SYNOPSYS INC
Form DEF 14A
March 04, 2008

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

Synopsys, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(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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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
April 21, 2008

To the Stockholders of Synopsys, Inc.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Synopsys, Inc., a Delaware corporation, will be held on April 21, 2008, at 8:00 a.m. local time at our offices located at 700 East Middlefield Road, Building C, Mountain View, California 94043, for the following purposes:

1. To elect nine directors to serve for the ensuing year and until their successors are elected.

2. To approve an amendment to our Employee Stock Purchase Plan (including the international component we refer to as our International Employee Stock Purchase Plan) to increase the number of shares of common stock authorized for issuance under the plans by 4,000,000 shares.

3. To ratify the appointment by our Audit Committee of KPMG LLP as our independent registered public accounting firm for the fiscal year ending October 31, 2008.

4. To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

Only stockholders of record at the close of business on February 27, 2008 are entitled to notice of and to vote at the meeting. We will make available a list of registered stockholders entitled to vote at the meeting. The list will be available at our offices located at 700 East Middlefield Road, Building C, Mountain View, California 94043 for ten days prior to the meeting and at the meeting location during the meeting. We cordially invite all stockholders to attend the meeting in person. However, to assure your representation at the meeting, we urge you to submit the enclosed proxy as promptly as possible. Any stockholder attending the meeting may vote in person even if he or she has previously submitted a proxy.

Sincerely,

Brian E. Cabrera
Vice President, General Counsel and Corporate Secretary

Mountain View, California
March 3, 2008

YOUR VOTE IS VERY IMPORTANT, REGARDLESS OF THE NUMBER OF SHARES YOU OWN. PLEASE READ THE ATTACHED PROXY STATEMENT CAREFULLY, COMPLETE, SIGN AND DATE THE ENCLOSED PROXY CARD AND RETURN THE PROXY CARD IN THE ENCLOSED ENVELOPE, OR SUBMIT YOUR PROXY VOTING INSTRUCTIONS THROUGH THE INTERNET, AS PROMPTLY AS POSSIBLE. EVEN IF YOU HAVE VOTED BY PROXY, YOU MAY STILL VOTE IN PERSON IF YOU ATTEND THE MEETING. PLEASE NOTE, HOWEVER, THAT IF YOUR SHARES ARE HELD OF RECORD BY A BROKER, BANK OR OTHER NOMINEE AND YOU WISH TO VOTE

AT THE MEETING, YOU MUST OBTAIN A PROXY ISSUED IN YOUR NAME FROM THAT RECORD HOLDER.

700 East Middlefield Road
Mountain View, California 94043

PROXY STATEMENT
FOR THE ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON APRIL 21, 2008

GENERAL INFORMATION

This proxy statement is being furnished in connection with the solicitation of proxies by the Board of Directors ("Board") of Synopsys, Inc., a Delaware corporation ("Synopsys", "we" or "us") for use at the Annual Meeting of Stockholders to be held on April 21, 2008 (the "Annual Meeting"), at 8:00 a.m. local time at our offices located at 700 East Middlefield Road, Building C, Mountain View, California 94043.

Our 2007 Annual Report on Form 10-K, containing the financial statements and financial statement schedules required to be filed for the fiscal year ended October 31, 2007, is being mailed or provided together with these proxy solicitation materials to stockholders entitled to vote. This Proxy Statement, the accompanying Proxy and our Annual Report on Form 10-K will first be mailed or given to stockholders entitled to vote on or about March 11, 2008.

In accordance with rules and regulations recently adopted by the U.S. Securities and Exchange Commission (the "SEC"), we have elected to provide access to our proxy materials to our stockholders by providing access to such documents on the Internet. In addition, a Notice of Internet Availability of Proxy Materials (the "Notice") will be mailed to most of our stockholders holding their shares in "street name" on or about March 11, 2008. Stockholders will have the ability to access the proxy materials on a website referred to in the Notice or request that a printed set of the proxy materials be sent to them, by following the instructions in the Notice.

Solicitation

We will bear the cost of soliciting proxies. We have retained D.F. King & Co., Inc. to assist us in soliciting proxies, for which we will pay D.F. King & Co. a fee of approximately $10,000 plus out-of-pocket expenses. We will also reimburse brokerage firms and other persons representing beneficial owners of shares for their reasonable expenses in forwarding solicitation material to such beneficial owners. We will furnish copies of solicitation material to such brokerage firms and other representatives. Proxies may also be solicited personally or by telephone, facsimile or email by our directors, officers and employees without additional compensation. Except as described above, we do not presently intend to solicit proxies other than by mail.

Record Date

Stockholders of record on February 27, 2008 (the "Record Date") are entitled to notice of and to vote at the Annual Meeting. As of the Record Date, 141,557,958 shares of our common stock, $0.01 par value, were issued and outstanding. No shares of our preferred stock were outstanding.

How You Can Vote

If on the Record Date your shares were registered directly in your name with our transfer agent, Computershare Investor Services, then you are a stockholder of record. As a stockholder of record, you may vote in person at the meeting or vote by proxy. Signing and returning the proxy card or submitting the proxy via the Internet or by telephone as described in the proxy card does not affect the right to vote in person at the Annual Meeting. Whether or not you plan to attend the meeting, we urge you to submit your proxy.

If on the Record Date, your shares were held in an account at a brokerage firm, bank, dealer, or other similar organization, then you are the beneficial owner of shares held in "street name." The organization holding your account is considered the stockholder of record for purposes of voting at the annual meeting. As a beneficial owner, you have the right to direct your broker or other agent on how to vote the shares in your account. You are also invited to attend the annual meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the meeting unless you request and obtain a valid proxy from your broker or other agent.

Internet and Electronic Availability of Proxy Materials

As permitted by the Securities and Exchange Commission (the "SEC"), we are sending a Notice of Internet Availability of Proxy Materials (the "Notice") to most of our stockholders instead of a paper copy of this Proxy Statement and our 2007 Annual Report. All such shareholders will have the ability to access this Proxy Statement and our Annual Report on Form 10-K for the fiscal year ended October 31, 2007 as filed with the SEC on December 21, 2007 (the "Annual Report") at *http://ww3.ics.adp.com/streetlink/snps* or to request a printed set of these materials and a proxy card at no charge by following the instructions set forth in the Notice. Voting instructions for shareholders receiving the Notice are set forth in the Notice. All stockholders who do not receive a Notice will receive a paper copy of the proxy materials by mail. We believe this process will reduce the environmental impact and lower the costs of printing and distributing our proxy materials.

Revocability of Proxies

Any stockholder of record giving a proxy may revoke it at any time before the Annual Meeting by delivering to our principal executive offices at the address given above, attention Corporate Secretary, a written notice of revocation or a duly executed proxy bearing a later date, which notice or later dated proxy must be received by us prior to the Annual Meeting. The proxy may also be revoked by attending the Annual Meeting and voting in person. If you hold your shares through a broker, bank or other agent and you wish to revoke a proxy you have already cast, please contact your broker for instructions. See "Voting by Beneficial Owners," below.

Voting by Beneficial Owners

If you hold your shares through a broker, bank or other agent, you should have received a proxy card and voting instructions with these proxy materials from that organization rather than from us. As a beneficial owner, you have the right to direct your broker, bank or other agent on how to vote the shares in your account. You are also invited to attend the Annual Meeting. However, to vote in person at the Annual Meeting, you must obtain a special proxy from your broker, bank or other agent. Follow the instructions from your broker or bank included with these proxy materials, or contact your broker or bank to request such form of proxy. Please complete and mail the proxy card as instructed to ensure your vote is counted. Alternately, you may vote by telephone or over the Internet if permitted by your broker, bank or other agent. If you wish to revoke a proxy you have already cast, please contact your broker, bank or other agent for instructions.

Voting and Share Ownership

Each stockholder is entitled to one vote for each share of common stock held by him or her as of the close of business on the Record Date. The holders of a majority of the shares of our common stock issued and outstanding and represented in person or by proxy shall constitute a quorum. You may either vote "For" all the nominees to the Board of Directors or you may "Withhold" your vote for any nominee you specify. For the other matters to be voted on, you may vote "For" or "Against" or abstain from voting. All valid proxies received before the Annual Meeting will be accepted and all shares represented by a proxy will be voted. If a stockholder indicates a choice on his or her proxy on a particular matter to be acted upon, the shares will be voted as indicated. If a stockholder does not indicate a choice, the shares will be voted in favor of the proposal. We deem a stockholder who affirmatively abstains on any or all matters to be present at the meeting for purposes of determining whether a quorum is present and the total number of votes cast with respect to a proposal (other than votes cast for the election of directors); therefore, the abstention will have the same effect as an "Against" vote for all matters other than the election of directors. If a nominee (such as a brokerage firm) holding shares for a beneficial owner (i.e., a stockholder holding shares in "street name") does not receive instructions from such beneficial owner as to how to vote those shares on a proposal and does not have discretionary authority to vote on such proposal under the rules of the applicable stock exchange, then the shares held by such owner will be deemed present at the meeting for quorum purposes but will not be deemed to have voted on such proposal; accordingly, these shares will have no effect on the outcome of any given proposal on which they are deemed not voted.

