

Potbelly Corporation

Compensation Committee Charter

October 2013

Compensation Committee Charter

This Compensation Committee Charter was adopted by the Board of Directors (the “Board”) of Potbelly Corporation (“Potbelly”), effective as of October 2013.

1. PURPOSE OF THE COMPENSATION COMMITTEE

The Compensation Committee (the “Committee”) was created by the Board to discharge the responsibilities set forth in this charter. The Committee shall have the authority and membership and shall operate according to the procedures provided in this charter.

2. ORGANIZATION OF THE COMPENSATION COMMITTEE

- a. Committee Members. The Committee shall consist two or more directors, as determined by the Board. The Nominating and Governance Committee shall recommend to the Board nominees for appointment to the Committee annually and as vacancies or newly created positions occur and shall recommend to the Board the Chairman of the Committee. The members and Chairman of the Committee shall be appointed by the full Board on an annual basis and may be reappointed or replaced at the Board’s discretion at any time.
- b. Independence. The Committee shall be comprised solely of directors deemed by the Board to be independent and who meet the independence requirements of The NASDAQ Stock Market LLC (“Nasdaq”), as such requirements are interpreted by the Board in its business judgment. No member of the Committee may accept directly or indirectly any consulting, advisory or other compensatory fee from Potbelly or any subsidiary thereof, as defined in applicable Securities and Exchange Commission (“SEC”) and Nasdaq rules. In determining whether a director is eligible to serve on the Committee, the Board also must consider whether the director is affiliated with Potbelly, a subsidiary of Potbelly or an affiliate of a subsidiary of Potbelly to determine whether such affiliation would impair the director’s judgment as a member of the Committee. In addition, each member of the Committee shall, if deemed appropriate from time to time, meet the definitions of “non-employee director” under Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and “outside director” for purposes of Section 162(m) of the Internal Revenue Code of 1986.

3. PROCEDURE

- a. The Committee shall meet as often as it determines is appropriate to carry out its responsibilities under this charter. Meetings may be in person or by conference call or other similar communications equipment by means of which all persons participating in the meeting can hear each other. A majority of the Committee members must be in attendance for a quorum; provided that if the Committee consists of four or fewer members, one-half of the Committee members must be in attendance for a quorum. The Committee may also act by unanimous written consent.

- b. The Chairman of the Committee shall be responsible for calling meetings of the Committee, developing the meeting agenda, providing pre-reading materials to Committee members relative to agenda items and chairing the meetings.
- c. Subject to Section 3(d) of this charter, any member of the Board of Directors who is not a member of the Committee may attend any Committee meeting with the concurrence of the Committee Chairman or a majority of the members of the Committee.
- d. The chief executive officer may not be present during voting or deliberations on his or her compensation. No other executive officer may be present at that portion of any meeting where such executive's performance or compensation is discussed, unless specifically invited by the Committee.
- e. The Committee shall keep minutes of its proceedings. To the extent practicable, the meeting agenda, draft minutes from the prior meeting and supporting materials shall be provided to members of the Committee prior to each meeting to allow time for review.
- f. The Committee shall report to the Board on such matters that are specifically indentified in this charter and otherwise periodically on such other matters as the Committee deems appropriate.

4. AUTHORITY OF THE COMPENSATION COMMITTEE

- a. The Committee shall have the authority to retain and terminate any compensation consultant to be used to assist in the evaluation of the compensation of the chief executive officer or the compensation of the other senior officers of Potbelly designated by the Board as "executive officers" within the meaning of Section 16 of the Exchange Act (each an "executive officer" and collectively, the "executive officers") and/or the compensation of any other employees of Potbelly and shall have the authority to approve any such consultant's fees and other retention terms. The Committee shall have the authority to retain any other independent counsel, experts or advisors (accounting, financial, legal or otherwise) that the Committee believes to be necessary or appropriate to carry out its duties. The Committee may also use the services of Potbelly's regular advisors. Potbelly shall provide the funds to pay the fees of any consultant or other adviser so retained. The Committee shall consider the factors set forth in Rule 10C-1(b) (4)(i)-(vi) under the Exchange Act before the Committee selects any compensation consultant, legal adviser or other adviser, other than in-house legal counsel.
- b. The Committee shall be given the resources and assistance necessary to discharge its responsibilities, including unrestricted access to Potbelly personnel and documents. The Committee may request that any director, officer or employee of Potbelly, or Potbelly's outside counsel, attend one or more meetings of the Committee or meet with any members of, or consultants to, the Committee.

- c. The Committee may form and delegate authority to subcommittees and management when appropriate, provided such delegation complies with any Securities and Exchange Commission (“SEC”) and Nasdaq rules that may be applicable.
- d. The Committee may delegate to one or more officers the authority to make grants and awards of stock rights or options to any employee of Potbelly that is not an executive officer under such of Potbelly’s incentive compensation or other equity-based plans as the Committee deems appropriate and in accordance with the terms of such plans.

