Risk Factors Comparison 2024-03-08 to 2023-03-02 Form: 10-K

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You should carefully consider the following factors, which could materially affect our business, financial condition or results of operations. You should read these Risk Factors in conjunction with " Management' s Discussion and Analysis of Financial Condition and Results of Operations " in Item 7 and our consolidated financial statements and the related notes to those statements included in Item 8. Risks Related to ~~the Nature of~~ our Business and ~~Operating in the Restaurant~~ Industry We face significant competition for customers and our inability to compete effectively may affect our traffic, sales and shop- level profit margins, which could adversely affect our business, financial condition and results of operations. The restaurant industry is intensely competitive with many well- established companies that compete directly and indirectly with us with respect to food safety and quality, ambience, service, price, value and location. We compete with national, regional and locally owned limited- service restaurants **, fast casual restaurants,** and full- service restaurants. Some of our competitors have significantly greater financial, marketing, personnel and other resources than we do, and many of our competitors are well established in markets in which we have existing shops or intend to locate new shops. In addition, many of our competitors have greater name recognition nationally or in some of the local markets in which we have shops. Any inability to successfully compete with the restaurants in our markets will place downward pressure on our customer traffic and may prevent us from increasing or sustaining our revenues and profitability. Consumer tastes, nutritional and dietary trends, traffic patterns and the type, number and location of competing restaurants often affect the restaurant business, and our competitors may react more efficiently and effectively to those conditions. Further, we face growing competition from the supermarket industry, with the improvement of their " convenient meals " in the deli section, and from limited- service and fast casual restaurants, as a result of higher- quality food and beverage offerings by those restaurants. Meal kit delivery companies and other eat- at- home options also present some degree of competition for our shops. In addition, some of our competitors have in the past implemented programs which provide price discounts on certain menu offerings, and they may continue to do so in the future. If we are unable to continue to compete effectively, our traffic, sales and shop- level profit margins could decline, and our business, financial condition and results of operations would be adversely affected. Our digital business, which has become an increasingly significant part of our business, is subject to risks. If we do not continue to grow our digital business, it may be difficult for us to achieve our planned sales growth. We rely on some third- party delivery services to fulfill delivery orders and their ordering and payment platforms, or our mobile app or online ordering system, could be interrupted by technological failures, user errors, cyber- attacks or other factors, which could adversely impact sales through these channels and negatively impact our reputation. **Our** ~~Additionally, our~~ delivery partners are responsible for order fulfillment and errors or failures to make timely deliveries could cause guests to stop ordering from us **. Additionally, our delivery partners own the customer data for Potbelly orders placed on their platform and may use such customer data to encourage customers to order from other restaurants or delivery platforms** . The third- party restaurant delivery business is intensely competitive, with a number of players competing for market share, online traffic capital, and delivery drivers. If the third- party delivery services that we utilize cease or curtail operations, increase their fees, or give greater priority or promotions on their platforms to our competitors, our delivery business and our sales may be negatively impacted. We are subject to risks associated with leasing property subject to long- term non- cancelable leases, and the costs of exiting leases at shops we have closed or may close in the future may be greater than we estimate. We do not own any real property and all of our company- ~~owned~~ **operated** shops are located on leased premises **. Payments under our company- operated shops' leases account for a significant portion of our operating expenses, and we expect that new company- operated shops in the future will also be leased** . The leases for our shop locations generally have initial terms of ten years and typically provide for two renewal options in five- year increments as well as for rent escalations. Generally, our leases are net leases that require us to pay our share of the costs of real estate taxes, utilities, building operating expenses, insurance and other charges in addition to rent. We generally cannot cancel these leases. Additional sites that we lease are likely to be subject to similar long- term non- cancelable leases. If we close a shop, we nonetheless may be obligated to perform our monetary obligations under the applicable lease, including, among other things, payment of the base rent for the balance of the lease term. In addition, as each of our leases expire, we may fail to negotiate renewals, either on commercially acceptable terms or at all, which could cause us to close shops in desirable locations. ~~See~~ **For further details on the significance of occupancy costs to our profitability, see** " Management' s Discussion and Analysis of Financial Condition and Results of Operations- Results of Operations- Fiscal year ~~2022~~ **2023** (~~52~~ **53** Weeks) Compared to Fiscal year ~~2021~~ **2022** (52 Weeks)- Revenues " in Item 7. We may sublease or assign properties and face future liability if subtenants or assignees default or incur contingent liabilities. For the underperforming shops we have closed, we have negotiated lease termination agreements on terms that are acceptable to us for a majority of them. However, in some cases we may seek to either assign leases and retain contingent liability for rent and other lease obligations or to retain the tenant' s obligations under the lease and sublease the shop premises to a third party. But we may be unable to enter into such arrangements on acceptable terms **,** and even if we do **,** such arrangements may result in our incurring liabilities and expenses in future periods ~~or the~~ **. The** rent payments ~~,~~ **that** we receive from subtenants ~~, being~~ **may be** less than our rent obligations under the leases. Under these circumstances, we would be responsible for any shortfall **. These risks are heightened as we continue to increase our refranchising efforts which may adversely affect our financial condition or results of operations** . Our sales and profit growth could be adversely affected if comparable store sales are less than we expect. The level of comparable store sales, which represent the change in year- over- year sales for company- operated shops open for 15 months or longer, will affect our sales growth and will continue to be a critical factor affecting profit growth.

Our ability to increase comparable store sales depends in part on our ability to successfully implement our initiatives to build sales. ~~It is possible such~~ **Such** initiatives ~~will~~ **may** not be successful, ~~that we will not~~ **resulting in our inability to** achieve our target comparable store sales growth or that the change in comparable store sales could be negative, **either of** which may cause a decrease in sales and profit growth that would adversely affect our business, financial condition or results of operations. Food safety and food- borne illness concerns may have an adverse effect on our business by reducing demand and increasing costs. Food safety is a top priority, and we dedicate substantial resources to help ensure that our customers enjoy safe, quality food products. However, food- borne illnesses and food safety issues have occurred in the food industry in the past and could occur in the future. Any report or publicity linking us to instances of food- borne illness or other food safety issues, including food tampering or contamination, could adversely affect our brand and reputation as well as our revenues and profits. In addition, instances of food- borne illness, food tampering or food contamination occurring solely at restaurants of our competitors could result in negative publicity about the food service industry generally and adversely impact our sales. Furthermore, our reliance on external food suppliers and distributors increases the risk that food- borne illness incidents could be caused by factors outside of our control and that multiple locations would be affected rather than a single shop. We cannot assure that all food items are properly maintained during transport throughout the supply chain and that our employees will identify all products that may be spoiled or contaminated and should not be used in our shops. If our customers become ill from food- borne illnesses, we could be forced to temporarily close some shops. Furthermore, any instances of food contamination, whether or not at our shops, could subject us or our suppliers to a food advisory, recall or withdrawal pursuant to the Food Safety Modernization Act. We have limited control with respect to the operations of our franchisees which could have a negative impact on our business. Our franchisees are obligated to operate their shops according to ~~the~~ **our** specific guidelines ~~we set forth~~. We provide training opportunities to these franchisees to integrate them into our operating strategy. However, since we do not have control over these shops, we cannot **ensure** ~~give assurance~~ that there will not be differences in product quality, operations, marketing or profitably or that there will be adherence to all of our guidelines at these shops. The failure of these shops to operate effectively could adversely affect our cash flows from those operations or have a negative impact on our reputation or our business. In addition, franchisees may not have access to the financial or management resources that they need to open the shops 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 governmental approvals or meet construction schedules. Any of these problems could slow our growth from franchise operations and reduce our franchise revenues. Additionally, financing from banks and other financial institutions may not always be available to franchisees to construct and open new shops. The lack of adequate financing could adversely affect the number and rate of new shop openings by our franchisees and adversely affect our future franchise revenues. Risks Related to Macroeconomic and Industry Conditions **Local conditions,** ~~The COVID- 19 pandemic has adversely~~ -- **adverse** ~~affected and~~ **weather conditions, natural disasters, acts of violence, terrorism or civil unrest,** could ~~continue to~~ adversely affect our business **. Certain of the regions in which we operate have been, and may in the future be, subject to adverse local conditions, events, terrorist