Deadline for Receipt of Stockholder Proposals

We know of no other matters that will be presented for consideration at the Annual Meeting. If any other matters properly come before the Annual Meeting, the persons named in the enclosed Proxy intend to vote the shares they represent as our Board may recommend. By executing the enclosed Proxy or submitting your proxy voting instructions through the internet, stockholders grant such persons discretionary authority with respect to such other matters.

Our stockholders who wish to have one or more proposals included in our proxy statement and proxy relating to our 2009 Annual Meeting of Stockholders must send notification to us so that such notice is received not later than December 26, 2008; provided that, if our 2009 Annual Meeting of Stockholders is not held on or after March 22, 2009 and on or before May 21, 2009, such notice must be delivered to us a reasonable time before we print and send our proxy materials. Any such submissions must contain all of the information required by the proxy rules of the SEC and should be sent to: Corporate Secretary, Synopsys, Inc., 700 East Middlefield Road, Mountain View, California 94043. Our stockholders who intend to present one or more proposals at our 2009 Annual Meeting of Stockholders, including nominations to our Board of persons other than those nominated by our Board, must send notification to us, to: Corporate Secretary, Synopsys, Inc., 700 East Middlefield Road, Mountain View, California 94043, so that such notice is received on or after November 21, 2008 and not later than December 22, 2008 in order that they may be timely under our Bylaws; provided that, if our 2009 Annual Meeting of Stockholders is held more than 30 days before or after April 21, 2009, such notice must be delivered to us a reasonable time before the solicitation is made. A stockholder's notice to us must include, with respect to each matter the stockholder proposes to bring before the annual meeting: (1) a brief description of the matter and the reasons for conducting such business at the annual meeting; (2) the name and address of the stockholder, as they appear on our books; (3) the number of shares beneficially owned by the stockholder; (4) any material interest of the stockholder in the proposal; and (5) any other information that is required to be provided by the stockholder pursuant to Regulation 14A under the Exchange Act. Nominations of persons to our Board at the 2009 Annual Meeting of Stockholders must also be made between the dates specified above and include with respect to each nomination and the nominating stockholder: (a) the name, age, business address and residence

address of such person; (b) the principal occupation or employment of such person; (c) the class and number of our shares which are beneficially owned by such person; (d) a description of all arrangements or understandings between the stockholder and each nominee and other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the stockholder; and (e) any other information relating to such person that is required to be disclosed in solicitations of proxies for elections of directors, or is otherwise required under the Exchange Act.

The chairman of the Annual Meeting may determine, if the facts warrant, that a matter has not been properly brought before the meeting and, therefore, may not be considered at the meeting.

Annual Report on Form 10-K

Accompanying this proxy statement is our Annual Report on Form 10-K for the fiscal year ended October 31, 2007, which constitutes our Annual Report to Stockholders, has been provided concurrently with this Proxy Statement to all stockholders entitled to notice of and to vote at the Annual Meeting. Except as otherwise stated, such Annual Report is not incorporated into this Proxy Statement and shall not be considered proxy solicitation material.

Householding of Proxy Materials

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. A number of brokers with account holders who are our stockholders "household" our proxy materials in this manner. Therefore, a single proxy statement may be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker that they will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement and annual report or Notices of Internet Availability of Proxy Materials, please notify your broker and our investor relations department in writing at 700 East Middlefield Road, Mountain View, California 94043, by email at *invest-info@synopsys.com* or by telephone at (650) 584-4257. Stockholders who currently receive multiple copies of the proxy statement at their address and would like to request householding of their communications should contact their broker.

MATTERS TO BE CONSIDERED AT ANNUAL MEETING

PROPOSAL 1

ELECTION OF DIRECTORS

Our bylaws provide that our Board shall consist of such number of directors as is determined by our Board. Our Board currently consists of nine members. There are nine nominees for director this year. Each director to be elected at the Annual Meeting will serve until our next annual meeting of stockholders and until his or her successor is elected and qualified or the director's death, resignation or removal. The Corporate Governance and Nominating Committee of the Board (the "Governance Committee") has recommended to our Board, and our Board has nominated, the nine nominees named below for reelection as directors. Each such person has agreed to serve if elected and management has no reason to believe that any nominee will be unavailable to serve. Unless marked otherwise we will vote proxies returned to us for each of the nominees named below. The nine candidates receiving the highest number of "for" votes of the shares represented and voting on this proposal at the Annual Meeting will be elected as directors.

In addition to the voting requirements under Delaware law as to the election of directors, as described above, our Board has adopted a policy regarding what will occur in the event that a director receives more "withheld" votes than "for" votes. This policy is set forth in our Corporate Governance Guidelines on our website, and is as follows:

1. In the event any nominee for Director receives a greater number of votes "withheld" from his or her election than votes "for" such election (a "Majority Withheld Vote"), promptly following certification of the stockholder vote that director will submit to the Board a letter of resignation for consideration by the Governance Committee.

2. The Governance Committee will promptly (a) consider the resignation offer and the appropriate response based on the best interests of Synopsys and, if known, the reasons for the Majority Withheld Vote, and (b) make a recommendation to the Board (which may include accepting the resignation, maintaining the director but addressing what the Governance Committee believes to be the underlying cause of the Majority Withheld Vote, maintaining the director but resolving that the director will not be re-nominated in the future for election, or rejecting the resignation). The Board will act on the Governance Committee's recommendation within 90 days following certification of the stockholder vote. Thereafter, Synopsys will publicly disclose the decision reached by the Board and the reasons therefor.

3. Any Director who tenders his or her resignation pursuant to this provision will not participate in the Governance Committee or Board deliberations regarding whether to accept the resignation offer. However, if each member of the Governance Committee receives a Majority Withheld Vote at the same election or if the only directors who did not receive a Majority Withheld Vote in the same election constitute three or fewer directors, then all directors may participate in the action regarding whether to accept the resignation offers, with each director who is required to offer his or her resignation in accordance with this policy recusing himself or herself from the Governance Committee's and Board's deliberations and voting with respect to his or her individual offer to resign.

Recommendation

Our Board unanimously recommends that our stockholders vote FOR the election of each of the following nominees to serve as our directors until the next annual meeting of stockholders and until their successors have been elected and qualified or the director's death, resignation or removal.

Nominees

Set forth below is information regarding the nominees, including information they have furnished as to their principal occupations, certain other directorships they hold and their ages as of the Record Date. Other than Drs. de Geus and Chan, all nominees are independent under applicable Nasdaq Stock Market ("Nasdaq") listing standards.

Name	Age	Year First Elected Director
Aart J. de Geus	53	1986
Alfred Castino	55	2007
Chi-Foon Chan	58	1998
Bruce R. Chizen	52	2001
Deborah A. Coleman	55	1995
John Schwarz	57	2007
Sasson Somekh	61	1999
Roy Vallee	55	2003
Steven C. Walske	55	1991

Background of Directors

Dr. Aart J. de Geus co-founded Synopsys and currently serves as Chairman of the Board of Directors and Chief Executive Officer. Since the inception of Synopsys in December 1986, he has held a variety of positions, including Senior Vice President of Engineering and Senior Vice President of Marketing. From 1986 to 1992, Dr. de Geus served as Chairman of the Board. He served as President from 1992 to 1998. Dr. de Geus has served as Chief Executive Officer since January 1994 and has held the additional title of Chairman of the Board since February 1998. He has served as a Director since 1986. From 1982 to 1986, Dr. de Geus was employed by General Electric Corporation, where he was the Manager of the Advanced Computer-Aided Engineering Group.

Al Castino has been a member of our Board since May 2007. Mr. Castino has served as Senior Vice President and Chief Financial Officer of Autodesk, Inc., a provider of 2D and 3D design software for the manufacturing, building and construction, and media and entertainment markets, since 2002. From January 2000 to July 2002, he served as Chief Financial Officer for Virage, Inc., a video and media communication software company. From September 1997 to August 1999, Mr. Castino served as Vice President of Finance and then Senior Vice President and Chief Financial Officer at PeopleSoft, Inc., an enterprise software company.

Dr. Chi-Foon Chan has served as Chief Operating Officer since April 1997 and as President and a Director of Synopsys since February 1998. From September 1996 to February 1998, he served as Executive Vice President, Office of the President. From February 1994 until April 1997, he served as Senior Vice President, Design Tools Group. In addition, he has held the titles of Vice President of Application Engineering and Services; Vice President, Engineering and General Manager, DesignWare Operations; and Senior Vice President, Worldwide Field Organization. Dr. Chan joined Synopsys in May 1990. From March 1987 to May 1990, Dr. Chan was employed by NEC Electronics, where he was General Manager, Microprocessor Division. From 1977 to 1987, Dr. Chan held a number of senior engineering positions at Intel Corporation.

