

POTBELLY CORP
Form DEF 14A
March 24, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN
PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Potbelly Corporation

(Name of registrant as specified in its charter)

Payment of the filing fee (check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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Fee paid previously with preliminary materials.

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing party:

(4) Date filed:

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March 24, 2016

Dear Fellow Stockholder:

You are cordially invited to attend our Annual Meeting of Stockholders on May 12, 2016. We will hold the meeting at 8:00 a.m., Central Time, at the Westin O Hare Hotel, 6100 N. River Road, Rosemont, Illinois 60018. Details of the business to be conducted at the Annual Meeting are given in the notice of meeting and proxy statement that follow.

Please vote promptly by following the instructions in this proxy statement or in the Notice of Internet Availability of Proxy Materials that was sent to you.

Sincerely,

Aylwin Lewis

Chairman of the Board and Chief Executive Officer

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111 North Canal Street, Suite 850

Chicago, Illinois 60606

**NOTICE OF ANNUAL MEETING OF
STOCKHOLDERS
TO BE HELD ON MAY 12, 2016**

To our Stockholders:

The 2016 Annual Meeting of Stockholders of Potbelly Corporation will be held on May 12, 2016, at 8:00 a.m. Central Time, at the Westin O Hare Hotel, 6100 N. River Road, Rosemont, Illinois 60018 for the following purposes:

1. To elect Ann-Marie Campbell, Dan Ginsberg and Harvey Kanter as Class III directors to serve for a term of three years or until their successors are duly elected or appointed and qualified;
 2. The ratification of the appointment of Deloitte & Touche LLP to serve as our independent registered public accounting firm for the fiscal year ending December 25, 2016;
 3. To approve the Amended and Restated Potbelly Corporation 2013 Long-Term Incentive Plan; and
 4. To transact any other business properly brought before the Annual Meeting or any adjournment or postponement thereof.
- These items of business are more fully described in the proxy statement accompanying this Notice.

The Board of Directors has set the close of business on March 16, 2016 as the record date for determining Stockholders of the Company entitled to notice of and to vote at the Annual Meeting. A list of the Stockholders as of the record date will be available for inspection by Stockholders, for any purpose germane to the Annual Meeting, at the Company's offices and at the offices of American Stock Transfer & Trust Company LLC, the Company's independent share transfer agent, during normal business hours for a period of 10 days prior to the Annual Meeting. The list will also be available for inspection by Stockholders at the Annual Meeting.

All Stockholders are cordially invited to attend the Annual Meeting in person. **EVEN IF YOU CANNOT ATTEND THE ANNUAL MEETING, PLEASE TAKE THE TIME TO PROMPTLY VOTE YOUR PROXY BY CAREFULLY FOLLOWING THE INSTRUCTIONS ON THE NOTICE REGARDING AVAILABILITY OF PROXY MATERIALS. ALTERNATIVELY, IF YOU HAVE REQUESTED WRITTEN PROXY MATERIALS, PLEASE SIGN, DATE AND RETURN THE PROXY CARD IN THE RETURN ENVELOPE PROVIDED AS PROMPTLY AS POSSIBLE.**

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting to be Held on May 12, 2016: the Proxy Statement and Annual Report to Stockholders are Available at www.proxyvote.com.

By order of the Board of Directors,

Matthew Revord

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Senior Vice President, Chief Legal Officer, General Counsel and Secretary

March 24, 2016

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GENERAL INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

POTBELLY CORPORATION

PROXY STATEMENT

The Board of Directors (the Board of Directors or Board) of Potbelly Corporation, a Delaware corporation, is using this proxy statement to solicit your proxy for use at our 2016 Annual Meeting. We are sending a Notice Regarding the Availability of Proxy Materials for the Annual Meeting and making proxy materials available to stockholders (or, for those who request, a paper copy of this proxy statement and the form of proxy) on or about March 24, 2016, to our stockholders of record as of the close of business on March 16, 2016. References in this proxy statement to Potbelly, Company, we, us, our and similar terms refer to Potbelly Corporation.

GENERAL INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting to be Held on May 12, 2016

This proxy statement and our Annual Report for the year ended 2015, which includes our Annual Report on Form 10-K, are available on the Internet at www.proxyvote.com. Pursuant to rules adopted by the Securities and Exchange Commission (the SEC), we have elected to provide access to our proxy materials over the Internet. Accordingly, we are sending a Notice Regarding the Availability of Proxy Materials to our stockholders of record as of the close of business on March 16, 2016. All stockholders will have the ability to access our proxy materials on the website referred to in the Notice Regarding the Availability of Proxy Materials (www.proxyvote.com) or to request to receive a printed set of our proxy materials. Instructions on how to access our proxy materials over the Internet or request a printed copy of our proxy materials may be found in the Notice Regarding Availability of Proxy Materials. In addition, stockholders may request to receive proxy materials in printed form or by email on an ongoing basis by calling 1-800-579-1639 or via email to sendmaterial@proxyvote.com.

Why am I receiving these materials?

Our Board of Directors is soliciting proxies for the 2016 Annual Meeting of Stockholders. On or about March 24, 2016, we expect to begin mailing these proxy materials to stockholders of record as of the close of business on March 16, 2016, the record date. On the record date, there were 26,117,209 shares of our common stock outstanding.

Where and when is the Annual Meeting of Stockholders?

We will hold the Annual Meeting of Stockholders on Thursday, May 12, 2016, at 8:00 a.m., Central Time, at the Westin O Hare Hotel, 6100 N. River Road, Rosemont, Illinois 60018.

What am I being asked to vote on at the meeting?

We are asking our stockholders to consider the following items:

the election of three nominees for director named in this proxy statement;

the ratification of the appointment of our independent registered public accounting firm;

the approval of the Amended and Restated Potbelly Corporation 2013 Long-Term Incentive Plan; and

any other business properly introduced at the Annual Meeting.

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GENERAL INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

How many votes do I have?

You have one vote for each share of our common stock that you owned at the close of business on the record date. These shares include:

shares registered directly in your name with our transfer agent, for which you are considered the stockholder of record; and

shares held for you as the beneficial owner through a broker, bank or other nominee in street name.

What is the difference between holding shares as a stockholder of record and as a beneficial owner ?

If your shares are registered directly in your name with our transfer agent, you are considered the stockholder of record with respect to those shares. We have sent these proxy materials directly to you.

If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of the shares held in street name. Your broker, bank or other nominee who is considered the stockholder of record with respect to those shares has forwarded these proxy materials to you. As the beneficial owner, you have the right to direct your broker, bank or other nominee on how to vote your shares by using the voting instruction card included in the mailing or by following their instructions for voting by telephone or the Internet.

How can I vote my shares?

You can vote by proxy or in person.

What is a proxy?

It is your legal designation of another person to vote the stock you own. That other person is called a proxy. If you designate someone as your proxy in a written document, that document is also called a proxy or a proxy card. We have designated two of our officers as proxies for the Annual Meeting of Stockholders to be held on May 12, 2016. These officers are Aylwin Lewis and Matthew Revord.

How You Can Vote

Stockholders of Record. Stockholders of record may vote their shares or submit a proxy to have their shares voted by one of the following methods:

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By Internet - You may authorize your proxy on-line via the Internet by accessing the website www.proxyvote.com and following the instructions provided on the Notice Regarding the Availability of Proxy Materials or, if you have requested written proxy materials, the proxy card. Internet voting facilities will be available 24 hours a day and will close at 11:59 p.m., Eastern Time, on May 11, 2016.

By Telephone - You may authorize your proxy by touch-tone telephone by calling 1-800-690-6903. Telephone voting facilities will be available 24 hours a day and will close at 11:59 p.m., Eastern Time, on May 11, 2016.

By Mail - If you request paper copies of the proxy materials to be sent to you by mail, you may authorize your proxy by completing, signing and dating your proxy card and returning it in the reply envelope included with the paper proxy materials.

In Person - You may attend the Annual Meeting and vote in person by completing a ballot; however, attending the Annual Meeting without completing a ballot will not count as a vote. If you choose to vote in person, you must bring proof of identification and your notice or proxy card showing your control number to the Annual Meeting.

Beneficial Owners. If you are the beneficial owner of your shares of common stock (that is, you hold your shares in street name through an intermediary such as a broker, bank or other nominee), you will receive instructions from your broker, bank or nominee.

Your broker, bank or nominee will not vote your shares of stock on any matters unless you provide them instructions on how to vote your shares of stock. You should instruct your broker or nominee how to vote your shares of stock by following the

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GENERAL INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

directions provided by your broker or nominee. Alternatively, you may obtain a proxy from your bank, broker or other holder of record and bring it with you to hand in with a ballot in order to be able to vote your shares at the meeting. If you choose to vote at the meeting, you must bring the following: (i) proof of identification, (ii) an account statement or letter from the broker, bank or other nominee indicating that you are the owner of the stock and (iii) a signed proxy from the stockholder of record giving you the right to vote the stock. The account statement or letter must show that you were the beneficial owner of the stock on March 16, 2016.

General. If you submit your proxy using any of the methods above, Aylwin Lewis or Matthew Revord will vote your shares in the manner you indicate. You may specify whether your shares should be voted for all, some, or none of the nominees for director and for or against any other proposals properly introduced at the Annual Meeting. If you vote by telephone or Internet and choose to vote with the recommendation of our Board of Directors, or if you vote by mail, sign your proxy card, and do not indicate specific choices, your shares will be voted **FOR** the election of both nominees for director, **FOR** ratification of the appointment of our independent public accounting firm, and **FOR** the approval of the Amended and Restated Potbelly Corporation 2013 Long-Term Incentive Plan.

If any other matter is presented, your proxy will authorize Aylwin Lewis or Matthew Revord to vote in accordance with their best judgment. At the time this proxy statement was filed, we knew of no matters to be considered at the Annual Meeting other than those referenced in this proxy statement.

How can I revoke my proxy?

You may revoke a proxy in any one of the following three ways:

submit a valid, later-dated proxy, or vote again electronically after your original vote;

notify our corporate secretary in writing before the Annual Meeting that you have revoked your proxy; or

vote in person at the Annual Meeting.

Is my vote confidential?

Yes. Voting tabulations are confidential except in extremely limited circumstances. Such limited circumstances include contested solicitation of proxies, when disclosure is required by law, to defend a claim against us or to assert a claim by us and when a stockholder's written comments appear on a proxy or other voting material.

What quorum is required for the Annual Meeting?

In order to have a valid stockholder vote, a quorum must exist at the Annual Meeting. For us, a quorum exists when stockholders holding a majority of the issued and outstanding shares entitled to vote are present or represented at a meeting.

What vote is required to approve each item?

Item	Vote Required	No	Yes	Broker Discretionary	Voting Allowed
Proposal 1. Election of Directors	Plurality of votes cast	No	Yes		
Proposal 2. Ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 25, 2016	Majority of shares present in person or represented by proxy and entitled to vote	Yes			
Proposal 3. Approval of the Amended and Restated Potbelly Corporation 2013 Long-Term Incentive Plan	Majority of shares present in person or represented by proxy and entitled to vote	No			

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GENERAL INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

How are the voting results determined?

In the election of Class III Directors, your vote may be cast **FOR** each of the nominees or your vote may be **WITHHELD** with respect to one or more of the nominees. The nominees receiving the largest number of **FOR** votes will be elected as directors, up to the maximum number of directors to be chosen for election. In the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm, your vote may be cast **FOR**, **AGAINST** or **ABSTAIN** with respect to that proposal. In the approval of the Amended and Restated Potbelly Corporation 2013 Long-Term Incentive Plan, your vote may be cast **FOR**, **AGAINST** or **ABSTAIN** with respect to that proposal.

If you are a record holder and you sign (including electronic confirmations in the case of Internet or telephone voting) your proxy card with no instructions on how to vote, your stock will be voted in accordance with the recommendations of the Board. If you are a beneficial owner and you sign (including electronic confirmation in the case of Internet or telephone voting) your broker voting instruction card with no instructions on how to vote, your stock will be voted in the broker's discretion only with respect to routine matters but will not be voted with respect to non-routine matters.

Broker non-votes occur when brokers do not have discretionary voting authority to vote certain shares held in street name on particular non-routine proposals including the election of directors, and the beneficial owner of those shares has not instructed the broker to vote on those proposals. If you are a beneficial owner, your broker, bank or other nominee is permitted to vote your shares only with regard to ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm, even if the holder does not receive voting instructions from you. Shares registered in the name of a broker, bank or other nominee, for which proxies are voted on some, but not all matters, will be considered to be represented at the Annual Meeting and voted only as to those matters for which the broker, bank or other nominee has authority to vote.