attacks, adverse weather conditions, or natural disasters, such as earthquakes, floods, hurricanes and wildfires. Any of the foregoing events may result in physical damage, temporary or permanent closure, lack of** ~~and~~ - **an adequate work force, or temporary or long- term disruption in the supply of food, beverages, electric, water, sewer and waste disposal services necessary for our shops to operate. Depending upon its magnitude, any of the foregoing could severely damage our shops and / or adversely affect our business,** results of operations **or financial condition** . ~~The COVID~~ **We currently maintain property insurance and business interruption insurance covering all locations in which we are the primary lessee. However, if there is a major disaster, such coverage may not be adequate. In addition, upon the expiration of our current insurance policies, adequate insurance coverage may not be available at reasonable rates, or at all. We have disaster recovery procedures and business continuity plans in place to address most events of a crisis nature (including hurricanes and other natural disasters) including back up and off** - ~~19 pandemic~~ **site locations for recovery of electronic** and ~~related federal, state and local government responses to COVID- 19 and our responses to the~~ **other** ~~pandemic~~ **forms of data** and ~~such restrictions has and may continue~~ **information. However, if we are unable** to **fully implement our disaster recovery plans, we may experience delays in recovery of data, inability to perform vital functions, tardiness in required reporting and compliance, failures to adequately support shop operations and other breakdowns in normal communication and operating procedures that may** have a material adverse effect on our business, results of operations, ~~liquidity and~~ financial condition ~~. Our business has been disrupted~~ and **exposure** ~~could be further disrupted~~ to **administrative** ~~the extent our suppliers, distributors,~~ and ~~/ or third- party delivery partners are adversely impacted by the COVID- 19 pandemic. If our suppliers, distributors, and / or third- party delivery partners experience labor shortages or their employees are unable to work, whether because of illness, quarantine, limitations on travel or~~ other **legal claims** ~~government restrictions in connection with COVID- 19, we could face cost increases, shortages of food items, shortages of delivery services, and / or shortages of other supplies across our restaurants, and our results could be adversely impacted by such interruptions. The full extent to which the COVID- 19 pandemic will continue to impact our business, markets, supply chain, customers and workforce will depend on future developments, which are highly uncertain and cannot be predicted. To the extent the pandemic continues to adversely affect our business, results of operations and financial condition, it may also have the effect of exacerbating many of the other risk factors discussed in this Annual Report on Form 10- K or in our Quarterly Reports on Form 10- Q, which could have a material adverse effect on us~~. Increased commodity, energy and other costs could decrease our shop-level profit margins or cause us to limit or otherwise modify our menus, which could adversely affect our business. Our profitability depends in part on our ability to anticipate and react to changes in the price and availability of food commodities, including among other things beef, poultry, grains, dairy and produce. Prices may be affected due to market changes, increased competition, ~~COVID- 19,~~ the general risk of inflation, shortages or interruptions in supply due to weather, disease or other conditions beyond our control, or **acts of war, terrorism or** other ~~reasons~~ **hostilities, including the war between Russia and Ukraine and the conflict between Israel and Palestine** . Other events could increase commodity prices or cause shortages that could affect the cost and quality of the items we buy or require us to further raise prices or limit our menu options. These events, combined with other more general economic and demographic conditions, could impact our pricing and negatively affect our sales and shop- level profit margins. We enter into certain forward pricing arrangements with our suppliers from time to time, which may result in fixed or formula- based pricing with respect to certain food products. See " Quantitative and Qualitative Disclosures about Market Risk- Commodity Price Risk " in Item 7A. However, these arrangements generally are relatively short in duration and may provide only limited protection from price changes, and the extent to which we use these arrangements varies substantially from time to time. In addition, the use of these arrangements may limit our ability to benefit from favorable price movements. Our profitability is also adversely affected by increases in the price of utilities, such as natural gas, whether as a result of **commodity** inflation, shortages or interruptions in supply, or otherwise. Our profitability is also affected by the costs of insurance, labor, marketing, taxes and real estate, all of which could increase due to inflation, changes in laws, competition or other events beyond our control. Our ability to respond to increased costs by increasing menu prices or by implementing alternative processes or products will depend on our ability to anticipate and react to such increases and other more general economic and demographic conditions, as well as the responses of our competitors and customers. All of these things may be difficult to predict and beyond our control. In this manner, increased costs could adversely affect our performance. Shortages or interruptions in the supply or delivery of fresh food products could adversely affect our operating results. We are dependent on frequent deliveries of fresh food products that meet our specifications. Shortages or interruptions in the supply of fresh food products caused by problems in production or distribution, inclement weather, unanticipated demand or other conditions could adversely affect the availability, quality and cost of ingredients, which would adversely affect our operating results. We have a limited number of suppliers for our major products and rely on a distribution network with a limited number of distribution partners for the majority of our national distribution ~~program~~ **programs** in the U. S. If our suppliers or distributors are unable to fulfill their obligations under their contracts, it could harm our operations. We have a limited number of suppliers for our major products, such as bread. In ~~2022~~ **2023** , we purchased almost all of our bread from one supplier, Campagna- Turano Bakery, Inc., and more than ~~90~~ **80** % of our meat products from ~~ten~~ **10** suppliers. In addition, we contract with a distribution network with a limited number of distribution partners located throughout the nation to provide the majority of our food distribution services in the U. S. Through our arrangement, our food supplies are largely distributed through six primary distributors. Although we believe that alternative supply and distribution sources are available, there can be no assurance that we will be able to identify or negotiate with such sources on terms that are commercially reasonable to us. If our suppliers or distributors are unable to fulfill their obligations under their contracts or we are unable to identify alternative sources, we could encounter supply shortages and incur higher costs. See " Business- Sourcing and Supply Chain " in Item 1. Our business operations and future development could be significantly disrupted if we lose key members of our management team. The success of our business continues to depend to a significant degree upon the continued contributions of our senior officers and key employees, both individually and as a group. Our future performance will be substantially dependent on our ability to retain and motivate key members of our senior leadership team. We currently have employment agreements in place with all of the members of our senior leadership team. The loss of the services of any of these executive officers or other key employees could have a material adverse effect on our business and plans for future development. In addition, we may have difficulty finding appropriate replacements and our business could suffer. We also do not maintain any key ~~man~~ **person** life insurance policies for any of our employees. Inability to attract, train and retain top- performing personnel could adversely impact our financial results, business and ability to operate our shops. We believe that our continued success will depend, in part, on our ability to attract, motivate and retain a sufficient number of qualified managers and the services of skilled personnel. A sufficient number of qualified individuals may be in short supply in some communities. Competition in these communities for qualified staff and significant improvement in regional or national economic conditions could increase the difficulty of attracting and retaining qualified individuals and could result in the need to pay higher wages and provide greater benefits. The loss of the services of, or our inability to attract and retain, such personnel could have a material adverse effect on our business, including reduced restaurant operating hours **and decreased product quality** . We believe good managers and staff are a key part of our success and devote significant resources to recruiting and training our restaurant managers and staff. We aim to reduce turnover among our restaurant staff and managers in an effort to retain top performing employees and better realize our investment in training new employees. Any failure to do so may adversely impact our operating results by increasing training costs and making it more difficult to deliver outstanding customer service, which could have a material adverse effect on our financial results. Additionally, any inability to recruit and retain qualified individuals could delay the planned openings of new shops and could adversely impact our existing shops. Any such inability to retain or recruit qualified employees, increased costs of attracting qualified employees or delays in shop openings could adversely affect our business and results of operations. Unionization activities **, employment- related claims** or labor disputes may disrupt our operations and affect our profitability. Although none of our employees are currently covered under collective bargaining agreements, union organizers have engaged in efforts to organize our employees and those of other restaurant companies and 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. 