Bruce R. Chizen has been a member of our Board since April 2001. Mr. Chizen has served as a strategic advisor to Adobe Systems Incorporated, a provider of graphic design, publishing and imaging software for Web and print production, since November 2007. From December 2000 until November 2007, he served as Chief Executive Officer of Adobe Systems Incorporated and he served as President from April 2000 to January 2005. He joined Adobe Systems in August 1994 as Vice President and General Manager, Consumer Products Division and in December 1997 became Senior Vice President

and General Manager, Graphics Products Division. In August 1998, Mr. Chizen was promoted to Executive Vice President, Products and Marketing. From November 1992 to February 1994, he was Vice President and General Manager, Claris Clear Choice for Claris Corp., a wholly-owned subsidiary of Apple Computer. Mr. Chizen serves on the Board of Directors of Adobe Systems.

Deborah A. Coleman has been a member of our Board since November 1995. Ms. Coleman is a General Partner of SmartForest Ventures, a venture capital firm, which she co-founded in June 2000. Ms. Coleman was Chairman of the Board of Merix Corporation, a manufacturer of printed circuit boards, from May 1994, when it was spun off from Tektronix, Inc., until September 2001. She also served as Chief Executive Officer of Merix from May 1994 to September 1999 and as President from March 1997 to September 1999. Ms. Coleman joined Merix from Tektronix, a diversified electronics corporation, where she served as Vice President of Materials Operations, responsible for worldwide procurement, distribution, component engineering and component manufacturing operations. Prior to joining Tektronix in November 1992, Ms. Coleman was with Apple Computer, Inc. for eleven years, where she held several executive positions, including Chief Financial Officer, Vice President, Information Systems and Technology and Vice President of Operations. Ms. Coleman serves on the Boards of Directors of Applied Materials, Inc., a manufacturer of semiconductor fabrication equipment.

Dr. John Schwarz has been a member of our Board since May 2007. Dr. Schwarz has served as Chief Executive Officer of Business Objects S.A., a provider of business intelligence software and services, since September 2005. Business Objects was acquired by the SAP Group in February 2008. Dr. Schwarz continues to serve as the Chief Executive Officer of Business Objects, which is now a unit of SAP, and became a member of SAP's Executive Board effective March 1, 2008. Dr. Schwarz also serves as a Director on the Board of the Business Objects SAP subsidiary. From December 2001 to September 2005, he served as President and Chief Operating Officer of Symantec Corporation, a provider of infrastructure security and storage management software. From January 2000 to November 2001, Dr. Schwarz served as President and Chief Executive Officer of Reciprocal Inc., which provided business-to-business secure e-commerce services for digital content distribution over the internet. Before joining Reciprocal, Dr. Schwarz spent 25 years at IBM Corporation where most recently he was General Manager of IBM's Industry Solutions unit, a worldwide organization focused on building business applications and related services for IBM's large industry customers.

Dr. Sasson Somekh has been a member of our Board since January 1999. From January 2004 through January 2007, Dr. Somekh served as President of Novellus Systems, Inc., a manufacturer of semiconductor fabrication equipment, and currently serves as chair of the Technical Advisory Board of Novellus. Previously, Dr. Somekh served as a member of the board of directors of Applied Materials, Inc. from April 2003 until December 2003, and as an Executive Vice President of Applied Materials from November 2000 until August 2003. Dr. Somekh served as a Senior Vice President of Applied Materials from December 1993 to November 2000 and as a Group Vice President from 1990 to 1993. Dr. Somekh is a director of Nanosys, Inc., a developer of nano-enabled systems for use in energy, defense, electronics, healthcare and information technology applications, Sol-Gel Technologies Ltd., a nanotechnology skin care company and SoloPower Inc., a solar power company, all of which are privately held.

Roy Vallee has been a member of our Board since February 2003. Mr. Vallee is Chief Executive Officer and Chairman of the Board of Avnet, Inc., a global semiconductor products and electronics distributor, positions he has held since June 1998. Previously, he was its Vice Chairman of the Board from November 1992 until June 1998, and also its President and Chief Operating Officer from March 1992 until June 1998. Mr. Vallee currently serves on the board of directors of Teradyne, Inc., an automated testing company for the electronics, communications and software industries. He is also co-chair of the Arizona Governor's Council on Innovation and Technology.

Steven C. Walske has been a member of our Board since December 1991. Mr. Walske has been Managing Director of Myriad Investments, LLC, a private equity firm specializing in investments in software companies, since June 2000. Previously, Mr. Walske served as Chief Business Strategist of Parametric Technology Corporation from June 2000 until June 2005, as Chairman, Chief Executive Officer and a Director of Parametric from August 1994 until June 2000, and as President, Chief Executive Officer and a Director of Parametric from December 1986 to August 1994.

There are no family relationships among any of our executive officers, directors or persons nominated to become directors.

PROPOSAL 2

APPROVAL OF AN AMENDMENT TO OUR EMPLOYEE STOCK PURCHASE PLAN

Proposal

In February 2008, our Board adopted an amendment to our Employee Stock Purchase Plan (the "ESPP"), including the international component we refer to as the International Employee Stock Purchase Plan (the "International ESPP" and together with the ESPP, the "Purchase Plans"), to increase the number of shares of common stock authorized for issuance under the Purchase Plans by an additional 4,000,000 shares in the aggregate. We are requesting that stockholders approve this amendment to the Purchase Plans.

Explanation

The proposed amendment will become effective upon stockholder approval at the Annual Meeting. The purpose of this amendment is to ensure that we continue to have a sufficient reserve of common stock available under the Purchase Plans to provide our eligible employees and those of our participating affiliates (whether now existing or subsequently established) the opportunity to purchase shares of our common stock on semi-annual purchase dates through their accumulated payroll deductions.

Our management believes that maintaining a competitive employee stock purchase plan is an important element in recruiting, motivating and retaining our employees. The Purchase Plans are designed to more closely align the interests of employees and stockholders by encouraging employees to invest in our common stock, and to help our employees share in our success. The Purchase Plans, together with our stock option plans, are important employee retention and recruitment vehicles and, in fact, over 80% of our employees currently participate in the Purchase Plans.

As of February 15, 2008, an aggregate of 3,258,293 shares of common stock remained available for future issuance. We estimate that this is a sufficient number of shares of common stock to cover purchases under the Purchase Plans by all current participants in all current 24-month enrollment periods. However, we believe that, under certain circumstances, we will need additional shares of common stock to cover purchases under the Purchase Plans by participants who may enroll in offering periods commencing between the Annual Meeting and the expected date of the 2010 Annual Meeting of Stockholders. Consequently, the Board has adopted, subject to stockholder approval, an amendment to the Purchase Plans to increase the aggregate number of shares issuable under the Purchase Plans by 4,000,000 shares of common stock.

The terms and provisions of the Purchase Plans, as most recently amended, are summarized below. This summary, however, does not purport to be a complete description of the Purchase Plans. The Purchase Plans, as most recently amended, have been filed with the SEC as an Appendix to this proxy statement and may be accessed from the SEC's homepage (*www.sec.gov*). The following summary is qualified in its entirety by reference to the complete text of the Purchase Plans. Any stockholder that wishes to obtain a copy of the actual plan document may do so by written request to: Corporate Secretary, Synopsys, Inc., 700 East Middlefield Road, Mountain View, California 94043.

The affirmative vote of a majority of the votes cast is required for approval of the amendment to the Purchase Plans described in this Proposal.

Recommendation

Our Board believes it is in the best interests of Synopsys and our stockholders to continue to provide our employees the opportunity to acquire an ownership interest in Synopsys through their

participation in the Purchase Plans, encouraging them to remain in our employ and more closely aligning their interests with those of our stockholders.

Our Board unanimously recommends a vote FOR approval of the amendment to the Purchase Plans to increase the shares of common stock authorized for issuance thereunder.

DESCRIPTION OF THE PURCHASE PLANS

The following is a summary of the material features of the Purchase Plans.

General

The Compensation Committee of our Board administers the Purchase Plans. As plan administrator, the Compensation Committee has full authority to adopt rules and procedures and to interpret the provisions of the Purchase Plans. All costs and expenses incurred in plan administration are paid by Synopsys without charge to participants.

Share Reserve

In May of 2005, the stockholders approved a 4,000,000 share increase in the number of shares of common stock authorized for issuance under the Purchase Plans bringing the total number of shares of common stock reserved for issuance over the term of the Purchase Plans to 21,700,000. As of February 15, 2008, an aggregate of 18,441,707 shares of common stock have been issued to employees under the Purchase Plans, and 3,258,293 shares of common stock remained available for future issuance.

The shares of common stock issuable under the Purchase Plans may be made available from authorized but unissued shares of common stock or from shares of common stock we repurchase, including shares of common stock repurchased on the open market.

If we make any change to our outstanding common stock (whether by reason of any stock dividend, stock split, combination of shares, or other change affecting the outstanding common stock as a class without our receipt of consideration), we will make appropriate adjustments to (1) the maximum number and class of securities issuable under the Purchase Plans, (2) the maximum number and class of securities purchasable per participant on any one semi-annual purchase date, (3) the maximum number and class of securities purchasable in total by all participants on any one purchase date and (4) the number and class of securities and the purchase price per share in effect under each outstanding purchase right. Such adjustments will be designed to preclude any dilution or enlargement of benefits under the Purchase Plans or the outstanding purchase rights thereunder.

