and validly existing under the laws of the state of your organization and you are duly qualified to transact business in the state in which your Noodles & Company Restaurant is located; (b) you have the authority to execute and deliver this Agreement and to perform your obligations hereunder; (c) true and complete copies of the articles or certificate of incorporation, partnership agreement, bylaws, subscription agreements, buy-sell agreements, voting trust agreements and all other documents relating to your ownership, organization, capitalization, management and control have been delivered to us and all amendments thereto shall be promptly delivered to us; (d) your and your entity's activities are restricted to those necessary solely for the development, ownership and operation of your Noodles & Company Restaurant in accordance with this Agreement and in accordance with any other agreements entered into with us or our Affiliate, as applicable; (e) the articles or certificate of incorporation, partnership agreement or other organizational documents

recite that the issuance, transfer or pledge of any direct or indirect legal or beneficial ownership interest is restricted by the terms of this Agreement; (f) all certificates representing direct or indirect legal or beneficial ownership interests now or hereafter issued must bear a legend in conformity with applicable law reciting or referring to such restrictions; and (g) you will deliver to us a Secretary/Clerk's Certificate or other evidence satisfactory to us, that the execution, delivery and performance of this Agreement and all other agreements and ancillary documents contemplated hereby or thereby have been duly authorized by all necessary action by your corporation, partnership, limited liability company or other legal entity, as applicable. You may not change the form of your entity unless we mutually agree in writing that such a change is warranted. Neither you, your partners, shareholders, members of an LLC nor the entity formed to operate your Noodles & Company Restaurants may be, or become, during the term of this Agreement and any other agreements between us, including the Franchise Agreement, a Publicly Held Entity.

8.02 Disclosure of Ownership Interests. You and each of your Principal Owners represents, warrants and agrees that Exhibit A is current, complete and accurate and shall not be changed without our prior written consent. You agree that updated Exhibit A will be furnished promptly to us, so that Exhibit A (as so revised and signed by you) is at all times current, complete and accurate and shall not be changed without our prior written consent. Failure to promptly provide such revised Exhibit A, and to obtain our prior written consent prior to such changes, is a material breach of this Agreement. Each person who is or becomes a Principal Owner must execute an agreement in the form we prescribe, undertaking to be bound jointly and severally by the terms of this Agreement, the current form of which is attached hereto as Exhibit B. Each person who is or becomes an Owner or an Operating Partner must execute an agreement in the form we prescribe, undertaking to be bound by the confidentiality and non-competition covenants contained in the Agreement, the current form of which is attached hereto as Exhibit D. Each Owner must be an individual acting in his individual capacity, unless we waive this requirement. The initial owners who execute this agreement as of its effective date shall at all times continue to own and have voting authority of at least 51% of the ownership and voting rights under this agreement.

8.03 Operating Partner/Management of Business. You must designate in Exhibit A as the "Operating Partner" an individual approved by us who must: (a) have completed our Operating Partner training program to our satisfaction; (b) be the senior management individual who is involved in day-to-day operations of your Noodles & Company Restaurant; (c) be the person with whom we communicate as to development, operations and Area Operator matters; (d) have the authority to bind you regarding all operational decisions regarding your Noodles & Company Restaurant; and (e) have primary residency in the Development Area continuously during the term of this Agreement (and if no Area Development Agreement is in effect between Noodles & Company and Area Operator or its affiliate, such Development Area shall be the development area under the last such Area Development Agreement that was in effect).

Your Operating Partner: (a) shall exert full-time and best efforts to the development and operation of your Noodles & Company Restaurant and all other Noodles & Company Restaurants you own; and (b) may not engage in any other business or activity, directly or indirectly, that requires substantial management responsibility or time commitments or otherwise may conflict with your obligations hereunder. You agree to provide us with an executed copy of any arrangement, agreement or contract, and all amendments thereto, with your Operating Partner. We shall have no responsibility, liability or obligation to any party to any such arrangement, agreement or contract, or any amendments thereto, on account of our approval thereof or otherwise, and you agree to indemnify and hold us harmless with respect thereto. Your Noodles & Company Restaurant at all

times must be managed by your Operating Partner or by an on-site general or assistant manager or a shift supervisor who has completed the appropriate training programs.

8.04 General Manager. The high-quality food and operation of the Noodles & Company Restaurant is the core element of our concept success. An essential element of operation is the selection, training and overall performance of our in-restaurant general managers. All general managers must complete, to our satisfaction, Noodles & Company's then-current Certified Training Program. Optimum restaurant performance requires specialized leadership in the form of a duly trained general manager. The general manager must dedicate 100% of his working time to the management of your Noodles & Company Restaurant. To ensure the integrity of our Restaurants, the general manager position must be a full-time position and may not be combined with an area or district manager or any other position. We may change the organizational structure of the Restaurant system from time to time, in which case you will be required to adopt the then current structure.

8.05 Restaurant Organization. Your Noodles & Company Restaurant must be staffed by at least one general manager who has completed the then current management training program approved by us and appropriate numbers of assistant managers, shift supervisors, and other employees so that all shifts are staffed by at least one assistant manager or shift supervisor. You may not operate your Noodles & Company Restaurant without covering every shift with a suitably trained member of management or shift supervisor. To promote positive attitudes, good morale and high levels of productivity, we recognize the importance of personal balance for those operating the Restaurant. To that end, the Area Operator is, to the best of his ability, required to ensure that the general manager, members of the management team and staff members, work reasonable hours averaging 45-50 hours per week with fairly consistent schedules and have two (2) full days off each week.

You (or your Operating Partner) at all times must remain active in overseeing the operations of your Noodles & Company Restaurant. If the relationship with your Operating Partner terminates, you must promptly hire a successor Operating Partner. Any successor Operating Partner must meet our approval and must successfully complete our training program at your sole cost and expense. You are solely responsible for all employment decisions with respect to your Personnel, including hiring, firing, compensation, training, supervision and discipline, regardless of whether you receive advice from us on any of these subjects.

## 9. NOODLES & COMPANY RESTAURANT OPERATING STANDARDS.

9.01 Condition of Your Noodles & Company Restaurant. You must maintain your Noodles & Company Restaurant's condition and appearance so that it is attractive, clean and efficiently operated in accordance with the Operations Manual. You agree to maintain your Noodles & Company Restaurant's condition and appearance and to make such modifications and additions to its layout, decor, operations and general theme as we require from time to time, including replacement of worn-out or obsolete fixtures, equipment, furniture, signs and utensils, repair of the interior and exterior and appurtenant parking areas and periodic cleaning and redecorating. If, at any time, the general state of repair, appearance or cleanliness of your Noodles & Company Restaurant, or its fixtures, equipment, furniture, signs or utensils, does not meet our standards, we may notify you and specify the action you must take to correct such deficiency. If, within fourteen (14) days after receiving such notice, you fail or refuse to initiate in good faith and with due diligence a *bona fide* program to complete such required maintenance, we have the right (in addition to our rights under Section 15), but not the obligation, to enter the Premises and do such maintenance

on your behalf and at your expense. You must promptly reimburse us for such expenses and the cost of coordinating such repairs. Failure to maintain your Noodles & Company Restaurant's condition and appearance as required by this Agreement and the Operations Manual is a material breach and a default of this Agreement.

If you are not permitted to make certain repairs because such repairs are reserved to the Landlord as common area maintenance, you shall use diligent efforts to cause the Landlord to make such repairs timely and in a workmanlike manner.

You must periodically re-equip, upgrade and/or remodel your Noodles & Company Restaurant pursuant to our plans and specifications and implementation schedule; provided, however, that, with the exception of signage, we will not require substantial remodeling more often than once every five (5) years during the Term and at any time that you renew or transfer the franchise. We will not require you to substantially remodel your Restaurant until after we have substantially remodeled at least twenty-five percent (25%) of any Company-owned Restaurants, except at such time as you renew or transfer the franchise.

If your Noodles & Company Restaurant is damaged or destroyed by fire or other casualty, you must initiate within thirty (30) days (and diligently continue until completion, which shall be accomplished in no more than one hundred-twenty (120) days) all repairs or reconstruction to restore your Noodles & Company Restaurant to its original condition (and all remodeling performed or required to be performed to date), unless your landlord fails to rebuild the premises. If, in our reasonable judgment, the damage or destruction is of such a nature that it is feasible, without incurring substantial additional costs, to repair or reconstruct your Noodles & Company Restaurant in accordance with the then-standard Noodles & Company Restaurant layout and decor specifications, we may require you to repair or reconstruct your Noodles & Company Restaurant in accordance with those specifications.

You may not make any alterations to your Noodles & Company Restaurant that would be different than the original accepted plans, nor replace any fixtures, furnishings, equipment or signs (fixtures, furnishings and equipments are referred to as "FFEs"), with FFEs that are not in accordance with our FFEs standards and specifications (as specified in the Design Book) or that are not consistent with or that have caused variation in the accepted plans or the approved FFEs, without our prior written approval. We have the right, at your expense, to rectify any replacements, relocations or alterations not previously approved by us in writing.

**9.02 Consistent Brand Image.** You agree that your Noodles & Company Restaurant will offer for sale food, beverages and other products, services and merchandise related to the Noodles & Company Restaurant concept that we determine from time to time to be appropriate for your Noodles & Company Restaurant, including serving beer and wine at each of your locations. You further agree that your Noodles & Company Restaurant will not, without our approval, offer any products or services (including promotional items) not then authorized by us. Your Noodles & Company Restaurant may not be used for any purpose other than the operation of a Noodles & Company Restaurant in compliance with this Agreement. You agree not to permit the use of or location within your Noodles & Company Restaurant any vending machines, racks, electronic, non-electronic or gambling type games, or other items not specifically approved by us in writing prior to such use or location in the Restaurant. You agree that your Noodles & Company Restaurant will offer courteous and efficient service and a pleasant ambiance, consistent with your acknowledgements in Section 1.02 and consistent with the service and ambiance offered at

Company-owned Noodles & Company Restaurants, including music requirements and other ambiance-related items.

You further agree to provide to us accurate information as to your volume usage as to any and all ingredients and products used and/or anticipated to be used in your Noodles & Company Restaurants and you authorize us to use and report such information as we deem appropriate in contract negotiations and maintenance and other purposes as we deem appropriate. You further agree that we have the right to enter into vendor contracts and relationships that benefit you and that bind you, all as we deem appropriate.

**9.03 Proprietary Products.** Noodles & Company may, from time to time throughout the Term hereof in its discretion, require that you purchase, use, offer and/or promote, and maintain in stock at the Premises in such quantities as are needed to meet reasonably anticipated consumer demand, certain proprietary sauces, products, and other ingredients and raw materials, which are manufactured in accordance with our proprietary recipes, specifications and/or formulas and/or uniquely specified or sourced ("Proprietary Products"). You shall purchase Proprietary Products only from Designated Suppliers. We shall not be obligated to reveal such recipes, specifications and/or formulas of such Proprietary Products, or the terms and conditions of any supplier or other contracts, to you, non-designated suppliers, or any other third parties.

**9.04 Non-Proprietary Ingredients & Products.** We may designate other food products, condiments, beverages, fixtures, smallwares, furnishings, equipment, uniforms, supplies, services, menus, packaging, forms, paper products, software, modems and peripheral equipment and other products and equipment other than Proprietary Products that you must use and/or offer and sell at the Restaurant ("Non-Proprietary Products"). You may use, offer or sell only such Non-Proprietary Products that we have expressly authorized, and such products must be purchased or obtained from a producer, manufacturer, supplier or service provider that we have approved ("Approved Supplier") or an Alternative Approved Supplier that we have designated or approved pursuant to Section 9.04 (b) below.

(a) Each such Approved Supplier designated or approved by us must comply with our usual and customary requirements regarding insurance, indemnification, and non-disclosure, and shall have demonstrated to our reasonable satisfaction: (i) its ability to supply a Non-Proprietary Product meeting our specifications, which may include, without limitation, specifications as to brand name, contents, manner of preparation, ingredients, quality, freshness and compliance with governmental standards and regulations; and (ii) its reliability with respect to delivery and the consistent quality of its products and services.

(b) If you desire to procure authorized Non-Proprietary Products from a supplier other than one previously approved or designated by us, you shall deliver written notice to us of your desire to seek approval of such supplier, which notice shall: (i) identify the name and address of such supplier; (ii) contain such information as may be requested by us or required to be provided pursuant to the Operations Manual (which may include reasonable financial, operational and economic information regarding its business), and (iii) identify the authorized Non-Proprietary Products desired to be purchased from such supplier. We shall, upon your request, furnish specifications for such Non-Proprietary Products if such are not contained in the Operations Manual. We shall not be obligated to disclose the terms and conditions, including the pricing, to anyone as to Proprietary or Non-Proprietary Products. We may thereupon request that the proposed supplier furnish us at no cost to us product samples, specifications and such other information as we may require. We, or our representatives, including qualified third parties, shall

also be permitted to inspect the proposed supplier's facilities and establish economic terms, delivery, service and other requirements consistent with other distribution relationships for Noodles & Company Restaurants.

(c) We will use our good faith efforts to notify you of our decision within one hundred-twenty (120) days after our receipt of product samples from the proposed alternative supplier and all other requested information and will strive to complete our review within sixty (60) days. Nothing in this article shall require us to approve any supplier and, without limiting our right to approve or disapprove a supplier in our sole discretion, you acknowledge that it is generally disadvantageous to the system from a cost and service basis to have more than one supplier in any given market area and that among the other factors we may consider in deciding whether to approve a proposed supplier, it may consider the effect that such approval may have on the ability of us and other Area Operators to obtain the lowest distribution costs and on the quality and uniformity of products offered system-wide. We may also determine that certain Non-Proprietary Products (e.g. beverages) shall be limited to a designated brand or brands set by us. We may revoke our approval upon the supplier's failure to continue to meet any of our criteria. If we approve the supplier, such supplier shall be designated an "Alternative Approved Supplier" for purposes of this Agreement.

(d) As a further condition of its approval, we may require a supplier to agree in writing: (i) to provide, from time to time upon our request, free samples of any Non-Proprietary Product it intends to supply to you; (ii) to faithfully comply with our specifications for applicable Non-Proprietary Products sold by it; (iii) to sell any Non-Proprietary Product bearing our Marks only to our franchisees and only pursuant to a trademark license agreement in form prescribed by us; (iv) to provide to us duplicate purchase invoices for our records and inspection purposes; (v) to make the products available to all of our company and franchised Restaurants; and (vi) to otherwise comply with our reasonable requests.

(e) You or the proposed distributor or supplier shall pay to us in advance all of our reasonably anticipated costs in reviewing the application of the Alternate Approved Supplier and all current and future reasonable costs and expenses, including travel and lodging costs, related to inspecting, re-inspecting and auditing the Alternate Approved Suppliers' facilities, equipment and food products, and all product testing costs paid by us to third parties.

9.05 Test Marketing. We may, from time to time, authorize you to test market products and/or services in connection with the operation of the Restaurant. You shall cooperate with us in connection with the conduct of such test marketing programs and shall comply with our procedures established from time to time in connection herewith as set forth in the then-current Operations Manual.