Because the election of directors is determined on the basis of a plurality of the votes cast, abstentions have no effect on the outcome of the election of Class III directors, although they will result in a director receiving fewer votes. Because the approval of a majority of shares present and entitled to vote is required to ratify the appointment of Deloitte & Touche LLP as our independent public accountants and to approve our amended and restated long-term incentive plan, abstentions have the effect of a vote against those proposals. Broker non-votes will have no direct effect on the outcome of the election of Class III directors, on the ratification of our independent public accountants, or on the approval of our amended and restated long-term incentive plan.

What are the fiscal year end dates?

This proxy statement provides information about the matters to be voted on at the 2016 Annual Meeting of Stockholders and additional information about Potbelly and its executive officers and directors. Some of the information is provided as of the end of our 2014, or 2015 fiscal years as well as some information being provided as of a more current date. Our fiscal year 2014 ended on December 28, 2014 and our fiscal year 2015 ended on December 27, 2015.

Where can I find the voting results?

We intend to announce preliminary voting results at the Annual Meeting. We will publish the final results in a Current Report on Form 8-K, which we expect to file on or before May 18, 2016. You can obtain a copy of the Form 8-K by logging on to our website at <http://investors.potbelly.com/financials.cfm>, or by calling the SEC at 800-SEC-0330 for the location of the nearest public reference room, or through the EDGAR system at www.sec.gov. Information on our website does not constitute part of this proxy statement.

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CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

Overview

All of our corporate governance materials, including our corporate governance guidelines, our ethics code of conduct and Board committee charters, are published under the Corporate Governance section of our Investor Relations website at www.potbelly.com. Information on our website does not constitute part of this proxy statement. These materials are also available in print to any stockholder without charge upon request made by telephone at (312) 951-0600 or by mail to our principal executive offices at Potbelly Corporation, 111 North Canal Street, Suite 850, Chicago, Illinois 60606, Attention: Corporate Secretary. The Board of Directors regularly reviews these materials, Delaware law, the rules and listing standards of the Nasdaq Global Select Market (**NASDAQ**) and SEC rules and regulations, as well as best practices suggested by recognized governance authorities, and modifies the materials as it believes is warranted.

Director Independence

Our Board of Directors reviews the independence of the current and potential members of the Board of Directors in accordance with independence requirements set forth in the NASDAQ rules and applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (the **Exchange Act**). During its review, the Board of Directors considers transactions and relationships between each director and potential director, as well as any member of his or her immediate family, and the Company and its affiliates, including those related-party transactions contemplated by Item 404(a) of the SEC's Regulation S-K. The Board of Directors must affirmatively determine that the director has no material relationship with the Company, either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company, that, in the opinion of the Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The purpose of this review is to determine whether any such relationships or transactions exist that are inconsistent with a determination that the director is independent. Our Board of Directors has determined that all current directors except Aylwin Lewis are independent as such term is defined by NASDAQ rules, our corporate governance standards and the federal securities laws. With respect to directors who served in fiscal year 2015 but are no longer on the Board of Directors as of March 1, 2016 (Vann Avedisian, Bryant Keil and Dan Levitan), our Board determined that Mr. Levitan was independent as so defined.

Ethics Code of Conduct

We have a written ethics code of conduct that applies to our directors, officers and employees. A copy of this code is available at <http://investors.potbelly.com/governance.cfm>. We will disclose information regarding any amendment to or waiver from the provision of this code by posting it on the same portion of our website.

Conflicts of Interest

Pursuant to our ethics code of conduct and our related party transaction policy, each director and executive officer has an obligation not to engage in any transaction that could be deemed a conflict of interest. Our directors may not engage in any transaction that could impact their independence on the Board of Directors. See **Related Party Transactions**.

Structure of the Board of Directors

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Our Board of Directors currently consists of eight members, comprised of Aylwin Lewis, Peter Bassi, Ann-Marie Campbell, Susan Chapman-Hughes, Dan Ginsberg, Marla Gottschalk, Harvey Kanter and Carl Warschausky. Our certificate of incorporation provides that our Board of Directors shall consist of not more than twelve directors, with the exact number as determined from time to time by resolution of the Board.

Our Board is divided into three classes with staggered terms. Mr. Lewis, Mr. Bassi and Ms. Gottschalk are Class I directors with a term expiring at our 2017 annual meeting of stockholders. Ms. Chapman-Hughes and Mr. Warschausky serve as Class II directors with a term expiring at our 2018 annual meeting of stockholders. Ms. Campbell, Mr. Ginsberg and Mr. Kanter serve as

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CORPORATE GOVERNANCE

Class III directors and are current nominees for election with a term expiring at our 2018 annual meeting of stockholders. At our 2018 annual stockholder meeting, our classified board structure will be phased out and, beginning at such meeting, all directors shall be elected for a term expiring at the next annual stockholder meeting.

Our amended and restated bylaws (our Bylaws) provide that directors may only be removed for cause. To remove a director for cause, 66-2/3% of the voting power of the outstanding voting stock must vote as a single class to remove the director at an annual or special meeting. Additionally, our certificate of incorporation provides that, if a director is removed or if a vacancy occurs due to either an increase in the size of the Board or the death, resignation, disqualification or other cause, the vacancy will be filled solely by the affirmative vote of a majority of the remaining directors then in office, even if less than a quorum remain.

Board Leadership Structure

Mr. Lewis serves as both our Chief Executive Officer and our Chairman of the Board. Our Board of Directors has carefully considered its leadership structure and believes at this time that the Company and its stockholders are best served by having one person serve both positions. We believe that combining the roles fosters accountability, effective decision-making and alignment between interests of the Board of Directors and management. Mr. Lewis also is able to use the in-depth focus and perspective gained in his executive function to assist our Board of Directors in addressing both internal and external issues affecting the Company.

Our Board of Directors determined as part of our corporate governance principles, and as required in our Bylaws, that the Board of Directors shall appoint one independent director to serve as lead independent director. Mr. Bassi is our lead director and his responsibilities include presiding over periodic meetings of our independent directors and overseeing the function of our Board of Directors and committees. The lead director is also responsible for providing leadership to our Board if any circumstances arise in which the role of the chairman may be, or may be perceived to be, in conflict. The Bylaws also provide that the chairperson of each of our committees will rotate at least once every three years. Our Board of Directors believes that these and other structural features provide for substantial independent oversight of the Company's management.

Our Board of Directors recognizes that depending on future circumstances, other leadership models may become more appropriate. Accordingly, our Board of Directors will continue to periodically review its leadership structure.

Director Biographies

The following is a list of our current directors, their ages as of December 31, 2015, their occupation during the last five years and certain other biographical information:

Aylwin Lewis, 61, has served as our Chief Executive Officer and President and a director since June 2008. From September 2005 to February 2008, Mr. Lewis served as Chief Executive Officer and President of Sears Holdings Corporation. Prior to that, Mr. Lewis was President of Sears Holdings and Chief Executive Officer of Kmart and Sears Retail following Sears' acquisition of Kmart Holding Corporation in 2005. Mr. Lewis had been president and Chief Executive Officer of Kmart since October 2004 until that acquisition. From January 2003 to October 2004, he was President, Chief Multi-Branding and Operating Officer of Yum! Brands, Inc. and served as Chief Operating Officer of Yum! Brands from December 1999 to January 2003. Mr. Lewis has over 26 years of experience in the restaurant industry. Mr. Lewis is also a member of the board of directors of The Walt Disney Company and Starwood Hotels & Resorts Worldwide. Our Board of Directors believes Mr. Lewis' qualifications to serve as a member of our Board include his role as Chief Executive Officer and President, his extensive experience in the restaurant industry and his leadership experience as an executive at publicly-traded companies in the restaurant and retail sectors.

Peter Bassi, 66, has served as our director since January 2009. Mr. Bassi retired in 2005 as Chairman of Yum! Restaurants International (YRI), the international division of Yum! Brands, Inc., where he served as President beginning in July 1997 and was in charge of YRI's Asian business prior to that. Yum! was created in 1997 in a spin-off from PepsiCo, Inc. Mr. Bassi joined PepsiCo in 1972 and served in various assignments at

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Pepsi Cola International, Pizza Hut (U.S. and International), Frito Lay and Taco Bell. From 2002 to 2009, Mr. Bassi served on the board of The Pep Boys Manny, Moe & Jack and from 2008 to 2010, he served on the board of El Pollo Loco, Inc. Mr. Bassi currently serves on the board of BJ's Restaurants, Inc. and AmRest Holdings SE. Our Board of Directors believes Mr. Bassi's qualifications to serve as a member of our Board include his extensive experience in the restaurant industry and his years of experience in his leadership roles as a director and executive officer.

Ann-Marie Campbell, 50, has served as our director since August 2014. Ms. Campbell has been Executive Vice President U.S. Stores for The Home Depot since February 2016. Ms. Campbell has worked for The Home Depot since 1985, progressing from associate, to district manager to vice president, prior to assuming her current position. Ms. Campbell serves on the boards

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of Barnes & Noble, Inc. and Georgia State University's Robinson College of Business and of Catalyst, a nonprofit dedicated to expanding opportunities for women and business. Our Board of Directors believes Ms. Campbell's qualifications to serve as a member of our Board include her extensive experience in merchandising, sales and marketing.

Susan Chapman-Hughes, 47, has served as our director since May 2014. Since December 2014, Ms. Chapman-Hughes has been Senior Vice President, US Large Market, Global Corporate Payments for American Express Company. Prior to assuming her current role, Ms. Chapman-Hughes was Senior Vice President, US Account Development, Global Corporate Payments for American Express from November 2013 through December 2014; and she was the Senior Vice President, Global Real Estate & Workplace Enablement for American Express from July 2010 through November 2013. Before joining American Express Company, Ms. Chapman-Hughes was the Global CAO/Global Head of Operations and Strategy, Citi Realty Services for Citigroup, Inc. Ms. Chapman-Hughes serves on the board of trustees of the National Trust for Historic Preservation and the board of directors of A Better Chance, each of which is a national nonprofit organization. Our Board of Directors believes Ms. Chapman-Hughes's qualifications to serve as a member of our Board include her real estate knowledge and her general management, innovation, financial and digital experience.

Dan Ginsberg, 63, has served as our director since February 2014. Mr. Ginsberg was Chief Executive Officer of Dermalogica, a U.S.-based skincare brand, from January 2011 through August 2014 and has a comprehensive background in branding strategy, marketing, and advertising. Mr. Ginsberg's previous roles include Chief Executive Officer of Red Bull, NA until 2007. Before his Red Bull service, Mr. Ginsberg had been an advertising and marketing executive who held executive positions at agencies such as NW Ayer and Cunningham & Walsh, and Chief Marketing Officer at Hardee's. Our Board of Directors believes Mr. Ginsberg's qualifications to serve as a member of our Board includes his extensive executive officer experience as well as his marketing and branding expertise.

Marla Gottschalk, 55, has served as our director since November 2009. Ms. Gottschalk was Chief Executive Officer of The Pampered Chef Ltd., a marketer of kitchen tools, food products and cookbooks for preparing food in the home, from May 2006 until December 2013 and its President and Chief Operating Officer from December 2003 until May 2006. Ms. Gottschalk joined Pampered Chef from Kraft Foods, Inc., where she worked for 14 years in various management positions, including Senior Vice President of Financial Planning and Investor Relations for Kraft, Executive Vice President and General Manager of Post Cereal Division and Vice President of Marketing and Strategy of Kraft Cheese Division. Ms. Gottschalk is currently a member of the board of trustees of Underwriters Laboratories, a world leader in safety testing and certification, a strategic board advisor for Ocean Spray Cranberries, Inc., and sits on the board of directors for Big Lots. She has previously served as a director of GATX Corp. and as a director of Visteon Corp. Our Board of Directors believes Ms. Gottschalk's qualifications to serve as a member of our Board include her extensive experience with global companies, her expertise in the food industry and her years of experience in operations and strategic management.

Harvey Kanter, 54, has served as our director since August 2015. Since March 2012, Mr. Kanter has served as Chief Executive Officer and President of Blue Nile, Inc., an online retailer of diamonds and fine jewelry. Prior to joining Blue Nile, from January 2009 through March 2012, Mr. Kanter was the Chief Executive Officer and President of Moosejaw Mountaineering and Backcountry Travel, Inc., a premium outdoor apparel and gear retailer. Mr. Kanter serves on the board of directors for Blue Nile, Inc. (and certain of its subsidiaries) and for the non-profit organization Jewelers for Children. Our Board of Directors believes Mr. Kanter's qualifications to serve as a member of our Board include his deep retail industry experience, brand expertise and leadership skills.