Offering Period and Purchase Rights

Shares of common stock are offered under the Purchase Plans through a series of overlapping offering periods, each with a maximum duration of twenty-four (24) months. Offering periods begin on the first business day of March and on the first business day of September each year over the terms of the Purchase Plans. Accordingly, two separate offering periods will begin in each calendar year.

Each offering period consists of a series of one or more successive purchase periods. Purchase periods run from the first business day in March to the last business day in August each year and from the first business day in September each year to the last business day in February in the immediately succeeding year. Accordingly, shares of common stock are purchased on the last business day in February and August each year with the payroll deductions collected from the participants for the purchase period ending with each such semi-annual purchase date.

If the fair market value per share of common stock on the first day of a subsequent purchase period within a particular offering period is less than the fair market value per share of common stock on the start date of that offering period, then the participants in that offering period will automatically be transferred from that offering period after the semi-annual purchase of shares of common stock on their behalf and enrolled in the new offering period which begins on the next business day following such purchase date.

Eligibility and Participation

Any individual who is employed on a basis under which he or she is regularly expected to work for more than twenty (20) hours per week for more than five (5) months per calendar year in our employ, or that of any participating parent or subsidiary corporation (including any corporation which subsequently becomes such at any time during the terms of the Purchase Plans), is eligible to participate in the Purchase Plans.

Eligible individuals must enroll before a given purchase period starts (the beginning of such purchase period will also be the beginning of such employee's offering period). Generally, an individual who is an eligible employee on the fifteenth (15th) day of the month preceding the start date of any offering period may join that offering period. However, no employee may participate in more than one offering period at a time. As of February 4, 2008, approximately 3,527 of the approximately 4,468 eligible employees were participants in the Purchase Plans.

Purchase Price

The purchase price of the shares of common stock purchased on behalf of each participant on each semi-annual purchase date is the lower of 85% of (1) the fair market value per share on the start date of the offering period in which the participant is enrolled or (2) the fair market value on the semi-annual purchase date.

The fair market value per share on any particular date under the Purchase Plans is the closing price per share on such date reported on the Nasdaq Global Select Market. As of February 27, 2008, the fair market value determined on such basis was $24.22 per share.

Payroll Deductions and Stock Purchases

Each participant authorizes periodic payroll deductions in any multiple of 1% up to a maximum of 10% of his or her base salary (generally salary, overtime pay, bonuses, and commissions) to be applied to the acquisition of shares of common stock at semi-annual intervals, up to a maximum of $7,500 per purchase period. Accordingly, on each semi-annual purchase date (the last business day in February and August each year), the accumulated payroll deductions of each participant are automatically applied to the purchase of whole shares of common stock at the purchase price in effect for the participant for that purchase date.

Special Limitations

The Purchase Plans impose certain limitations upon a participant's rights to acquire shares of common stock, including the following limitations:

- Purchase rights granted to a participant may not permit such individual to purchase more than $25,000 worth of shares of common stock (valued at the time each purchase right is granted) for each calendar year those purchase rights are outstanding.

- Purchase rights may not be granted to any individual if such individual would, immediately after the grant, own or hold outstanding options or other rights to purchase stock possessing five

percent (5%) or more of the total combined voting power or value of all classes of the stock of us or any of our affiliates.

No participant may purchase more than 4,000 shares of common stock on any one purchase date.

The maximum number of shares of common stock purchasable in total by all participants on any purchase date is limited to 2,000,000 shares of common stock. We currently allocate the 2,000,000 shares pro rata across all employees worldwide regardless of location.

Termination of Purchase Rights

A participant may withdraw from the Purchase Plans at any time prior to the last five (5) business days of the semi-annual period of participation, and his or her accumulated payroll deductions may either be applied to the purchase of shares of common stock on the next semi-annual purchase date or refunded.

Upon a participant's cessation of employment or loss of eligible employee status, payroll deductions will automatically cease. Any payroll deductions which the participant may have made for the semi-annual period in which such cessation of employment or loss of eligibility occurs are refunded.

Stockholder Rights

No participant has any stockholder rights with respect to the shares of common stock covered by his or her purchase rights until the shares of common stock are actually purchased on the participant's behalf. Other than stock splits and other recapitalizations described above, no adjustment will be made for dividends, distributions or other rights for which the record date is prior to the date of such purchase.

Assignability

Purchase rights are not assignable or transferable by a participant, and may be exercised only by the participant.

Change in Control or Ownership

In the event a change in ownership occurs, all outstanding purchase rights will automatically be exercised immediately prior to the effective date of such change. The purchase price in effect for each participant will be equal to 85% of the lower of (1) the fair market value per share on the start date of the offering period in which the participant is enrolled at the time the change in ownership occurs or (2) the fair market value per share immediately prior to the effective date of such change in ownership.

A change in ownership will be deemed to occur in the event of (1) a sale or merger in which Synopsys is not the surviving corporation or (2) any merger in which we are the surviving corporation, but in which more than 50% of our outstanding voting stock is transferred to holders different from those who held our stock immediately prior to such transaction.

Share Pro Ration

Should the total number of shares of common stock to be purchased pursuant to outstanding purchase rights on any particular date exceed either (1) the maximum number of shares of common stock purchasable in total by all participants on any one purchase date or (2) the number of shares of common stock then available for issuance under the Purchase Plans, then the Committee will make a pro rata allocation of the available shares of common stock on a uniform and nondiscriminatory basis. In such an event, the plan administrator will refund the accumulated payroll deductions of each

participant, to the extent in excess of the purchase price payable for the shares of common stock pro rated to such individual.

Amendment and Termination

Our Board may alter, suspend or terminate the Purchase Plans at any time. However, our Board may not, without stockholder approval, (1) increase the number of shares of common stock issuable under the Purchase Plans or the maximum number of shares which may be purchased per participant or in the aggregate during any one semi-annual period of participation under the Purchase Plans, (2) alter the purchase price formula so as to reduce the purchase price or (3) materially increase the benefits accruing to participants under the Purchase Plan or materially modify the requirements for eligibility to participate in the Purchase Plans.

Plan Benefits

The table below shows, as to the listed individuals and specified groups, the number of shares of common stock purchased under the Purchase Plans during fiscal 2007, together with the weighted average purchase price paid per share.

Name and Position	Number of Purchased Shares of Common Stock		Weighted Average Purchase Price
Aart J. de Geus Chairman of the Board and Chief Executive Officer	942	$	15.895
Chi-Foon Chan President and Chief Operating Officer	942	$	15.895
Brian M. Beattie Chief Financial Officer	942	$	15.895
Wolfgang Fichtner Former Senior Vice President and General Manager, Silicon Engineering Group			
Antun Domic Senior Vice President and General Manager, Implementation Group			
All executive officers as a group (13 persons)	8,478	$	15.895
All employees, including current officers who are not executive officers, as a group (3,344 persons)	2,132,292	$	16.0335

Non-employee directors are not eligible to participate in the Purchase Plans.

New Plan Benefits

No purchase rights have been granted, and no shares of common stock have been issued, on the basis of the 4,000,000-share increase which is the subject of this Proposal.

U.S. Federal Tax Consequences

The following is a summary of the principal U.S. Federal income taxation consequences to us and our employees with respect to participation in the ESPP. This summary is not intended to be exhaustive and does not discuss the income tax laws of any foreign jurisdictions where a participant may reside.

The ESPP is intended to qualify as an "employee stock purchase plan" within the meaning of Section 423 of the Internal Revenue Code. Under such an arrangement, no taxable income will be recognized by a participant, and no deductions will be allowable to us, upon either the grant or the exercise of the purchase rights. Taxable income will not be recognized until there is a sale or other

disposition of the shares of common stock acquired under the Purchase Plans or in the event the participant should die while still owning the purchased shares of common stock.

If the participant sells or otherwise disposes of the purchased shares of common stock within two years after the start date of the offering period in which such shares were acquired or within one year after the actual semi-annual purchase date of those shares, then the participant will recognize ordinary income equal to the amount by which the fair market value of the shares of common stock on the purchase date exceeded the purchase price paid for those shares, and Synopsys will be entitled to an income tax deduction, for the taxable year in which such disposition occurs, equal in amount to such excess. The participant will also recognize capital gain to the extent the amount realized upon the sale or disposition of the shares of common stock exceeds the sum of the aggregate purchase price paid for those shares of common stock and the ordinary income recognized in connection with their acquisition.

If the participant sells or disposes of the purchased shares of common stock more than two years after the start date of the offering period in which the shares of common stock were acquired and more than one year after the actual semi-annual purchase date of those shares, then the participant will recognize ordinary income in the year of sale or disposition equal to the lesser of (1) the amount by which the fair market value of the shares of common stock on the sale or disposition date exceeded the purchase price paid for those shares of common stock or (2) fifteen percent (15%) of the fair market value of the shares of common stock on the start date of that offering period. Any additional gain upon the disposition will be taxed as a long-term capital gain. We will not be entitled to an income tax deduction with respect to such disposition.