9.06 Specifications and Standards. You acknowledge that each and every aspect of the interior and exterior appearance, layout, decor, services and operation of your Noodles & Company Restaurant is important to us and is subject to our specifications and standards. You agree to comply with all mandatory specifications, standards and operating procedures, as modified from time to time (whether contained in the Operations Manual, the Design Book, the Weekly Roundup or any other written communication), relating to the appearance, function, cleanliness or operation of a Noodles & Company Restaurant, including: (a) type, quality, taste, weight, dimensions, ingredients, uniformity, and manner of preparation, packaging and sale of food products and beverages; (b) sale procedures and customer service; (c) advertising and promotional programs; (d) qualifications, appearance and dress of employees; (e) safety, maintenance, appearance, cleanliness, sanitation, standards of service and operation of your Noodles & Company Restaurant;



(f) days and hours of operation; (g) bookkeeping, accounting and record keeping systems and forms; (h) type, quality, and appearance of paper products, small wares, and equipment; (i) training systems for both management and hourly staff members; and (j) information technology software and hardware. You are prohibited from selling any products that are not on the approved Noodles & Company menu and you are required to serve the entire approved Noodles & Company menu unless we approve in writing of an alternative menu for the Premises. Failure to comply with this Section 9.06 is a material breach and default of this Agreement.

**9.07 Compliance With Laws.** You must maintain in force in your name all required licenses, permits and certificates relating to the operation of your Noodles & Company Restaurant. You must operate your Noodles & Company Restaurant in full compliance with all applicable laws, ordinances and regulations, including regulations relating to the sale of beer and wine. You must notify us in writing immediately upon: (a) the commencement of any legal or administrative action, or the issuance of an order of any court, agency or other governmental instrumentality, which may adversely affect the development, occupancy or operation of your Noodles & Company Restaurant or your financial condition; or (b) the delivery of any notice of violation or alleged violation of any law, ordinance or regulation, including those relating to health, or sanitation, or liquor license violations at your Noodles & Company Restaurant.

All of your advertising and promotion must be completely factual and must conform to the highest standards of ethical advertising and is subject to our prior written approval. In all dealings with us, as well as your customers, suppliers, lessors and the public, you must adhere to the highest standards of honesty, integrity, fair dealing and ethical conduct. You agree to refrain from any business or advertising practice which may be injurious to our business, to the business of other Noodles & Company Restaurants or to the goodwill associated with the Marks.

**9.08 Insurance.** You must maintain in force such insurance policies as we require from time to time as set forth in the Operations Manual and you shall name Noodles & Company and its Affiliate, if any, as an additional insured on all policies and provide insurance certificates to us within ten (10) days of executing the Franchise Agreement and annually at least ten (10) days to expiration of each policy. Such policies shall (a) name us and our Affiliates as additional insureds and loss payees; (b) provide for thirty (30) days' prior written notice to us of any material modification, cancellation, non-renewal or expiration of such policy; and (c) include such other provisions as we may require from time to time.

Prior to opening each Noodles & Company Restaurant, and annually thereafter, you must furnish us with such evidence of insurance coverage and payment of premiums as we require. If you fail or refuse to maintain any required insurance coverage, or to furnish satisfactory evidence thereof, we, at our option and in addition to our other rights and remedies hereunder, may obtain such insurance coverage on your behalf. If we do so, you must fully cooperate with us in our effort to obtain such insurance policies and pay us any costs and premiums we incur.

Your obligation to maintain insurance coverage is not diminished in any manner by reason of any separate insurance we may choose to maintain, nor does it relieve you of your obligations under Section 18.02.

**9.09 Quality Control.** We may, in our sole discretion, establish "quality control" programs, such as a "mystery diner" program, other consumer experience evaluation programs, "customer intercept" programs and employee experience surveys, intercepts, and evaluations, to ensure the highest quality of service and food products in all Noodles & Company Restaurants. You shall

participate in any such quality control programs, including those we add or modify from time to time, and bear your proportionate share (or if we provide the program and pay the costs thereof of your pro-rata share), as determined by us in our sole discretion, of the costs of any such program. We shall have access to any data resulting from such programs implemented at your Noodles & Company Restaurants.

To further ensure quality and safety standards, you shall also participate in our then-current food safety audit program and have food safety audits conducted at your Noodles & Company Restaurants at least once every six (6) months at your sole cost. In the event the results of any such audit are not satisfactory to Noodles & Company, as determined in our sole discretion, you may be required, at your own cost, to have your Restaurant re-audited upon notice by us. You shall, at our request, participate in an alcoholic beverage server training program approved by Noodles & Company in its sole discretion. Failure to meet these obligations in a timely manner is a material breach of this Agreement and a material default hereunder.

**9.10 Crisis Management.** To further ensure quality, food safety, overall customer experience, and brand integrity, you must advise us immediately of any crisis so that we may assist you in handling the after effects of such matter, or if we mutually agree or we deem it necessary, we may take the lead in managing the after effects of such matter. The following circumstances should be reported immediately: (i) alleged food borne illness of one (1) or more persons in any one day in the same Restaurant; (ii) fire or other building casualty for which customers are evacuated; (iii) robbery; (iv) any violence at the Restaurant; (v) any other circumstances that have the potential to result in any significant adverse publicity or impact on the Restaurants or brand.

**9.11 Rebates.** We have the right to receive rebates, allowances or similar payments from suppliers as a result of your purchases. Rebates attributable by us or the applicable vendor/supplier to Marketing shall be paid into the Brand Development Fund at our election. We will provide rebates attributable by us or the applicable vendor/supplier as a cost of goods rebates to you, prorata, based on your usage or using such other method of allocating the rebates as we deem appropriate. If we rely upon manufacturer volume or usage reports, those reports may be considered conclusive by us.

**10. MARKETING, PUBLIC RELATIONS AND ADVERTISING.** This Section 10 describes the initial marketing, public relations and advertising programs; however, we reserve the right to modify this program and the manner in which the marketing and advertising funds are used for such purposes from time to time, in whole or in part, as we deem necessary. All marketing, public relations and advertising funds discussed below are collectively referred to as Marketing Funds.

**10.01 Brand Development Fund ("BDF").** We may, in our sole discretion, establish and administer a Brand Development Fund ("BDF") for the creation and development of creative materials and programs to increase brand awareness, marketing, advertising and related programs and materials, including electronic, print, radio, television and outdoor media as well as the planning and purchasing of national and/or regional media, including electronic, print, radio, television and outdoor advertising or other media vehicles ("Marketing"). At our discretion, the BDF may also pay for consumer research and the production and deployment of marketing materials. We reserve the right to have our Affiliate or a related entity manage this fund. If not covered by BDF, each Restaurant, whether Area Operator owned or Company owned, shall be responsible for its pro rata share (or, if applicable, on a use basis), on a per Restaurant basis, of the actual production costs and fees (such as print ad fees) of the Marketing materials, which can be paid by dollars contributed to FMF. We reserve the right to charge a percent of Net Royalty Sales BDF Fee upon

notice to you. You must contribute to the BDF amounts that we establish from time to time, payable on the first business day following the immediately preceding Reporting Period, together with the Royalty Fees due hereunder. At our discretion, we may Sweep the designated account referred to in Section 6.04 hereof to obtain the BDF contributions. Noodles & Company Restaurants owned by us and our Affiliates shall contribute to the BDF on the same basis as the then-current rate for franchisees.

As discussed in Section 9.11 of this Agreement, at our election, supplier rebates attributable to Marketing shall be paid into the BDF and used by us, in our sole discretion, for any purpose permitted by the BDF. Currently, we are not collecting the rebates; however, we reserve the right to do so at any time.

The BDF will be accounted for separately from our other funds. All disbursements from the BDF shall be made first from income and then from contributions. While our intent is to balance the BDF on an annual basis, from time to time the BDF may run at either a surplus or deficit. We may spend in any fiscal year an amount greater or less than the aggregate contributions of all Noodles & Company owned and franchised Restaurants to the BDF in that year, and the BDF may borrow from us or other lenders to cover deficits in the BDF and we may cause the BDF to invest any surplus for future use by the BDF. We will prepare annually an unaudited statement of monies collected and costs incurred by the BDF and furnish a copy to you upon your written request. Except as otherwise expressly provided in this Section 10.01, we assume no direct or indirect liability or obligation with respect to the maintenance, direction or administration of the BDF. We do not act as trustee or in any other fiduciary capacity with respect to the BDF.

Although the BDF is intended to maximize general recognition and patronage of the brand and the Marks for the benefit of all Noodles & Company Restaurants, we cannot assure you that any particular Noodles & Company Restaurant will benefit directly or pro-rata from the placement of advertising. Additionally, we reserve the right to define, at any time, the measurement terms for any media coverage. The BDF may be used to pay for the cost of preparing and producing creative materials and programs we select, including video, audio, electronic and printed advertising materials, media planning and buying services, and for the cost of employing advertising agencies and supporting market research activities. We may furnish you with marketing, advertising and promotional materials at cost, plus any related administrative, shipping, handling and storage charges.

We may, as we deem appropriate, seek the advice of owners of Noodles & Company Restaurants by formal or informal means with respect to the creative concepts and media used for programs financed by the BDF.

**10.02 Field Marketing Funds ("FMF").** You agree to spend for local advertising and promotion of your Noodles & Company Restaurant such amounts as we establish from time to time, currently not less than one and-a-quarter percent (1.25%) of Net Royalty Sales during any Reporting Period (these amounts must be spent within the twelve (12) month calendar year in the year in which the Reporting Period occurs). These amounts spent on mutually agreed upon local advertising and promotion will be designated as Field Marketing Funds ("FMF"). You shall furnish us with annual marketing, advertising and public relations plans sixty (60) days prior to your first grand opening and by December 1<sup>st</sup> of the previous year for each year thereafter. You shall pay directly the vendors or partners in the marketing program as the program is implemented and may be required periodically to provide documentation regarding all such payments to Noodles & Company. If you do not spend the required FMF, we may collect the funds from you and spend

them on your behalf for Field Marketing. We shall provide you with not less than thirty (30) days prior notice of any change in the FMF amount you must spend. For these purposes, advertising expenditures include: (a) amounts contributed to advertising cooperatives; (b) amounts spent by you for advertising media, such as electronic, print, radio, television and outdoor, banners, posters, direct mail, grassroots premiums, event invites, and, if not provided by us at our cost, the cost of producing approved materials necessary to participate in these media; and (c) coupons and special (or promotional) offers pre-approved by us. Advertising expenditures do not include amounts spent for items, in our reasonable judgment, deemed inappropriate for meeting the minimum advertising requirement, including permanent on-premises signage, menu boards, menus, occasion signage, advertising, lighting, personnel salaries or administrative costs, transportation vehicles (even though such vehicles may display the Marks), and employee incentive programs.

10.03 Grand Opening Marketing Program. You must develop and implement a grand opening marketing plan as described in Section 3.05 of this Agreement.

10.04 Marketing Administration Fee. ("MAF"). In addition to the advertising and promotional expenditures and/or contributions required by Sections 10.01 and 10.02 hereof, you shall contribute a Marketing Administration Fee ("MAF"), currently one percent (1.0%) of Net Royalty Sales, payable on the first (1<sup>st</sup>) business day following the immediately preceding Reporting Period, together with the Royalty Fees due hereunder. At our discretion, we may Sweep the designated account referred to in Section 6.04 hereof to obtain the MAF contributions. The MAF shall be our exclusive property and shall be used by us to cover costs of, among other things, employing advertising/public relations agencies, supporting and conducting market research activities, concept development (food and customer experience, project development and testing), design development (design, Restaurant prototype and testing), and maintenance, administration and direction of the foregoing activities. We do not separately account for the MAF or the expenditures there from.

10.05 Marketing Cooperatives. We have the right, at our sole discretion, to establish or approve local and/or regional marketing cooperatives and/or national cooperatives for Noodles & Company Restaurants in your local or regional or national areas, covering such geographical areas as we may designate from time to time ("Cooperative"). You must participate in any such cooperative and its programs and abide by its by-laws. If your Noodles & Company Restaurant is within the territory of an existing Cooperative at the time your Noodles & Company Restaurant opens for business, you agree to immediately become a member of the Cooperative. If a Cooperative applicable to your Noodles & Company Restaurant is established during the term of this Agreement, you agree to become a member no later than thirty (30) days after the date approved by us for the Cooperative to commence operation. The following provisions shall apply to each Cooperative:

(a) each Cooperative shall utilize a voting system of one (1) vote per one (1) eligible Noodles & Company Restaurant (an eligible Restaurant shall be one that is open and operating at the time of the vote);

(b) each Cooperative shall be organized and governed in a form and manner, and shall commence operations on a date, approved in advance by us in writing; no changes in the by-laws or other governing documents of a Cooperative shall be made without our prior written consent;

(c) each Cooperative shall be organized for the exclusive purpose of administering marketing programs and developing, subject to our approval, promotional materials for use by the members in the Cooperative;

(d) no marketing or promotional plans or materials may be used by a Cooperative or furnished to its members without prior approval by us pursuant to Section 10.05(f) below;

(e) you and each other member of the Cooperative shall contribute to the Cooperative, using a collection structure selected and established by us, the amount determined in accordance with the Cooperative's by-laws. Any Noodles & Company Company-owned Restaurant located in such designated local or regional (or national if applicable) area(s) will contribute to the Cooperative on the same basis. Contributions to such local and/or regional or national marketing cooperatives are applied towards the marketing expenditures required by Section 10.02; however, if we provide you and your Cooperative thirty (30) days' notice of a special promotion, including any regional promotions, you must participate in such promotion and pay to us any special promotion marketing fees assessed in connection therewith, beginning on the effective date of such notice and continuing until such special promotion is concluded. Any such special promotion marketing fees shall be in addition to, and not applied towards, the aggregate maximum marketing expenditure required by Section 10.01 and 10.02;

(f) all marketing and promotion by you and the Cooperatives shall be approved by us in writing prior to implementation, shall be conducted in a manner that supports the brand, and shall conform to such standards and requirements as we may specify. You or the Cooperative shall submit written samples of all proposed marketing and promotional plans and materials to us for our approval (except with respect to prices to be charged) at least thirty (30) days before their intended use, unless such plans and materials were prepared by us or have been approved by us within the previous six (6) months. Proposed marketing plans or materials shall be deemed to have been approved if they have not been disapproved by us within fifteen (15) days after their receipt by us;

(g) at our request, you shall furnish us with copies of such information and documentation evidencing your Cooperative contributions as we may require in order to evidence your compliance with Section 10.02 and 10.05;

(h) the Cooperative may elect to spend marketing dollars in excess of the amount Noodles & Company establishes. Such incremental excess shall not diminish the aggregate maximum we may charge for marketing;

(i) Noodles & Company may, at its election, provide accounting services for any such cooperatives at market rates or it may select a third-party accounting firm to supply this service. The cooperative shall pay the costs of such accounting upon invoice for the same.