Carl Warschausky, 56, has served as our director since May 2015. Since January 2013, Mr. Warschausky has been the President and Chief Executive Officer of World Kitchen, LLC, a global housewares and consumer products manufacturer. Mr. Warschausky has been with World Kitchen, LLC since 2008, serving in various roles including Chief Operating Officer, President of the North America division, and Chief Financial Officer. Mr. Warschausky serves on the board of directors for World Kitchen, LLC. Our Board of Directors believes Mr. Warschausky's qualifications to serve as a member of our Board include his extensive finance and general management experience in dynamic industries, as well as his global perspective and experience.

Board Meetings

Our Board of Directors held seven meetings during fiscal 2015. In 2015, each of our directors attended at least 75% of the aggregate number of meetings held by the Board of Directors, and the committees on which the director served, when such director was a member of the Board of Directors. Under our corporate governance guidelines, each director is expected to make every effort to attend each board meeting and each

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meeting of any committee on which he or she sits.

The Company's directors are encouraged to attend our annual meeting of stockholders, but we do not currently have a policy relating to directors attendance at these meetings. All of our directors at the time attended our 2015 annual meeting of stockholders.

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CORPORATE GOVERNANCE

Board Committees

Our Board of Directors has established three standing committees to assist it with its responsibilities. The composition and responsibilities of each committee are described below. The membership and responsibilities of each committee comply with the listing requirements of NASDAQ. Members serve on these committees until their resignation or until otherwise determined by our Board of Directors. A new chairperson of each committee is appointed at least once every three years. In the future, the Board may establish other committees, as it deems appropriate, to assist it with its responsibilities.

Audit Committee

The purpose of the audit committee is set forth in the audit committee charter and is primarily to assist the Board in overseeing:

the integrity of our financial statements, our financial reporting process and our systems of internal accounting and financial controls;

our compliance with legal and regulatory requirements;

the independent auditor's qualifications and independence;

the evaluation of enterprise risk issues;

the performance of our internal audit function and independent auditor;

the preparation of an audit committee report as required by the SEC to be included in our annual proxy statement; and

Potbelly's systems of disclosure controls and procedures and ethical standards.

The audit committee consists of Ms. Chapman-Hughes, Mr. Ginsberg, Ms. Gottschalk, and Mr. Warschausky and the chairperson is Mr. Warschausky. Our Board of Directors has affirmatively determined that each of these audit committee members meets the additional heightened independence criteria applicable to directors serving on the audit committee under NASDAQ and SEC rules. Our Board of Directors has also determined that each of Ms. Chapman-Hughes, Mr. Ginsberg, Ms. Gottschalk, and Mr. Warschausky meet the requirements for financial literacy under the applicable NASDAQ rules and that each is an audit committee financial expert within the meaning of Item 407 of Regulation S-K. Our Board of Directors has adopted a written charter under which the audit committee operates. A copy of the charter, which satisfies the applicable standards of the SEC and NASDAQ, is available on our website at <http://investors.potbelly.com/governance.cfm>.

The audit committee held five meetings during fiscal year 2015.

Nominating and Corporate Governance Committee

The purpose of the nominating and corporate governance committee is set forth in the nominating and corporate governance committee charter and is primarily to:

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identify individuals qualified to become members of our Board of Directors, and to recommend to our Board of Directors the director nominees for each annual meeting of stockholders or to otherwise fill vacancies on the Board;

review and recommend to our Board of Directors committee structure, membership and operations;

recommend to our Board of Directors the persons to serve on each committee and a chairman for such committee;

develop and recommend to our Board of Directors a set of corporate governance guidelines applicable to us; and

lead our Board of Directors in its annual review of its performance.

The nominating and corporate governance committee consists of Mr. Bassi, Ms. Chapman-Hughes and Mr. Ginsberg and the chairperson is Mr. Bassi. Our Board of Directors has adopted a written charter under which the nominating and corporate governance committee operates. A copy of the charter, which satisfies the applicable standards of the SEC and NASDAQ, is available on our website at <http://investors.potbelly.com/governance.cfm>.

The nominating and corporate governance committee held three meetings during fiscal year 2015.

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CORPORATE GOVERNANCE

Compensation Committee

The purpose of the compensation committee is set forth in the compensation committee charter and is primarily to:

oversee our executive compensation policies and practices;

discharge the responsibilities of our Board of Directors relating to executive compensation by determining and approving the compensation of our Chief Executive Officer and our other executive officers and reviewing and approving any compensation and employee benefit plans, policies, and programs, and exercising discretion in the administration of such programs; and

produce, approve and recommend to our Board of Directors for its approval reports on compensation matters required to be included in our annual proxy statement or annual report, in accordance with all applicable rules and regulations.

For more information regarding the process and procedures regarding the determination of executive and director compensation, see Executive and Director Compensation.

The compensation committee consists of Ms. Campbell, Ms. Gottschalk and Mr. Kanter and the chairperson is Ms. Gottschalk. Our Board of Directors has affirmatively determined that each of these compensation committee members meets the additional, heightened independence criteria applicable to directors serving on the compensation committee under NASDAQ rules. Our Board of Directors has adopted a written charter under which the compensation committee operates. A copy of the charter, which satisfies the applicable standards of the SEC and NASDAQ, is available on our website at <http://investors.potbelly.com/governance.cfm>.

The compensation committee held five meetings during fiscal year 2015.

Compensation Committee Interlocks and Insider Participation

None of the members of our compensation committee is, or has at any time been, an officer or employee of the Company. None of our executive officers currently serves, or in the past year has served, as a member of the board of directors or compensation committee of any other entity that has or has had one or more executive officers who served as a member of our Board or our compensation committee during fiscal 2015. No directors served on our compensation committee in 2015 other than Ms. Campbell, Ms. Gottschalk and Mr. Kanter, the directors currently serving on such committee, and Dan Levitan, who resigned as a director of the Company in February 2016.

Board's Role in Risk Oversight

The entire Board of Directors is engaged in risk management oversight. At the present time, the Board of Directors has not established a separate committee to facilitate its risk oversight responsibilities. The Board of Directors expects to continue to monitor and assess whether such a committee would be appropriate. The audit committee assists the Board of Directors in its oversight of our risk management and the process established to identify, measure, monitor, and manage risks, in particular major financial risks. The compensation committee assesses risks arising from our compensation policies and practices. The Board of Directors receives regular reports from management, as well as from the audit committee and compensation committee, regarding relevant risks and the actions taken by management to address those risks.

Policy for Director Recommendations

Our nominating and corporate governance committee is responsible for reviewing and making recommendations to our Board of Directors regarding nominations of candidates for election as a director of the Company. The nominating and corporate governance committee identifies new director candidates through a variety of sources. Such committee will consider director candidates recommended by stockholders in the same manner it considers other candidates, but it has no obligation to recommend such candidates. A stockholder that wants to recommend a candidate for election to the Board of Directors should send a recommendation in writing to Potbelly Corporation, 111 North Canal Street, Suite 850, Chicago, Illinois 60606, Attention: Corporate Secretary. Such recommendation should describe the candidate's qualifications and other relevant biographical information and provide confirmation of the candidate's consent to serve as director.

Stockholders may also nominate directors at the annual meeting by adhering to the advance notice procedure described under "Stockholder Proposals for the 2017 Annual Meeting" elsewhere in this Proxy Statement.

The nominating and corporate governance committee works with the Board on an annual basis to determine the appropriate characteristics, skills and experience for the Board as a whole and its individual members. In evaluating the suitability of individual

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CORPORATE GOVERNANCE

Board members, the Board and the nominating and corporate governance committee will take into account factors such as the individual's general understanding of disciplines relevant to the success of a publicly traded company; understanding of Potbelly's business; education and professional background, including current employment and other board memberships; reputation for integrity; and any other factors they consider to be relevant. The Board will endeavor to reflect the diversity of Potbelly's stockholders, employees and customers and the communities it serves. Additionally, in determining whether to recommend a director for re-election, the nominating and corporate governance committee also considers the director's past attendance at meetings and participation in and contributions to the activities of the Board.

If the nominating and corporate governance committee determines that an additional or replacement director is required, the committee may take such measures that it considers appropriate in connection with its evaluation of a director candidate, including candidate interviews, inquiry of the person or persons making the recommendation and engagement of an outside search firm to gather additional information. From time to time for a fee, Potbelly has used the executive search firm, Amrop Knightsbridge, to identify and evaluate or assist in identifying and evaluating potential candidates for election as directors. Amrop Knightsbridge has recommended candidates for director in the past.

Communication with the Board

Stockholders and other parties interested in communicating directly with one or more individual directors or with the non-management directors as a group, may do so by writing to the individual director or group, c/o Potbelly Corporation, 111 North Canal Street, Suite 850, Chicago, Illinois 60606, Attention: Corporate Secretary. The Board has directed our corporate secretary to forward stockholder communications to our chairman and any other director to whom the communications are directed. In order to facilitate an efficient and reliable means for directors to receive all legitimate communications directed to them regarding our governance or operations, our corporate secretary will use his discretion to refrain from forwarding the following: sales literature; defamatory material regarding us and/or our directors; incoherent or inflammatory correspondence, particularly when such correspondence is repetitive and was addressed previously in some manner; and other correspondence unrelated to the Board of Director's corporate governance and oversight responsibilities.

PROPOSAL No. 1

ELECTION OF DIRECTORS

Three candidates have been nominated for election as Class III directors at the Annual Meeting. Our Board of Directors has nominated Ann-Marie Campbell, Dan Ginsberg and Harvey Kanter for re-election as Class III directors for a two-year term that will expire at our fifth annual meeting of stockholders in 2018. The Board of Directors is not aware that any nominee will be unwilling or unable to serve as a director. All nominees have consented to be named in the proxy statement and to serve if elected. If, however, a nominee is unavailable for election, your proxy authorizes us to vote for a replacement nominee if the Board of Directors names one. As an alternative, the Board of Directors may reduce the number of directors to be elected at the meeting. Proxies may not be voted for a greater number of persons than the nominees presented.

Our Board currently consists of eight members: Mr. Lewis, Mr. Bassi, Ms. Campbell, Ms. Chapman-Hughes, Mr. Ginsberg, Ms. Gottschalk, Mr. Kanter and Mr. Warschausky. Proxies cannot be voted for a greater number of persons than the number of nominees named in this Proxy Statement.

For more information on the structure of our Board of Directors and our Board members and nominees, see Corporate Governance.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE **FOR** EACH OF THESE NOMINEES.

Table of Contents**PROPOSAL NO. 2****PROPOSAL No. 2****RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The audit committee of our Board of Directors is responsible for recommending, for stockholder approval, our independent registered public accounting firm. The audit committee has selected the accounting firm of Deloitte & Touche LLP to serve as our independent registered public accounting firm for the fiscal year ending December 25, 2016. Deloitte & Touche LLP has served as our independent registered public accounting firm since before our Initial Public Offering and has also provided non-audit services from time to time.

Although ratification is not required by our Bylaws or otherwise, our Board of Directors is submitting the selection of Deloitte & Touche LLP to our stockholders for ratification because we value our stockholders' views on our independent registered public accounting firm and as a matter of good corporate practice. The audit committee will consider the outcome of this vote in its decision to appoint an independent registered public accounting firm but is not bound by our stockholders' vote. Even if the selection of Deloitte & Touche LLP is ratified, the audit committee may change the appointment at any time during the year if it determines a change would be in the best interests of the Company and our stockholders.

The following table sets forth the fees paid for audit services during the fiscal years ended December 27, 2015 and December 28, 2014 and for other services during those fiscal years:

	2015	2014
Audit fees ⁽¹⁾	\$ 443,000	\$ 410,538
Tax fees ⁽²⁾	241,100	229,885
Total fees	\$ 684,100	\$ 640,423

1. *Audit fees include fees for audits of our annual financial statements, reviews of the related quarterly financial statements, and services that are normally provided by the independent accountants in connection with statutory and regulatory filings or engagements, including reviews of documents filed with the SEC.*

2. *Tax fees relate to professional services rendered for tax compliance, tax return review and preparation and related tax advice.*

Policy on Audit Committee Approval of Audit and Non-Audit Services

The audit committee's policy is to approve all audit and permissible non-audit services prior to the engagement of our independent registered public accounting firm to provide such services. The audit committee annually approves, pursuant to detailed approval procedures, certain specific categories of permissible non-audit services. Such procedures include the review of (i) a detailed description by our independent registered public accounting firm of the particular services to be provided and the estimated fees for such services and (ii) a regular report to the committee regarding the services provided and the fees paid for such services. The audit committee must approve on a project-by-project basis any permissible non-audit services that do not fall within a pre-approved category and any fees for pre-approved permissible non-audit services that materially exceed the previously approved amounts. In making the determinations about non-audit services, the audit committee considers whether the provision of non-audit services is compatible with maintaining the auditor's independence.

All services provided to the Company by Deloitte & Touche LLP in fiscal 2015 and fiscal 2014 and related fees were pre-approved by the audit committee.