If the participant still owns the purchased shares at the time of death, the lesser of (1) the amount by which the fair market value of the shares on the date of death exceeds the purchase price or (2) fifteen percent (15%) of the fair market value of the shares on the start date of the offering period in which those shares of common stock were acquired will constitute ordinary income in the year of death.

Non-U.S. Tax Consequences

The income taxation consequences to us (including any participating parent or subsidiary corporations) and our employees with respect to participation in the International ESPP vary by country. In general, participants are usually subject to taxation upon the purchase of shares during an offering period. We (or one of our participating parent or subsidiary corporations) are generally entitled to a deduction when participants recognize taxable income.

PROPOSAL 3

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board (the "Audit Committee") has appointed KPMG LLP, our independent registered public accounting firm, to audit our consolidated financial statements for fiscal 2008. KPMG LLP has audited our consolidated financial statements since fiscal 1992. Stockholders are being asked to ratify the Audit Committee's selection of KPMG LLP as our independent registered public accounting firm for fiscal 2008.

We expect that a KPMG LLP representative will be present at the Annual Meeting, will have the opportunity to make a statement if he or she desires to do so, and will be available to respond to appropriate questions.

Ratification of the appointment of KPMG LLP requires the affirmative vote of a majority of the votes cast at a duly held stockholders' meeting at which there is a quorum. Stockholder ratification of the selection of KPMG LLP as our independent registered public accounting firm is not required by our Bylaws or otherwise. However, our Board is submitting the selection of KPMG LLP to our stockholders for ratification as a matter of good corporate practice. If our stockholders do not ratify the selection, the Audit Committee will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of different independent registered public accounting firm at any time if they determine that such a change would be in the best interests of Synopsys and our stockholders.

Principal Accountant Fees and Services

The following table presents fees for professional audit services rendered by KPMG LLP for the audit of our annual financial statements for fiscal 2007 and 2006, and fees billed for all other services rendered by KPMG LLP during such fiscal years.

	Year Ended October 31,	
	2007	**2006**
	(in thousands)	
Audit fees	$ 3,526	$ 3,329
Audit-related fees(1)		256
Tax fees(2)	52	24
Total fees	$ 3,578	$ 3,609

(1) Consists of fees for due diligence services.

(2) Consists of fees for international tax compliance services relating to certain foreign subsidiaries.

Audit Committee Pre-Approval Policies and Procedures

As required by Section 10A(i)(1) of the Exchange Act, all non-audit services to be performed by our principal accountants must be approved in advance by the Audit Committee, subject to certain exceptions relating to non-audit services accounting for less than five percent of the total fees paid to our principal accountants which are subsequently ratified by the Audit Committee (the "De Minimus Exception"). In addition, pursuant to Section 10A(i)(3) of the Exchange Act, the Audit Committee has established procedures by which the Chairperson of the Audit Committee may pre-approve such services, provided the Chairperson report the details of the services to the full Audit Committee at its next regularly scheduled meeting. None of the non-audit services performed by KPMG during fiscal 2007 and 2006 were performed pursuant to the De Minimus Exception.

Recommendation

Our Board unanimously recommends that our stockholders vote FOR the ratification of the selection of KPMG LLP to serve as our independent registered public accounting firm for fiscal 2008.

EXECUTIVE COMPENSATION AND RELATED INFORMATION

Executive Compensation and Related Information

Compensation Discussion and Analysis

In this section, we explain and analyze the material elements of our compensation program for our "named executive officers," who are identified in the Summary Compensation Table on page 26 of this proxy statement. The purpose of this discussion is to provide the context necessary to understand specific compensation for our named executive officers, as detailed in the tables and narratives following this section.

Our Compensation Philosophy and Objectives

Our executive compensation program is designed to attract, motivate, reward and retain talented individuals who are essential to our continued success and to increasing stockholder value. The following objectives and principles apply to all determinations of the form and amount of compensation for our named executive officers:

- Provide compensation that is sufficiently competitive in our industry and geography to attract and retain high-quality executive officers;
- Create financial incentives for executives to achieve our important business plans and strategic objectives;
- Motivate executives to deliver results above our plan targets;
- Align the interests of executives and our stockholders through the use of long-term incentives while effectively managing stockholder dilution;
- Reinforce a culture of accountability and excellence; and
- Promote teamwork among our executive team by considering internal equity in setting compensation levels.

Compensation Setting Process

Our Compensation Committee (the Committee) determines all aspects of compensation for our named executive officers. Information about the Committee is provided on page 38 under the heading *Board Meetings and Committees*.

Compensation Decision Timeline: In the first quarter of each fiscal year, the Compensation Committee determines compensation targets, base salaries, incentive plan design, and incentive plan performance goals for that fiscal year. The Committee also makes final determinations of whether our named executive officers have earned incentive cash bonuses for the preceding fiscal year, based on the Committee's review of our financial results for the year.

Decision Framework: Because the Committee considers the competitiveness of its executive compensation program a key objective of the program, it evaluates market information about the compensation of executive officers at similar-sized companies facing similarly complex business challenges. The market data is used as a guide, against which the Committee evaluates the compensation of each of the named executive officers in light of the executive's scope of responsibility, domain expertise, business knowledge and significance to our corporate objectives. This process allows the Committee to set compensation at levels appropriate to retain and motivate our executive leadership.

The Committee generally uses the median, or 50th percentile, of compensation for similar positions at similarly complex businesses as a market reference or guide to determine total direct compensation

(base salary, cash-based incentives, and equity compensation) for our named executive officers. The Compensation Committee may approve compensation of individuals above or below this market guide based upon performance, position, experience and our budget. The Committee also believes that our executive compensation program should contain elements that align the interests of our executives with the interests of Synopsys and our stockholders in Synopsys achieving better-than-expected financial results, such as the above-market bonus payments paid under our annual cash incentive plan for above-target performance. The Committee also believes that bonuses should not be paid for performance that is less than 90% of target, and should be capped if performance is better than 125% of target. Finally, the Committee believes that equity awards are a useful element in the compensation program, because they can align executive incentives with stockholder interests.

The Compensation Committee uses two sources of executive compensation market data: Radford Executive Compensation Survey data and information available through Equilar, a compensation benchmark firm. Our human resources group summarizes the information from these surveys for the Committee. The Radford Executive Compensation Survey data alone is used to establish salary and incentive cash levels; the Radford Executive Compensation Survey data and the Equilar data are both used to establish equity compensation amounts.

The Compensation Committee selects our peer group of companies for executive compensation purposes on an annual basis, with input from a third party consultant and our Chief Executive Officer (except with respect to his own compensation). In 2007, the Committee used the following criteria to select the peer group of companies: semiconductor or software companies with revenue of between $650 million and $2.5 billion (which is generally indicative of organizational complexity) and operations in Northern California. In addition, the Committee considers the size of organizations as measured by employee count and market capitalization. The companies that comprised the peer group for fiscal 2007 were:

Adobe Systems Incorporated	Intuit, Inc.	Novellus Systems, Inc.
Altera Corporation	Linear Technology Corporation	Nvidia Corporation
Autodesk, Inc.	LSI Corporation	Sybase, Inc.
BEA Systems, Inc.	McAfee, Inc.	Verisign, Inc.
Cadence Design Systems, Inc.	Mentor Graphics Corp.	Xilinx, Inc.
Cypress Semiconductor Corp.	Mercury Interactive Corp.	
Hyperion Solutions Corporation	National Semiconductor Corp.	

Decision Support. Since September 2006, we have engaged Radford Surveys + Consulting (Radford) to serve as the Committee's compensation consultant, reporting directly to the Committee. For fiscal 2007 the Committee instructed Radford to review the market data collected by our human resources group, to ensure that the data upon which the Committee relies is accurate. In addition, Radford helps the Committee interpret the comparative data and provides objective insight into the reasonableness of our executive officer compensation levels, including that of our Chief Executive Officer. Radford also provides the Committee objective third-party advice on emerging trends in the market that may not yet be reflected in the comparative data. Radford provides written reports for the Compensation Committee and attends Committee meetings to respond to questions from Committee members.

The Committee also relies upon performance assessments and suggested compensation targets for the named executive officers that are provided by our Chief Executive Officer, President and Chief Operating Officer, and Senior Vice President of Human Resources. To assess the Chief Executive Officer's performance, the Committee oversees a comprehensive assessment process that is conducted by the Senior Vice President of Human Resources and then summarized by the Chairman of the Compensation Committee. During discussions about our Chief Executives Officer's compensation, he is excused from the meetings and does not influence the decision process or outcome.

Section 162(m) of the Internal Revenue Code generally places a limit of $1,000,000 on the amount of compensation we may deduct for federal income tax purposes in any one year with respect to certain highly compensated officers. In order to maintain flexibility in compensating our executive officers in a matter designed to promote achievement of corporate goals, the Compensation Committee will not necessarily limit executive compensation to that which is deductible under Section 162(m) of the Internal Revenue Code.