#### 10.06 Price Point Promotions, Product Launches, Special Promotions and Multi-Area Marketing Programs.

(a) In addition to the marketing funds and other marketing requirements, Area Operator shall participate in price point promotions, special promotions, Multi-Area Marketing Programs and product launches we establish from time to time at Area Operator's expense, provided such promotions do not violate applicable law. Area Operator is required to obtain our prior written approval prior to implementing such a program we have not mandated or provided.

(b) You shall fully participate in all programs, public relations campaigns, prize contests, special offers, and other programs (including stored value cards, gift certificates and other similar programs), national, regional, or local in nature (including the introduction of new products, new franchises or other marketing programs directed or approved by us) which are prescribed from time to time by us. You shall be responsible for the costs of such participation. To the extent permitted by law, you will comply with any minimum or maximum price restrictions, including the use of coupons, which we may promulgate from time to time.

(c) We may also require you to join and participate in Multi-Area Marketing Programs, and may specify maximum resale prices to the extent permitted by law. We may designate the coverage area, method and timing of payment, and any outside agencies.

10.07 Prior Approval of Marketing Materials and Use of Noodles & Company Provided Materials. You must submit to us for our written approval (which may be withheld in our sole discretion), no later than thirty (30) days prior to your planned implementation, all marketing plans, written materials and samples of all marketing, public relations and promotional materials not prepared or previously approved by us and which vary from our standard marketing, public relations and promotional materials. If you elect to work with a marketing agency, you must obtain our written approval of such agency, which approval we may in our sole discretion withhold, before you sign any contracts or share any Confidential Information with the agency. You may not use any marketing, public relations or promotional materials that we have not approved. You may not use any marketing, public relations or promotional materials involving the sale or service of alcohol without our prior written consent, which may be withheld in our sole discretion.

You further agree to use in your marketing efforts the marketing materials available from Noodles & Company, which shall be made available to you at your expense, in the manner and frequency we require. Failure to meet the requirements of any provision of Section 10 is a material breach of this Agreement.

10.08 Social Media. You agree not to promote, offer or sell any products or services relating to your Noodles & Company Restaurant through, or use any of the Marks on, the Internet, social media, social networks or other future technological avenues (collectively, "Social Media") without our prior written consent, which we may withhold for any or no reason. You must, at all times, comply with our Social Media policy, as modified periodically. You expressly acknowledge and agree that your use of any Social Media relating to your Noodles & Company Restaurant is subject to our prior written approval. You may not establish an independent site or page on any Social Media without our prior written consent. If we authorize you to have and/or design a site or a page on any Social Media for your Noodles & Company Restaurant, your site and page may only be accessed from our site or page, and we may prohibit links between your site or page and any other site. You acknowledge that any use of Social Media by you with respect to your Noodles & Company Restaurant constitutes advertising and promotion subject to this Section 10, and you agree to

comply with any additional policies and standards we issue from time to time with respect to Social Media. You acknowledge that any copyright in your sites or pages on any Social Media will be deemed to be owned by us, and you agree to sign any documents that we reasonably deem necessary to affirm our ownership of the copyright. If necessary, you must ensure cooperation with us by any web site service provider or web site hosting company with which you do business. You represent that you have or will have the lawful right to use any proprietary materials of others that appear on your sites or pages on Social Media. We periodically may provide to you content for your sites and pages on Social Media, including copy, news stories and photographs. We must consent to any changes to your sites and pages on Social Media. You further agree to assign to us any domain names you obtain that we, in our sole discretion, request that you transfer to us that you used in connection with the Noodles & Company concept, and you further agree to assign any and all domain names used by you in the operation and promotion of your Noodles & Company Restaurant at such time as this Agreement is terminated.

10.09 Public and Media Relations. You agree that you will not issue any press or other media releases or other communication without our prior mutual agreement. As an FAO, you agree to only participate in (internal and external) communications activities that create good will, enhance public image and build the Noodles & Company brand.

10.10 Maximum Aggregate Fund Expenses. Without any vote and in our sole discretion, we reserve the right to change the requirement for BDF contributions (as well as the requirement for FMF and the MAF contributions) up to an aggregate maximum of five and one-half percent (5.5%) allocated amongst the funds as we determine is best for the Noodles & Company System. Notwithstanding the above, we also reserve the right to change the aggregate maximum for BDF contributions (as well as the requirement for FMF and the MAF contributions) without regard to the limitation set forth in the preceding sentence, in the future by gaining an approval vote by sixty-six percent (66%) of all then-existing Company-owned and franchised Noodles & Company Restaurants. Voting will be accomplished through a system of one (1) vote per eligible Noodles & Company Restaurant. Cooperatives may choose to exceed the minimums established by the Company in accordance with their bylaws.

## 11. RECORDS AND REPORTS.

11.01 Records. You agree to prepare and to maintain for three (3) years complete and accurate books, records (including invoices and records relating to your marketing expenditures) and accounts (using our then current standard chart of accounts) for your Noodles & Company Restaurant, copies of your sales tax returns and such portions of your state and federal income tax returns as relate to your Noodles & Company Restaurant. You further agree to prepare financial statements required in Section 11.03 in the form and presentation specified by us. All such books and records shall be kept at your principal address indicated on the first page of this Agreement, unless we otherwise approve.

11.02 Technology Requirements for Reporting Data. You must record all sales on computer-based cash registers which are fully compatible with our computer system and which include an information interface capability to communicate electronically with our computer system to provide us with continuous transaction level point of sale data. You agree to purchase or lease, at your expense, such computer hardware and software, required dedicated telephone and power lines, DSL or better transmission lines, modems, printers, and other computer related accessories and peripheral equipment as we may specify, for the purpose of, among other functions, recording financial and customer data and communicating with us. We may require you to use proprietary

software and any other computer systems, which we may prescribe from time to time, and you agree to execute such agreements as we may require in connection therewith. We may prescribe a specific point of sale or other computer hardware and software, which you agree to purchase.

You must provide such assistance as may be required to connect your computer system with our computer system and point of sale system. We shall have the right to retrieve transaction level data through point of sale electronic reporting as well as time of order to time of delivery data and such other information from your computer system as we deem necessary or desirable, and you agree to fully cooperate with such efforts. You will be required to provide us with all of the data Company-owned Restaurants provide to us in a format readily usable by us. In view of the contemplated interconnection of computer systems and the necessity that such systems be compatible with each other, you agree that you will comply strictly with our standards and specifications for all items associated with your computer systems.

To ensure full operational efficiency and optimum communication capability among computer systems installed by Noodles & Company Restaurants, you agree, at your expense, to keep your computer systems in good maintenance and repair, and to promptly install such additions, changes, modifications, substitutions or replacements to hardware, software, telephone and power lines, and other computer-related facilities, as we direct. In the event we approve your use of a website, you agree to ensure that the website is compatible with our website(s) and capable of any linkages we may require.

**11.03 Periodic Reports.** You must furnish us: (a) no later than the first (1<sup>st</sup>) business day immediately following the end of the applicable Reporting Period, a report of Net Royalty Sales for the preceding Reporting Period; (b) within ninety (90) days after the end of each fiscal year, a year-end balance sheet and income statement and statement of cash flow of your Noodles & Company Restaurant for such year, reflecting all year-end adjustments and accruals; (c) on the 25<sup>th</sup> day of each month or other fiscal period, Income Statement and Balance Sheet for the prior month or other fiscal period; and (d) within thirty (30) days of our request, such other information as we may require from time to time, including sales mix data, food and labor cost reports and sales and income tax statements. All such reports shall use our then-current standard chart of accounts. You must verify that the information in each such report and financial statement is complete and accurate and sign it. We reserve the right to require that your annual financial statements be audited, at your expense, by an independent certified public accountant approved by us. We reserve the right to publish or disclose information that we obtain under this section in any data compilations, collections, or aggregations that we deem appropriate, in our sole discretion, so long as we do not disclose information relating to performance of your individual Noodles & Company Restaurant, unless such disclosure is required by law or order of a court. We require you to use the reporting periods and fiscal year used by us.

## 12. OPERATIONS MANUAL.

**12.01 Operations Manual.** The Operations Manual may include, without limitation, matters such as the following: policies and procedures for all aspects of construction, design and operation of the Restaurant, forms, information relating to product and menu specifications, purchase orders, general operations, labor management, personnel, gross sales reports, net royalty sales reports, training and accounting, sanitation, food safety, design specifications, insurance requirements, uniforms, signs, notices, specified equipment and fixtures, Marks usage, lease requirements, décor, standards of maintenance and appearance of the Restaurant, hours and days of operation, advertising and marketing, standards of maintenance, customer experience, reporting



requirements, and how to contact us. We may also establish emergency procedures, which may include closure of the Restaurant. You agree that we shall not be liable for any losses or costs, including consequential damages or lost profits, due to such closure or otherwise.

12.02 Modification to Operations Manual. We will modify the Operations Manual at any time and from time to time, provided that no such modification shall alter your fundamental status and rights under this Agreement. Such modifications shall be effective upon delivery of written notice, or at such time thereafter as we designate. The Operations Manual is an integral part of this Agreement, including all amendments thereto, and you agree to comply with all aspects of the Operations Manual, as amended.

12.03 Proprietary and Confidential Information. You agree that the Operations Manual is owned solely and exclusively by us, is strictly confidential and that you will make no claim to ownership of the Operations Manual or its contents.

### 13. INSPECTIONS OF YOUR NOODLES & COMPANY RESTAURANT; AUDITS.

13.01 Inspections. We and our designees have the right at any reasonable time and without prior notice to: (a) inspect your Noodles & Company Restaurant; (b) observe, photograph, audio-tape and/or video tape the operations of your Noodles & Company Restaurant; (c) remove samples of any food and beverage products, materials or supplies for testing and analysis; and (d) interview personnel and customers of your Noodles & Company Restaurant. You agree to cooperate fully with such activities. You shall furnish to us immediately upon receipt by you all inspection reports, citations or warnings received from municipal or other authorities.

13.02 Audits. We have the right at any time during business hours, and on ten (10) days prior notice to you, to inspect, copy and audit the books, records, tax returns and documents relating to the development, ownership, lease, occupancy or operation of your Noodles & Company Restaurant. You must cooperate fully with our representatives and independent accountants conducting such audits. If any inspection or audit discloses an understatement of Net Royalty Sales, you must pay us, within seven (7) days after receipt of the audit report, the royalties and any advertising contributions due on the amount of such understatement, plus interest (as provided in Section 6.05) from the date originally due until the date of payment. Further, if such inspection or audit is made necessary by your failure to furnish reports, records or information on a timely basis, or if the audit determines an understatement of Net Royalty Sales for the period of any audit to be greater than one percent (1%), you must reimburse us for the cost of such audit or inspection, including the charges of any attorneys and independent accountants and the travel expenses, room and board and compensation of our employees, attorneys and independent accountants plus \$3,500 (or the amount in our then-current Franchise Agreement used for new franchises) to offset our internal costs relating to such audit.

### 14. AREA OPERATOR'S RIGHT TO TRANSFER.

14.01 Noodles & Company's Approval. The rights and duties created by this Agreement are personal to you and your Owners. Accordingly, neither you nor any of your Owners or Affiliates, nor any individual, partnership, limited liability company, corporation or other entity which directly or indirectly has or owns any interest in this Agreement, may Transfer the Franchise or any direct or indirect interest therein without our prior written consent, which may be withheld in our sole discretion. Any transfer without such approval or compliance constitutes a breach of this Agreement and is void and of no force or effect.

14.02 Conditions for Approval. If we have not exercised our right of first refusal under Section 14.06, we will not unreasonably withhold our approval of a Transfer of the Franchise that meets all of the reasonable restrictions, requirements and conditions we impose on the Transfer, the transferors, and/or the transferee(s), prior to the transfer being valid, including the following:

(a) you have completed development of your Noodles & Company Restaurant and are operating your Noodles & Company Restaurant in accordance with this Agreement;

(b) you and your Owners and Affiliates must be in compliance with the provisions of this Agreement and all other agreements with us or our Affiliate, as applicable;

(c) the proposed transferee must be an entity, and its owners must provide us on a timely basis all information we request; the proposed transferee's owners must be individuals acting in their individual capacities who are of good character and reputation, who must have sufficient business experience, aptitude and financial resources to operate your Noodles & Company Restaurant, and who must otherwise meet our approval;

(d) the proposed transferee may not be an entity, or be affiliated with an entity, that is required to comply with reporting and information requirements of the Securities Exchange Act of 1934, as amended or other Publicly Held Entity;

(e) the transferee (or its Operating Partner) and its managers, shift supervisors and other personnel must have completed our initial training program or must be currently certified by us to operate and/or manage a Noodles & Company Restaurant to our satisfaction;

(f) the transferee (and its owners) must agree to be bound by all of the provisions of this Agreement for the remainder of its Term or, at our option, execute our then-current Franchise Agreement and related documents used in the state in which your Noodles & Company Restaurant is located (which may provide for different royalties, advertising contributions and expenditures, duration and other rights and obligations than those provided in this Agreement);

(g) you or the transferee must pay us a transfer fee equal to \$3,500 (or the amount in our then-current Franchise Agreement used for new franchises) plus associated costs;

(h) you and your Owners and Affiliates must, except to the extent limited or prohibited by applicable law, execute a general release, in form and substance satisfactory to us, of any and all claims against us, our Affiliate, stockholders, officers, directors, employees, agents, successors and assigns;

(i) we must not have disapproved the material terms and conditions of such Transfer (including the price and terms of payment and the amount to be financed by the transferee in connection with such transfer) on the basis that they are so burdensome as to be likely, in our reasonable judgment, to adversely affect the transferee's operation of your Noodles & Company Restaurant or its compliance with its franchise agreements and any other agreements being transferred;

(j) if you (or any of your Owners or Affiliates) finance any part of the sale price of the transferred interest, you and/or your Owners or Affiliate must agree that all obligations of the transferee, and security interests reserved by any of them in the assets transferred, will be

subordinate to the transferee's obligations to pay all amounts due us and our Affiliate and to otherwise comply with this Agreement, any Franchise Agreement being transferred or any Franchise Agreement executed by the transferee;

(k) you and your Owners must execute a non-competition covenant, in form and substance satisfactory to us, in favor of us and the transferee agreeing that, for a period of two (2) years, starting on the effective date of the Transfer, you and your Owners will not directly or indirectly (such as through members of his/her or Immediate Families) own any legal or beneficial interest in, or render services or give advice to: (1) any Competitive Business; or (2) any entity which grants franchises, licenses or other interests to others to operate any Competitive Business in any Designated Market Area (as defined by Nielsen Media Research) where a Noodles & Company Restaurant is located, whether Company-owned or franchised, or within any area that is or was within an Area Development Area or a Protected Area, as those terms are defined in the Area Development Agreement and this Agreement;

(l) we do not determine that any applicable federal or state statute, regulation, rule or law which is enacted, promulgated or amended after the date hereof, may have a material adverse effect on our rights, remedies or discretion with respect to our relationship with the proposed transferee;

(m) you and your Owners and Affiliates must execute such other documents and do such other things as we may reasonably require to protect our rights under this Agreement and under any Area Development Agreement;

(n) transferee must obtain an assignment of leases from the landlords for all Restaurants being transferred and obtain liquor and other required licenses from all applicable authorities for all Restaurants being transferred; and

(o) such proposed transferee must meet all of the then-current Franchise Agreement requirements, approval processes and criteria for new Area Operators of Noodles & Company Restaurants, including ownership of the required minimum number of Noodles & Company Restaurants after the Transfer.