5. DUTIES AND RESPONSIBILITIES OF THE COMPENSATION COMMITTEE

In addition to any other responsibilities which may be assigned from time to time by the Board, the Committee is responsible for the following matters:

- a. The Committee shall establish and oversee Potbelly’s executive compensation policies, including issues relating to pay and performance, targeted pay positioning (median, percentile, etc.), comparison companies, pay mix and stock ownership. Potbelly’s compensation policies may vary by location or by line of business, or by such other criteria as the Committee, in its sole discretion, shall determine appropriate. The Committee shall review all items of executive officer compensation and arrangements, including, as relevant (i) annual base salary level, (ii) annual incentive compensation, (iii) long-term incentive compensation, (iv) employment, severance and change-in-control agreements, if any, and (v) any other compensation, ongoing perquisites or special benefit items.
- b. The Committee shall, with input from the Nominating and Corporate Governance Committee, establish a formal evaluation process for, and determine, the compensation for the chief executive officer. As part of such process, among other matters deemed relevant by the Committee, in its sole discretion, the Committee shall review and approve corporate goals and objectives relevant to the chief executive officer’s compensation and evaluate the chief executive officer’s performance in light of those goals and objectives as well as Potbelly’s performance versus its peer group. Based on this evaluation, the Committee shall recommend the chief executive officer’s compensation level to the independent directors of the Board for approval. The Nominating and Corporate Governance Committee will lead the review of the performance of the chief executive officer for purposes other than compensation.
- c. In determining the long-term incentive component of the chief executive officer’s compensation, the Committee shall consider Potbelly’s performance and relative shareholder return, the value of similar incentive awards to chief executive officers at comparable companies and the awards given to the chief executive officer of Potbelly in past years, and any other matters deemed relevant by the Committee, in its sole discretion.

- d. The Committee shall recommend to the independent directors of the Board for approval (1) employment agreements, retention or severance arrangements and change in control agreements or provisions, and (2) any special or supplemental benefits, including perquisites, in each case with the chief executive officer.
- e. The Committee shall review the chief executive officer's recommendations regarding the compensation of Potbelly's officers that report directly to the chief executive officer and shall determine appropriate compensation levels for such officers.
- f. The Committee shall review and approve for Potbelly's officers that report directly to the chief executive officer (1) employment agreements, retention or severance arrangements and change in control agreements or provisions and (2) any special or supplemental benefits, including perquisites.
- g. The Committee shall make recommendations to the Board with respect to new incentive compensation and equity-based plans, or amendments to any such existing plans, other than plans covering solely outside directors.
- h. The Committee shall approve and ratify awards under incentive compensation and equity-based plans, including amendments to the awards made under any such plans.
- i. The Committee shall review and approve, for the chief executive officer, and the other executive officers of Potbelly, (1) employment agreements, retention or severance arrangements and change in control agreements or provisions, in each case, and (2) any special or supplemental benefits, including perquisites. The Committee shall recommend any retention or severance terms for the chief executive officer to the independent directors of the Board for approval.
- j. The Committee shall identify, in consultation with the management of Potbelly, persons subject to Section 162(m) of the Internal Revenue Code and/or Section 16(b) of the Exchange Act ("162(m) Executives").
- k. The Committee, in consultation with the Nominating and Governance Committee, shall work with Potbelly's chief executive officer to make appropriate plans for the succession upon retirement, death or disability of the chief executive officer, and review such plans at least annually.
- l. The Committee shall review not less frequently than annually the career development of the executive officers, other than Potbelly's chief executive officer, as well as the succession planning for such executive officers.
- m. The Committee shall review and approve the list of peer group companies to which Potbelly shall compare itself for compensation purposes.
- n. The Committee shall review and discuss the Compensation Discussion and Analysis with management and, based on this review and discussion, recommend

whether it be included in Potbelly's annual report on Form 10-K and proxy statement.

- o. The Committee shall prepare the Compensation Committee Report required by the rules of the SEC to be included in Potbelly's annual report on Form 10-K and proxy statement.
- p. The Committee shall review and assess risks arising from Potbelly's compensation policies and practices for its employees and whether any such risks are reasonably likely to have a material adverse effect on Potbelly.
- q. The Committee shall review and reassess the adequacy of this charter annually and recommend any proposed changes to the Board for approval.
- r. The Committee shall annually review its own performance and report to the Board regarding its findings.
- s. The Committee shall have the right to excuse any Committee member from a meeting or portion thereof to permit the remaining members of the Committee to discuss or act on any matter for which, in the Committee's opinion, the excused member's participation is not appropriate, and such excused member's absence in this circumstance shall not be deemed an absence for the purposes of determining a quorum.

6. MISCELLANEOUS

- a. This charter shall be posted on Potbelly's website in compliance with applicable SEC rules.
- b. The Committee shall review this charter regularly and may recommend to the Board from time to time any proposed changes to the charter and to any other documents related to the responsibilities of the Committee.

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