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 adversely affect our business, financial condition or results of operations. If we are unable to staff and retain qualified restaurant management and operating personnel in an increasingly competitive market, we may be unable to effectively operate and grow our business and revenues, which could materially adversely affect our financial performance. Similar to the broader economy, we are experiencing labor shortfalls relative to our sales levels in certain parts of our workforce. If we are unable to attract and retain qualified people, our restaurants could be short staffed, we may be forced to incur overtime expenses, and our ability to operate and expand our concepts effectively and to meet our customers' demand could be limited, any of which could materially adversely affect our financial performance. Risks Related to our Growth and Business Strategy Identifying, opening and operating new shops entails numerous risks and uncertainties. Our shop model is designed to generate strong cash flow, attractive shop- level financial results and high returns on investment. Our current strategy is to close underperforming shops and continue with our limited rate of company- operated shop growth. We may not be able to open our planned new shops on a timely basis, if at all, given the uncertainty of numerous factors, including the location of our current shops, demographics and traffic patterns. In the past, we have experienced delays in opening some shops and that could happen again. Delays or failures in opening new restaurants could adversely affect our business and results of operations. The number and timing of new shops opened during any given period may be negatively impacted by a number of factors including, without limitation: • the identification and availability of attractive sites for new shops and the ability to negotiate suitable lease terms; • anticipated commercial, residential and infrastructure development near our new shops; • the proximity of potential sites to an existing shop; • the cost and availability of capital to fund construction costs and pre- opening expenses; • our ability to control construction and development costs of new shops; • recruitment and training of qualified operating personnel in the local market; • our ability to obtain all required governmental permits, including zoning approvals, on a timely basis; • competition in new markets, including competition for appropriate sites; • unanticipated increases in costs, any of which could give rise to delays or cost overruns; and • avoiding the impact of inclement weather, natural disasters and other calamities. If we are unable to expand in existing markets or penetrate new markets, our ability to increase our revenues and profitability may be harmed. Our expansion into new markets may present increased risks. In the past, we have opened shops in markets where we have little or no operating experience. Shops 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 shops 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 values. We may also incur higher costs from entering new markets if, for example, we assign area managers to manage comparatively fewer shops than we assign in more developed markets. As a result, these new shops may be less successful or may achieve target shop- level profit margins 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 adversely affected. New shops, once opened, may not be profitable, and the results that we have experienced in the past may not be indicative of future results. Our results have been, and in the future may continue to be, significantly impacted by the timing of new shop openings (often dictated by factors outside of our control), including associated shop pre- opening costs and operating inefficiencies, as well as changes in our geographic concentration due to the opening of new shops. We typically incur the most significant portion of pre- opening expenses associated with a given shop within the five months immediately preceding and the month of the opening of the shop. Our experience has been that labor and operating costs associated with a newly opened shop for the first several months of operation are materially greater than what can be expected after that time, both in aggregate dollars and as a percentage of revenues. Our new shops commonly take ~~10~~ **8** to ~~13~~ **12** weeks to reach planned operating levels due to inefficiencies typically associated with new shops, including the training of new personnel, lack of market awareness, inability to hire sufficient qualified staff and other factors. We may incur additional costs in new markets, particularly for transportation, distribution and training of new personnel, which may impact the profitability of those shops. Accordingly, the volume and timing of new shop openings may have a meaningful impact on our profitability. Although we target specified operating and financial metrics, new shops may not meet these targets or may take longer than anticipated to do so. Any new shops we open may not be profitable or achieve operating results similar to those of our existing shops. If our new shops do not perform as planned, our business and future prospects could be harmed. In addition, if we are unable to achieve our expected comparable store sales, our business, financial condition or results of operations could be adversely affected. Opening new shops in existing markets may negatively affect sales at our existing shops. The consumer target area of our shops 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 shop in or near markets in which we already have shops could adversely affect the sales of those existing shops. Existing shops could also make it more difficult to build our consumer base for a new shop in the same market. Our business strategy does not entail opening new shops that we believe will materially affect sales at our existing shops, but we may selectively open new shops in and around areas of existing shops that are operating at or near capacity to effectively serve our customers. Sales cannibalization between our shops may become significant in the future as we continue to expand our operations and could affect our sales growth, which could, in turn, adversely affect our business, financial condition or results of operations. Our failure to manage our growth effectively could harm our business and operating results. Our growth plan includes a combination of new shops and increasing same store sales. Our existing management systems, financial and management controls and information systems may not be adequate to support our planned expansion. Our ability to manage our growth effectively will require us to continue to enhance these systems, procedures and controls and to locate, hire, train and retain management and operating personnel. We may not be able to respond on a timely basis to all of the changing demands that our planned expansion will impose on management and on our existing infrastructure or be able to hire or retain the necessary management and operating personnel, which could harm our business, financial condition or results of operations. Our inability to successfully implement our business strategy, including expansion of our franchising efforts, could negatively impact our business and future profitability and growth. We strive to grow profitability and create value for our stockholders through a strategy of continued excellence in shop-level execution, building company- operated shops in both new and existing markets, increasing brand awareness and expansion of our franchising efforts. There are, however, risks associated with identifying, opening and operating new shops, increased costs in brand marketing, **re- franchising our company- operated shops,** and signing new franchisees, and if we do not successfully implement our business strategy, it could negatively impact our business and our future profitability and growth. Our initiatives to increase sales and traffic, including menu optimization, off- premise sales options and increased marketing and brand awareness programs may not positively affect sales or improve our results of operations. We cannot assure ~~you~~ that we will be able to successfully implement our initiatives **, including the expansion of our franchising efforts** . Further, our ability to achieve the anticipated benefits of these initiatives within expected timeframes is subject to many estimates and assumptions, which are, in turn, subject to significant economic, competitive and other uncertainties, some of which are beyond our control. There is no assurance that we will successfully implement, or fully realize the anticipated positive impact of, our initiatives, or execute successfully on strategy, in the expected timeframes or at all. In addition, there can be no assurance that our efforts, if properly executed, will result in our desired outcome of improved financial performance. The success of our franchisees is important to our future growth. We have a significant percentage of system- wide ~~restaurants~~ **shops** owned and operated by our franchisees. While our franchise agreements are designed to require our franchisees to maintain brand consistency, the franchise relationship reduces our direct day- to- day oversight of these restaurants and may expose us to risks not otherwise encountered if we maintained ownership and control. Our reputation and financial results may be negatively impacted by: franchisee defaults in their obligations to us; limitations on our ability to enforce franchise obligations due to bankruptcy proceedings or differences in legal remedies in varying jurisdictions; franchisee failures to participate in business strategy changes due to financial constraints; franchisee failures to meet obligations to pay employees; and franchisees’ failure to comply with food quality and preparation requirements. Our inability to successfully and sufficiently raise menu prices could result in a decline in profitability. We utilize menu price increases to help offset cost increases, including increased cost for commodities, minimum wages, employee benefits, insurance arrangements, construction, utilities and other key operating costs. If our selection and amount of menu price increases are not accepted by consumers and reduce guest traffic, or are insufficient to counter increased costs, our financial results could be negatively affected. New information or attitudes regarding diet and health could result in changes in regulations and consumer eating habits that could adversely affect our revenues. Regulations and consumer eating habits may change because of new information or attitudes regarding diet, health and safety. These changes may include regulations and recommendations from medical and diet professionals pertaining to the ingredients and nutritional content of our menu items at our restaurants. For example, a number of states, counties and cities are enacting menu- labeling laws requiring multi- unit restaurant operators to make certain nutritional information available to guests or restrict the sales of certain types of ingredients in restaurants. The success of our restaurant operations is dependent, in part, upon our ability to respond effectively to changes in consumer health and disclosure regulations and to adapt our menu offerings to trends in eating habits. If consumer health regulations or consumer eating habits change significantly, we may be required to modify or remove certain menu items. To the extent we are ~~unwilling or~~ unable to respond with appropriate changes to our menu offerings, it could materially affect customer demand and have an adverse impact on our revenues. Evolving consumer preferences and tastes may adversely affect our business. Our continued success depends on our ability to attract and retain customers. Our financial results could be adversely affected by ~~,~~ **:** a shift in consumer