**14.03 Effect of Approval.** Our approval of a Transfer of the Franchise does not constitute: (a) a representation as to the fairness of the terms of any agreement or arrangement between you or your Owners and the transferee or as to the prospects of success of the Noodles & Company Restaurant by the transferee; or (b) a release of you and your Owners, a waiver of any claims against you or your Owners or a waiver of our right to demand the transferee's compliance with this Agreement. Any approval shall apply only to the specific Transfer of the Franchise being proposed and shall not constitute an approval of, or have any bearing on, any other proposed Transfer of the Franchise.

**14.04 Special Transfers.** Neither Section 14.06 nor Section 14.02(g), shall apply to any Transfer of the Franchise among any of your then-current Owners. On thirty (30) days' notice to us, you, if you are a partnership, may transfer this Agreement in conjunction with a transfer of all of the assets of your Noodles & Company Restaurant, by an agreement in form and substance approved by us, to a corporation or limited liability company which conducts no business other than the Noodles & Company Restaurant (and other Noodles & Company Restaurants under franchise agreements granted by us), and of which you own and control all of the equity and voting power of all issued and outstanding capital stock. None of the foregoing assignments shall relieve

you or your Owners of your respective obligations hereunder, and you and your Owners remain jointly and severally liable for all obligations hereunder. We will also permit transfers among partners so long as the transfer is to a prior existing partner that was previously approved by us and who meets our then-current requirements for Area Operators.

#### 14.05 Death or Disability of Area Operator.

(a) Upon your death or permanent disability, or the death or permanent disability of the Operating Partner or an Owner of a controlling interest in Area Operator, if we do not exercise our right of first refusal, the executor, administrator or other personal representative of such person shall transfer his interest in this Agreement or his interest in Area Operator to a third party approved by us in accordance with all of the applicable provisions of Section 14 within a reasonable period of time, not to exceed six (6) months from the date of death or permanent disability. We agree not to exercise our right of first refusal in the case of death or disability if the proposed purchaser or transferee is a family member who meets our then-current requirements for Area Operators or is a prior existing partner that was previously approved by us and who meets our then-current requirements for Area Operators.

(b) In order to prevent any interruption in the operation of the Restaurant and any injury to the goodwill and reputation which would cause harm to the Restaurant, you authorize us, and we shall have the right, but not the obligation, to operate the Restaurant for so long as we deem necessary and practical, and without waiver of any other rights or remedies we may have under this Agreement, in the event that: (i) you (if you are an individual) or your Operating Partner are absent or incapacitated by reason of illness or death and that you are not, in our sole judgment, able to perform under this Agreement; or (ii) any allegation or claim is made against the Restaurant, you or the Operating Partner involving or relating to any fraudulent or deceptive practice. In the event that we install a support manager to operate the Restaurant, we, at our option, shall not be obligated to operate it for a period more than ninety (90) days. All revenues from the operation of the Restaurant during such period of operation by us shall be kept in a separate account and the expenses of the Restaurant, including Royalty Fees, marketing and advertising contributions, compensation and expenses for our representative, shall be charged to said account. If the revenues are not sufficient to cover these expenses, you will pay us on demand, and we may Sweep the account in Section 6.04 to obtain payment of, the amount necessary to pay these expenses in full. If we elect to temporarily operate the Restaurant on your behalf, you hereby do and further agree to indemnify and hold us harmless from any and all claims arising from our acts and omissions.

**14.06 Noodles & Company's Right of First Refusal.** If you or any of your Owners desire to transfer the Franchise for legal consideration, you or such Owner must obtain a *bona fide*, executed written offer from a responsible and fully disclosed purchaser and must deliver immediately to us a complete and accurate copy of such offer. If the offeror proposes to buy any other property or rights from you or any of your Owners or Affiliates (other than rights under Area Development Agreements or other franchise agreements for Noodles & Company Restaurants) as part of the *bona fide* offer, the proposal for such property or rights must be set forth in a separate, contemporaneous offer that is fully disclosed to us, and the price and terms of purchase offered to you or your Owners for the transfer of the Franchise must reflect the *bona fide* price offered therefore and may not reflect any value for any other property or rights.

We have the option, exercisable by notice delivered to you or your Owners within sixty (60) days from the date of delivery of a complete and accurate copy of such offer to us to purchase

such interest for the price and on the terms and conditions contained in such offer, provided that: (a) we may substitute cash for any form of payment proposed in such offer; (b) our credit shall be deemed equal to the credit of any proposed purchaser; and (c) we will have not less than ninety (90) days from the option exercise date to consummate the transaction. We have the right to investigate and analyze the business, assets and liabilities and all other matters we deem necessary or desirable in order to make an informed investment decision with respect to the fairness of the terms of our right of first refusal. We may conduct such investigation and analysis in any manner we deem reasonably appropriate, and you and your Owners must cooperate fully with us in connection therewith.

If we exercise our option to purchase, we are entitled to purchase such interest subject to all representations and warranties, closing documents and indemnities as we reasonably may require, provided that, we exercise our option as a result of a written offer reflected in a fully negotiated definitive agreement with the proposed purchaser, we will not be entitled to any additional representations, warranties, closing documents or indemnities that will have a materially adverse effect on your rights and obligations under the definitive agreement. If we do not exercise our option to purchase, you or your Owners may complete the sale to such offeror pursuant to and on the exact terms of such offer, subject to our approval of the transfer as provided in Sections 14.01 and 14.02, provided that we will have another option to purchase if the sale to such offeror is not completed within ninety (90) days after we elect not to exercise our option to purchase, or if there is a material change in the terms of the offer. You will promptly notify us in either event and we will have an additional thirty-day (30) period to exercise our option following receipt of that notice.

14.07 Securities Offerings. Neither you nor any of your Owners may issue or sell, or offer to issue or sell, any of your securities or any securities of any of your Affiliates, regardless of whether such sale or offer would be required to be registered pursuant to the provisions of the Securities Act of 1933, as amended, or the securities laws of any other jurisdiction, without obtaining our prior consent and complying with all of our requirements and restrictions concerning use of information about us and our Affiliate. Neither you nor any of your Owners may issue or sell your securities or the securities of any of your Affiliates if: (1) such securities would be required to be registered pursuant to the Securities Act of 1933, as amended, or such securities would be owned by more than thirty-five (35) persons; or (2) after such issuance or sale, you or such Affiliate would be required to comply with the reporting and information requirements of the Securities Exchange Act of 1934, as amended, hereinafter referred to as a "Publicly Held Entity," or (c) the result would be that the initial Owners would own less than fifty-one percent (51%) of your and/or your Affiliates' securities and voting rights.

Any proposed private placement of your or of your Affiliate's securities must be approved by us and our legal counsel prior to the offering of securities. You shall pay the costs of such review and associated legal fees.

## 15. DEFAULT AND TERMINATION.

15.01 General. Noodles & Company shall have the right to terminate this Agreement for "cause." "Cause" is hereby defined as a material breach or material default of this Agreement. Noodles & Company has the right to terminate this Agreement upon the following circumstances and in the following manners, each of which is deemed a material breach or default:

15.02 Automatic Termination Without Notice. Subject to applicable laws of the jurisdiction in which the franchise is located to the contrary, Area Operator shall be deemed to be in default under this Agreement, and all rights granted herein shall at our election automatically terminate without notice to Area Operator if: (i) Area Operator shall be adjudicated bankrupt or judicially determined to be insolvent (subject to any contrary provisions of any applicable state or federal laws), shall admit to its inability to meet its financial obligations as they become due or shall make a disposition for the benefit of its creditors; (ii) Area Operator shall allow a judgment against him in the amount of more than \$25,000 to remain unsatisfied for a period of more than thirty (30) days (unless a supersedeas or other appeal bond has been filed); (iii) if the Restaurant at the Premises or the Area Operator's assets are seized, taken over or foreclosed by a government official in the exercise of its duties, or seized, taken over, or foreclosed by a creditor or lien holder provided that a final judgment against the Area Operator remains unsatisfied for thirty (30) days (unless a supersedeas or other appeal bond has been filed); (iv) if a levy of execution of attachment has been made upon the license granted by this Agreement or upon any property used in the Restaurant at the Premises, and is not discharged within five (5) days of such levy or attachment; (v) if Area Operator consents to the entry of an order for relief in an involuntary proceeding or to the conversion of an involuntary proceeding to a voluntary proceeding under any such law; (vi) if Area Operator consents to the appointment of, or the taking of possession by a receiver, trustee, or other custodian (as defined in the Bankruptcy Code) for all or a substantial part of its property or the property of the franchise business; (vii) if Area Operator permits any recordation of a notice of mechanics lien against the Restaurant at the Premises or any equipment at the Restaurant at the Premises which is not released within sixty (60) days; or (viii) a condemnation or transfer in lieu of condemnation occurs.

15.03 Option to Terminate Without Opportunity to Cure. Area Operator shall be deemed to be in default and Noodles & Company may, at its option, terminate this Agreement and all rights granted hereunder, without affording Area Operator any prior notice or opportunity to cure the default, effective immediately upon receipt of notice by Area Operator if any of the following events occur:

(a) Abandonment. If Area Operator abandons the Restaurant at the Premises. For purposes of this Agreement, "abandon" shall refer to Area Operator's failure, at any time during the term of this Agreement, to keep the Premises or Restaurant at the Premises open and operating for business for a period of two (2) consecutive days, except as provided in the Operations Manuals.

(b) Assignment, Death or Incapacity. If Area Operator purports to sell, assign, transfer, pledge or encumber in whole or in part the Restaurant, or any interest in the Franchise, without the prior written consent of Noodles & Company; except in the case that (i) or (ii) herein apply and you have made an appropriate request to transfer: (i) upon the death or legal incapacity of an Area Operator who is an individual, Franchisor shall allow up to six (6) months after such death or legal incapacity for the heirs, personal representatives or conservators (the "Heirs") of Area Operator either to enter into a new Franchise Agreement upon Noodles & Company's Then Current Franchise Agreement (except that no franchise fee or transfer fee shall be charged), if Noodles & Company is subjectively satisfied that the Heirs meet Noodles & Company's standards and qualifications, or if not so satisfied to allow the Heirs to sell the franchise to an Entity approved by Noodles & Company; or (ii) upon the death or legal incapacity of an Owner of Area Operator directly or indirectly owning fifty percent (50%) or more of the equity or voting power of Area Operator, Noodles & Company shall allow a period of up to six(6) months after such death or legal incapacity for the Heirs to enter into our Then Current Franchise Agreement or to transfer to another person acceptable by us. If within said six (6) month period said Heirs fail either to enter into a

new Franchise Agreement or to sell the franchise to a person approved by Noodles & Company, or fail either to receive our consent to the transfer of such equity or voting rights to the Heirs or to another person acceptable by us, as provided herein, this Agreement shall thereupon automatically terminate;

(c) Repeated Defaults. If Area Operator shall default in three (3) or more material obligations within the preceding twelve (12) months for which written notice has been provided, if required, or for which no notice was given if none required, such repeated course of conduct, which need not be the same or identical breaches, shall itself be grounds for termination of this Agreement without further notice or opportunity to cure;

(d) Misrepresentation. If Area Operator makes any material misrepresentations or omissions in connection with the execution of this Agreement or the acquisition of the Premises;

(e) Violation of Law. If Area Operator fails, for a period of five (5) days after having received notification of non-compliance from Noodles & Company or any governmental or quasi-governmental agency or authority, to comply with any federal, state or local law or regulation applicable to the operation of the Restaurant;

(f) Health or Safety Violations. If Area Operator: (i) operates the Restaurant so contrary to this Agreement, the System and the Operations Manuals as to constitute an imminent danger to the public health; or (ii) sells unauthorized products to the public after notice of default and continuing to sell such products whether or not Area Operator has cured the default after one (1) or more notices; (iii) fails to cure issues after food safety audits and health department inspections; or (iv) fails to begin to correct such non-compliance or violation immediately, and completely corrects such non-compliance or violation within forty-eight (48) hours, after written notice thereof is delivered by said inspector or auditor or us, whichever is earlier;

(g) Under Reporting. If an audit or investigation conducted by us discloses that Area Operator has knowingly maintained false books or records, or submitted false reports to us, or knowingly understated its Net Royalty Sales or withheld the reporting of same as herein provided;

(h) Criminal Offenses. If Area Operator or any of its officers, directors, or key employees is convicted of or pleads guilty or nolo contendere to a felony or any other crime or offense that is reasonably likely, in our sole opinion, to adversely affect our reputation, System, Marks or the goodwill associated therewith, or our interest therein;

(i) Assignment Without Consent. If Area Operator purports to make any assignment or transfer without our prior written consent or otherwise violates this Agreement;

(j) Intellectual Property Misuse. If Area Operator materially misuses or makes any unauthorized use of the Marks (including, but not limited to, unauthorized use of the Marks as part of a website domain name or electronic address or as part of information available on such website), or otherwise materially impairs the goodwill associated therewith or Noodles & Company's rights therein. Area Operator's disclosure of any portion of the Operations Manual in violation of this Agreement, or Area Operator's unauthorized use, disclosure or duplication of the "Trade Secrets," or Confidential Information, excluding independent acts of employees or others if Area Operator shall have exercised its best efforts to prevent such disclosures or use; or

(k) Unethical Conduct. If Area Operator engages in any dishonest or unethical conduct that may adversely affect the reputation of the Restaurant or other Noodles & Company Restaurants or the goodwill associated with the Marks.

(l) Failure to Complete Training. Failure to timely and successfully complete the training programs described in Section 4.01 to Franchisor's satisfaction.

**15.04 Termination With Notice and Opportunity To Cure.** Except for any default by Area Operator for which no notice is required as expressly provided elsewhere in this Agreement, Area Operator shall have thirty (30) days, five (5) days in the case of any default in the timely payment of sums due to Noodles & Company or its Affiliate), after written notice of default within which to remedy any default under this Agreement, and to provide evidence of such remedy to Noodles & Company. If any such default is not cured within that time period, or such longer time period as applicable law may require or as we may specify in the notice of default, this Agreement and all rights granted by it shall thereupon automatically terminate without further notice or opportunity to cure. Defaults for which notice under this Section 15.04 shall be given include:

(a) Performance Requirements. If Area Operator fails to maintain or observe any of the standards, policies or procedures we prescribe (i) in this Agreement or any other agreement with Noodles & Company or its Affiliate related to this or any other franchise; (ii) in the Operations Manual; (iii) pursuant to our other policies, whether or not written, which describe Area Operator's duties, obligations, conditions, covenants, or performance requirements; or (iv) in other written documentation, including, without limitation, the requirements and specifications concerning the (a) quality, services, and cleanliness of the Restaurant; (b) the products and services sold or provided at the Restaurant, or the operation of the Restaurant; (c) any other operational and other performance requirements; and (d) the overall quality, service or cleanliness of the Restaurant is determined by us to be unsatisfactory or damaging to the brand or customer experience.