Representatives of Deloitte & Touche LLP are expected to be present at the 2016 Annual Meeting and to be available to respond to your questions. They have advised us that they do not presently intend to make a statement at the 2016 Annual Meeting, although they will have the opportunity to do so.

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THE BOARD OF DIRECTORS RECOMMENDS A VOTE **FOR** RATIFICATION OF THE APPOINTMENT OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

PROPOSAL No. 3

APPROVAL OF AMENDED AND RESTATED POTBELLY CORPORATION 2013 LONG-TERM INCENTIVE PLAN

The Board recommends approval of the Potbelly Corporation 2013 Long-Term Incentive Plan, as amended and restated effective as of May 12, 2016 (the "Plan"). We are submitting the Plan to our shareholders for approval in order to satisfy (i) applicable listing rules of Nasdaq and (ii) the stockholder approval requirements under Section 162(m) and other provisions of the Internal Revenue Code of 1986, as amended (the "Code").

A summary of the principal features of the Plan is provided below, but it is qualified in its entirety by reference to the full text of the amended and restated Plan that is attached to this proxy statement as Appendix A.

Background

We established the Plan in connection with our initial public offering. The purpose of the Plan is to (a) align the interests of our stockholders and the recipients of awards under the plan by increasing the proprietary interest of such recipients in the Company's growth and success; (b) advance the Company's interests by attracting and retaining qualified employees, outside directors and other persons providing services to the Company and/or its related companies; and (c) motivate such persons to act in the long-term best interests of our stockholders.

The Board approved an amendment and restatement of the Plan on February 18, 2016. The following are the most significant changes to the Plan included in the amendment and restatement, subject to approval of our shareholders:

We have increased the number of shares available for issuance under the Plan to a total number of 4,000,000, as described in greater detail below;

We have increased the number of shares available for issuance of incentive stock options under the Plan to a total of 4,000,000 to correspond to the increase in the overall share limit under the Plan;

We modified the Plan to provide that dividends or dividend equivalents with respect to awards become vested and payable on the same basis as the underlying award.

On March 16, 2016, the closing price of a share of our common stock on NASDAQ was \$13.36.

Summary of Plan

Administration. The Plan generally is administered by the compensation committee of our Board of Directors. The compensation committee selects award recipients under the Plan who will thereby become participants, the types of awards to be granted and the applicable terms, conditions, performance criteria, restrictions and other provisions of such awards, not inconsistent with the plan. The compensation committee

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also has the authority to conclusively interpret the Plan. Subject to the applicable securities exchange rules and applicable law, the compensation committee may delegate all or any portion of its responsibilities or powers under the Plan to persons selected by it.

Authorized Shares. The Company has reserved 4,000,000 shares of our common stock for issuance pursuant to the Plan. Any shares of our common stock covered by an award under the Plan that expires or is forfeited or terminated without issuance of shares of common stock (including shares of common stock that are attributable to awards that are settled in cash or used to satisfy the applicable tax withholding obligation or to pay the exercise price of an award) will again be available for awards under the Plan. All awards have been made under the limit in place prior to the increased limit proposed under the amended and restated Plan.

Additional Limits. The following additional limits will apply to awards under the Plan: (i) no more than 4,000,000 shares of common stock may be subject to incentive stock options (ISOs) granted under the Plan; (ii) the maximum number of shares of common stock that may be covered by options and Stock Appreciation Rights (SARs) granted to any one participant in any one calendar year may not exceed 400,000 shares of common stock; (iii) with respect to Full Value Awards (as described below) that are intended to be performance-based compensation, the maximum number of shares of common stock that may be delivered pursuant to any such award granted to any one participant during any calendar year, regardless of whether settlement of the award is to occur prior to, at the time of, or after the time of vesting, may not exceed 400,000 shares of common stock; and

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(iv) in the case of cash incentive awards that are intended to be performance-based compensation, the maximum amount payable to any one participant with respect to any performance period of twelve months (pro rated for performance periods of greater or lesser than 12 months) is \$4,500,000.

Adjustments. In the event of a corporate transaction, including a stock dividend, stock split, reverse stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, exchange of shares, sale of assets or subsidiaries, combination or other corporate transaction, that affects our common stock such that the compensation committee determines that an adjustment is warranted in order to preserve the benefits or prevent the enlargement of benefits of awards under the Plan, the compensation committee will make adjustments to awards in a manner that it determines to be equitable in its discretion. Actions that the compensation committee may take are: (i) adjustment of the number and kind of shares which may be delivered under the Plan (including adjustments to the individual limitations described above); (ii) adjustment of the number and kind of shares subject to outstanding awards; (iii) adjustment of the exercise price of outstanding options and SARs; and (iv) any other adjustments that the compensation committee determines to be equitable, which may include, without limitation, (A) replacement of awards with other awards which the compensation committee determines have comparable value and which are based on stock of a company resulting from the transaction, and (B) cancellation of the award in return for cash payment of the current value of the award, determined as though the award is fully vested at the time of payment, provided that in the case of an option or SAR, the amount of such payment may be the excess of the value of the shares of common stock subject to the option or SAR at the time of the transaction over the exercise price.

Eligibility. The compensation committee may grant awards under the Plan to any officer, director, employee, consultant, independent contractor or agent of the Company and/or a related company, and persons who are expected to become an officer, director, employee, consultant, independent contractor or agent of the Company or a related company. Awards to a person who is expected to become a service provider to the Company or a related company cannot be effective prior to the date on which such person's service begins. ISOs may only be granted to employees of the Company and its corporate related companies which satisfy certain Code requirements. As of March 16, 2016, we had approximately 7,000 employees and directors.

Types of Awards. The Plan will provide for grants of options (including nonqualified stock options (NQOs) and ISOs), SARs, Full Value Awards and cash incentive awards.

Options and SARs. The compensation committee may grant options to purchase shares of common stock, which options may be either ISOs or NQOs. ISOs may only be granted to employees of the Company or its permitted corporate subsidiaries and must satisfy other requirements of section 422 of the Code. An option that does not satisfy the requirements for an ISO will be treated as a NQO. An SAR entitles the participant to receive (in shares of common stock or cash) an amount that is equal to the excess of the fair market value of a specified number of shares of common stock on the exercise date over the exercise price of the SAR. The exercise price of an option or SAR must be no less than the fair market value of a share of common stock on the date the option or SAR is granted. Except for reductions approved by the Company's stockholders or adjustment for business combinations, the exercise price of an option or SAR may not be decreased after the date of grant nor may an option or SAR be surrendered to the Company as consideration for the grant of a replacement option or SAR with a lower exercise price. In addition, except as approved by the Company's stockholders, no option granted under the Plan may be surrendered to the Company in consideration of a cash payment if, at the time of such surrender, the exercise price of the option is greater than the then fair market value of a share of common stock. Except as provided by the compensation committee at the time of grant, an option or SAR will expire on the earliest to occur of the following (i) the one-year anniversary after the participant's employment or service terminates for death or disability (as defined in the Plan), (ii) the three-month anniversary after the participant's employment or service terminates other than for death, disability or cause (as defined in the Plan), or (iii) the day preceding the date on which the participant's employment or service terminates for cause. In any event, an option or SAR will expire no later than the 10th anniversary of the date on which it is granted (or such shorter period required by the rules of any stock exchange on which the common stock is listed).

Full Value Awards. A Full Value Award is a grant of one or more shares of common stock or a right to receive one or more shares of common stock in the future (including restricted stock, restricted stock units, deferred stock units, performance stock and performance stock units). Any Full Value Awards will be subject to such conditions, restrictions and contingencies as the compensation committee determines including provisions relating to dividends or dividend equivalent rights and deferred payment or settlement. Special vesting restrictions also apply to Full Value Awards made to employees.

Cash Incentive Awards. A cash incentive award is the grant of a right to receive a payment of cash (or in the discretion of the compensation committee, shares of common stock having value equivalent to the cash otherwise payable) that is contingent on achievement of performance objectives over a specified period established by the compensation committee. The grant of cash incentive awards may also be subject to such other conditions, restrictions and contingencies, as determined by the compensation committee, including provisions relating to deferred payment.

Table of Contents**PROPOSAL NO. 3**

Performance Measures. The compensation committee may designate a Full Value Award or cash incentive award granted to any participant as performance-based compensation within the meaning of section 162(m) of the Code and regulations thereunder. To the extent required by section 162(m) of the Code, any Full Value Award or cash incentive award so designated shall be conditioned on the achievement of one or more performance targets as determined by the compensation committee, as follows: (i) earnings including operating income, net operating income, same store net operating income, earnings before or after taxes, earnings before or after interest, depreciation, amortization, or extraordinary or special items or book value per share (which may exclude nonrecurring items) or net earnings; (ii) pre-tax income or after-tax income; (iii) earnings per share (basic or diluted); (iv) operating profit; (v) revenue, revenue growth or rate of revenue growth; (vi) return on assets (gross or net), return on investment (including cash flow return on investment), return on capital (including return on total capital or return on invested capital), or return on equity; (vii) returns on sales or revenues; (viii) operating expenses; (ix) stock price appreciation; cash flow (before or after dividends), free cash flow, cash flow return on investment (discounted or otherwise), net cash provided by operations, cash flow in excess of cost of capital or cash flow per share (before or after dividends); implementation or completion of critical projects or processes; (xii) economic value created; (xiii) cumulative earnings per share growth; (xiv) operating margin or profit margin; (xv) stock price or total stockholder return; (xvi) cost targets, reductions and savings, productivity and efficiencies; (xvii) strategic business criteria, consisting of one or more objectives based on meeting specified market penetration, geographic business expansion, customer satisfaction, employee satisfaction, human resources management, supervision of litigation and other legal matters, information technology, and goals relating to contributions, dispositions, acquisitions, development and development related activity, capital markets activity and credit ratings, joint ventures and other private capital activity including generating incentive and other fees and raising equity commitments, and other transactions, and budget comparisons; (xviii) personal professional objectives, including any of the foregoing performance targets, the implementation of policies and plans, the negotiation of transactions, the development of long term business goals, formation and reorganization of joint ventures and other private capital activity including generating incentive and other fees and raising equity commitments, research or development collaborations, and the completion of other corporate transactions; (xix) funds from operations (FFO) or funds available for distribution (FAD); (xx) economic value added (or an equivalent metric); (xxi) stock price performance; (xxii) improvement in or attainment of expense levels or working capital levels; (xxiii) operating portfolio metrics including leasing and tenant retention, (xxiv) new store results, or (xxv) any combination of, or a specified increase in, any of the foregoing. The performance targets may be expressed in terms of attaining a specified level of the particular criteria or the attainment of a percentage increase or decrease in the particular criteria, and may be applied to one or more of the Company, a related company, or a division or strategic business unit of the Company, or may be applied to the performance of the Company relative to a market index, a group of other companies or a combination thereof, all as determined by the compensation committee.

Transferability. Awards under the plan generally may not be transferred except through will or by the laws of descent and distribution; provided, however, that unless otherwise provided by the compensation committee, awards (other than an ISO) may be transferred to or for the benefit of the participant's family (including, without limitation, to a trust or partnership for the benefit of a Participant's family) in accordance with rules established by the compensation committee.

Change in Control. In the event that (i) a participant is employed on the date of a Change in Control (as defined in the Plan) and the participant's employment or service, as applicable, is terminated by the Company, its successor or a related company that is the participant's employer for reasons other than cause (as defined in the Plan) within 24 months following the Change in Control, or (ii) the Plan is terminated by the Company or its successor following a Change in Control without provision for the continuation of outstanding awards under the Plan, all options, SARs and related awards which have not otherwise expired will become immediately exercisable and all other awards will become fully vested. A participant's employment or service will be deemed to have been terminated by the Company or a successor for reasons other than for cause if the participant terminates employment or service after a substantial adverse alteration in the nature of the participant's status or responsibilities from those in effect immediately prior to the Change in Control or a material reduction in the participant's annual base salary and target bonus, or in the case of an outside director his annual compensation, as in effect immediately prior to the Change in Control. Special rules apply if, upon a Change in Control, awards in other shares or securities are substituted for outstanding awards under the Plan and if, immediately prior to the Change in Control, the participant becomes an employee or a director of, as applicable, the successor to the Company.

Amendment and Termination. The Board of Directors may, at any time, amend or terminate the Plan, and the Board of Directors or the compensation committee may amend any award agreement, provided that no amendment or termination may, in the absence of written consent to the change by the affected participant (or, if the participant is not then living, the affected beneficiary), adversely affect the rights of any participant or beneficiary under any award granted under the Plan prior to the date such amendment is adopted by the Board of Directors (or the compensation committee, if applicable). Adjustments to the Plan and awards on account of business transactions (as described above) are not subject to the foregoing prohibition. The provisions of the Plan that prohibit repricing of options and SARs or exchanges of an option or SAR for another award if the exercise price is below fair market value on the date of the repricing or exchange cannot be amended unless the amendment is approved by the Company's stockholders.