spending away from outside- the- home food (such as the disruption caused by online commerce that results in reduced foot traffic to “ brick & mortar ” retail stores); lack of customer acceptance of new products (including due to price increases necessary to cover the costs of new products or higher input costs), brands and platforms (such as features of our mobile technology, changes in our loyalty rewards programs and our delivery or catering services initiatives); or customers reducing their demand for our current offerings as new products are introduced. In addition, some of our products contain nuts, dairy products, sugar and other compounds and allergens, the health effects of which are the subject of public and regulatory scrutiny, including the suggestion of linkages to a variety of adverse health effects. There is increasing consumer awareness of health risks, including obesity, as well as increased consumer litigation based on alleged adverse health impacts of consumption of various food and beverage products. While we have a variety of items, including items that have reduced calories, an unfavorable report on the health effects of compounds present in our products, whether accurate or not, imposition of additional taxes on certain types of food and beverage components, or negative publicity or litigation arising from certain health risks could significantly reduce the demand for our products and could materially harm our business and results of operations. Our ability to raise capital in the future may be limited, which could make us unable to fund our capital requirements. Our business and operations may consume resources faster than we anticipate. In the future, we may need to raise additional funds through the issuance of new equity securities, debt or a combination of both. Additional financing may not be available on favorable terms or at all. If adequate funds are not available on acceptable terms, we may be unable to fund our capital requirements. If we issue new debt securities, the debt holders would have rights senior to common stockholders to make claims on our assets, and the terms of any debt could restrict our operations, including our ability to pay dividends on our common stock. If we issue additional equity securities, existing stockholders may experience dilution, and the new equity securities could have rights senior to those of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future securities offerings reducing the market price of our common stock and diluting their interest. Risks Related to Information Technology Systems, Cybersecurity and Data Privacy **If we are unable to protect the personal information that we gather or fail to comply with privacy and data protection laws and regulations, we could be subject to civil and criminal penalties, suffer reputational**

harm and incur substantial costs. In the ordinary course of our business, we collect, process, transmit, and retain personal information regarding our employees, our franchisees and their employees, vendors, contractors, and consumers, which can include social security numbers, social insurance numbers, banking and tax identification information, health care information, and credit card information, and our franchisees collect similar information. In recent years we expanded our development and management of our mobile app and online ordering platform. While our deployment of such technology facilitates our primary goals of generating incremental sales and improving operations at our franchisees' restaurants as well as additional customer awareness and interest in our shops, such deployment also means that we are collecting and entrusted with additional personal information, including geo- location tracking information, about our customers. In connection with the collection and retention of this information, we are subject to legal and compliance risks and associated liability related to privacy and data protection requirements. Due to enhanced scrutiny from the general public, data privacy regulations as well as their interpretations and criteria for enforcement, continue to be subject to frequent change, and there are likely to be other jurisdictions that propose or enact new or emerging data privacy requirements in the future. The complexity of these privacy and data protection laws may result in significant costs arising from compliance and from any non- compliance, whether or not due to our negligence, and could affect our brand reputation and our results of operations. In addition, to the extent that we are not in compliance with any data security laws or experience a major breach, theft, or loss of personal information that is held by us, or third parties on our behalf (whether or not due to our failure to comply with data security rules and standards), we could be subject to substantial fines, penalties, indemnification claims, and potential litigation against us which could negatively impact our results of operations and financial condition. As a result of any breach, we may incur additional capital expenditures arising from additional security technologies, personnel, experts, and credit monitoring services for those whose data has been breached. These costs, which could be material, could adversely impact our results of operations during the period in which they are incurred. Furthermore, negative publicity regarding a breach or potential security vulnerabilities in our systems or those of our franchisees or vendors (even if no breach has been attempted or has occurred), could adversely affect the reputation of our brand and acceptance of our digital engagement with our customers which in turn could adversely affect our future results of operations. Information technology system failures or breaches of our network security could interrupt our operations and adversely affect our business. We rely on our computer systems and network infrastructure across our operations, including point- of- sale processing at our shops. In addition, we are increasingly relying on cloud computing and other technologies that result in third parties holding customer information on our behalf. Our operations depend upon our and our third- party vendors' 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. Any damage or failure of our computer systems or network infrastructure that causes an interruption in our operations could have a material adverse effect on our business and subject us to litigation or actions by regulatory authorities. In addition, an increasing number of transactions are processed through our mobile application. Disruptions, failures or other performance issues with such customer facing technology systems could impair the benefits such systems provide to our business and negatively impact our relationship with our customers. Security breaches of confidential customer information in connection with our electronic processing of credit and debit card transactions may adversely affect our business. Any intentional attack or an unintentional event that results in unauthorized access to systems to disrupt operations, corrupt data or steal or expose confidential information or intellectual property that compromises the information of our customers or employees could result in widespread negative publicity, damage to our reputation, a loss of customers, disruption of our business and legal liabilities. As our reliance on technology has grown, the scope and severity of risks posed to our systems from cyber threats has increased. The techniques and sophistication used to conduct cyber- attacks and breaches of information technology systems, as well as the sources and targets of these attacks, change frequently and are often not recognized until attacks are launched or have been in place for a period of time. We continuously monitor and develop our information technology networks and infrastructure to prevent, detect, address and mitigate the risk of unauthorized access, misuse, malware and other events that could have a security impact; however, there can be no assurance that these or any measures will be effective. Additionally, the majority of our sales are by credit or debit cards. Other restaurants and retailers have experienced security breaches in which credit and debit card information of their customers has been stolen. We may in the future become subject to lawsuits or other proceedings for purportedly fraudulent transactions arising out of the actual or alleged theft of our customers' confidential or personal information and credit or debit card information. Most states have also enacted legislation requiring notification of security breaches involving personal information, including credit and debit card information ~~be significantly harmed~~ .In connection with credit card sales,we transmit confidential credit card information by way of secure private retail networks.Although we use private networks,third parties may have the technology or know- how to breach the security of the customer information transmitted in connection with credit card sales,and our security measures and those of our technology vendors may not effectively prohibit others from obtaining improper access to this information.If a person is able to circumvent these security measures,he or she could destroy or steal valuable information or disrupt our operations.Any security breach could expose us to risks of data loss,litigation,and liability,and could seriously disrupt our operations and any resulting negative publicity could significantly **harm our reputation** . Additionally, the California Privacy Act of 2018, which became effective on January 1, 2020, provides a new private right of action for data breaches and requires companies that process information on California residents to make new disclosures to consumers about their data collection, use and sharing practices and allow consumers to opt out of certain data sharing with third parties. Any such claim or proceeding, or any adverse publicity resulting from these allegations, may have a material adverse effect on our business. We maintain disclosure controls and procedures to ensure we will timely and sufficiently notify our investors of material cybersecurity risks and incidents, including the associated financial, legal or reputational consequences of such an event. In addition, we maintain policies and procedures to prevent directors, senior officers and other corporate insiders from trading stock after being made aware of a material cybersecurity incident and to control the distribution of information about cybersecurity events that could constitute material nonpublic information about Potbelly; however, we cannot be certain that a corporate insider who becomes aware of a material cybersecurity incident does not undertake to buy or sell Potbelly stock before information about the incident becomes publicly available. If we are unable to protect our...... publicity could significantly harm our reputation. Our inability or failure to execute on a comprehensive business continuity plan at our restaurant support centers following a disaster or force majeure event could have a material adverse impact on our business. Many of our corporate systems and processes and corporate support for our restaurant operations are centralized at one location. We have disaster recovery procedures and business continuity plans in place to address