Elements of Executive Compensation

Our executive compensation program includes the following elements:

- Base salary;
- Annual cash-based incentive awards;
- Equity-based awards; and
- Employee stock purchase plan and other benefits.

Base Salary

Base salary is baseline cash compensation paid to executive officers throughout the year, regardless of stockholder returns or our performance. The Committee believes that base salary should provide executive officers with a predictable income sufficient to attract and retain strong talent in a competitive marketplace. To accomplish this objective, the Compensation Committee considers: peer group compensation data; the executive officer's position, responsibility level, experience, and objectives for the ensuing year; the executive officer's past performance relative to corporate, business group and individual objectives; and the executive officer's base compensation relative to other Synopsys executive officers and employees. The Committee also considers the potential annual cash-based incentives, with the objective of achieving total annual cash compensation for named executives that is approximately equal to the 50th percentile annual cash compensation for our peer group of companies when our performance is on-target.

The Compensation Committee set salary for Dr. de Geus, our Chief Executive Officer, at approximately the 25th percentile relative to peer group data, but provides incentive cash compensation above the 50th percentile, in order to promote our pay-for-performance philosophy. Combined, the salary and cash incentive provide total cash compensation for Dr. de Geus that is around the 50th percentile of our peer group of companies, consistent with the Committee's overall objective. With respect to Dr. Fichtner, the Committee made no change to his salary upon being appointed an executive officer in 2007. Base salaries are typically reviewed annually, and were not increased in 2007.

Annual Cash-Based Incentive Awards

The Compensation Committee uses cash-based incentive awards to align the interests of executive officers with the interests of our stockholders. Annual cash bonuses are intended to motivate executive officers to achieve annual financial targets set by the Committee. For fiscal 2007, the Committee selected company-level financial targets for our named executive officers in order to focus executive attention on attaining our financial objectives and to foster teamwork among the members of our management team. For executives leading product or field business groups, the Committee also selected group-level measures of performance, in order to ensure that each business group is properly contributing to our overall objectives.

Target incentive compensation (incentive compensation payable if performance metrics are achieved at 100% of target) is expressed as a percentage of the named executive officer's annual base

salary. For fiscal 2007, target incentive compensation for each of the named executive officers was as follows:

Name	Title	Target Incentive Compensation expressed as a percentage of annual Base Salary
Aart J. de Geus	Chief Executive Officer	240%
Chi-Foon Chan	President and Chief Operating Officer	170%
Brian M. Beattie	Chief Financial Officer	100%
Antun Domic	Senior Vice President and General Manager, Implementation Group	80%

As discussed above under "Base Salary," the Committee has set an above-market level of target incentive compensation for Dr. de Geus, because his base salary was at the 25th percentile relative to peer group data. The Committee believes that making a large percentage of Dr. de Geus' total cash compensation "at risk" promotes our pay-for-performance philosophy and maximizes his incentive to lead our company to achieve its overall business objectives and drive value for our stockholders. Dr. de Geus' total cash compensation, assuming the company's business objectives are achieved, remains consistent with the 50th percentile of our peer group of companies.

Dr. Fichtner, who was appointed an executive officer in December 2006, was compensated in fiscal 2007 exclusively under arrangements entered into with him when we acquired ISE Integrated Systems Engineering AG ("ISE") in 2005. At that time, we agreed to pay Dr. Fichtner specified amounts over a period of three years based upon achievement of ISE sales and retention milestones. For fiscal 2007, Dr. Fichtner earned the incentive bonus as a result of the milestone achievements and the Compensation Committee also agreed to provide a discretionary bonus to Dr. Fichtner of approximately $72,000 in recognition of the consistent achievement of ISE sales milestones over all three years.

Performance criteria for the cash incentive compensation are set forth in our 2007 Executive Incentive Plan ("Executive Plan"), which was approved by the Committee during the first quarter of fiscal 2007. For fiscal 2007, the Committee selected the following measures:

Performance Criteria	Weight	Target	Achieved
2007 Revenue	15%	$ 1.207B	$ 1.212B
2007 Non-GAAP Operating Margin*	25%	20.0%	20.1%
2008 Revenue Backlog**	25%	***	***
2007 Accepted Orders	15%	***	***
2007 Growth Initiatives	20%	***	***

* GAAP operating margin adjusted to eliminate the effect of amortization of intangible assets, in-process research and development charges, integration and other acquisition-related expenses, facilities and workforce realignment charges, and other significant items which, in the opinion of management, are infrequent or non-recurring

** Represents the portion of total backlog that we expect to recognize as revenue in fiscal 2008.

*** Confidential

The Compensation Committee considered these performance criteria the best indicators of financial performance for Synopsys, reflecting both current period performance and future prospects. Given our business model, the Committee sought to encourage attention to current year performance and activities to promote future revenue predictability. Specifically, the Committee selected 2007 revenue and 2007 non-GAAP operating margin as performance measures because they indicate current year performance. The Committee selected 2007 accepted orders and 2008 revenue backlog as performance measures because they indicate future revenue. The 2007 growth initiatives component represented our strategic programs for Synopsys that lay the foundation for improved financial and operational success. The Committee selected a relatively equal weighting between these criteria to encourage management to focus on near-term financial goals while also pursuing long-term benefits for Synopsys and our stockholders.

The Compensation Committee set specific targets for each of the Executive Plan performance criteria set forth above based on the Board-approved business operating plan. Disclosure of our confidential Executive Plan performance targets would present a risk of competitive harm to Synopsys. However, the Committee set targets that it believed should be achievable, in the absence of changes in overall economic conditions, while also delivering significant performance improvement over the prior year.

Under our Executive Plan, bonuses paid to our named executive officers are dependent on the level of achievement of each performance target. If the level of weighted achievement for all performance targets in the aggregate is below 90% of target, no bonus is paid. The Committee set a threshold of 90%, which is more stringent than thresholds of many similar-sized companies, because of its commitment to provide financial rewards to executive officers only when important business objectives are achieved. The threshold for non-executive officers eligible for bonuses based upon company performance is lower than for executive officers. As performance exceeds the threshold, the percent of bonus earned increases, and once performance exceeds 100%, the percentage of bonus earned is accelerated. For example, at 90% weighted achievement, 50% of bonus is earned, at 100% of target, 100% of bonus is earned, and at 125% weighted achievement, 180% of target bonus is earned. The Compensation Committee believes this bonus structure encourages our executives to maximize their efforts to achieve outstanding results. The Committee also believes that the likelihood of 125% weighted achievement is remote.

In December 2007, following the end of 2007, the Compensation Committee determined that we achieved 107.4% weighted performance under the 2007 Executive Plan and that the business units achieved on average 103.1% weighted performance. For fiscal 2007, the Compensation Committee retained the right to reduce individual bonus payments, or to increase them, based upon individual or business group performance factors, but decided not to modify Executive Plan bonuses for our named executive officers materially. Fiscal 2007 Executive Plan bonuses paid to our named executive officers were as follows:

Name	Fiscal 2007 Target Bonus	Fiscal 2007 Actual Bonus Paid
Aart J. de Geus	$ 1,080,000	$ 1,500,000
Chi-Foon Chan	$ 714,000	$ 1,000,000
Brian M. Beattie	$ 375,000	$ 525,000
Antun Domic	$ 296,000	$ 385,000
Wolfgang Fichtner	*	*

* Dr. Fichtner did not participate in the Executive Plan but was paid pursuant to the ISE acquisition agreement.

In December 2005, the Compensation Committee approved a special one-time Operating Plan Incentive ("OPI") arrangement, which provided for cash bonuses and stock option grants vesting upon our achievement of specified non-GAAP operating margin targets for fiscal 2006 and fiscal 2007. The Compensation Committee adopted the OPI because it believed our operating margins were low relative to our business competitors' operating margins, and the Committee sought to provide the executive team with additional incentives to improve this financial measure. Since 2005, our non-GAAP operating margin more than doubled. As a result of our achieving non-GAAP operating margin in excess of 20%, the fiscal 2007 OPI cash bonus was paid and the second half of the OPI stock option grants vested. Amounts paid to named executive officers under the OPI in fiscal 2007, and the number of OPI stock options vested in fiscal 2007, were as follows:

Name	Fiscal 2007 OPI Cash Bonus Paid	Fiscal 2007 OPI Stock Options Vested
Aart J. de Geus	$ 110,000	45,000
Chi-Foon Chan	$ 80,000	30,000
Brian M. Beattie	$ 53,000	20,000
Antun Domic	$ 47,000	20,000
Wolfgang Fichtner	*	*

* Dr. Fichtner was not eligible to participate in the OPI because he became an executive officer in December 2006.

Equity-Based Awards

The Compensation Committee uses equity awards primarily to motivate our named executive officers to focus on longer-term strategies to increase stockholder value, and secondarily to retain executive officers. Generally, our equity awards vest over four years, which the Committee believes encourages retention of key leadership, and focuses them on business growth and stock price appreciation.