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PROPOSAL NO. 3

U.S. Federal Income Tax Implications of the Plan

The discussion that follows is a summary, based on U.S. federal tax laws and regulations presently in effect, of some significant U.S. federal income tax considerations relating to awards under the Plan. The applicable laws and regulations are subject to change, and the discussion does not purport to be a complete description of the federal income tax aspects of the Plan. This summary does not discuss state, local or foreign laws.

Stock Options. The tax treatment of a stock option depends on whether the option is an NQO or an ISO.

The grant of an NQO will not result in taxable income to the participant. Except as described below, the participant will realize ordinary income at the time of exercise in an amount equal to the excess of the fair market value of the shares of stock acquired over the exercise price for those shares of common stock, and we will be entitled to a corresponding deduction.

The grant of an ISO will not result in taxable income to the participant. The exercise of an ISO will not result in taxable income to the participant provided that the participant was, without a break in service, an employee of us and our eligible subsidiaries (determined under tax rules) during the period beginning on the date of the grant of the ISO and ending on the date three months prior to the date of exercise (one year prior to the date of exercise if the participant is disabled, as that term is defined in the Code).

The excess of the fair market value of the shares of common stock at the time of the exercise of an ISO over the exercise price is an adjustment that is included in the calculation of the participant's alternative minimum taxable income for the tax year in which the ISO is exercised. For purposes of determining the participant's alternative minimum tax liability for the year of disposition of the shares of common stock acquired pursuant to the ISO exercise, the participant will have a basis in those shares of common stock equal to the fair market value of the shares of common stock at the time of exercise.

If the participant does not sell or otherwise dispose of the shares of common stock within two years from the date of the grant of the ISO or within one year after receiving the transfer of such shares of common stock, then, upon disposition of such shares of common stock, any amount realized in excess of the exercise price will be taxed to the participant as capital gain, and we will not be entitled to any deduction for Federal income tax purposes.

If the foregoing holding period requirements are not met, the participant will generally realize ordinary income, and a corresponding deduction will be allowed to us, at the time of the disposition of the shares of common stock, in an amount equal to the lesser of (a) the excess of the fair market value of the shares of common stock on the date of exercise over the exercise price, or (b) the excess, if any, of the amount realized upon disposition of the shares of common stock over the exercise price.

Special rules apply if an option is exercised through the exchange of previously acquired stock

SARs. A participant will not be deemed to have received any income upon the grant of a SAR. Generally, when a SAR is exercised, the excess of the market price of common stock on the date of exercise over the exercise price will be taxable to a participant as ordinary income. We are entitled to a deduction in the year of exercise equal to the amount of income taxable to the individual.

Full Value Awards. The federal income tax consequences of a Full Value Award will depend on the type of award. The tax treatment of the grant of shares of common stock depends on whether the shares are subject to a substantial risk of forfeiture (determined under Code rules) at the time of the grant. If the shares are subject to a substantial risk of forfeiture, the participant will not recognize taxable income at the time of the grant and when the restrictions on the shares lapse (that is, when the shares are no longer subject to a substantial risk of forfeiture), the participant will recognize ordinary taxable income in an amount equal to the fair market value of the shares at that time. If the shares are not subject to a substantial risk of forfeiture or if the participant elects to be taxed at the time of the grant of such shares under Code Section 83(b), the participant will recognize taxable income at the time of the grant of shares in an amount equal to the fair market value of such shares at that time, determined without regard to any of the restrictions. If the shares are forfeited before the restrictions lapse, the participant will be entitled to no deduction on account thereof. The participant's tax basis in the shares is the amount recognized by him or her as income attributable to such shares. Gain or loss recognized by the participant on a subsequent disposition of any such shares is capital gain or loss if the shares are otherwise capital assets.

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In the case of other Full Value Awards, such as restricted stock units or performance stock units, the participant generally will not have taxable income upon the grant of the award provided that there are restrictions on such awards that constitute a substantial risk of forfeiture under applicable Code rules. Participants will generally recognize ordinary income when the restrictions on awards lapse, on the date of grant if there are no such restrictions or, in certain cases, when the award is settled. At that time, the participant will recognize taxable income equal to the cash or the then fair market value of the shares issuable in payment of

Table of Contents**PROPOSAL NO. 3**

such award, and such amount will be the tax basis for any shares received. In the case of an award which does not constitute property at the time of grant (such as an award of units), participants will generally recognize ordinary income when the award is paid or settled.

We generally will be entitled to a tax deduction in the same amount, and at the same time, as the income is recognized by the participant.

Section 162(m). Compensation that qualifies as Performance-Based Compensation is excluded from the \$1 million deductibility cap of Code Section 162(m), and therefore remains fully deductible by the Company paying it. Generally, stock options and SARs granted with an exercise price or exercise price at least equal to 100% of fair market value of the underlying stock at the date of grant and performance awards to employees that the Committee designates as Performance-Based Compensation are intended to qualify as such performance-based compensation. A number of requirements must be met in order for particular compensation to so qualify, however, so there can be no assurance that such compensation under the Plan will be fully deductible under all circumstances. In addition, other awards under the Plan, such as non-performance-based awards, generally will not so qualify, so that compensation paid to certain executives in connection with such awards may, to the extent it and other compensation subject to the limitations of Code Section 162(m) in a given year, not be deductible by us as a result of Code Section 162(m). Compensation to certain employees resulting from the earning or vesting of awards in connection with a change in control or termination following a change in control also may be non-deductible under Code Sections 4999 and 280G.

The foregoing provides only a general description of the application of federal income tax laws to certain awards under the Plan. This discussion is intended for the information of stockholders considering how to vote at the Annual Meeting and not as tax guidance to participants in the Plan, as the consequences may vary with the types of awards made, the identity of the recipients and the method of payment or settlement.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE **FOR** THE APPROVAL OF THE PLAN.

Equity Compensation Plan Information

The following table presents certain information related to our equity incentive plans under which our equity securities are authorized for issuance as of December 27, 2015:

Plan Category	(a)	(b)	(c)
	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders ⁽¹⁾	4,367,800	\$ 10.53	380,564 ⁽²⁾
Equity compensation plans not approved by security holders			
Total	4,367,800	\$ 10.53	380,564

⁽¹⁾ Consists of the 2001 Equity Incentive Plan, the 2004 Equity Incentive Plan and the 2013 Long-Term Incentive Plan. No further awards may be made under the 2001 Equity Incentive Plan or the 2004 Equity Incentive Plan.

⁽²⁾ The total amount reported consists only of shares available for future issuance under the 2013 Long-Term Incentive Plan, which may be issued in connection with awards of stock options, stock appreciation rights, restricted stock, restricted stock units, deferred stock units, performance stock and performance stock units.

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AUDIT COMMITTEE REPORT

AUDIT COMMITTEE REPORT

With regard to the fiscal year ended December 27, 2015, the audit committee has (i) reviewed and discussed with management our audited consolidated financial statements as of December 27, 2015 and for the year then ended; (ii) discussed with Deloitte & Touche LLP, the independent auditors, the matters required by the Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended, as adopted by the Public Company Accounting Oversight Board (PCAOB), in Rule 3200T; (iii) received the written disclosures and the letter from Deloitte & Touche LLP required by applicable requirements of the PCAOB regarding Deloitte & Touche LLP s communications with the audit committee regarding independence; and (iv) discussed with Deloitte & Touche LLP their independence.

Based on the review and discussions described above, the audit committee recommended to our Board of Directors of the Company that our audited consolidated financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 27, 2015 for filing with the SEC.

Carl Warschausky, *Chairman*

Susan Chapman-Hughes

Dan Ginsberg

Marla Gottschalk

Table of Contents**EXECUTIVE OFFICERS****EXECUTIVE OFFICERS**

Below is a list of the names, ages as of December 27, 2015, positions, and a brief account of the business experience, of the individuals who serve as our executive officers.

Name	Age	Position
Aylwin Lewis	61	Chairman, Chief Executive Officer and President
Michael Coyne	52	Senior Vice President and Chief Financial Officer
Julie Younglove-Webb	45	Senior Vice President, Operations
Matthew Revord	52	Senior Vice President, Chief Legal Officer, General Counsel and Secretary
Nancy Turk	51	Senior Vice President, Chief People Officer and Corporate Communications
Anne Ewing	51	Senior Vice President, Development
John Morlock	60	Senior Vice President, Operations Growth
Sherry Ostrowski	46	Senior Vice President, Brand and Sales Development

Aylwin Lewis has served as our Chief Executive Officer and President and a director since June 2008. From September 2005 to February 2008, Mr. Lewis served as Chief Executive Officer and President of Sears Holdings Corporation. Prior to that, Mr. Lewis was President of Sears Holdings and Chief Executive Officer of KMart and Sears Retail following Sears' acquisition of KMart Holding Corporation in 2005. Mr. Lewis had been president and Chief Executive Officer of KMart since October 2004 until that acquisition. From January 2003 to October 2004, he was President, Chief Multi-Branding and Operating Officer of Yum! Brands, Inc. and served as Chief Operating Officer of Yum! Brands from December 1999 to January 2003. Mr. Lewis has over 27 years of experience in the restaurant industry. Mr. Lewis is also a member of the board of directors of The Walt Disney Company and Starwood Hotels & Resorts Worldwide.

Michael Coyne has been our Senior Vice President and Chief Financial Officer since May 2015. Prior to joining Potbelly, Mr. Coyne was at CNA Financial from 2005 until 2015, most recently as Senior Vice President, Small Business and prior to that as divisional Chief Financial Officer of CNA's Property & Casualty Operations business. Prior to CNA, Mr. Coyne spent seven years at Sears Holding Company, culminating as Vice President and Treasurer.

Julie Younglove-Webb has been our Senior Vice President of Operations since May 2015. Ms. Younglove-Webb joined Potbelly in 2008, first learning operations as a General Manager, then was a District Manager before assuming various operations roles before being promoted to Central Zone Vice President. Prior to joining Potbelly, Ms. Younglove-Webb was Senior Vice President and General Manager of Sears Essentials at Sears Holding Corporation, a role she assumed in 2005 after Sears' acquisition of KMart Holding Corporation. Prior to that acquisition, Ms. Younglove-Webb held various roles of increasing responsibility beginning when she joined KMart in 1999 as Manager, Information Technology and culminating with her role as Vice President, Marketing.

Matthew Revord has been our Senior Vice President, Chief Legal Officer, General Counsel and Secretary since February 2014 and oversees all legal matters of the Company and international development. Mr. Revord joined Potbelly in January 2007 as our Senior Vice President, General Counsel and Secretary. From January 2002 to January 2007, Mr. Revord served as Deputy General Counsel of Brunswick Corporation and General Counsel of Brunswick New Technologies.

Nancy Turk has been our Senior Vice President, Chief People Officer and Corporate Communications since February 2014. Ms. Turk joined Potbelly in September 2008 as our Senior Vice President, Human Resources and Corporate Communications. From 2005 to September 2008, Ms. Turk served as the Divisional Vice President of Corporate Communications at Sears Holdings, and held various human resources leadership roles at Sears Holdings since 1993, where she was involved in divestitures, mergers and acquisitions with Sears Credit, Lands' End and KMart.

Anne Ewing has been our Senior Vice President, Development since October 2013. Ms. Ewing joined Potbelly in March 2007 and has held various leadership positions in Operations and Marketing. In November 2012, Ms. Ewing was promoted to VP, Development. Prior to joining Potbelly, Ms. Ewing spent 13 years with Starbucks in various leadership positions including New Store Development for the Midwest.

John Morlock has been our Senior Vice President of Operations Growth since May 2015. Mr. Morlock joined Potbelly in December 2002 and has previously served as our Senior Vice President, Chief Operations Officer. Mr. Morlock has deep experience in the restaurant and retail industries. Mr. Morlock started his career with S & A Restaurants from 1978 to 1983. He then went on to be an Operational Partner with Grady's

Goodtimes, a casual dining restaurant, from 1983 to 1986. Mr. Morlock

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EXECUTIVE OFFICERS

became Director of Operations for the largest Blockbuster Franchisee and in 1991 became the Zone Vice President for Blockbuster Entertainment Corporation. Mr. Morlock's experience includes Senior Vice President of Operations of Boston Chicken, Inc. from 1992 to 1994 and then as a Midwest Franchisee with over 100 stores of Boston Market and Einstein Bros. Bagels until 1997. Mr. Morlock has also served as Chief Executive Officer of Clubhouse International Inc., an owner and operator of three country club themed restaurants.