crisis- level events, including hurricanes and other natural disasters, and back up and off- site locations for recovery of electronic and other forms of data and information, and **events like** the COVID- 19 pandemic ~~has~~ **have** provided a limited test of our ability to manage our business remotely. However, if we are unable to fully implement our disaster recovery plans, we may experience delays in recovery of data, inability to perform vital corporate functions, tardiness in required reporting and compliance, failures to adequately support field operations and other breakdowns in normal communication and operating procedures that could have a material adverse effect on our financial condition, results of operation and exposure to administrative and other legal claims. In addition, these threats are constantly evolving, which increases the difficulty of accurately and timely predicting, planning for and protecting against the threat. As a result, our disaster recovery procedures and business continuity plans may not adequately address all threats we face or protect us from loss. Risks Related to Legislation and Regulations Legislation and regulations requiring the display and provision of nutritional information for our menu offerings, and new information or attitudes regarding diet and health or adverse opinions about the health effects of consuming our menu offerings, could affect consumer preferences and negatively impact our results of operations. Government regulation and changes in consumer eating habits resulting from shifting attitudes regarding diet and health or new information regarding changes in the health effects of consuming our menu offerings may impact our business. These changes have resulted in, and may continue to result in, the enactment of laws and regulations that impact the ingredients and nutritional content of our menu offerings, or laws and regulations requiring us to disclose the nutritional content of our food offerings. For example, PPACA establishes a uniform, federal requirement for certain restaurants to post certain nutritional information on their menus. Specifically, the PPACA amended the Federal Food, Drug and Cosmetic Act to require 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. 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. In addition, a number of states, counties, and cities have enacted menu labeling laws imposing requirements for additional menu disclosure, such as sodium content. 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. Additionally, some government authorities are increasing regulations regarding trans- fats and sodium, which may require us to limit or eliminate trans- fats and sodium from our menu offerings or switch to higher cost ingredients or may hinder our ability to operate in certain markets. If we fail to comply with these laws or regulations, our business could experience a material adverse effect. We cannot make any assurances regarding our ability 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 have an adverse effect on our results of operations and financial position, as well as the restaurant industry in general. We are subject to many federal, state and local laws with which compliance is both costly and complex. The restaurant industry is subject to extensive federal, state and local laws and regulations, including those relating to building and zoning requirements and those relating to the preparation and sale of food. The development and operation of restaurants depend, to a significant extent, on the selection and acquisition of suitable sites, which are subject to zoning, land use, environmental, traffic and other regulations and requirements. We are also subject to licensing and regulation by state and local authorities relating to health, sanitation, safety and fire standards. We are subject to federal and state laws governing our relationships with employees (including the Fair Labor Standards Act of 1938, the Immigration Reform and Control Act of 1986, and applicable requirements concerning the minimum wage, overtime, family leave, working conditions, safety standards, immigration status, **scheduling notification requirements,** unemployment tax rates, workers' compensation rates and state and local payroll taxes) and federal and state laws which prohibit discrimination. As significant numbers of our associates are paid at rates related to the applicable minimum wage, further increases in the minimum wage or other changes in these laws could increase our labor costs. For example, the state of Illinois approved a minimum wage increase that became effective on January 1, 2022 which increased the minimum wage to $ 12. 00 per hour. As other jurisdictions implement minimum wage increases, we expect our business labor costs will continue to increase. Our ability to respond to minimum wage increases by increasing menu prices will depend on the responses of our competitors and customers. Our distributors and suppliers could also be affected by higher minimum wages, financial condition benefit standards and compliance costs, which could result in higher costs for goods and results services supplied to us. **Additionally, our ability to optimize our labor to meet our profitability goals is heavily dependent on precise workforce planning, which is impacted by laws related to wage and hour violations or predictive scheduling (" fair workweek") in many of the markets that we operate and could be further impacted as more jurisdictions adopt such regulations.** We are subject to the ADA, which, among other things, requires our shops to meet federally mandated requirements for the disabled. The ADA prohibits discrimination in employment and public accommodations on the basis of disability. Under the ADA, we could be required to expend funds to modify our shops to provide service to, or make reasonable accommodations for the employment of, disabled persons. In addition, our employment practices are subject to the requirements of the Immigration and Naturalization Service relating to citizenship and residency. Government regulations could also affect and change the items we procure for resale such as commodities. Our franchising activities are subject to federal rules and regulations administered by the U. S. Federal Trade Commission and laws enacted by a number of states. In particular, we are subject to federal and state laws regulating the offer and sale of franchises, as well as judicial and administrative interpretations of such laws. Such laws impose registration and disclosure requirements on franchisors in the offer and sale of franchises and may also apply substantive standards to the relationship between franchisor and franchisee, including limitations on the ability of franchisors to terminate franchises and alter franchise arrangements. Failure to comply with new or existing franchise laws, rules, and regulations in any jurisdiction or to obtain required government approvals could negatively affect our ability to grow or expand our franchise business and sell franchises. The impact of current laws and regulations, the effect of future changes in laws or regulations that impose additional requirements and the consequences of litigation relating to current or future laws and regulations, or our inability to respond effectively to significant regulatory or public policy issues, could increase our compliance **costs** and other costs of doing business and, therefore, have an adverse effect on our results of operations. Failure to comply with the laws and regulatory requirements of federal, state and local authorities could result in, among other things, revocation of required licenses, administrative enforcement actions, fines and civil and criminal liability. In addition, certain laws, including the ADA, could require us to expend significant funds to make modifications to our shops if we failed to comply with applicable standards. Compliance with all of these laws and regulations can be costly and can increase our exposure to litigation or governmental investigations or proceedings. Failure to obtain and maintain required licenses and permits or to comply with food control regulations could lead to the loss of our food service licenses and, thereby, harm our business. Restaurants are required under various federal, state and local government regulations to obtain and maintain licenses, permits and approvals to operate their businesses **,** and 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 shops and delay or result in our decision to cancel the opening of new shops, which would adversely affect our business. Restaurant companies have been the target of class action lawsuits and other proceedings alleging, among other things, violations of federal and state workplace and employment laws. Proceedings of this nature are costly, divert management attention and, if successful, could result in our payment of substantial damages or settlement costs. Our business is subject to the risk of litigation by employees, consumers, suppliers, stockholders or others through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The outcome of litigation, particularly class action and regulatory actions, is difficult to assess or quantify. In recent years, restaurant companies have been subject to lawsuits, including class action lawsuits, alleging violations of federal and state laws regarding workplace and employment matters, discrimination and similar matters. A number of these lawsuits have resulted in the payment of substantial damages by the defendants. Occasionally, our customers file complaints or lawsuits against us alleging that we are responsible for some illness or injury they suffered at or after a visit to one of our shops, including actions seeking damages resulting from food- borne illness or accidents in our shops. We are also subject to a variety of other claims from third parties arising in the ordinary course of our business, including contract claims. The restaurant industry has also been subject to a growing number of claims that the menus and actions of restaurant chains have led to the obesity of certain of their customers. We may also be subject to lawsuits from our employees, the U. S. Equal Employment Opportunity Commission or others alleging violations of federal and state laws regarding workplace and employment matters, discrimination and similar matters. Regardless of whether any claims against us are valid or whether we are liable, claims may be expensive to defend and may divert time and money away from our operations. In addition, they may generate negative publicity, which could reduce customer traffic and sales. Although we maintain what we believe to be adequate levels of insurance, insurance may not be available at all or in sufficient amounts to cover any liabilities with respect to these or other matters. A judgment or other liability in excess of our insurance coverage for any claims or any adverse publicity resulting from claims could adversely affect our business and results of operations. We may not be able to adequately protect our intellectual property, which, in turn, could harm the value of our brands and adversely affect 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 and other proprietary intellectual property, including our name and logos and the unique ambiance of our shops. We have registered or applied to register a number of our trademarks. We cannot assure you that our trademark applications will be approved. Third parties may also oppose our trademark applications, or otherwise challenge our use of the trademarks. In the event that our trademarks are successfully challenged, we could be forced to rebrand our goods and services, which could result in loss of brand recognition, and could require us to devote resources to advertising and marketing new brands. If our efforts to register, maintain and protect our intellectual property are inadequate, or if any third party misappropriates, dilutes or infringes on our intellectual property, the value of our brands may be harmed, which could have a material adverse effect on our business and might prevent our brands from achieving or maintaining market acceptance. We may also face the risk of claims that we have infringed third parties' intellectual property rights. If third parties claim that we infringe upon their intellectual property rights, our operating profits could be adversely affected. Any claims of intellectual property infringement, even those without merit, could be expensive and time consuming to defend, require us to rebrand our services, if feasible, divert management' s attention and resources or require us to enter into royalty or licensing agreements in order to obtain the right to use a third party' s intellectual property. **Changes in accounting standards or the recognition of**