In fiscal 2007, as an element of long-term incentive compensation, the Committee granted stock options to executive officers. The Committee believes that stock options generally are an important form of long-term incentive compensation to grant to our executives because stock options align their interests with the interests of stockholders by having value only if our stock price increases over time. The Committee granted an average of 30% fewer stock options in fiscal 2007 compared to fiscal 2006 because, for the first time in fiscal 2007, the Committee also granted performance-based restricted stock units to our named executive officers, in order to promote our pay-for-performance philosophy. These restricted stock unit awards are "at risk" if performance goals are not achieved. The Committee believes that in addition to promoting the pay-for-performance philosophy, once earned, restricted stock units encourage executive retention during economic or market cycles when our stock price declines, because the restricted stock unit retains a large portion of its value even if the stock price declines after the date of grant. The Committee also believes that restricted stock unit awards are increasingly common among our peer group of companies, so this element of compensation is part of a competitive compensation package. In the first quarter of fiscal 2007 the Committee awarded restricted stock units to the named executive officers that would vest only if we attained $189.0 million non-GAAP net income for fiscal 2007. Because that target was achieved, on the date that we reported our financial results for fiscal 2007, 25% of the restricted stock units vested, and the remainder will vest in three equal annual installments, so long as the executive remains an employee. If we had not achieved our non-GAAP net income target, the entire restricted stock unit award would have expired immediately.

The number of stock options and restricted stock units granted to named executive officers is based on a target equity value. As noted above under "Decision Framework," we generally use the

target equity value of stock options and restricted stock units combined to set total equity-based compensation at the desired 50th percentile level for each named executive officer. While the Committee reviews the realized or unrealized value of prior equity awards when determining the target economic value of equity awards, the Committee believes that each current equity award is an incentive to drive future stockholder return.

In 2007, the exercise price of stock options was set at the closing price of our common stock on the Nasdaq Global Select Market on the date of the pre-scheduled Compensation Committee meeting at which the options were awarded.

In fiscal 2006, the Compensation Committee granted stock options under the OPI described above, subject to performance vesting over two years. Each named executive officer (other than Dr. Fichtner, who was not eligible to participate because he was not a named executive officer in fiscal 2006) received stock options that vested and were earned in two equal installments as we achieved the pre-determined operating margin targets for fiscal 2006 and fiscal 2007. Mr. Beattie was added to the OPI program when he joined Synopsys in January 2006.

Employee Stock Purchase Plan and Other Benefits

Employee Stock Purchase Plan. Our named executive officers may participate in our Employee Stock Purchase Plan, a broad-based plan that enables eligible employees to purchase shares of our common stock at a discounted price. The plan qualifies under Section 423 of the Internal Revenue Code and is therefore required to be made available to all U.S. employees, including executive officers, serving the requisite numbers of hours. The plan permits employees to acquire shares of our common stock through periodic payroll deductions of up to 10% of total cash compensation up to a maximum of $7,500 per six-month purchase period. The price per share at which participating employees may purchase our common stock is 85% of the lesser of the fair market value of the shares at the beginning of a rolling two-year offering period or the end of each six-month purchase period, subject to a plan limit on the number of shares that may be purchased in a purchase period.

Tax-Qualified 401(k) Retirement Plan. Our named executive officers are eligible to participate in our tax-qualified 401(k) retirement plan on the same terms as other employees. We contribute $0.40 for every dollar an employee contributes to the plan, up to a maximum contribution of $1,500 per year.

Deferred Compensation Plan. Although executive officers are eligible to participate in our tax-qualified 401(k) retirement plan, the Internal Revenue Code limits the dollar amounts of deferrals and contributions by us that can be made to plan accounts. To compensate for these limitations, which apply in practice to more highly-compensated employees, the Committee established a Deferred Compensation Plan under which executive officers may elect to defer up to 50% of their base salary compensation and up to 100% of their annual bonus. Distributions from the Deferred Compensation Plan are generally payable upon termination of employment over five to 15 years or as a lump sum payment at the option of the employee. Since its inception, we have not made any matching or discretionary contributions to the Deferred Compensation Plan. There are no provisions that provide for any guarantee or minimum return on investments. Undistributed amounts under the Deferred Compensation Plan are subject to the claims of our creditors. The Committee offers this benefit to our named executive officers and other eligible employees because it provides a tax benefit for the participating employees at a relatively low cost to us.

Health and Welfare Benefits. We provide certain other employee benefits consisting of programs for employees generally, including health benefits, life insurance and other welfare benefits. For Dr. Fichtner, who resides in Switzerland, we were obligated by Swiss law to contribute to a retirement fund, to an extent equal to the employee's contribution.

Severance and Change of Control Benefits

Executive Change of Control Severance Benefit Plan. In fiscal 2006, the Board approved an Executive Change of Control Severance Benefit Plan (the "Change of Control Plan") in order to compensate our executive officers in the event of a qualifying termination of employment following a change of control of Synopsys. The purpose of the Change of Control Plan is to protect the interests of our executives while encouraging them to continue to fulfill our objectives during and following a change of control. We believe that the protections afforded under the plan help us recruit and retain executives and that they are consistent with those offered by the companies in our peer group. The Change of Control Plan has a "double trigger," providing benefits only if the executive's employment with us is terminated following the change of control. These benefits are payable only in the event an executive's employment is terminated without cause within 30 days before or 12 months after a change of control or is constructively terminated within 12 months after a change of control. The benefits consist of (in addition to any unpaid salary, bonus or benefits to which the executive otherwise is entitled): (1) a cash severance payment equal to one year of base salary; (2) one to two times the executive's target annual bonus, depending upon the timing of the termination within our fiscal year; (3) a cash payment equal to the estimated cost of health care premiums for one year; and (4) full acceleration of all unvested stock options and other stock awards held by the executive at the time of termination. An executive may be required to enter into an 18-month non-competition agreement and must sign a release in order to receive benefits should a qualifying termination occur. The Change of Control Plan does not provide any benefits if the termination is voluntary or for cause.

Cause for termination would include certain acts of dishonesty, negligence or willful misconduct or continuing failure to perform one's job duties and fulfill one's obligations to us. A constructive termination is an executive's resignation within 60 days following a reduction in duties, salary, target bonus or benefits or a relocation of more than 75 miles, in each case without the executive's consent.

A. A change of control is defined generally as the acquisition by a third party of more than 50% of the voting power of our outstanding voting securities; a merger or consolidation after which our stockholders do not own at least 50% of the voting power of the new entity or its parent, in each case in the same proportion as their ownership of our voting securities immediately prior to the transaction; the approval by our stockholders or board of directors of a plan of complete dissolution or liquidation or a complete dissolution or liquidation otherwise occurs; a disposition of all or substantially of our assets other than to an entity of which more than 50% of the voting securities are owned by stockholders of the Company or members of our board of directors (including new directors approved or recommended by a majority of the board) cease to constitute at least a majority of the board.

Other Change of Control Arrangements. Our change of control arrangements with Dr. de Geus and Dr. Chan are included in employment agreements entered into before adoption of the Change of Control Plan, and therefore they do not participate in the Change of Control Plan. These agreements were negotiated with Dr. de Geus and Dr. Chan in 1997, to provide them additional financial security and thereby retain their services for Synopsys. Each change of control agreement provides that, in the event of an involuntary termination other than for cause within 24 months following a change of control of Synopsys, the executive will receive: (1) a cash payment equal to two times his base compensation for the current fiscal year or the immediately preceding fiscal year, whichever is greater; (2) a cash payment equal to two times his target incentive for the current fiscal year or, if there is no target incentive in effect for the current fiscal year, the highest target incentive in the last three fiscal years; (3) the estimated cash value of his health care premiums for 18 months; and (4) full acceleration of all unvested stock options. The executive must sign a release of claims in order to receive any severance payments.

Dr. de Geus and Dr. Chan's agreements also provide for severance benefits in the event of an involuntary termination other than for cause outside the 24-month period following a change of

control. In this event, the executive would receive: (1) a cash payment equal to his base compensation during the fiscal year or immediately preceding fiscal year, whichever is greater; (2) a cash payment equal to the target incentive then in effect or, if there is no target incentive in effect for such year, the highest target incentive in the three preceding years provided the executive does not engage in misconduct (generally conduct harmful to our interests, including disclosure of confidential information, disparagement or direct competition) for six months following the termination date; and (3) the estimated cash value of his health care premiums for 12 months.

Under these agreements, cause for termination has a similar meaning as it does under the Change of Control Plan, and an involuntary termination includes, in addition to any termination not for cause, a reduction in duties, authority, responsibilities, perquisites, office space, base compensation, or employee benefits, a relocation of more than 50 miles or the failure of Synopsys to obtain the assumption of the agreement by a successor.