Sherry Ostrowski has been our Senior Vice President, Brand and Sales Development since March 2016. Ms. Ostrowski joined Potbelly in November 2012 as Vice President of Marketing. She is responsible for all marketing activities, including brand marketing, menu innovation, calendar development, digital & social media and consumer insights. Prior to joining Potbelly, Ms. Ostrowski was at Taco Bell from 2000 through 2012, where she held various roles culminating with her position as Sr. Director, Marketing (Brand Execution, Field Marketing & Non-Traditional Channels). She worked on the advertising agency-side of the business prior to 2000.

Table of Contents**EXECUTIVE AND DIRECTOR COMPENSATION****EXECUTIVE AND DIRECTOR COMPENSATION****Introduction**

Our compensation philosophy is to pay for performance, rewarding employees when performance targets are met. Merit increases, annual incentive compensation, option grants and incremental paid time off are all tied to performance and results. Our compensation programs are designed to attract, retain, motivate, and reward employees. Pay is commensurate with the scope and influence of the employee's role and the extent to which an employee contributes to the achievement of key initiatives and financial targets, and demonstrates our values. All of our compensation programs are designed to align and reward actions that we believe contribute to our competitiveness and encourage superior performance.

For 2013, in preparation for our IPO, management engaged compensation consultants, Aon Hewitt, to conduct an analysis of our compensation programs and provide recommendations for how best the executive pay programs could be designed after our IPO. In addition to providing advice about broad-based plans generally available to all salaried employees, Aon Hewitt provided:

1. Executive benchmarking analysis comparing our executives base salary, target variable pay, and total cash compensation (base salary and target variable pay) to market. The compensation consultants also provided details on post-IPO competitive market levels of equity compensation; and
2. Review of executive employment agreements for competitiveness and compliance with institutional shareholder advisor and general market governance requirements. Aon Hewitt also provided recommendations regarding the competitiveness of the employment agreements against similarly situated companies.

The compensation committee considered Aon Hewitt's recommendations as well as relevant market practices when setting executive compensation to align our executive compensation program with the market for which we compete for executive talent. Our market for executive recruiting is generally other restaurant or retail concepts. For non-operations executives, we look at the general restaurant industry. In evaluating the competitiveness of our executive compensation program, we target compensation against the restaurant industry, specifically the limited-service restaurant segment, national and local competitors to help ensure we are competitive, focusing on items such as equity awards, merit pay, incentive pay and paid time off. We evaluate our executives on a scale of one through five. A score of three means the executive is a Contributor, four is a High Contributor and five is a Star. Annual cash compensation varies based on the executive's score, performance and contributions to Potbelly.

Executive pay is tied to both the Company's and the individual's annual performance. Merit increases, annual incentive compensation, stock options, when granted, and paid time off are generally awarded in March or April of each year, following completion of the first quarter annual performance review cycle, the annual financial audit and approval from the compensation committee. The employment agreements of our named executive officers specify each executive's annual incentive bonus target under our current bonus program. In addition, at the discretion of our Chief Executive Officer and upon the approval of the compensation committee, there may be an increase or decrease applied to the annual bonus awarded to an executive, including the other named executive officers, in order to account for exceptional circumstances and ensure that annual bonuses further the objectives of our compensation program.

In 2015, the compensation committee engaged Aon Hewitt to conduct an analysis of and provide recommendations for our director compensation programs. The compensation committee considered the benchmarking analysis provided by Aon Hewitt as well as market practice when forming their recommendation to the Board of Directors concerning appropriate compensation for members of our Board of Directors. Aon Hewitt has not provided any additional consulting services to us beyond its role as consultant to the compensation committee.

Table of Contents**EXECUTIVE AND DIRECTOR COMPENSATION****2015 Summary Compensation Table**

The following table summarizes compensation for the years ending December 27, 2015 and December 28, 2014 earned by our principal executive officer and our two other most highly compensated executive officers. These individuals are referred to as our named executive officers.

Name and Principal Position	Year	Salary	Bonus	Option Awards ⁽¹⁾	All			Total
					Non-Equity Incentive Plan Compensation ⁽²⁾	Other Compensation		
Aylwin Lewis Chief Executive Officer (Principal Executive Officer)	2015	\$ 725,000	\$ 0	\$ 0	\$ 830,647	\$ 0	\$ 1,555,647	
Michael Coyne Chief Financial Officer (Principal Financial Officer)	2014	\$ 725,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 725,000	
Michael Coyne Chief Financial Officer (Principal Financial Officer)	2015	\$ 244,162	\$ 0	\$ 1,039,050	\$ 167,845	\$ 0	\$ 1,451,057	
Julie Younglove-Webb Senior Vice President, Operations	2015	\$ 299,670	\$ 0	\$ 658,065	\$ 203,930	\$ 0	\$ 1,161,665	

⁽¹⁾ Represents the aggregate grant date fair value of stock option awards.

In May of 2015, Mr. Coyne was granted 150,000 options, which are exercisable without restriction and vest over a period of four years, in connection with his joining Potbelly. In accordance with ASC Topic 718, Compensation Stock Compensation, fair value of the options was determined using the Black-Scholes-Merton option pricing model and will be amortized over the vesting period. The Company used the following assumptions for purposes of valuing these option grants: common stock fair value of \$14.22 per share; expected life of options seven years; volatility 45.28%; risk-free interest rate 1.89%; and dividend yield 0%. The Company used the simplified method for determining the expected life of the options.

In May of 2015, Ms. Younglove-Webb was granted 95,000 options, which are exercisable without restriction and vest over a period of four years, in connection with her promotion and in recognition of her individual performance during the 2014 fiscal year. In accordance with ASC Topic 718, Compensation Stock Compensation, fair value of the options was determined using the Black-Scholes-Merton option pricing model and will be amortized over the vesting period. The Company used the following assumptions for purposes of valuing these option grants: common stock fair value of \$14.22 per share; expected life of options seven years; volatility 45.28%; risk-free interest rate 1.89%; and dividend yield 0%. The Company used the simplified method for determining the expected life of the options.

⁽²⁾ Non-equity incentive plan compensation represents the amounts earned under the Potbelly Support Center Annual Incentive Plan for performance in fiscal year 2015 and paid in fiscal year 2016.

Employment Agreements

The following is a summary of the employment agreements the Company has entered into with each of the named executive officers. The summary below does not contain complete descriptions of all provisions of the employment agreements of the named executive officers and is qualified in its entirety by reference to such employment agreements, copies of which are filed as exhibits to our registration statement on form S-1-registration number 333-190893. We have also entered into indemnification agreements with our directors and executive officers. See Related party Transactions Indemnification Agreements.

Aylwin Lewis

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Mr. Lewis entered into a new Executive Employment Agreement effective as of August 8, 2013 (the Lewis Agreement) pursuant to which he will continue to serve as our President and Chief Executive Officer. Under the Lewis Agreement, the term of Mr. Lewis' employment continues until August 7, 2017. The Lewis Agreement terminates upon death, disability, termination by us with or without cause or resignation by the executive with or without good reason. If, at least 30 days prior to August 7, 2017, (1) we do not offer to extend Mr. Lewis' employment past the last day of the term on terms reasonably consistent with the terms of his current agreement or (2) we offer to extend Mr. Lewis' employment past the last day of the term but the parties are unable to reach an agreement on the terms of such continuing employment by August 7, 2017, then Mr. Lewis' termination of employment upon expiration of the term of the Lewis Agreement will be treated as a termination by us without cause subject to Mr. Lewis' requests during negotiations being reasonable and consistent with the terms of the Lewis Agreement. The Lewis Agreement generally defines cause as Mr. Lewis' (i) intentional misrepresentation of material information, (ii) felony indictment, (iii) commission of an act involving moral turpitude, (iv) material breach or material default of written obligations that remain unremedied for 30 days after notice, (v) fraud, (vi) embezzlement, (vii) failure to comply with our Board of Director's written lawful direction that remains unremedied for 30 days after notice, or (viii) willful action to harm the Company or its affiliates. The Lewis Agreement generally defines good reason as (1) reduction in base salary or target or maximum bonus percentages, (2) material reduction in position, authority, office, responsibilities or duties, (3) material breach of the agreement by us, (4) Mr. Lewis' failure to be re-elected to the Board of Directors as Chairman while employed as President and Chief Executive Officer, or (5) relocation to a place more than 50 miles from Chicago, in each case without Mr. Lewis' consent.

Table of Contents**EXECUTIVE AND DIRECTOR COMPENSATION**

A reduction in Mr. Lewis' rate of base salary or target or maximum bonus which does not exceed the percentage reduction of an across the board salary or bonus reduction for management employees will not be treated as an event of good reason.

The Lewis Agreement provides Mr. Lewis with a base salary of \$725,000 which shall not be increased. The Lewis Agreement also provides that, under our current bonus program, Mr. Lewis is eligible for an annual target bonus of 100% of his base salary and a maximum (stretch) target of 200% of his base salary. For bonus years beginning 2013, the annual bonus amount and terms and conditions are determined in accordance with incentive plan metrics determined in the sole discretion of the compensation committee (but subject to the same targets described above). The compensation committee determined that for fiscal year 2015 the incentive plan metrics applicable to our executive officers would be the Company's total company revenue, adjusted net income, and adjusted EBITDA (where adjusted EBITDA represents net income (loss) before depreciation and amortization expense, interest expense, provision for income taxes and pre-opening costs, adjusted to eliminate the impact of other items, including certain non-cash as well as certain other items that we do not consider representative of our on-going operating performance). Further, for Mr. Lewis, as an executive officer for fiscal year 2015, the metrics would be weighted as follows: (a) 40% total company revenue; (b) 30% adjusted net income; and (c) 30% adjusted EBITDA. Beginning with fiscal year 2016, the metrics for Mr. Lewis, as an executive officer, will be: (a) 50% total company revenue; and (b) 50% adjusted EBITDA. The Lewis Agreement also provides Mr. Lewis with standard benefits and perquisites, a payment of up to \$20,000 for legal fees in connection with the negotiation of the employment agreement and review of related agreements and a minimum five weeks of vacation.

Pursuant to the Lewis Agreement, Mr. Lewis was granted a stock option with a Black-Scholes value of \$1,200,000 (227,187 shares) on August 8, 2013 (the Effective Date Grant). The Effective Date Grant has an exercise price of \$10.59. The Lewis Agreement provides that all stock options held by Mr. Lewis prior to the date of the Lewis Agreement (other than the Effective Date Grant) became fully vested on August 8, 2013. The Lewis Agreement also contemplates that Mr. Lewis may be granted equity awards under the Company's equity incentive plans beginning after August 8, 2015 with a target value of \$600,000 (subject to increase or decrease as determined by the compensation committee based on performance).

Mr. Lewis is also a party to a confidentiality, noncompetition, noninterference and intellectual property agreement, with the noncompetition and noninterference covenants lasting for one year after termination of employment. For information regarding the severance benefits under the Lewis Agreement as well as the treatment of Mr. Lewis' outstanding equity awards upon a qualifying termination or a corporate transaction/change in control, see Potential Payments Upon Termination of Employment or a Corporate Transaction/Change in Control Aylwin Lewis Employment Agreement.

Michael Coyne and Julie Younglove-Webb

Mr. Coyne and Ms. Younglove-Webb each entered into an employment agreement with the Company effective as of May 1, 2015. Pursuant to the Employment Agreements, Mr. Coyne serves as our Senior Vice President and Chief Financial Officer and Ms. Younglove-Webb serves as our Senior Vice President, Operations. Mr. Coyne's agreement provides for a base salary of \$375,000, and Ms. Younglove-Webb's agreement provides for a base salary of \$315,000. The salaries may be increased from time to time by the compensation committee at the recommendation of our Chief Executive Officer. The Employment Agreements provide that each of these executives is eligible for an annual target bonus of 60% of base salary. For the current bonus year, the annual bonus amount and terms and conditions for each of these executives are determined in accordance with incentive plan metrics recommended by our Chief Executive Officer and approved by the compensation committee. The compensation committee determined that for fiscal year 2015 the incentive plan metrics applicable to our executive officers would be the Company's total company revenue, adjusted net income, and adjusted EBITDA (where adjusted EBITDA represents net income (loss) before depreciation and amortization expense, interest expense, provision for income taxes and pre-opening costs, adjusted to eliminate the impact of other items, including certain non-cash as well as certain other items that we do not consider representative of our on-going operating performance.). Further, for Mr. Coyne and Ms. Younglove-Webb, as executive officers, the metrics for fiscal year 2015 were weighted as follows: (a) 40% total company revenue; (b) 30% adjusted net income; and (c) 30% adjusted EBITDA. Prior to Ms. Younglove-Webb's promotion in May 2015, her metrics were weighted as follows: (a) 30% total company revenue; (b) 30% adjusted net income; and (c) 40% adjusted EBITDA. Beginning with fiscal year 2016, the metrics for Mr. Coyne and Ms. Younglove-Webb, as executive officers, will be weighted as follows: (a) 50% total company revenue; and (b) 50% adjusted EBITDA. The Employment Agreements also provide the executives with standard benefits and perquisites and a minimum five weeks of paid time off. The Employment Agreements contemplate that the executives may be granted equity awards under our equity incentive plans.