impairment or other charges may adversely affect our future results of operations. New accounting standards or changes in financial reporting requirements, accounting principles or practices, including with respect to our critical accounting estimates, could adversely affect our future results. We may also be affected by the nature and timing of decisions about underperforming markets or assets, including decisions that result in impairment or other charges that reduce our earnings. In assessing the recoverability of our long- lived assets, we consider changes in economic conditions and make assumptions regarding estimated future cash flows and other factors. These estimates are highly subjective and can be significantly impacted by many factors such as global and local business and economic conditions, operating costs, inflation, competition, and consumer and demographic trends. If our estimates or underlying assumptions change in the future, we may be required to record impairment charges. If we experience any such changes, they could have a significant adverse effect on our reported results for the affected periods. Risks Related to our Indebtedness Limitations in our ~~Term Loan~~ **Revolving Facility** may limit our ability to invest in the ongoing needs of our business and if we are unable to comply with our financial covenants, our liquidity and results of operations could be harmed. On February 7, ~~2023~~ **2024** ~~(the " Closing Date ")~~ , we entered into a credit ~~and guaranty~~ agreement (the " ~~New~~ Credit Agreement ") with ~~Sagard Holdings Manager LP~~ **Wintrust Bank, N. A.,** as administrative agent (the " ~~Administrative~~ Agent "). The ~~New~~ **Revolving Facility** Credit Agreement provides for a ~~term~~ **revolving** loan facility with an aggregate commitment of $ ~~25~~ **30** million (the " ~~Term Loan~~ **Revolving Facility** "). The ~~Term Loan~~ **Revolving Facility** places certain conditions on us, including that it **may** : • ~~limits~~ - **limit** our flexibility in planning for, or reacting to, changes in our business or the industries in which we operate; • ~~makes~~ - **make** us more vulnerable to increases in interest rates, as borrowings under the ~~Term Loan~~ **Revolving Facility** are at variable rates; **and** • ~~limits~~ - **limit** our ability to obtain additional financing in the future for working capital or other purposes ~~; and • could place us at a competitive disadvantage compared to our competitors~~ . The ~~Term Loan~~ **Revolving Facility** places certain limitations on our ability to incur additional indebtedness and, among other things, our ability to enter into certain types of transactions, financing arrangements and investments, to make certain changes to our capital structure and to guarantee certain indebtedness. The ~~Term Loan~~ **Revolving Facility** also places certain restrictions on the payment of dividends and distributions. These restrictions limit or prohibit, among other things, our ability to: • **make certain restricted payments including,** pay dividends on, redeem or repurchase our stock ~~or make other distributions~~ ; • incur ~~or guarantee~~ additional indebtedness; • create or incur liens; • make **certain dispositions,** acquisitions or investments; • ~~transfer or sell certain assets or~~ merge or consolidate with or into other companies **or undergo certain other fundamental changes** ; • enter into swap ~~agreements~~ **transactions** ; • enter into certain sale and leaseback transactions; and • enter into certain transactions with our affiliates. Failure to comply with certain covenants or the occurrence of a change of control under **Revolving Facility** ~~the Term Loan~~ could result in the acceleration of our obligations under the ~~loan~~ **Credit Agreement** , which ~~would~~ **could** harm our business, liquidity, capital resources and results of operations. The **Revolving Facility** ~~Term Loan also~~ requires ~~us to comply~~ **that we and our subsidiaries maintain compliance** with certain ~~financial covenants including a~~ minimum fixed charge coverage ~~ratio~~ **ratios and** ~~for specified periods, a~~ maximum **consolidated** leverage ~~ratio~~ **ratios** ~~for specified periods, a minimum average liquidity amount for specified periods, and limits to capital expenditures for specified periods, as well as other covenants and requirements~~ as set forth in the agreement. Changes **in our financial performance** with respect to ~~these~~ **certain** financial ~~covenants~~ **ratios** may increase our interest ~~rate~~ **rates** and failure to comply with these covenants could result in a default and an acceleration of our obligations under the ~~Term Loan~~ **Revolving Facility** , which would harm our business, liquidity, capital resources and results of operations. We may be unable to obtain **additional** debt or other financing on favorable terms or at all. There are inherent risks in our ability to borrow. Our lenders may be unable to lend to us or tighten their lending standards, which could make it more difficult for us to refinance our existing indebtedness or to obtain other financing on favorable terms or at all. Longer term disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation, reduced alternatives, failures of significant financial institutions or other events could adversely affect our access to liquidity needed for our business. Any disruption could require us to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for our business can be arranged, which could harm our business, liquidity, capital resources and results of operations. Such measures could include deferring capital expenditures (including the opening of new restaurants) and reducing or eliminating other discretionary uses of cash. General Risk Factors Economic conditions in the United States could materially affect our business, financial condition and results of operations. The restaurant industry depends on consumer discretionary spending. During periods of economic downturn, continuing disruptions in the overall economy, including the impacts of high unemployment and financial market volatility and unpredictability, may cause a related reduction in consumer confidence, which could negatively affect customer traffic and sales throughout our industry. These factors, as well as national, regional and local regulatory and economic conditions, gasoline prices and disposable consumer income affect discretionary consumer spending. If economic conditions worsen and our customers choose to dine out less frequently or reduce the amount they spend on meals while dining out, customer traffic could be adversely impacted. If negative economic conditions persist for a long period of time or become pervasive, consumer changes to their discretionary spending behavior, including the frequency with which they dine out, could be more permanent. The U. S. economy is likely to be affected by many national and international factors that are beyond our control. If sales decrease, our profitability could decline as we spread fixed costs across a lower level of sales. Prolonged negative trends in shop sales could cause us to, among other things, reduce the number and frequency of new shop openings, close shops or delay remodeling of our existing shops or take asset impairment charges. Because many of our shops are concentrated in local or regional areas, we are susceptible to economic and other trends and developments, including adverse weather conditions, in these areas. Our financial performance is highly dependent on shops located in Illinois, Texas, Michigan, ~~Maryland,~~ Washington, D. C. and Virginia, which comprised approximately **65** ~~69. 3~~ % of our total domestic **company-operated** shops as of December ~~25~~ **31** , ~~2022~~ **2023** . Shops located in the Chicago metropolitan area comprised approximately **27** ~~29. 4~~ % of our total domestic shops as of such date. As a result, adverse economic conditions in any of these areas could have a material adverse effect on our overall results of operations. In addition, given our geographic concentrations, negative publicity regarding any of our shops in these areas could have a material adverse effect on our business and operations, as could other regional occurrences such as local strikes, terrorist attacks, increases in energy prices, or natural or man- made disasters. In particular, adverse weather conditions, such as regional winter storms, floods, severe thunderstorms and hurricanes, could negatively impact our results of operations. Temporary or prolonged shop closures may occur, and customer traffic may decline due to the actual or perceived effects of future weather- related events. Damage to our reputation or lack of acceptance of our brand in existing or new markets could negatively impact our business, financial condition and results of operations. We believe we have built our reputation on the high quality of our food, service and staff, as well as on our unique culture and the ambience in our shops, and we must protect and grow the value of our brand to continue to be successful in the future. Any incident that erodes consumer affinity for our brand could significantly reduce its value and damage our business. For example, our brand value could suffer, and our business could be adversely affected if customers perceive a reduction in the quality of our food, service or staff, or an adverse change in our culture or ambience, or otherwise believe we have failed to deliver a consistently positive experience. We may be adversely affected by news reports **, social media,** or other negative publicity (regardless of their accuracy), regarding food quality issues, public health concerns, illness, safety, injury or government or industry findings concerning our shops, restaurants operated by other foodservice providers, or others across the food industry supply chain. The risks associated with such negative publicity cannot be completely eliminated or mitigated and may materially harm our results of operations and result in damage to our brand. ~~Also~~ **Our inability or failure to recognize** , **respond to and effectively manage the immediacy of social media could have a material adverse impact on our business.