(b) Failure to Adequately Maintain Bank Account. If Area Operator fails to maintain adequate resources in the designated bank account (as described in Section 6.04) to fully and timely satisfy all Sweeps of the account Noodles & Company is permitted to make under this Agreement.

**15.05 Notice Required By Law.** Notwithstanding anything to the contrary contained in this Section 15, in the event any valid, applicable law of a competent Governmental Authority having jurisdiction over this Agreement and the parties hereto shall limit Noodles & Company's rights of termination hereunder or shall require longer notice periods than those set forth above, this Agreement shall be deemed amended to conform to the minimum notice periods or restrictions upon termination required by such laws and regulations. Noodles & Company shall not, however, be precluded from contesting the validity, enforceability, or application of such laws or regulations in any action, arbitration, hearing or dispute relating to this Agreement or the termination thereof.

**15.06 Reimbursement of Our Costs.** In the event of a default by Area Operator, all our costs and expenses arising from such default, including reasonable legal fees and reasonable hourly charges of our administrative and other employees shall be paid to Noodles & Company within five (5) days of notice by us.

**15.07 Cross-Default.** Except for a default or termination of any Area Development Agreement consisting solely of Area Operator's failure to meet the development schedule thereunder, any material default not timely cured by Area Operator 1) under the terms and conditions



of this Agreement, any Lease, or other agreement between Noodles & Company (or its Affiliate) and Area Operator, 2) of its obligations to any advertising Cooperative of which it is a member, 3) under any agreement with any vendor or supplier of Noodles & Company Proprietary or Non-Proprietary Products, 4) under the Lease for the Premises or 5) under any agreement with any construction suppliers, product supplier or service providers, shall be deemed a material default of this Agreement and each and every said agreement. Furthermore, in the event of termination, for any cause of this Agreement or any other agreement between the parties hereto, Noodles & Company may, at its option, terminate any or all said agreements.

**15.08 Option to Purchase.** Upon the expiration or termination of this Agreement for any reason, we shall give written notice to Area Operator, within thirty (30) days after the effective date of termination or expiration, if we intend to exercise our option to purchase from Area Operator some or all of the assets used in the Noodles & Company Restaurant ("Assets"). In the event we have exercised such option we shall have the right to immediately enter and take over operations of the Premises. As used in this Section 15.08, "Assets" shall mean and include, without limitation, leasehold improvements, equipment, vehicles, furnishings, fixtures, signs and inventory (non-perishable products, materials and supplies) used in the Restaurant, any liquor licenses and any other licenses necessary to operate the Premises, and the real estate fee simple or the lease for the Premises. We shall have the unrestricted right to assign this option to purchase the Assets. We shall be entitled to all customary representations and warranties that the Assets are free and clear (or, if not, accurate and complete disclosure) as to: (1) ownership, condition and title; (2) liens and encumbrances; (3) environmental and hazardous substances; and (4) validity of contracts and liabilities inuring to user affecting the Assets, whether contingent or otherwise.

(a) **Purchase Price.** The purchase price for the Assets ("Purchase Price") shall be their fair market value, (or, for leased assets, the fair market value of Area Operator's lease) determined as of the effective date of purchase in a manner that accounts for reasonable depreciation and condition of the Assets less the amount of any liabilities associated with the Assets which we elect, in our sole discretion, to assume; provided, however, that the Purchase Price shall take into account the termination of this Agreement. Further, the Purchase Price for the Assets shall not contain any factor or increment (including goodwill) for any trademark, service mark or other commercial symbol used in connection with the operation of the Noodles & Company Restaurant. We may exclude from the Assets purchased in accordance with this Section any equipment, vehicles, furnishings, fixtures, signs, and inventory that are not approved as meeting then-current standards for a System Restaurant or for which Area Operator cannot deliver a bill of sale in a form satisfactory to us.

(b) **Appraisers.** If Franchisor and the Area Operator are unable to agree on the fair market value of the Assets within thirty (30) days after Area Operator's receipt of Franchisor's notice of its intent to exercise its option to purchase the Assets, the fair market value shall be determined by two (2) professionally certified appraisers, Area Operator selecting one (1) and Franchisor selecting one (1). If the valuations set by the two (2) appraisers differ by more than ten percent (10%), the two (2) appraisers shall select a third professionally certified appraiser who also shall appraise the fair market value of the Assets. The average value set by the appraisers (whether two (2) or three (3) appraisers as the case may be) shall be conclusive and shall be the Purchase Price.

(c) **Access to Restaurant, Premises and Books and Records.** The appraisers shall be given full access to the Restaurant, the Premises and Area Operator's books and records during customary business hours to conduct the appraisal and shall value the leasehold improvements,

equipment, furnishings, fixtures, signs and inventory in accordance with the standards of this Section 15.08. The appraisers' fees and costs shall be borne equally by Franchisor and Area Operator.

(d) Franchisor's Purchase Notice. Within ten (10) days after the Purchase Price has been determined, Franchisor may exercise its option to purchase all or a portion of the Assets by so notifying Area Operator in writing ("Franchisor's Purchase Notice"). The Purchase Price shall be paid in cash or cash equivalents at the closing of the purchase ("Closing"), which shall take place no later than sixty (60) days after the date of Franchisor's Purchase Notice. From the date of Franchisor's Purchase Notice until Closing:

(i) Area Operator shall operate the Restaurant and maintain the Assets in the usual and ordinary course of business and maintain in full force all insurance policies required under this Agreement; and

(ii) Franchisor shall have the right to appoint a manager, at Franchisor's expense, to control the day-to-day operations of the Restaurant and Area Operator shall cooperate, and instruct its employees to cooperate, with the manager appointed by Franchisor. Alternatively, Franchisor may require Area Operator to close the Restaurant during such time period without removing any Assets from the Restaurant.

(e) Due Diligence Period. For a period of thirty (30) days after the date of Franchisor's Purchase Notice ("Due Diligence Period"), Franchisor shall have the right to conduct such investigations as it deems necessary and appropriate to determine: (1) the ownership, condition and title of the Assets; (2) liens and encumbrances on the Assets; (3) environmental and hazardous substances at or upon the Premises; and (4) the validity of contracts and liabilities inuring to Franchisor or affecting the Assets, whether contingent or otherwise. Area Operator will afford Franchisor and its representatives access to the Restaurant and the Premises at all reasonable times for the purpose of conducting inspections of the Assets; provided that such access does not unreasonably interfere with Area Operator's operation of the Restaurant.

(f) Title and Lien Searches, Surveys, Environmental Assessments and Inspections. During the Due Diligence Period, at its sole option and expense, Franchisor may (a) cause the title to the Assets that consist of real estate interests ("Real Estate Assets") to be examined by a nationally recognized title company and conduct lien searches as to the other Assets; (b) procure "AS BUILT" surveys of the Real Estate Assets; (c) procure environmental assessments and testing with respect to the Real Estate Assets; and/or (d) inspect the Assets that consist of leasehold improvements, equipment, vehicles, furnishings, fixtures, signs and inventory ("Fixed Assets") to determine if the Fixed Assets are in satisfactory working condition. Prior to the end of the Due Diligence Period, Franchisor shall notify Area Operator in writing of any objections that Franchisor has to any finding disclosed in any title or lien search, survey, environmental assessment or inspection. If Area Operator cannot or elects not to correct any such title defect, environmental objection or defect in the working condition of the Fixed Assets, Franchisor will have the option to either accept the condition of the Assets as they exist or rescind its option to purchase on or before the Closing.

(g) Compliance with Legal Requirements. Prior to the Closing, Area Operator and Franchisor shall comply with all applicable legal requirements, including the bulk sales provisions of the Uniform Commercial Code of the state in which the Restaurant is located and the bulk sales provisions of any applicable tax laws and regulations. Area Operator shall, prior to or simultaneously with the Closing, pay all tax liabilities incurred in connection with the operation of the Restaurant

prior to Closing. Franchisor shall have the right to set off against and reduce the Purchase Price by any and all amounts owed by Area Operator to Franchisor, and the amount of any encumbrances or liens against the Assets or any obligations assumed by Franchisor.

(h) Lease of Premises. If the Premises are leased, Franchisor agrees to use reasonable efforts to effect a termination of the existing lease for the Premises. If the lease for the Premises is assigned to Franchisor or Franchisor subleases the Premises from Area Operator, Franchisor will indemnify and hold Area Operator harmless from any ongoing liability under the lease from the date Franchisor assumes possession of the Premises, and Area Operator will indemnify and hold Franchisor harmless from any liability under the lease prior to and including that date.

If Area Operator owns the Premises, Franchisor, at its option, will either purchase the fee simple interest or, upon purchase of the other Assets, enter into a standard lease with Area Operator on terms comparable to those for which similar commercial properties in the area are then being leased. The initial term of this lease with Area Operator shall be at least ten (10) years with two (2) options to renew of five (5) years each and the rent shall be the fair market rental value of the Premises. If Area Operator and Franchisor cannot agree on the fair market rental value of the Premises, then appraisers (selected in the manner described above) shall determine the rental value.

(i) Closing. At the Closing, Area Operator shall deliver instruments transferring to Franchisor or its assignee: (a) good and merchantable title to the Assets purchased, free and clear of all liens and encumbrances (other than liens and security interests acceptable to Franchisor or its assignee), with all sales and other transfer taxes paid by Area Operator; (b) all licenses and permits for the Restaurant that may be assigned or transferred, with appropriate consents, if required; and (c) the lease or sublease for the Premises, with appropriate consents, if required. If Area Operator cannot deliver clear title to all of the purchased Assets as indicated in this Section, or if Area Operator is otherwise not able to comply with the requirements set forth in this Section, then the Closing shall be accomplished through an escrow.

15.09 Termination by Area Operator. If Area Operator is in full compliance with this Agreement, and Franchisor materially breaches this Agreement, Area Operator may terminate this Agreement effective ninety (90) days after the delivery of written notice of termination if Area Operator gives written notice of such breach to Franchisor and Franchisor does not:

- (a) correct such failure within ninety (90) days after delivery of notice of such breach; or
- (b) if such breach cannot reasonably be cured within ninety (90) days after delivery of notice of such breach, undertake within ninety (90) days after delivery of such notice, reasonable efforts to cure such breach, and ultimately cure such breach.

## 16. RIGHTS AND OBLIGATIONS UPON TERMINATION.

16.01 Expiration or Termination of Area Operator's Rights. Upon the expiration or termination of Area Operator's rights granted under this Agreement:

- (a) Area Operator shall immediately cease to use all trade secrets, Confidential Information, the Marks, and any confusingly similar trademark, service mark, trade name, logotype,

or other commercial symbol or insignia. Area Operator shall immediately return all property belonging to Franchisor, including but not limited to, the Operations Manual, menus, advertising materials, computer software programs and all materials incorporating trade secrets or Confidential Information.. Area Operator shall, at its own cost, make cosmetic changes to the Premises so that it no longer contains or resembles Noodles & Company's proprietary designs, including removal of all Noodles & Company identifying materials and distinctive cosmetic features and finishes, soffits, interior wall coverings and colors, exterior finishes and colors and signage from the Premises as we may reasonably direct.

(b) Noodles & Company may retain all fees paid pursuant to this Agreement, and Area Operator shall immediately pay any and all amounts owing to Noodles & Company and its Affiliates.

(c) Any and all obligations of Noodles & Company to Area Operator under this Agreement shall immediately cease and terminate.

(d) Any and all rights of Area Operator under this Agreement shall immediately cease and terminate.

(e) Area Operator shall immediately cease to operate the franchised Noodles & Company Restaurant, and shall not thereafter, directly or indirectly, represent to the public or hold itself out as a present or former Area Operator of Noodles & Company.

(f) Noodles & Company shall have the option, exercisable by written notice within thirty (30) days after the termination of this Agreement, to take an assignment of all telephone numbers (and associated listings) for the Restaurant, and Area Operator shall notify the telephone company and all listing agencies of the termination or expiration of Area Operator's right to use any telephone number and any classified or other telephone directory listings associated with the Restaurant, and authorize and instruct their transfer to Noodles & Company. Area Operators shall deliver all goods and materials containing the Marks to Noodles & Company and we shall have the sole and exclusive use of any items containing the Marks. Area Operator is not entitled to any compensation from us if we exercise this option.

(g) If Noodles & Company shall have authorized Area Operator to use the Marks, in whole or in part, in connection with the Internet, any website or email address, Area Operator shall, at our option, cancel or assign to Noodles & Company, or its designate, all of Area Operator's rights, title and interest in any Internet websites or web pages, email addresses, domain name listings and registrations which contain or which previously contained the Marks, or any of them, in whole or in part, and Area Operator shall notify Verisign (Network Solutions), register.com, or other applicable domain name registrar and all listing agencies, upon the termination or expiration hereof, of the termination of Area Operator's right to use any domain name, web page and other Internet devise associated with Noodles & Company or the Restaurant, and authorize and instruct their cancellation or transfer to Noodles & Company, as directed by us. Area Operator is not entitled to any compensation from us if we exercise our said rights or options. For the avoidance of doubt, nothing in this Section 16 shall be deemed to permit Area Operator to use the Marks, or any of them in whole or in part, in connection with the Internet, except with our prior written consent as provided in this Agreement.

16.02 Survival of Obligations. Termination or expiration shall be without prejudice to any other rights or remedies that Noodles & Company or Area Operator, as the case may be, shall

have in law or in equity, including, without limitation, the right to recover benefit of the bargain damages. In no event shall a termination or expiration of this Agreement affect Area Operator's obligations to take or abstain from taking any action in accordance with this Agreement. The provisions of this Agreement which constitute post-termination covenants and agreements including the parties' obligation to arbitrate any and all disputes shall survive the termination or expiration of this Agreement. Area Operator shall provide us written confirmation that it has complied with all aspects of Section 16 and will continue to comply with such provisions within thirty (30) days of the effective date of the termination.

16.03 No Ownership of Marks. Area Operator acknowledges and agrees that rights in and to Noodles & Company's Marks and the use thereof shall be and remain our property.

16.04 Government Filings. In the event Area Operator has registered any of Noodles & Company's Marks or the name Noodles & Company as part of Area Operator's assumed, fictitious or corporate name, Area Operator shall promptly amend such registration to delete Noodles & Company's Marks and any confusingly similar marks or names therefrom.

16.05 Post-Term Covenants. Without limiting the generality of Section 16.02, the Post-Term covenants provided in Section 7.03 of this Agreement shall apply up on the expiration or termination of this Agreement.