Each of the Employment Agreements terminates upon death, disability, termination by us with or without cause or resignation by the executive without good reason. The Employment Agreements for Mr. Coyne and Ms. Younglove-Webb define cause and good reason in a manner that is comparable to the corresponding terms in the Lewis Agreement (except with respect to

Table of Contents**EXECUTIVE AND DIRECTOR COMPENSATION**

election to the Board and nomination as Chairman of the Board). For information regarding the severance benefits under the Employment Agreements and the treatment of Mr. Coyne's and Ms. Younglove-Webb's outstanding equity awards upon a qualifying termination of employment or a corporate transaction/change in control, see Potential Payments Upon Termination of Employment or a Corporate Transaction/Change in Control Employment Agreements.

Mr. Coyne and Ms. Younglove-Webb each continue to be parties to a confidentiality, noncompetition, noninterference and intellectual property agreement, with the noncompetition and noninterference covenants lasting for one year after termination of employment.

Equity Awards

Options represent an important component of our executive compensation. We believe long-term incentive awards align the interests of our stockholders and our executives by increasing the proprietary interest of our executives in the Company's growth and success; advance the Company's interests by attracting and retaining qualified employees; and motivates our executives to act in the long-term best interests of our stockholders. Long-term incentive awards are issued under our 2013 Long-Term Incentive Plan, which replaced the Potbelly Corporation 2004 Incentive Plan (provided that awards under the 2004 Incentive Plan will continue to be subject to the terms of the 2004 Incentive Plan). The 2013 Long-Term Incentive Plan provides for grants of options (including nonqualified stock options and incentive stock options), stock appreciation rights, full value awards and cash incentive awards. The 2013 Long-Term Incentive Plan is administered by the compensation committee. Under our Insider Trading Policy, our directors and executive officers are prohibited from engaging in short sales or investing in other kinds of hedging transactions or financial instruments that are designed to hedge or offset any decrease in the market value of our securities.

In May of 2015, Ms. Younglove-Webb received a grant of 95,000 stock options in connection with her promotion and in recognition of her individual performance during the 2014 fiscal year. In May of 2015, Mr. Coyne received a grant of 150,000 stock options in connection with the signing of his employment agreement. The equity compensation for our named executive officers (other than Mr. Lewis) is determined by the compensation committee upon the recommendation of Mr. Lewis. Under the terms of his employment agreement, Mr. Lewis was not eligible to receive equity compensation as part of the Company's annual incentive compensation program in March 2014 or March 2015.

Non-Equity Incentive Awards

The Company has established the Support Center Annual Incentive Plan to provide annual non-equity incentive compensation to executives. For fiscal year 2015, incentives for named executive officers were earned based on the achievement of pre-established targets for performance weighted as follows: (a) 40% total company revenue; (b) 30% adjusted net income; and (c) 30% adjusted EBITDA (where adjusted EBITDA represents net income (loss) before depreciation and amortization expense, interest expense, provision for income taxes and pre-opening costs, adjusted to eliminate the impact of other items, including certain non-cash as well as certain other items that we do not consider representative of our on-going operating performance). For fiscal year 2016, incentives for executive officers will be earned based on the following metrics and weighting: 50% total company revenue; and (b) 50% adjusted EBITDA. This plan sets a threshold, target and maximum level for each of these metrics applicable to all named executive officers, and the amounts paid are based on the actual figures achieved by the Company. For fiscal year 2015, the other executive officers utilized the same metrics and targets, although with different weights assigned to each metric. For fiscal year 2016, all executive officers will utilize the same metrics and weightings. The targets are set for the year by the compensation committee based on recommendations from Mr. Lewis and Mr. Coyne and are communicated to executives at the beginning of each year. To be eligible for an award under the plan, the executive must receive an annual individual performance appraisal rating of Contributor or higher.

The chart below sets forth the threshold, target, and maximum percentages of base salary for awards under the Support Center Annual Incentive Plan in 2015, together with the percentage of actual or weighted salary received, based on actual Company results:

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Named Executive Officer	Threshold	Target	Maximum	Percent of Actual or Weighted Average Salary Received
Aylwin Lewis		100% of base salary	200% of base salary	110% of salary
Michael Coyne	30% of base salary	60% of base salary	90% of base salary	69% of salary
Julie Younglove-Webb	30% of base salary	60% of base salary	90% of base salary	68% of salary

Table of Contents**EXECUTIVE AND DIRECTOR COMPENSATION****2015 Outstanding Equity Awards at Fiscal Year-End**

The following table summarizes outstanding stock options for each named executive officer as of December 27, 2015.

Named Executive Officer	Options Awards		Option Exercise Price Per Share	Option Expiration Date
	Number of Securities Underlying Exercisable Unexercised Options (#)	Unexercisable ⁽¹⁾		
Aylwin Lewis	780,000	0	\$ 8.00	6/16/2018
	286,157	0	\$ 7.22	5/10/2021
	113,594	113,593	\$ 10.59	8/8/2023
Michael Coyne	0	150,000	\$ 14.22	5/8/2025
Julie Younglove-Webb	20,000	0	\$ 8.00	1/7/2019
	3,709	0	\$ 7.00	7/1/2020
	8,000	2,000	\$ 7.22	5/10/2021
	12,000	8,000	\$ 8.16	3/5/2022
	8,000	12,000	\$ 9.47	3/5/2023
	12,500	12,500	\$ 14.00	10/4/2023
	1,796	5,389	\$ 20.53	3/6/2024
	0	95,000	\$ 14.22	5/8/2025

⁽¹⁾ Unvested portions of option awards are generally forfeited upon termination of employment. See *Potential Payments Upon Termination of Employment or a Corporate Transaction/Change of Control* for additional information regarding accelerated vesting on certain terminations of employments. The vesting dates for the awards described in the Outstanding Equity Awards at Fiscal Year-End table are as follows:

Named Executive Officer	Vest Date	Number of Securities Underlying Unexercised
		Options
Aylwin Lewis	8/8/2016	56,797
	8/8/2017	56,796
Michael Coyne	5/8/2016	37,500
	5/8/2017	37,500
	5/8/2018	37,500
	5/8/2019	37,500
Julie Younglove-Webb	1/1/2016	2,000
	3/5/2016	4,000
	3/5/2017	4,000
	3/5/2016	4,000
	3/5/2017	4,000
	3/5/2018	4,000
	10/4/2016	6,250
	10/4/2017	6,250
	3/6/2016	1,796
	3/6/2017	1,796
	3/6/2018	1,797
5/8/2016	23,750	
5/8/2017	23,750	
5/8/2018	23,750	
5/8/2019	23,750	

Table of Contents**EXECUTIVE AND DIRECTOR COMPENSATION****Potential Payments Upon Termination of Employment or a Corporate Transaction/Change in Control**

Each of our named executive officers serves at the pleasure of our Board of Directors. Our employment agreements with the named executive officers include provisions requiring us to make post-termination payments upon certain qualifying termination events. The disclosure below describes certain compensation that may become payable as a result of a qualifying termination of employment, based on the employment agreement in effect for each executive on December 27, 2015. In addition, the following disclosure describes the impact of a qualifying termination of employment, a corporate transaction or a change in control under the terms of the equity awards held by each of our named executive officers as of December 27, 2015 and modifications to such awards pursuant to the employment agreements. These benefits are in lieu of benefits generally available to salaried employees.

Aylwin Lewis Employment Agreement. Pursuant to the Lewis Agreement, Mr. Lewis will be entitled to receive severance pay and severance benefits if his employment terminates as a result of a qualifying termination (including if we fail to offer to extend Mr. Lewis' employment or our failure to reach an agreement with Mr. Lewis as to the term of such extension as described above). If terminated as the result of a qualifying termination prior to a Change in Control (which is defined in the 2013 Long-Term Incentive Plan), Mr. Lewis will be eligible to receive severance equal to one year of his then-current base salary and health and dental coverage at active employee contribution rates for 12 months, and all of his outstanding unvested stock options will vest (provided that if the qualifying termination occurs as a result of our failure to offer to extend the term of Mr. Lewis' employment or our failure to reach an agreement with Mr. Lewis as to the term of such extension as described above, only those unvested stock options granted in 2015 and 2016 will fully vest upon the qualifying termination), all subject to a release. If his employment terminates (1) as a result of a qualifying termination on or within six months prior to a Change in Control and at a time when we are a party to a letter of intent relating to transactions, or we are in negotiations regarding a transaction, which if consummated would constitute a Change in Control, (2) three months prior to a Change in Control or (3) within two years after a Change in Control, Mr. Lewis will be entitled to the severance payments and benefits described above except that his cash severance payment will be equal to the sum of his base salary and annual target bonus and the payments and benefits are not subject to a release.

In addition, if Mr. Lewis' termination occurs by reason of death or disability, he will be entitled to a cash payment equal to the amount of the annual bonus that he would have received for the bonus year in which the termination date occurs, pro-rated for the portion of the year prior to his termination date and payable at the same time that bonuses are payable in accordance with our normal bonus plan and all stock options that would have vested within one year of his termination will be vested on his termination date.

Under certain of Mr. Lewis' option award agreements, in the event of a Corporate Transaction (which term generally includes transactions involving a 50% change in ownership of the Company, whether through acquisition of common stock or voting power or through consummation of a reorganization, merger, consolidation or asset sale), the Board of Directors may take action such as (i) providing for the options to be assumed, or equivalent options to be substituted, by the acquiring company; (ii) providing for termination of vested but unexercised options unless exercised prior to the transaction; and (iii) providing for receipt by Mr. Lewis of a cash payment based on the difference between the transaction price and the exercise price.

Options Granted Prior to 2011. Options granted to Mr. Lewis prior to 2011 generally contain the following termination and change in control provisions:

If Mr. Lewis' employment with the Company terminates for any reason other than cause, disability or death, vested options may thereafter be exercised by Mr. Lewis until the earlier to occur of: (i) the date that is one year after the effective date of Mr. Lewis' termination of employment, and (ii) the expiration date of the option, and to the extent the options are not so exercised, they shall terminate upon such earlier date. If Mr. Lewis dies following a termination for other than cause during the period described in the preceding sentence, vested options may thereafter be exercised by Mr. Lewis' legal representative until the earlier to occur of: (i) the date that is one year after the effective date of Mr. Lewis' termination of employment, and (ii) the expiration date, and to the extent the options are not so exercised, they shall terminate upon such earlier date.

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If Mr. Lewis' employment with the Company terminates by reason of disability or death, vested options may thereafter be exercised by Mr. Lewis or Mr. Lewis' legal representative until the earlier to occur of: (i) the date that is one year after the effective date of Mr. Lewis' termination of employment, and (ii) the expiration date, and to the extent the options are not so exercised, they shall terminate upon such earlier date.

If Mr. Lewis is terminated for cause or breaches a covenant in an agreement with the Company, the options automatically terminate.

Table of Contents**EXECUTIVE AND DIRECTOR COMPENSATION**

In the event of a Corporate Transaction, the Board of Directors may take action such as (i) providing for the options to be assumed, or equivalent options to be substituted, by the acquiring company; (ii) providing for termination of vested but unexercised options unless exercised prior to the transaction; (iii) providing for receipt by Mr. Lewis of a cash payment based on the difference between the transaction price and the exercise price; and/or (iv) providing for accelerated vesting prior to the transaction and termination following such transaction. *Michael Coyne and Julie Younglove-Webb Employment Agreements.* The Employment Agreements for Mr. Coyne and Ms. Younglove-Webb provide for severance pay and benefits if the executive is terminated in a qualifying termination or if the executive's employment is terminated due to death or disability. In the event the executive's employment terminates in a qualifying termination prior to a Change in Control, the executive is entitled to a cash severance payment equal to 12 months of base salary payable in installments over 12 months and subsidized COBRA benefits for 12 months, all subject to a release. In the event the executive's employment terminates in a qualifying termination on or within 12 months after a Change in Control, the executive is entitled to the same severance payments and benefits described above and a payment equal to the amount of the annual bonus that the executive would have received for the year in which the termination occurs pro-rated through the date of termination and based on actual performance for the year of termination (the Pro-rated Bonus). Payments and benefits in connection with a Change in Control are not subject to a release. If termination occurs due to death or disability, in addition to any accrued amounts otherwise owed to the executive, the executive will receive the Pro-rated Bonus, subject to a release. The Employment Agreements for Mr. Coyne and Ms. Younglove-Webb include the definitions of cause and good reason in a manner that is comparable to the corresponding terms in Mr. Lewis' employment agreement (except for election to the Board and nomination as chairman of the Board).