** ~~there~~ **There** has been a marked increase in the use of social media platforms, including blogs, social media websites and other forms of Internet- based communications which allows individual access to a broad audience of consumers and other interested persons. The availability of information on social media platforms is virtually immediate as is its impact. Many social media platforms immediately publish the content their subscribers and participants can post, often without filters or checks on accuracy of the content posted. The opportunity for dissemination of information, including inaccurate information, is seemingly limitless and readily available. Information concerning our company may be posted on such platforms at any time. Information posted may be adverse to our interests or may be inaccurate, each of which may harm our performance, prospects or business. The harm may be immediate without affording us an opportunity for redress or correction. Such platforms also could be used for dissemination of trade secret information, compromising valuable company assets. In sum, the dissemination of information online could harm our business, prospects, financial condition and results of operations, regardless of the information' s accuracy. **Additionally, use of social media is an important element of our marketing efforts. New social media and internet- based communication platforms are developing rapidly, and we need to continuously innovate and evolve our marketing strategies to maintain our brand relevance and broad appeal to guests. We also continue to invest in other digital marketing initiatives to reach our guests and build their awareness of, engagement with, and loyalty to us, including our " Potbelly Perks " reward program. These initiatives may not be successful, resulting in expenses incurred without the benefit of higher revenues, increased customer engagement or brand recognition. Other risks associated with our use of social media and internet- based communication platforms include platforms and business partners who experience challenges, improper disclosure of proprietary information, negative comments about us, exposure of personally identifiable information, fraud, hoaxes or malicious dissemination of false information. The inappropriate use of social media by our guests or employees could lead to litigation or result in negative publicity that could damage our reputation.** Our marketing programs may not be successful. We intend to continue to invest in marketing efforts that we believe will attract and retain customers. These initiatives may not be successful, resulting in expenses incurred without the benefit of higher revenues. Additionally, if these initiatives are not successful, we may engage in additional promotional activities to attract and retain customers, including buy- one get- one offers and other offers for free or discounted food, and any such additional promotional activities could adversely impact our results of operations. We also plan to continue to emphasize mobile and other digital ordering, delivery and pick- up orders, and catering. These efforts may not succeed to the degree we expect or may result in unexpected operational challenges that adversely impact our costs. We may also seek to introduce new menu items that may not generate the level of sales we expect. Additionally, some of our competitors have greater financial resources, which enable them to spend significantly more on marketing and advertising than we are able to. Should our competitors increase spending on marketing and advertising, or our marketing funds decrease for any reason, or should our advertising and promotions be less effective than our competitors, there could be a material adverse effect on our results of operations and financial condition. Our business is subject to seasonal fluctuations. Historically, customer spending patterns for our established shops are lowest in the first quarter of the year due to holidays, consumer habits and adverse weather **. Other factors also have a seasonal effect on our results. For example, shops located near colleges and universities typically do more business during the academic year** . Our quarterly results have been and will continue to be affected by the timing of new shop openings and their associated pre- opening costs. As a result of these and other factors, our financial results for any quarter may not be indicative of the results that may be achieved for a full fiscal year. Changes to estimates related to our property, right- of- use assets for operating leases and equipment or operating results that are lower than our current estimates at certain shop locations may cause us to incur impairment charges on certain long- lived assets, which may adversely affect our results of operations. In accordance with accounting guidance as it relates to the impairment of long- lived assets, we make certain estimates and projections with regard to individual shop operations, as well as our overall performance, in connection with our impairment analyses for long- lived assets. When impairment triggers are deemed to exist for any location, the estimated forecasted shop cash flows are compared to its carrying value. If the carrying value exceeds the estimated forecasted shop cash flows, an impairment charge is recognized as the amount by which the carrying amount of the asset exceeds the fair value of the asset group. The projections of future cash flows used in these analyses require the use of judgment and a number of estimates and projections of future operating results. If actual results differ from our estimates, additional charges for asset impairments may be required in the future. We have experienced significant impairment charges in past years. If future impairment charges are significant, our reported operating results would be adversely affected. Changes in tax laws and unanticipated tax liabilities could adversely affect the taxes we pay and our profitability. We are subject to income and other taxes in the U. S., and our operations, plans and results are affected by various tax initiatives in the U. S. In particular, we are affected by the impact of changes to tax laws or policy or related authoritative interpretations. We are also impacted by settlements of pending or any future adjustments proposed by taxing and governmental authorities inside the U. S. in connection with our tax audits, all of which will depend on their timing, nature and scope. Any significant increases in income tax rates, changes in income tax laws or unfavorable resolution of tax matters could have a material adverse impact on our financial results. We have experienced and continue to experience ~~significant~~ labor cost inflation. If we are unable to offset higher labor costs, our cost of doing business will significantly increase, which could materially adversely impact our financial performance. Increases in minimum wages and minimum tip credit wages, extensions of personal and other leave policies, other governmental regulations affecting labor costs and a diminishing pool of potential staff members when the unemployment rate falls and legal immigration is restricted, especially in certain localities, could significantly increase our labor costs and make it more difficult to fully staff our restaurants, any of which could materially adversely affect our financial performance. **If** ~~We believe~~ the United States federal government ~~may~~ **(or local jurisdictions)** significantly increase the ~~federal~~ minimum wage and tip credit wage (or eliminate the tip credit wage) and require significantly more mandated benefits than what is currently required under ~~federal~~ **applicable** law **, our labor costs may increase** . In addition to increasing the overall wages paid to our minimum wage and tip credit wage earners, these increases create pressure to increase wages and other benefits paid to other staff members who, in recognition of their tenure, performance, job responsibilities and other similar considerations, historically received a rate of pay exceeding the applicable minimum wage or minimum tip credit wage. Because we employ a large workforce, any wage increase and / or expansion of benefits mandates will have a particularly significant impact on our labor costs. Our vendors, contractors and business partners are similarly impacted by wage and benefit cost inflation, and many have or will increase their price for goods, construction and services in order to offset their increasing labor costs. Our labor expenses include significant costs related to our health benefit plans. Health care costs continue to rise and are especially difficult to project. Material increases in costs associated with medical claims, or an increase in the severity or frequency of such claims, may cause health care costs to vary substantially from year- over- year. Given the unpredictable nature of actual health care claims trends, including the severity or frequency of claims, in any given year our health care costs could significantly exceed our estimates, which could materially adversely affect our financial performance. Any significant changes to the healthcare insurance system could impact our healthcare costs. Material increases in healthcare costs could materially adversely affect our financial performance. While we try to offset labor cost increases through price increases, more efficient purchasing practices, productivity improvements and greater economies of scale, there can be no assurance that these efforts will be successful. If we are unable to effectively anticipate and respond to increased labor costs, our financial performance could be materially adversely affected. 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. 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. Risks Related to Environmental Social and Governance Issues Our business is subject to evolving corporate governance and public disclosure regulations and expectations, including with respect to environmental, social and governance matters, that could expose us to numerous risks. We are subject to changing rules and regulations promulgated by a number of governmental and self- regulatory organizations, including the SEC, the Nasdaq Stock Market and the Financial Accounting Standards Board. These rules and regulations continue to evolve in scope and complexity and many new requirements have been created in response to laws enacted by Congress, making compliance more difficult and uncertain. In addition, increasingly regulators, customers, investors, employees and other stakeholders are focusing on environmental, social and governance (" ESG") matters and related disclosures. These changing rules, regulations and stakeholder expectations **may** ~~have resulted in, and are likely to continue to~~ result in, increased general and administrative expenses and increased management time and attention spent complying with or meeting such regulations and expectations. For example, developing and acting on initiatives within the scope of ESG, and collecting, measuring and reporting ESG related information and metrics can be costly, difficult and time consuming and is subject to evolving reporting standards, including the SEC' s recently proposed climate- related reporting requirements. We may also communicate certain initiatives and goals, regarding environmental matters, diversity, responsible sourcing and social investments and other ESG related matters, in our SEC filings or in other public disclosures. These initiatives and goals within the scope of ESG could be difficult and expensive to implement, the technologies needed to implement them may not be cost effective and may not advance at a sufficient pace, and we could be criticized for the accuracy, adequacy or completeness of the disclosure. In addition, we could be criticized for the scope or nature of such initiatives or goals, or for any revisions to these goals. If our ESG- related data, processes and reporting are incomplete or inaccurate, or if we fail to achieve progress with respect to our goals within the scope of ESG on a timely basis, or at all, our reputation, business, financial performance and growth could be adversely affected. Climate change