## 17. SUCCESSOR FRANCHISE RIGHTS.

17.01 Your Right To Renewal. You will have an option to renew your Franchise Agreement for the Noodles & Company Restaurant you operate at the Premises after the Initial Term for two Renewal Terms of ten (10) years each, subject to the following conditions:

(i). Not less than twelve (12) months nor more than eighteen (18) months before the end of the Initial Term or a subsequent Renewal Term you must have given us written notice of your election to exercise the option. If you do not provide timely written notice of your election to exercise the option, you will be deemed to have waived the option. If you do give timely written notice of your election to exercise the option, but we do not agree that you are entitled to exercise the option, we will so notify you within sixty (60) days of the date your notice is given. If we fail to so notify you within such sixty (60) day period that we do not agree that you are entitled to exercise the option, we will be deemed to have waived our right to object to your election.

(ii). You will be required to enter into our then-current form of Franchise Agreement, which will supersede this Agreement in all respects and which shall provide a ten-year term for each Renewal Term. The terms of that Franchise Agreement may differ from this Agreement in material respects (including differences in Royalty Fees or other amounts payable by you).

(iii). You must pay, in lieu of an initial franchise fee, a renewal fee equal to (a) one-half of our then-current franchise fee, in the case of a ten (10) year renewal term, or (b) our then-current franchise fee, in the case of a twenty (20) year renewal term pursuant to 17.01 (iv) below.

(iv). You must present evidence satisfactory to us that you have the right to remain in possession of the Premises for the entire renewal term, and we must either have (a)

approved the Premises as a suitable location for a Noodles & Company restaurant under our then-applicable site criteria, or (b) approved a relocation site as a suitable location for a Noodles & Company location under such criteria (in which event your right to enter into the new Franchise Agreement will be conditioned upon your relocation of the Noodles & Company Restaurant at your expense and the renewal term which you are exercising may at your election be extended to an aggregate period of up to twenty (20) years rather than ten (10) years). In addition, if you hold a ground lease or fee ownership of the Premises the renewal term you are exercising may at your election be extended to an aggregate period of up to twenty (20) years (or such shorter period for which you have ground lease rights) rather than ten (10) years.

(v). You must complete such renovation, modernization and improvement of the Restaurant premises and fixtures, furniture and equipment as we may reasonably require. Such work may include, without limitation, replacement of addition of signs, equipment, furnishings, fixtures, finishes and décor items, and redesign of the layout of the Restaurant, to reflect the then-current standards and image of the System to Noodles & Company's reasonable satisfaction. The work must be completed within six (6) months after the Renewal Franchise Agreement is signed.

(vi). You must have complied with our then-current qualifications (including financial and operational qualifications) and training requirements for new Franchisees, and you must be eligible for renewal in accordance with our process for evaluating franchisee renewal eligibility as in effect from time to time. If you are not so eligible, we will so notify you not less than eighteen (18) months before the end of an Initial Term or subsequent Renewal Term, which notice will include the reasons you are not so eligible, and you will have an opportunity to seek to satisfy such eligibility (and we will re-evaluate such eligibility) prior to the end of such term.

(vii). You must not have received a notice of default under this Agreement and you must in our opinion have substantially complied with all of the terms and conditions of this Agreement, any amendment or successor to this Agreement, or any other agreement between you or any of your Affiliates and us.

(viii). Neither you nor any of your affiliates must have engaged in any conduct or communications that disparage Noodles & Company or the Noodles & Company brand.

(ix). At the time of renewal, you and each of your Affiliates must sign a general release, in a form prescribed by us, releasing any and all claims, including known and unknown claims, against us and our Affiliates, and their respective officers, directors, agents and employees.

17.02 Notices. You must give us written notice of your desire to acquire a successor franchise not less than six (6) months and no more than twelve (12) months prior to the expiration of this Agreement. We will give you notice, not later than sixty (60) days prior to expiration of this Agreement, of our decision whether or not you have the right to acquire a successor franchise. Notwithstanding any notice of our decision that you have the right to acquire a successor franchise for your Noodles & Company Restaurant, your right will be subject to your continued compliance with all the provisions of this Agreement, and all other agreements between you and us or our respective Affiliates, up to the date of its expiration.

18. RELATIONSHIP OF THE PARTIES.

18.01 Independent Contractors. Neither this Agreement nor the dealings of the parties pursuant to this Agreement shall create any fiduciary relationship or any other relationship of trust or confidence between the parties hereto. Noodles & Company and Area Operator, as between themselves, are and shall remain independent contractors.

If applicable law shall imply a covenant of good faith and fair dealing in this Agreement, the parties hereto agree that such covenant shall not imply any rights or obligations that are inconsistent with a fair construction of the terms of this Agreement. Additionally, if applicable law shall imply such covenant, we and you acknowledge and agree that: (a) this Agreement (and the relationship of the parties which arises from this Agreement) grants us the discretion to make decisions, take actions and/or refrain from taking actions not inconsistent with your explicit rights and obligations hereunder that may affect favorably or adversely your interests; (b) we will use our judgment in exercising such discretion based on our assessment of our own interests and balancing those interests against the interests of the owners of Noodles & Company Restaurants generally (including ourselves, and our Affiliate and other Area Operators), and specifically without considering your individual interests or the individual interests of any other particular Area Operator; (c) we will have no liability to you for the exercise of our discretion in this manner so long as such discretion is not exercised in bad faith toward you; and (d) in the absence of such bad faith, no trier of fact in any legal action or arbitration proceeding shall substitute its judgment for our judgment so exercised. Nothing contained in this Agreement, or arising from the conduct of the parties hereunder, is intended to make either party a general or special agent, joint venturer, partner or employee of the other for any purpose whatsoever. You must conspicuously identify yourself in all dealings with customers, lessors, contractors, suppliers, public officials, employees and others as the owner of your Noodles & Company Restaurant and must place such other notices of independent ownership on such forms, business cards, stationery, advertising and other materials as we may require from time to time.

You may not make any express or implied agreements, warranties, guarantees or representations or incur any debt in our name or on our behalf or represent that the relationship of the parties hereto is anything other than that of independent contractors. We will not be obligated by or have any liability under any agreements made by you with any third party or for any representations made by you to any third party. We will not be obligated for any damages to any person or property arising directly or indirectly out of the operation of your business hereunder.

18.02 Indemnification. You agree to indemnify us, our Affiliate and our respective directors, officers, employees, shareholders, agents, successors and assigns (collectively "Indemnitees"), and to hold the Indemnitees harmless to the fullest extent permitted by law, from any and all losses and expenses (as defined below) incurred in connection with any litigation or other form of adjudicatory procedure, claim, demand, investigation, or formal or informal inquiry (regardless of whether it is reduced to judgment) or any settlement thereof which arises directly or indirectly from, or as a result of, a claim of a third party against any one (1) or more of the Indemnitees in connection with the development, ownership, operation or closing of any of your Noodles & Company Restaurants (collectively "Event"), and regardless of whether it resulted from any strict or vicarious liability imposed by law on the Indemnities; provided, however, that this indemnity will not apply to any liability arising from negligent acts of Indemnitees (except to the extent that joint liability is involved, in which event the indemnification provided herein will extend to any finding of comparative

or contributory negligence attributable to you). The term "losses and expenses" includes compensatory, exemplary, and punitive damages; fines and penalties; attorneys' fees; experts' fees; court costs; costs associated with investigating and defending against claims; settlement amounts; judgments; compensation for damages to our reputation and goodwill; and all other costs associated with any of the foregoing losses and expenses. We agree to give you reasonable notice of any Event of which we become aware for which indemnification may be required and we may elect (but are not obligated) to direct the defense thereof, provided that the selection of counsel shall be subject to your consent, which consent shall not be unreasonably withheld or delayed. We may, in our reasonable discretion, take such actions as we deem necessary and appropriate to investigate, defend, or settle any Event or take other remedial or corrective actions with respect thereto as may be necessary for the protection of Indemnitees or Noodles & Company Restaurants generally, provided however, that any settlement shall be subject to your consent, which consent shall not be unreasonably withheld or delayed. We shall not be obligated to consent to any settlement that admits any fault, directly or indirectly, on our part. Further, notwithstanding the foregoing, if the insurer on a policy or policies obtained in compliance with your Franchise Agreement agrees to undertake the defense of an Event (an "Insured Event"), we agree not to exercise our right to select counsel to defend the Event if such would cause your insurer to deny coverage so long as your insurer provides suitable, skilled counsel to defend the action. We reserve the right to retain counsel to represent us with respect to an Insured Event at our sole cost and expense. This Section shall continue in full force and effect subsequent to and notwithstanding the expiration or termination of this Agreement.

18.03 Taxes. We will have no liability for any sales, use, service, occupation, exercise, gross receipts, income, property or other taxes, whether levied upon your Noodles & Company Restaurant, your property or upon us, in connection with sales made or business conducted by you (except any taxes we are required by law to collect from you). Payment of all such taxes shall be your responsibility. In the event of a *bona fide* dispute as to your liability for taxes, you may contest your liability in accordance with applicable law. In no event, however, will you permit a tax sale, seizure, or attachment to occur against your Noodles & Company Restaurant or any of its assets.

You will promptly pay all federal, state and local taxes arising out of the operation of your business. We will not be liable for these or any other taxes and you hereby do and will indemnify us for any such taxes that may be assessed or levied against us which arise or result from your business. You shall reimburse us for any sales tax, gross receipts tax, use tax or other tax or assessment imposed by any taxing authority in the state where the Restaurant is located on any fees or other amounts payable to us under this Agreement. Such taxes are distinguishable from income taxes imposed on us by the jurisdiction in which the Restaurant is located. Such income taxes are our responsibility.

## 19. DISPUTE RESOLUTION.

19.01 Mediation, Jurisdiction and Venue. Except for claims by either party for payments owed by one party to the other and except for claims requesting injunctive relief, any controversy or claim arising out of or relating to this Agreement or the making, interpretation, or performance hereof, shall first be submitted to mediation. The parties shall agree on a single mediator within thirty (30) days after notice by the complaining party, and if no mediator is mutually agreed upon within such thirty (30) days, then the mediation shall be submitted by the complaining party to the American Arbitration Association's ("AAA's") regional office located closest to our principal place of business. The mediation proceedings shall be conducted in the city where we then have our



principal place of business. You agree and acknowledge that Noodles & Company may, through manuals, or otherwise in writing, designate different procedures or rules for any mediation.

Subject to the foregoing, you and your Owners irrevocably submit to the jurisdiction of the Federal Courts of the United States in the state in which our principal place of business is located (which is Colorado as of the date hereof) and of the state courts of the city and county in which our principal place of business is located (which as of the date hereof is the State of Colorado, City and County of Broomfield) in any suit, action, or proceeding, arising out of or relating to this Agreement or any other dispute between you and us. You irrevocably agree that all claims in respect of any such suit, action, or proceeding brought by you must be brought therein. You irrevocably waive, to the fullest extent you may lawfully do so, the defense of an inconvenient forum to the maintenance of such suit, action, or proceeding, and the defense of lack of personal jurisdiction.

You agree that service of process for purposes of any such suit, action, or proceeding arising out of this Agreement may be made by serving a person of suitable age and discretion (such as the person in charge of the office) at the notice address specified on the signature page of this Agreement.

**19.02 Injunctive Relief.** Notwithstanding Section 19, we may obtain, in any court of competent jurisdiction, any injunctive relief, including temporary restraining orders and preliminary injunctions, against conduct or threatened conduct for which no adequate remedy at law may be available or which may cause us irreparable harm. We may have such injunctive relief, without bond, but upon due notice, in addition to such further and other relief as may be available at equity or law, and your sole remedy in the event of the entry of such injunction, shall be its dissolution, if warranted, upon hearing duly held (all claims for damages by reason of the wrongful issuance of any such injunction being expressly waived). You and each of your Owners acknowledge that any violation of Section(s) 5, 7, 9, 11, 14, 15 and/or 16, but not limited to these Sections, would result in irreparable injury to us for which no adequate remedy at law may be available. Accordingly, you and each of your Owners consent to the issuance of an injunction prohibiting any conduct in violation of any of those sections and agree that the existence of any claim you or any of your Owners may have against us, whether arising from this Agreement, shall not constitute a defense to the enforcement of any of those Sections.

**19.03 Attorneys' Fees.** If any party brings action against another party, with respect to the subject matter of this Agreement, the prevailing party, if any, shall be entitled to recover from the adverse party all of the reasonable expenses of the prevailing party, including attorney fees.

**19.04 Governing Law.** Except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. 1051 et seq.) or other federal law, this Agreement shall be interpreted under the laws of the State of Colorado, excluding its choice of laws rules. This Agreement shall be construed under the laws of the State of Colorado, provided the foregoing shall not constitute a waiver of any of your rights under any applicable franchise law of another state. Otherwise, in the event of any conflict of law, Colorado law will prevail, without regard to its conflict of law principles. However, if any provision of this Agreement would not be enforceable under Colorado law, and if your Noodles & Company Restaurant is located outside of Colorado and such provision would be enforceable under the laws of the state in which your Noodles & Company Restaurant is located, then such provision shall be construed under the laws of that state. Nothing in this Section 19 is intended to subject this Agreement to any franchise or similar law, rule or regulation of the State of Colorado to which it otherwise would not be subject.

#### 19.05 Limitations on Legal Actions.

(a) Waiver of Punitive and Exemplary Damages. Except with respect to your obligations regarding use of the Marks in Section 5 and the Confidential Information in Section 7.01, we and you (and your Owners) each waives, to the fullest extent permitted by law, any right to or claim for any punitive or exemplary damages against the other.

(b) Claims barred After One Year. Any and all claims, controversies or disputes arising out of or relating to this Agreement, or the performance of Noodles & Company hereunder, shall be commenced by you against Noodles & Company within one (1) year from the occurrence first giving rise to such claim, controversy or dispute, or such claim controversy or dispute shall be barred.

(c) Prohibition Against Class and Collective Actions. You agree that, for our franchise system to function properly, we should not be burdened with the costs of litigating system-wide disputes. Accordingly, any disagreement between you (and your Owners) and us shall be considered unique as to its facts and shall not be brought as a class action, and you (and each of your Owners) waive any right to proceed against us, our Affiliates, or any of our officers, directors, employees, agents, successors and assigns by way of class action, or by way of a multi-plaintiff, consolidated or collective action. In any legal action between the parties, the court shall not be precluded from making its own independent determination of the issues in question, notwithstanding the similarity of issues in any other legal action involving us and any other Area Operator, and each party waives the right to claim that a prior disposition of the same or similar issues precludes such independent determination.

(d) Waiver of Jury Trial. **Furthermore, the parties agree that any legal action in connection with this Agreement shall be tried to the court sitting without a jury, and all parties hereto waive any right to have any action tried by jury.**

The provisions of this Section 19. shall continue in full force and effect subsequent to and notwithstanding expiration or termination of this Agreement.

#### 20. MISCELLANEOUS.

20.01 Severability and Substitution of Provisions. Every part of this Agreement shall be considered severable. If for any reason any part of this Agreement is held to be invalid, that determination shall not impair the other parts of this Agreement. If any covenant herein which restricts competitive activity is deemed unenforceable by virtue of its scope or in terms of geographical area, type of business activity prohibited and/or length of time, but could be rendered enforceable by reducing or reforming any part or all of it, you and we agree that it will be enforced to the fullest extent permissible under applicable law and public policy.