Other Plans

Our named executive officers are eligible to participate in our 401(k) plan. The Company matches 50% of the contributions that our employees, including our named executive officers, make to the 401(k) plan, up to 6% of compensation, with a maximum matching contribution of \$3,000 per year.

The Company established in fiscal 2014 a non-qualified deferred compensation plan which allows highly compensated employees to defer a portion of their base salary and variable compensation each plan year. The Company matches 50% of the contributions that our highly-compensated employees, including our named executive officers, make to the deferred compensation plan, up to 6% of compensation, with a maximum matching contribution of \$3,000 per year. If an employee participates in both the 401(k) plan and the non-qualified deferred compensation plan, the total maximum matching contribution is \$3,000 per year.

2015 Director Compensation

The following table summarizes the amounts earned and paid to our non-employee members of our Board of Directors for 2015. Mr. Lewis, our President, Chief Executive Officer and Chairman of the Board receives no additional compensation for his service on our Board of Directors:

Name ⁽¹⁾⁽²⁾	Fees Earned or Paid in Cash	Stock Awards ⁽³⁾	Total
Vann Avedisian ⁽⁴⁾	\$ 0	\$ 0	\$ 0
Peter Bassi	\$ 40,000	\$ 40,000	\$ 80,000
Ann-Marie Campbell	\$ 0	\$ 80,000	\$ 80,000
Susan Chapman-Hughes	\$ 0	\$ 80,000	\$ 80,000
Dan Ginsberg	\$ 0	\$ 80,000	\$ 80,000
Marla Gottschalk	\$ 0	\$ 80,000	\$ 80,000
Harvey Kanter	\$ 0	\$ 62,025	\$ 62,025
Bryant Keil ⁽⁵⁾	\$ 0	\$ 20,000	\$ 20,000

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Dan Levitan ⁽⁶⁾	\$	0	\$	20,000	\$	20,000
Carl Warschausky	\$	40,000	\$	40,000	\$	80,000

Table of Contents**EXECUTIVE AND DIRECTOR COMPENSATION**

- (1) Pursuant to our director compensation program, in effect for 2015, all non-investor/non-employee directors may elect to receive (a) Restricted Stock Units (as defined in the 2013 Long-Term Incentive Plan) (RSUs) of the Company having a value of \$40,000 at the time of grant plus \$40,000 in cash or (b) RSUs of the Company having a value of \$80,000 at the time of grant. The \$40,000 cash component is paid out bi-annually, \$20,000 at the end of our second fiscal quarter and \$20,000 at the end of our fourth fiscal quarter. Mr. Bassi and Mr. Warschausky each elected to receive \$40,000 in cash and \$40,000 in RSUs, which were issued on May 14, 2015. Ms. Campbell, Ms. Chapman-Hughes, Mr. Ginsberg, and Ms. Gottschalk each elected to receive all of their director compensation in the form of RSUs, which were issued on May 14, 2015. Mr. Kanter received a pro-rata portion of the director compensation covering the period from the date he joined our Board of Directors through the end of the fiscal year. Mr. Kanter elected to receive all of his compensation in RSUs, which were issued on August 7, 2015. In each case, RSUs granted to the non-investor/non-employee directors vest 50% on the first anniversary of the grant date and 50% on the second anniversary of the grant date.
- (2) Pursuant to our director compensation program for fiscal year 2015, our investor/non-employee directors received RSUs having a value of \$20,000 at the time of grant. Mr. Keil and Mr. Levitan, each an investor/non-employee director, were issued RSUs on May 14, 2015. The RSUs granted to the investor/non-employee directors vest 50% on the first anniversary of the grant date and 50% on the second anniversary of the grant date.
- (3) The following directors have invested stock awards at December 27, 2015: Mr. Bassi 2,805; Ms. Campbell 5,610; Ms. Chapman-Hughes 5,610; Mr. Ginsberg 5,610; Ms. Gottschalk 5,610; Mr. Kanter 5,221; Mr. Keil 1,403; Mr. Levitan 1,403; Mr. Warschausky 2,805; each of which represents the RSU award made by the Company in 2015 as discussed in footnote (1) above. No director has any unexercised options at December 27, 2015 except for the following: Mr. Bassi 35,807; Ms. Gottschalk 71,614; Mr. Keil 442,735.
- (4) Mr. Avedisian did not stand for re-election when his term ended in May of 2015.
- (5) Mr. Keil resigned from the Board effective October 2015.
- (6) Mr. Levitan resigned from the Board effective February 2016.

Our Board of Directors has approved a new director compensation plan pursuant to the Potbelly Corporation 2013 Long-Term Incentive Plan, effective beginning in 2016. Under the new director compensation plan, each non-employee Director who is a member of the Board of Directors as of the 2016 Annual Meeting of the Stockholders (the 2016 Annual Meeting) is eligible to receive \$110,000 in annual compensation, with an increase to \$135,000 starting with the 2017 Annual Meeting of the Stockholders (the 2017 Annual Meeting). Additional retainers will be paid to the Lead Director and certain Committee Chairs as described below. Each non-employee Director may elect between the following forms of payment for his or her annual compensation: (1) the non-employee Director receives RSUs having a grant date Fair Market Value of \$110,000 in 2016 (to be increased to \$135,000 starting in 2017) (with a grant date on or before the end of the respective second fiscal quarter); or (2) the non-employee Director receives: (a) \$50,000 in cash in 2016 (to be increased to \$60,000 starting in 2017) (half of which will be paid on before the end of the respective second fiscal quarter and half of which will be paid on or before the end of the respective fiscal year); plus (b) RSUs having a grant date Fair Market Value of \$60,000 in 2016 (to be increased to \$75,000 starting in 2017) (with a grant date on or before the end of the respective second fiscal quarter).

The Lead Director as of the 2016 Annual Meeting receives an additional \$20,000 retainer, the Audit Committee Chair as of the 2016 Annual Meeting receives an additional \$10,000 retainer in 2016 (with an increase to \$15,000 starting with the 2017 Annual Meeting), and the Compensation Committee Chair as of the 2016 Annual Meeting receives an additional \$7,500 retainer in 2016 (with an increase to \$10,000 starting with the 2017 Annual Meeting). The Lead Director, Audit Committee Chair and Compensation Committee Chair may each elect between the following forms of payment for such additional retainer: (1) RSUs having a grant date Fair Market Value equal to such additional retainer amount (with a grant date on or before the end of the respective second fiscal quarter); or (2) Cash in an amount equal to one-half such additional retainer amount (half of which will be paid on before the end of the respective second fiscal quarter and half of which will be paid on or before the end of the respective fiscal year); plus RSUs having a grant date Fair Market Value of half of such additional retainer amount (with a grant date on or before the end of the respective second fiscal quarter).

RSUs shall vest as follows: fifty percent (50%) on the first anniversary of the grant date, and fifty percent (50%) on the second anniversary of the grant date.

Stockownership Guidelines

The Board believes that all directors should hold a significant equity interest in Potbelly. Toward this end, the Board expects that all directors own, or acquire within the later of (i) five years of first becoming a director and (ii) five years after our IPO, shares of Potbelly common stock (including restricted shares, but not options, under Potbelly's equity-linked incentive plans) having a market value of at least four times the annual cash compensation for directors (excluding any additional retainer received for service as Lead Director or as Chair of any Board committee) offered to directors (regardless of whether the director elects to receive such compensation in cash).

RELATED PARTY TRANSACTIONS

Indemnification Agreements

We have entered into indemnification agreements with our current directors and executive officers, in addition to the indemnification provided for in our certificate of incorporation and Bylaws. These agreements, among other things, provide for indemnification of our directors and executive officers for certain expenses (including attorneys' fees), judgments, fines and settlement amounts incurred by any such person in any action or proceeding, including any action by or in the right of our Company, arising out of such person's services as a director or executive officer of ours. We believe that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers.

Review, Approval or Ratification of Transactions With Related Persons

We have adopted a written policy relating to the approval of related party transactions. Our audit committee will review certain financial transactions, arrangements and relationships between us and any of the following related parties:

any of our directors, director nominees or executive officers;

any beneficial owner of more than 5% of our outstanding stock;

any immediate family member of any of the foregoing; and

any entity in which any of the foregoing is employed or has more than a 5% beneficial ownership.

Any member of the audit committee who is a party to a transaction under review will not be permitted to participate in the discussions, consideration or approval of such transaction. Prior to entering into any related party transaction, the interested director or officer shall provide notice of such transaction to our General Counsel. The audit committee shall review any such submissions and shall consider all relevant facts and circumstances of such transaction. The audit committee shall approve only those proposed transactions that are in, or not inconsistent with, the best interests of Potbelly and its stockholders.

In the event management determines a related party transaction exists which was not approved by the audit committee, management will submit the transaction to the audit committee for consideration. The audit committee shall consider all relevant facts and circumstances of such transaction, and shall evaluate all options, including but not limited to ratification, amendment, termination or rescission of the transaction.

The policy lists certain types of transaction in which an officer or director may have an interest that are deemed not to require review as a related party transaction, including (i) transactions in the ordinary course of business not exceeding \$25,000, (ii) certain charitable contributions, and (iii) certain approved compensation arrangements.

Table of Contents**BENEFICIAL OWNERSHIP OF OUR COMMON STOCK****BENEFICIAL OWNERSHIP OF OUR COMMON STOCK**

The following tables set forth information as of March 4, 2016 as to the beneficial ownership of shares of our common stock by:

each person (or group of affiliated persons) known to us to beneficially own more than 5 percent of our common stock;

each of our executive officers;

each of our directors; and

all of our executive officers and directors as a group.

The number of shares beneficially owned by each stockholder is determined under SEC rules and generally includes shares for which the holder has voting or investment power. The information does not necessarily indicate beneficial ownership for any other purpose. Unless otherwise indicated below, the address for each listed director, officer and stockholder is c/o Potbelly Corporation, 111 North Canal Street, Suite 850, Chicago, Illinois 60606. The percentage of beneficial ownership shown in the following tables is based on 26,220,971 outstanding shares of common stock as of March 4, 2016. For purposes of calculating each person's or group's percentage ownership, shares of common stock issuable pursuant to the terms of stock options exercisable or vesting within 60 days after March 4, 2016 are included as outstanding and beneficially owned for that person or group, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person or group.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Class Beneficially Owned
Beneficial Owners of 5% or more of outstanding common stock		
Stephens Investment Holdings, LLC and related investment advisers ⁽¹⁾	1,591,919	6.1%
Directors and Executive Officers		
Aylwin Lewis ⁽²⁾	1,499,587	5.7%
Michael Coyne	0	*
Julie Younglove-Webb ⁽³⁾	77,801	*
Matthew Revord ⁽⁴⁾	279,485	1.1%
Nancy Turk ⁽⁵⁾	108,986	*
Anne Ewing ⁽⁶⁾	90,755	*
John Morlock ⁽⁷⁾	168,311	*
Sherry Ostrowski ⁽⁸⁾	25,770	*
Peter Bassi ⁽⁹⁾	45,940	*
Ann-Marie Campbell ⁽¹⁰⁾	2,577	*
Susan Chapman-Hughes ⁽¹¹⁾	3,275	*
Daniel Ginsberg ⁽¹²⁾	4,483	*
Marla Gottschalk ⁽¹³⁾	136,137	*
Harvey Kanter	0	*
Carl Warschausky ⁽¹⁴⁾	4,200	*
All directors and executive officers as a group (15 people)	2,447,307	9.3%

* Represents less than 1.0%

⁽¹⁾ Based solely on report of Schedule 13G filed February 12, 2016. Stephens Investments Holdings LLC (SIH) shares voting power over 1,026,315 shares and shares dispositive power over 1,579,615 shares with Stephens Investment Management Group, LLC (SIMG), a subsidiary of SIH and an investment adviser. Warren A. Stephens shares voting and dispositive power over (i) all of the shares beneficially owned by SIH, a company owned by Mr. Stephens, and (ii) all of the 12,304 shares beneficially owned by Stephens Inc., a broker or dealer and an investment adviser, which is owned by Mr. Stephens. The address for the

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entities and individual listed above is 111 Center Street, Little Rock, Arkansas 72201.

- (2) Includes 319,836 shares of common stock and options to purchase 1,179,751 shares of common stock.*
- (3) Consists of options to purchase 77,801 shares of common stock.*
- (4) Includes 13,775 shares of common stock held by the Matthew J. Revord Declaration of Trust, of which Mr. Revord is a beneficiary, and options to purchase 265,710 shares of common stock held by Mr. Revord.*
- (5) Includes 5,194 shares of common stock and options to purchase 103,792 shares of common stock.*

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