and volatile adverse conditions may have an adverse impact on our business. While we seek to mitigate our business risks associated with climate change by establishing environmental goals and standards and seeking business partners, including within our supply chain, that are committed to operating in ways that protect the environment or mitigate environmental impacts, we recognize that there are inherent climate- related risks wherever business is conducted. Our financial results, our leased premises and operations may be vulnerable to the adverse effects of climate change, which are predicted to increase the frequency and severity of **adverse** weather events and other natural cycles such as wildfires and droughts. ~~Such events~~ **In addition, our supply chain is subject to increased costs caused by the effects of climate change, greenhouse gases and diminishing energy and water resources. Increasing weather volatility and changes in global weather patterns can reduce crop size and crop quality, or destroy crops altogether, which could result in decreased availability or higher pricing for our produce and other ingredients. We may be forced to source ingredients from new geographic regions, which could impact quality and increase costs. These factors are beyond our control and, in many instances, unpredictable. Climate change and government regulation relating to climate change also could result in construction delays for new restaurants and interruptions to the availability or increases in the cost of utilities. The ongoing and long-term costs of these impacts related to climate change and other sustainability- related issues could** have ~~the potential to disrupt~~ **a material adverse effect on** our ~~operations, cause store closures, disrupt the~~ business ~~of our third- party suppliers~~ and **financial condition if we are not able** ~~impact our customers, all of which may cause us~~ to **mitigate them** ~~suffer losses and additional costs to maintain or resume operations~~. Risks Related to Ownership of Our Common Stock Our business could be negatively affected as a result of actions of activist stockholders. From time to time, we may be subject to proposals by stockholders urging us to take certain corporate action. If activist stockholder activities ensue, our business could be adversely impacted because: • responding to actions by activist stockholders can be costly and time- consuming ~~,~~ and divert the attention of our management and employees; • perceived uncertainties as to our future direction may result in the loss of potential business opportunities ~~,~~ and may make it more difficult to attract and retain qualified personnel and business partners; and • pursuit of an activist stockholder' s agenda may adversely affect our ability to effectively implement our business strategy and create additional value for our stockholders. Our stock price could be extremely volatile and, as a result, you may not be able to resell your shares at or above the price you paid for them. Volatility in the market price of our common stock may prevent you from being able to sell your shares at or above the price you paid for your shares. The stock market in general has been highly volatile, and this may be especially true for our common stock given our growth strategy and stage of development. As a result, the market price of our common stock is likely to be similarly volatile. You may experience a decrease, which could be substantial, in the value of your stock, including decreases unrelated to our operating performance or prospects, and could lose part or all of your investment. The price of our common stock could be subject to wide fluctuations in response to a number of factors, including those described elsewhere in this Annual Report and others such as: • actual or anticipated fluctuations in our quarterly or annual operating results and the performance of our competitors; • publication of research reports by securities analysts about us, our competitors or our industry; • our failure or the failure of our competitors to meet analysts' projections or guidance that we or our competitors may give to the market; • additions and departures of key personnel; • sales, or anticipated sales, of large blocks of our stock or of shares held by our stockholders, directors or executive officers; • strategic decisions by us or our competitors, such as acquisitions, divestitures, spin- offs, joint ventures, strategic investments or changes in business strategy; • the passage of legislation or other regulatory developments affecting us or our industry; • speculation in the press or investment community, whether or not correct, involving us, our suppliers or our competitors; • changes in accounting principles; • litigation and governmental investigations; • terrorist acts, acts of war or periods of widespread civil unrest; • a food- borne illness outbreak; • severe weather, natural disasters and other calamities; and • changes in general market and economic conditions. As we operate in a single industry, we are especially vulnerable to these factors to the extent that they affect our industry or our products. In the past, securities class action litigation has often been initiated against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management' s attention and resources, and could also require us to make substantial payments to satisfy judgments or to settle litigation. Provisions in our certificate of incorporation and bylaws and Delaware law may discourage, delay or prevent a change of control of our company or changes in our management and, therefore, may depress the trading price of our stock. Our certificate of incorporation and bylaws include certain provisions that could have the effect of discouraging, delaying or preventing a change of control of our company or changes in our management, including, among other things: • restrictions on the ability of our stockholders to fill a vacancy on the board of directors; • our ability to issue preferred stock with terms that the board of directors may determine, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer; • the inability of our stockholders to call a special meeting of stockholders; • the absence of cumulative voting in the election of directors, which may limit the ability of minority stockholders to elect directors; • advance notice requirements for stockholder proposals and nominations, which may discourage or deter a potential acquirer from soliciting proxies to elect a particular slate of directors or otherwise attempting to obtain control of us; and • our bylaws may only be amended by the affirmative vote of the holders of at least 2 / 3 of the voting power of outstanding shares of our capital stock entitled to vote generally in the election of directors or by our board of directors. Section 203 of the Delaware General Corporation Law may affect the ability of an " interested stockholder " to engage in certain business combinations, including mergers, consolidations or acquisitions of additional shares, for a period of three years following the time that the stockholder becomes an " interested stockholder. " An " interested stockholder " is defined to include persons owning directly or indirectly 15 % or more of the outstanding voting stock of a corporation. It is not possible to predict the aggregate proceeds resulting from sales made under the Sales Agreement. On November 3, 2021, we entered into an equity sales agreement (the " Sales Agreement ") with William Blair & Company, L. L. C. (the " Sales Agent "), pursuant to which we may issue and sell from time to time shares of our common stock having an aggregate offering price of up to $ 40 million through the Sales Agent (the " At- the- Market Offering

”). Subject to certain limitations in the Sales Agreement and compliance with applicable law, we have the discretion to deliver a placement notice to the Sales Agent at any time throughout the term of the Sales Agreement. The number of shares that are sold through the Sales Agent after delivering a placement notice will fluctuate based on a number of factors, including the market price of our common stock during the sales period, the limits we set with the Sales Agent in any applicable placement notice, and the demand for our common stock during the sales period. Because the price per share of each share sold will fluctuate during the sales period, it is not currently possible to predict the aggregate proceeds to be raised in connection with those sales. We may not be able to access sufficient funds under the Sales Agreement when needed. The Sales Agent is only obligated to act as our agent in the sale of shares pursuant to the Sales Agreement on a commercially reasonable efforts basis and subject to certain conditions set forth in the Sales Agreement. Therefore, we may not in the future, have access to the full amount available to us under the Sales Agreement. Any amounts we sell under the Sales Agreement may not satisfy all of our funding needs, even if we are able and choose to sell and issue all of our common stock currently registered. Because we have no plans to pay regular cash dividends on our common stock for the foreseeable future, you may not receive any return on investment unless you sell your common stock for a price greater than that which you paid for it. We may retain future earnings, if any, for future operations, expansion and debt repayment and have no current plans to pay any cash dividends for the foreseeable future. Any decision to declare and pay dividends in the future will be made at the discretion of our board of directors and will depend on, among other things, our results of operations, financial condition, cash requirements, contractual restrictions and other factors that our board of directors may deem relevant. In addition, our ability to pay dividends may be limited by covenants of any existing and future outstanding indebtedness we or our subsidiaries incur, including our ~~credit facility~~ **Term Loan** . As a result, you may not receive any return on an investment in our common stock unless you sell our common stock for a price greater than that which you paid for it.