If any applicable law requires a greater prior notice of the termination of or refusal to enter into a successor franchise than is required hereunder, a different standard of "good cause", or the taking of some other action not required hereunder, the prior notice, "good cause" standard and/or other action required by such law shall be substituted for the comparable provisions hereof. If any provision of this Agreement or any specification, standard or operating procedure prescribed by us is invalid or unenforceable under applicable law, we have the right, in our sole discretion, to

modify such invalid or unenforceable provision, specification, standard or operating procedure to the extent required to make it valid and enforceable.

**20.02 Waiver of Obligations.** We and you may by written instrument unilaterally waive or reduce any obligation of the other under this Agreement. Any such waiver granted shall be without prejudice to any other rights the waiving party may have, will be subject to continuing review by such party and may be revoked, in such party's sole discretion, at any time and for any reason, effective upon delivery to the other party of ten (10) days' prior notice. You and we shall not be deemed to have waived any right reserved by this Agreement or be deemed to have modified this Agreement by virtue of any custom or practice of the parties at variance with it; any failure, refusal or neglect by you or us to exercise any right under this Agreement (except as provided in Section 20.03) or to insist upon exact compliance by the other with its obligations hereunder; any waiver, forbearance, delay, failure or omission by us to exercise any right, whether of the same, similar or different nature, with respect to other Noodles & Company Restaurants; or the acceptance by us of any payments due from you after any breach of this Agreement.

**20.03 Exercise of Rights.** Our respective rights hereunder are cumulative and no exercise or enforcement by either party of any right or remedy hereunder shall preclude the exercise or enforcement by Noodles & Company or Area Operator of any other right or remedy hereunder which Noodles & Company or Area Operator is entitled to enforce by law. If Area Operator commits any act of default under the agreement for which Noodles & Company exercises its right to terminate this Agreement, Area Operator shall pay to Noodles & Company the actual and consequential damages Noodles & Company incurs as a result of the premature termination of this Agreement. Area Operator acknowledges and agrees that the proximate cause of such damages sustained by Noodles & Company is Area Operator's act of default and not Noodles & Company's exercise of its right to terminate. Notwithstanding the foregoing, and except as otherwise prohibited or limited by applicable law, any failure, neglect, or delay of a party to assert any breach or violation of any legal or equitable right arising from or in connection with this Agreement shall constitute a waiver of such right and shall preclude the exercise or enforcement of any legal or equitable remedy arising therefrom (however, such violations may be considered in evaluating any request to renew or transfer the franchise), unless written notice specifying such breach or violation is provided to the other party within twenty-four (24) months after the later of: (a) the date of such breach or violation; or (b) the date of discovery of the facts (or the date the facts could have been discovered, using reasonable diligence) giving rise to such breach or violation.

**20.04 Successors and Assigns.** This Agreement is binding on the parties hereto and their respective executors, administrators, heirs, assigns and successors in interest. This Agreement is fully transferable and assignable by us, whether by operation of law or otherwise, and shall inure to the benefit of any transferee or other legal successor to our interests herein.

**20.05 Construction.** The language of this Agreement shall be construed according to its fair meaning and not strictly against any party. The introduction, personal guarantees, exhibits and riders (if any) to this Agreement, as well as the Operations Manual, are a part of this Agreement, which constitutes the entire Agreement of the parties. Except as otherwise expressly provided herein, there are no other oral or written agreements, understandings, representations or statements relating to the subject matter of this Agreement, other than the Franchise Disclosure Document and the ADA, that either party may or does rely on or that will have any force or effect. Nothing in this Agreement shall be deemed to confer any rights or remedies on any person or legal entity not a party hereto. This Agreement shall not be modified except by mutual agreement of

the parties evidenced by a written agreement signed by both parties except as otherwise expressly stated herein.

The headings of Sections are for convenience only and do not limit or construe their contents. The word "including" shall be construed to include the words "without limitation." The term "Franchisee" or "Area Operator" or "you" is applicable to one or more persons, a corporation, limited liability company or a partnership and its owners, as the case may be. If two (2) or more persons are at any time Area Operators hereunder, whether as partners, joint venturers or otherwise, their obligations and liabilities to us shall be joint and several. References to a controlling interest in an entity shall mean more than fifty percent (50%) of the equity or voting control of such entity.

This Agreement may be executed in multiple copies, each of which shall be deemed an original. Time is of the essence in this Agreement.

**20.06 Approvals and Consents.** Whenever this Agreement requires the approval, acceptance, or consent of either party, the other party shall make written request thereof, and such approval, acceptance, or consent shall be obtained in writing; provided, however, unless specified otherwise in this Agreement, such party may withhold approval, acceptance, or consent for any reason or for no reason at all. Furthermore, unless specified otherwise in this Agreement, no such approval, acceptance, or consent shall be deemed to constitute a warranty or representation of any kind, express or implied, and the approving, accepting or consenting party shall have no responsibility, liability or obligation arising there from.

**20.07 Notices and Payments.** All notices, requests and reports permitted or required to be delivered by this Agreement shall be deemed delivered: (a) at the time delivered by hand to the recipient party or any officer, director or partner of the recipient party; (b) on the same day of the transmission by facsimile, telegraph or other reasonably reliable electronic communication system provided verification of receipt is retained on a business day (otherwise on the next business day); (c) one (1) business day after being placed in the hands of a commercial courier service for guaranteed overnight delivery; or (d) five (5) days after placement in the United States Mail by Registered or Certified Mail, Return Receipt Requested, postage prepaid and addressed to the party to be notified at its most current principal business address of which the notifying party has been notified in writing. All notices to us must include a copy to our General Counsel and our Chief Financial Officer to be effective. All payments and reports required by this Agreement shall be sent to us at the address identified in this Agreement unless and until a different address has been designated by written notice. No restrictive endorsement on any check or in any letter or other communication accompanying any payment shall bind us, and our acceptance of any such payment shall not constitute an accord and satisfaction.

**20.08 Additional Services.** We may, upon your request or in our sole discretion, provide additional services to you. The then current Operations Manual will include the fees we are entitled to charge you for said services.

**20.09 Receipt of Franchise Disclosure Document and Agreement.** You acknowledge having received our Franchise Disclosure Document fourteen (14) days before you (a) sign any agreement with us, or (b) make a payment to us.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement on the day and year first above written.

**FRANCHISOR**  
**NOODLES & COMPANY,**  
a Delaware corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**ADDRESS TO WHICH NOTICES  
SHALL BE SENT:**

**Noodles & Company**  
**520 Zang Street, Suite D**  
**Broomfield, CO 80021**  
**Attn: General Counsel**

**AREA OPERATOR**

**If a corporation, partnership, limited liability company or  
other legal entity:**

(Name of Corporation, partnership, limited liability company or  
other legal entity)

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**IF INDIVIDUALS:**

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Print Name)

Attestation By Secretary Of \_\_\_\_\_

**ADDRESS TO WHICH NOTICES  
SHALL BE SENT:**

**DEVELOPMENT MILESTONES CHECKLIST**

<b>WHAT YOU DO</b>		<b>WHAT WE WILL DO</b>
ü	<b>RESAC Approval</b>	
	p Submit Complete Site Package via CD or Zip file(See Site Package checklist)	Within 45 days of receipt, N & C will send you an approval/disapproval letter
ü	<b>Lease / Purchase Agreement</b>	
	p Submit Copy of Lease/Purchase Agreement (with Exhibit C completed and attached) p Send N & C a copy of the Executed Lease	Within 14 days of receipt, N & C will send you an approval / disapproval letter.  N & C should receive this within 5 days of execution
ü	<b>Franchise Agreement &amp; Fee</b>	
	p Sign Franchise Agreement and return along with the Franchise Fee to N & C within 30 days of leasing the premises or when construction begins, whichever comes first.	Copy of Executed FA sent to FAO
ü	<b>Design Review / Plan Approval</b>	
	p Submit Equipment plan and Signage/Trade Dress elevation p Submit Permit Plan Drawings	Within approximately 10 days of receipt of each set of plans, N & C will send you an approval / disapproval letter with comments.
ü	<b>General Manager</b>	
	p Identify GM, begin training at wk -10	
ü	<b>Determine Training Support Needs</b>	
	p Discuss needs with Ops wk -6 p Commit to Turnover Date	N & C will coordinate if appropriate
ü	<b>Grand Opening Plan</b>	
	p Submit Grand Opening Plan wk -8	Within approximately 7 days of receipt, N & C will send you an approval/disapproval letter with comments.
ü	<b>Ops Turnover/Final Design Visit</b>	
	p Building is "turned over" by contractor to FAO (-10 to 14 days)	For first 2 Restaurants, N & C development team will verify design
ü	<b>"As Built" Drawings</b>	
	p Copy of "As Builts" are provided to N & C for storage (cad CD's)	
ü	<b>Restaurant Opens!</b>	
	p Deliver an exceptional dining experience to every guest!	N&C Ops will complete an Operations Evaluation with in 45 days of open

**EXHIBIT A**

**TO THE FRANCHISE AGREEMENT BETWEEN  
NOODLES & COMPANY, A DELAWARE CORPORATION, AND**

\_\_\_\_\_

**DATED** ,

FOR THE SITE LOCATED AT: \_\_\_\_\_

**AREA OPERATOR INFORMATION**

1. Operating Partner. The name and home address of the Operating Partner is as follows:

Name:

Home Address:

\_\_\_\_\_

\_\_\_\_\_

2. Form of Entity of Franchisee.

(a) Corporation or Limited Liability Company. Franchisee was organized on \_\_\_\_\_, under the laws of the State of \_\_\_\_\_ Its Federal Identification Number is \_\_\_\_\_. It has not conducted business under any name other than its corporate or company name. The following is a list of all of Franchisee's directors and officers or managing members as of the date hereof.

Name of Each Director/Officer/Managing Member

Position(s) Held

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

(b) Partnership. Franchisee is a [general] [limited] partnership formed on \_\_\_\_\_ under the laws of the State of \_\_\_\_\_. Its Federal Identification Number is \_\_\_\_\_. It has not conducted business under any name other than its partnership name. The following is a list of all of Franchisee's general partners as of the date hereof.

Name of Each General Partner

\_\_\_\_\_

\_\_\_\_\_

---

**Owners.** Franchisee and each of its Owners represents and warrants that the following is a complete and accurate list of all Owners of Franchisee, including the full name and mailing address of each Owner, and fully describes the nature and extent of each Owner's interest in Franchisee. Franchisee and each Owner as to his ownership interest, represents and warrants that each Owner is the sole and exclusive legal and beneficial owner of his ownership interest in Franchisee, free and clear of all liens, restrictions, agreements and encumbrances of any kind or nature, other than those required or permitted by this Agreement.

OWNER'S NAME AND ADDRESS:	PERCENTAGE AND NATURE OF OWNERSHIP INTEREST:



Submitted by Franchisee on this \_\_\_\_ day of \_\_\_\_\_,  
20\_\_

Accepted by Franchisor and made a part of the Franchise  
Agreement as of \_\_\_\_\_, 20\_\_.

Name of corporation or Partnership:

NOODLES & COMPANY,  
a Delaware corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**OWNERS:**

Signature: \_\_\_\_\_  
Printed Name: \_\_\_\_\_

Signature: \_\_\_\_\_  
Printed Name: \_\_\_\_\_

Signature: \_\_\_\_\_  
Printed Name: \_\_\_\_\_

**EXHIBIT B**

**PRINCIPAL OWNERS' PERSONAL GUARANTY OF  
FRANCHISEE'S OBLIGATIONS**

FOR THE SITE LOCATED AT: \_\_\_\_\_

In consideration of, and as an inducement to, the execution of the Noodles & Company Franchise Agreement dated as of \_\_\_\_\_, \_\_\_\_\_ (the "Agreement") by and between Noodles & Company ("Franchisor"), and \_\_\_\_\_ ("Franchisee"), each of the undersigned owners of a ten percent (10%) or greater interest in Franchisee hereby personally, unconditionally and irrevocably: (1) guarantees to Franchisor and its successors and assigns, for the term of the Agreement and thereafter as provided in the Agreement, that Franchisee shall timely perform each and every undertaking, agreement and covenant set forth in the Agreement (and any amendments), including the timely performance of all financial obligations, and that each and every representation of Franchisee made in connection with the Agreement (and any amendments) are true, correct and complete in all respects at and as of the time given; and (2) agrees personally to be bound by, and personally liable for the breach of, each and every provision in the Agreement (and any amendments). Notwithstanding the foregoing, the undersigned shall have no obligation under section 7.02 or 7.03 of the Franchise Agreement after the second anniversary of the later of (a) the date of the undersigned ceases to have an ownership interest in Franchisee or (b) the date of undersigned ceases to render services to the Franchisee.

Each of the undersigned waives: (a) acceptance and notice of acceptance by Franchisor of the foregoing undertakings; (b) notice of demand for payment of any indebtedness or non-performance of any obligations hereby guaranteed; (c) protest and notice of default to any party with respect to the indebtedness or nonperformance of any obligations hereby guaranteed; (d) any right he or she may have to require that an action be brought against Franchisee or any other person as a condition of liability; (e) notice of any amendment to the agreement; and (f) any and all other notices and legal or equitable defenses to which he or she may be entitled.

Each of the undersigned consents and agrees that: (i) his or her direct and immediate liability under this guaranty shall be joint and several; (ii) he or she shall render any payment or performance required under the Agreement upon demand if Franchisee fails or refuses to do so in a timely manner (iii) such liability shall not be contingent or conditioned upon pursuit by Franchisor of any remedies against Franchisee or any other person; and (iv) such liability shall not be diminished, relieved or otherwise affected by any extension of time, credit or other indulgence that the Franchisor may from time to time grant to Franchisee or to any other person including, without limitation, the acceptance of any partial payment or performance or the compromise or release of any claims, none of which shall in any way modify or amend this guaranty, which shall be continuing and irrevocable until satisfied in full.

Except for claims by either party for payments owed by one party to the other and except for claims requesting injunctive relief, any controversy or claim arising out of or relating to this Agreement or the making, interpretation, or performance hereof, shall first be submitted to mediation. The parties shall agree on a single mediator within thirty (30) days after notice by the complaining party, and if no mediator is mutually agreed upon within such thirty (30) days, then the mediation shall be submitted by the complaining party to the American Arbitration Association's

("AAA's") regional office located closest to our principal place of business. The mediation proceedings shall be conducted in the city where we then have our principal place of business. If mediation is not successful in resolving the dispute, on demand of either party the dispute shall be submitted to a court of competent jurisdiction.

Subject to the foregoing, the parties irrevocably submit to the jurisdiction of the Federal Courts of the United States and of the courts of the state, city and county in which our principal place of business is located (which is, as of the date hereof, the State of Colorado, City and County of Broomfield) in any suit, action, or proceeding, arising out of or relating to this Agreement or any other dispute between the parties. The parties irrevocably agree that all claims in respect of any such suit, action, or proceeding brought by you must be brought therein except with respect to matters that are under the exclusive jurisdiction of the Federal Courts of the United States, which shall be brought in the Federal District Court nearest to our principal place of business. The parties irrevocably waive, to the fullest extent either party may lawfully do so, the defense of an inconvenient forum to the maintenance of such suit, action, or proceeding, and the defense of lack of personal jurisdiction.

The parties agree that service of process for purposes of any such suit, action, or proceeding arising out of this Agreement may be made by serving a person of suitable age and discretion (such as the person in charge of the office) at the notice address specified on the signature page of this Agreement.

These dispute resolution provisions shall continue in full force and effect subsequent to and notwithstanding expiration or termination of this Agreement.

**[SIGNATURE PAGE FOLLOWS]**

**EXHIBIT B**  
(continued)

IN WITNESS WHEREOF, each of the undersigned has hereunto affixed his signature, under seal, on the same day and year as the Agreement was executed.

PERCENTAGE OF OWNERSHIP INTERESTS IN FRANCHISEE	GUARANTOR(S)
_____	_____ (Signature)
_____	_____ (Print Name) NOTICE ADDRESS: _____
_____	_____ (Signature)
_____	_____ (Print Name) NOTICE ADDRESS: _____
_____	_____ (Signature)
_____	_____ (Print Name) NOTICE ADDRESS: _____
_____	_____ (Signature)
_____	_____ (Print Name) NOTICE ADDRESS: _____
_____	_____ (Signature)

Subscribed and sworn to before me this    day of

Notary Public

My Commission expires:

**EXHIBIT C**

**CONFIRMATION OF TERM COMMENCEMENT DATE**

FOR THE SITE LOCATED AT: \_\_\_\_\_

Reference is hereby made to a Franchise Agreement dated \_\_\_\_\_ ("Agreement") by and between Noodles & Company ("Franchisor") and \_\_\_\_\_ ("Franchisee"). Pursuant to Section 2.01 of the Agreement, Noodles & Company hereby gives notice that the Term (as defined in the Agreement) commenced on \_\_\_\_\_, \_\_\_\_\_.

WITNESS the execution hereunder seal as of the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

FRANCHISOR:

Noodles & Company, a Delaware corporation

By:

Print Name:

Title:

## EXHIBIT D

### CONFIDENTIALITY AND NON-COMPETITION AGREEMENT

(To be executed by all owners  
and Operating Partners)

In conjunction with your investment in or provision of services to ("Franchisee"), you ("Investor" or "you"), acknowledge and agree as follows:

1. Franchisee owns and operates, or is developing, a Noodles & Company Restaurant pursuant to a franchise agreement dated \_\_\_\_\_, \_\_\_\_\_ ("Franchise Agreement") with Noodles & Company, a copy of which is attached hereto. The Franchise Agreement requires persons with legal or beneficial ownership interests in Franchisee under certain circumstances to be personally bound by the confidentiality and non-competition covenants contained in the Franchise Agreement. You are entering into this Agreement to induce Noodles & Company to enter into the Franchise Agreement. All capitalized terms contained herein and not otherwise defined herein shall have the same meaning set forth in the Franchise Agreement.

For purposes of this Agreement:

"Competitive Business" means any business that operates or franchises one or more restaurants: (1) whose sales of Specified Dishes (as defined below) collectively constitute more than 10% of restaurant operating revenues; (2) that are the same as, or substantially similar to, the Noodles & Company concept as it evolves or changes over time; or (3) that operate in a fast casual or quick casual format. As used in this Agreement, "Specified Dishes" means noodle dishes, pasta dishes, Asian dishes, Italian or Mediterranean dishes and any other dishes that are the same or substantially similar to the dishes on the Noodles & Company menu ("Noodles & Company Dishes") as it may evolve or change over time. Restrictions in this Agreement on competitive activities do not apply to: (a) the ownership or operation of other Noodles & Company restaurants we or our Affiliates licenses; (b) the ownership of shares of a class of securities that are listed on a public stock exchange or traded on the over-the-counter market and that represent less than five percent (5%) of that class of securities; or (c) any restaurant concept whose per person average check during the preceding twelve (12) months was more than fifty percent (50%) higher or lower than Noodles & Company per person average check for the same period. Revenue of a restaurant, as used in this definition means the aggregate amount of all sales of food, beverages and other products sold in or by such restaurant, whether for cash or credit, but excluding all federal, state or municipal sales or service taxes collected from customers and paid to the appropriate taxing authorities, all coupons, promotions, discounts and refunds.

2. You acknowledge and agree that your execution of this Agreement is a condition to Noodles & Company entering into the Franchise Agreement and that you have received good and valuable consideration for executing this Agreement. Noodles & Company may enforce this Agreement directly against you and your Owners (as defined below).

3. If you are a corporation, partnership, limited liability company or other entity, all persons who have a legal or beneficial interest in you ("Owners") must also execute this Agreement.

4. You and your Owners, if any, may gain access to parts of Noodles & Company's Confidential Information as a result of investing in Franchisee. The Confidential Information is proprietary and includes Noodles & Company trade secrets. You and your Owners hereby agree that while you

and they have a legal or beneficial ownership interest in Franchisee and indefinitely thereafter you and they: (a) will not use the Confidential Information in any other business or capacity (such use being an unfair method of competition); (b) will exert best efforts to maintain the confidentiality of the Confidential Information; (c) will not make unauthorized copies of any portion of the Confidential Information disclosed in written, electronic or other form; and (d) will not distribute, disclose, or otherwise cause the distribution of any Noodles & Company Confidential Information. If you or your Owners cease to have an interest in Franchisee, you and your Owners, if any, must deliver to Noodles & Company any such Confidential Information in your or their possession.

5. During the term of the Franchise Agreement, you and your Owners shall not, without Noodles & Company's prior written consent, either directly or indirectly, for yourself, or through, on behalf of, or in conjunction with any person, persons, partnership, limited liability company, or corporation:

(a) Divert or attempt to divert any business or customer of any Noodles & Company Restaurant to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with Noodles & Company's Marks or the System.

(b) Recruit, except for general solicitation, or hire any person who is or was within a period of six (6) months prior to such recruiting or hiring an employee of ours or of any Noodles & Company Restaurant operated by us, our Affiliates or another Area Operator of ours, without obtaining the employer's consent, which consent may be withheld for any reason. We may elect, in our sole discretion, to require you to pay to us, our Affiliate or other Area Operator, as liquidated damages an amount equal to two (2) times the annual salary of the person(s) involved in such violation plus an amount equal to our costs and attorney's fees incurred in connection with such violation.

(c) Own, maintain, advise, be employed by, consult for, make loans to, operate, engage in or have an ownership interest (including any right to share in revenues or profits) in any Competitive Business which is, or is intended to be located within:

- (1) the Protected Area;
- (2) a radius of fifteen (15) miles from your Noodles & Company Restaurant;
- (3) a radius of fifteen (15) miles of any Noodles & Company Restaurant; or
- (4) the United States.

6. For a continuous uninterrupted period commencing upon the expiration or termination of the Franchise Agreement and for two (2) years thereafter, you and your Owners, shall not, without Noodles & Company's prior written consent, either directly or indirectly, for yourself or through, on behalf of, or in conjunction with any person, persons, partnership, limited liability company, or corporation:

(a) Divert or attempt to divert any business or customer of any Noodles & Company Restaurant to any competitor, by direct or indirect inducement or otherwise, or do or perform, directly or indirectly, any other act injurious or prejudicial to the goodwill associated with Noodles & Company's Marks or the System.

(b) Recruit, except for general solicitation, or hire any person who is or was within a period of six (6) months prior to such recruiting or hiring an employee of ours or of any Noodles & Company

Restaurant operated by us, our Affiliates or another Area Operator of ours, without obtaining the employer's consent, which consent may be withheld for any reason. We may elect, in our sole discretion, to require you to pay to us, our Affiliate or other Area Operator, as liquidated damages an amount equal to two (2) times the annual salary of the person(s) involved in such violation plus an amount equal to our costs and attorney's fees incurred in connection with such violation.

(c) Own, maintain, advise, be employed by, consult for, make loans to, operate, engage in or have an ownership interest (including any right to share in revenues or profits) in any Competitive Business which is, or is intended to be located within:

(1) the Protected Area;

(2) a radius of fifteen (15) miles from your Noodles & Company Restaurant;

(3) a radius of fifteen (15) miles of any Noodles & Company Restaurant; or

(4) any Designated Market Area (as defined by Nielsen Media Research) where any Noodles & Company Restaurant is located.

7. Notwithstanding the foregoing, you will have no obligation under Section 5 or Section 6 after the second anniversary of the later of (a) the date you cease to have an ownership interest in Franchisee or (b) the date you cease to render services to Franchisee.

8. You and each of your Owners expressly acknowledge the possession of skills and abilities of a general nature and the opportunity to exploit such skills in other ways, so that enforcement of the covenants contained in Sections 5 and 6 will not deprive any of you of your personal goodwill or ability to earn a living. If any covenant herein which restricts competitive activity is deemed unenforceable by virtue of its scope or in terms of geographical area, type of business activity prohibited and/or length of time, but could be rendered enforceable by reducing any part or all of it, you and we agree that it will be enforced to the fullest extent permissible under applicable law and public policy. Noodles & Company may obtain, in any court of competent jurisdiction, any injunctive relief, including temporary restraining orders and preliminary injunctions, against conduct or threatened conduct for which no adequate remedy at law may be available or which may cause it irreparable harm. You and each of your Owners acknowledges that any violation of Sections 4, 5 or 6 hereof would result in irreparable injury for which no adequate remedy at law may be available. If Noodles & Company files a claim to enforce this Agreement and prevails in such proceeding, you agree to reimburse Noodles & Company for all its costs and expenses, including reasonable attorneys' fees.

9. Except to the extent governed by the United States Trademark Act of 1946 (Lanham Act, 15 U.S.C. 1051 et seq.) or other federal law, this Agreement shall be interpreted under the laws of the State of Colorado, excluding its choice of laws rules. This Agreement shall be construed under the laws of the State of Colorado, provided the foregoing shall not constitute a waiver of any of your rights under any applicable franchise law of another state. Otherwise, in the event of any conflict of law, Colorado law will prevail, without regard to its conflict of law principles. However, if any provision of this Agreement would not be enforceable under Colorado law, and if your Noodles & Company Restaurant is located outside of Colorado and such provision would be enforceable under the laws of the state in which your Noodles & Company Restaurant is located, then such provision shall be construed under the laws of that state.

10. You understand and acknowledge that Noodles & Company shall have the right, in its sole discretion, to reduce the scope of any covenant set forth in this Agreement, or any portion thereof, without your consent, effective immediately upon written notice to you. You shall comply forthwith



with any covenant as so modified, which shall be full enforceable notwithstanding the provisions hereof.

11. The parties agree that each of the foregoing covenants shall be construed as independent of any other covenant or provision of this Agreement. If all or any portion of a covenant is held unreasonable or unenforceable by a court or agency having valid jurisdiction, the parties desire the court to reform the covenant to render the covenant enforceable, but only to the extent required to render the covenant enforceable, so that Noodles & Company may obtain the greatest possible level of protection from the misuse of Confidential Information, the diversion of customers, the solicitation of its employees and unfair competition; and in such event, you expressly agree to be bound by any lesser covenant subsumed within the terms of such covenant that imposes the maximum duty permitted by law, as if the resulting covenant were separately stated in and made a part of this Agreement.

**[SIGNATURE PAGE FOLLOWS]**

**EXHIBIT D**  
(continued)

IN WITNESS WHEREOF, the undersigned have executed and delivered this Agreement on this day of \_\_\_\_\_,  
\_\_\_\_\_.

**INVESTOR**

If an Individual:

If a corporation, partnership, limited liability  
company or other legal entity:

(Signature)

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

(Print Name)

\_\_\_\_\_

**OWNERS**

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

By: \_\_\_\_\_

Print Name: \_\_\_\_\_

**EXHIBIT E**

**PROTECTED AREA EXHIBIT**

April 2014 Exhibit C to the Franchise Disclosure Document

Franchise Agreement

<b><u>Subsidiaries of the Registrant</u></b>	<b><u>Jurisdiction of Incorporation</u></b>
Noodles & Company Canada, Inc.	Canada
Noodles & Company China Holdings, LTD	Cayman Islands
Noodles & Company International Holdings, LTD	Cayman Islands
Noodles & Company Finance Corp.	Colorado, United States
Noodles & Company Services Corp.	Colorado, United States
The Noodle Shop, Co. - Colorado, Inc.	Colorado, United States
TNSC, Inc.	Colorado, United States
The Noodle Shop, Co. - Delaware, Inc.	Delaware, United States
Noodles & Company Hong Kong, Limited	Hong Kong
The Noodle Shop, Co. - Illinois, Inc.	Illinois, United States
The Noodle Shop, Co. - Kansas, LLC	Kansas, United States
The Noodle Shop, Co. - Annapolis, LLC	Maryland, United States
The Noodle Shop, Co. - Baltimore County, LLC	Maryland, United States
The Noodle Shop, Co. - Charles County, Inc.	Maryland, United States
The Noodle Shop, Co. - College Park, LLC	Maryland, United States
The Noodle Shop, Co. - Frederick County, LLC	Maryland, United States
The Noodle Shop, Co. - Howard County, Inc.	Maryland, United States
The Noodle Shop, Co. - Maryland, Inc.	Maryland, United States
The Noodle Shop, Co. - Montgomery County, Maryland	Maryland, United States
The Noodle Shop, Co. - St. Mary's County, LLC	Maryland, United States
The Noodle Shop, Co. - Washington County, LLC	Maryland, United States
The Noodle Shop, Co. - Hartford County, LLC	Maryland, United States
The Noodle Shop, Co. - Minnesota, Inc.	Minnesota, United States
The Noodle Shop, Co. - Virginia, Inc.	Virginia, United States
The Noodle Shop, Co. - Wisconsin, Inc.	Wisconsin, United States

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements listed below of our report dated February 23, 2015, with respect to the consolidated financial statements of Noodles & Company included in this Annual Report (Form 10-K) for the year ended December 30, 2014.

Form S-8 No. 333-189877 pertaining to the Noodles & Company Employee Stock Purchase Plan

Form S-8 No. 333-189878 pertaining to the Noodles & Company Amended and Restated 2010 Stock Incentive Plan

/s/ Ernst & Young LLP

Denver, Colorado  
February 23, 2015

## CERTIFICATION

I, Kevin Reddy, certify that:

1. I have reviewed this annual report on Form 10-K of Noodles and Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2015

/s/ KEVIN REDDY  
Kevin Reddy  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

## CERTIFICATION

I, Dave Boennighausen, certify that:

1. I have reviewed this annual report on Form 10-K of Noodles and Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2015

/s/ DAVE BOENNIGHAUSEN  
Dave Boennighausen  
Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER**

I, Kevin Reddy, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Noodles & Company on Form 10-K for the fiscal year ended December 30, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Noodles & Company.

Date: February 23, 2015

By: /s/ KEVIN REDDY  
Name: Kevin Reddy  
Title: Chief Executive Officer

I, Dave Boennighausen, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Noodles & Company on Form 10-K for the fiscal quarter ended December 30, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Noodles & Company.

Date: February 23, 2015

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

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