B. A change of control is defined generally as the acquisition by a third party of 50% of the voting power of our outstanding voting securities; a merger or consolidation after which our stockholders do not own at least 50% of the voting power of the new entity or its parent; the approval by our stockholders of a plan of complete dissolution or liquidation; an agreement for the sale or disposition of all or substantially of our assets or, during a two-year period, members of our board of directors (including new directors approved or recommended by a majority the board) cease to constitute at least a majority of the board.

Dr. Fichtner entered into an employment agreement with us in connection with our acquisition of his former employer, ISE Integrated Systems Engineering AG. In the event we were to terminate the agreement other than for cause, Dr. Fichtner would have been able to continue his participation in the ISE Sales and Retention Milestone Plan as if he continued to be an employee of Synopsys.

C. In addition, our 2006 Employee Equity Incentive Plan provides for the acceleration of any options or stock awards in the event they are not assumed, continued or substituted by the surviving or acquiring company following certain corporate transactions, including a sale or other disposition of 90% of our outstanding securities; a sale or disposition of all or substantially all of our assets; a merger or consolidation after which we are not the surviving corporation or a merger or consolidation after which we are the surviving corporation, but our outstanding shares are converted into other property.

Share Ownership Guidelines

In order to align the interests of our senior executives with the interests of our stockholders, in fiscal 2003 the Board adopted stock ownership guidelines. These guidelines recommend that covered officers achieve share ownership levels within four years of appointment, and hold those shares so long as they serve in such positions, as follows: Chief Executive Officer 50,000 shares; President and Chief Operating Officer 25,000 shares; and Chief Financial Officer and all senior vice presidents 10,000 shares.

Covered officers may acquire shares through stock option exercises, vesting of restricted stock units, purchases under our employee stock purchase plan, open market purchases made in compliance with applicable securities laws and our insider trading policy, or acquisitions under any other equity plans we may adopt from time to time. Each covered officer is expected to meet the applicable guidelines within four years of becoming a covered officer. The guidelines do not require any covered officer to exercise stock options or to purchase shares of our common stock on the open market solely to meet these guidelines. However, when stock options are exercised or shares are purchased under our employee stock purchase plan, the guidelines recommend that the covered officer retain a number of shares of common stock equal to the lesser of 25% of the net value of shares of common stock acquired or vested (after deducting the exercise price, if any, and taxes at an assumed tax rate), or a number of shares necessary to reach such officer's applicable common stock ownership guideline amount. At fiscal year end, and to date, each named executive officer either holds the requisite number of shares or has not yet served for four years. Accordingly, all named executive officers are in compliance with the stock ownership guidelines.

SUMMARY COMPENSATION TABLE

The following table shows compensation awarded to, paid to, or earned by our Chief Executive Officer, Chief Financial Officer and three other most highly compensated executive officers during fiscal 2007. We refer to these executive officers as our "named executive officers" in this Proxy Statement.

Name and Principal Position	Year	Salary ($)(1)	Bonus ($)	Stock Awards ($)(2)	Option Awards ($)(3)	Non-Equity Incentive Plan Compensation ($)(4)	All Other Compensation ($)	Total ($)
Aart J. de Geus Chief Executive Officer	2007	$ 458,654		$ 320,458	$ 1,849,768	$ 1,610,000	$ 1,500(5)	$ 4,240,380
Chi-Foon Chan President and Chief Operating Offer	2007	$ 428,077		$ 148,360	$ 1,173,538	$ 1,080,000	$ 16,840(6)	$ 2,846,815
Brian M. Beattie Chief Financial Officer	2007	$ 382,212		$ 142,426	$ 832,094	$ 578,000	$ 1,500(5)	$ 1,936,232
Wolfgang Fichtner Former Senior Vice President and General Manager, Silicon Engineering Group(7)	2007	$ 318,562	$ 72,699(8)	$ 63,434	$ 147,676	$ 1,569,301	$ 84,004(9)	$ 2,255,676
Antun Domic Senior Vice President and General Manager, Implementation Group	2007	$ 377,115		$ 83,082	$ 825,727	$ 432,000	$ 14,394(10)	$ 1,732,318

(1) There were 53 weeks in our 2007 fiscal year. Reported amounts in this table represent 53 weeks of payments to each named executive officer, an amount larger than his annual base salary.

(2) Stock awards consist only of performance shares that vest only upon the achievement of pre-established performance goals. Such awards are granted as restricted stock units that are converted into Synopsys common stock following vesting. Amounts shown do not reflect compensation actually received by the named executive officer. Instead, the amounts shown are the compensation costs recognized by us in fiscal 2007 for stock awards as determined pursuant to Statement of Financial Accounting Standards No. 13 (revised), Share-Based Payment ("SFAS No. 123(R)"). In accordance with SFAS No. 123(R), the total grant date fair value is equal to the number of units granted multiplied by the closing price of our stock on the grant date and assumes that performance will be achieved. The grant date fair value is recognized as compensation cost over the vesting term of the award.

(3) Amounts shown do not reflect compensation actually received by the named executive officer. Instead, the amounts shown are the compensation costs recognized by us in fiscal 2007 for option awards as determined with a Black-Scholes valuation model in accordance with SFAS No. 123(R), disregarding the estimate of forfeitures related to service-based vesting conditions. The compensation cost includes amounts from awards granted in and prior to fiscal 2007. The assumptions used to calculate the value of option awards are set forth in Note 2 and Note 8 of the notes to consolidated financial statements included in our Annual Reports on Form 10-K for fiscal 2004 and 2007 filed with the SEC on January 12, 2005 and December 21, 2007, respectively.

(4) Amounts consist of cash-based incentive compensation earnings for services rendered in fiscal year 2007. The amounts payable under the 2007 Executive Incentive Plan are $1,500,000, $1,000,000, $525,000, and $385,000 for each of Dr. de Geus, Dr. Chan, Mr. Beattie, and Dr. Domic, respectively. The amounts payable under the Operating Plan Incentive are $110,000, $80,000, $53,000, and $47,000 for each of Dr. de Gues, Dr. Chan, Mr. Beattie, and Dr. Domic, respectively. The amount payable to Dr. Fichtner includes $1,569,301 paid pursuant to the ISE acquisition agreement.

(5) Amount reflects matching contributions made by us under the tax-qualified 401(k) Plan, which provides for broad-based employee participation.

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(6) Amount reflects $1,500 in matching contributions made by us under the tax-qualified 401(k) Plan, which provides for broad-based employee participation as well as $15,340 relating to a whole life insurance premium paid on Dr. Chan's behalf. We pay this premium for certain executive officers in connection with an insurance component of our Deferred Compensation Plan in order to obtain certain tax benefits for us. As a result, Dr. Chan forgoes life insurance coverage that we provide to our employees generally. The $15,340 represents the pro rata portion of the aggregate premium allocated to Dr. Chan based on the portion of the total benefit payable in the event of his death. We are the largest beneficiary under this policy. Dr. Chan's beneficiaries would receive 2.5 times his annual salary.

(7) Dr. Fichtner resigned in January 2008.

(8) Represents a discretionary bonus payment authorized by the Compensation Committee in recognition of successful consistent completion of performance milestones under the acquisition of ISE Integrated Systems Engineering AG.

(9) Represents employer matching contributions to a Switzerland government-required retirement fund for Dr. Fichtner.

(10) Amount reflects $1,500 in matching contributions made by Synopsys under the tax-qualified 401(k) Plan, which provides for broad-based employee participation as well as $12,897 relating to a whole life insurance premium paid on Dr. Domic's behalf. We pay this premium for certain executive officers in connection with an insurance component of our Deferred Compensation Plan in order to obtain certain tax benefits for the participants in the Deferred Compensation Plan. As a result, Dr. Domic forgoes life insurance coverage that we provide to our employees generally. The $12,897 represents the pro rata portion of the aggregate premium allocated to Dr. Domic based on the portion of the total benefit payable in the event of his death. We are the largest beneficiary under this policy. Dr. Domic's beneficiaries would receive 2.5 times his annual salary.

GRANTS OF PLAN-BASED AWARDS

The following table sets forth certain information with respect to grants of plan-based awards in fiscal 2007 to our named executive officers, including cash awards and equity awards. The equity awards to our named executive officers in fiscal 2007 were granted under our 2006 Employee Equity Incentive Plan, unless otherwise noted.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards(1)			All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards(3)
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	(#)(2)	($/Sh)	
Aart J. de Geus	12/5/2006					54,000	54,000			$ 1,408,860
	12/5/2006							163,000	$ 26.09	$ 1,408,793
	12/5/2006		$ 1,080,000(4)	$ 1,944,000(4)						
	12/5/2006		$ 110,000(5)	$ 110,000(5)						
Chi-Foon Chan	12/5/2006					25,000	25,000			$ 652,250
	12/5/2006							75,000	$ 26.09	$ 648,218
	12/5/2006		$ 714,000(4)	$ 1,285,200(4)						
	12/5/2006		$ 80,000(5)	$ 80,000(5)						
Brian M. Beattie	12/5/2006					24,000	24,000			$ 626,160
	12/5/2006							70,000	$ 26.09	$ 605,003
	12/5/2006		$ 375,000(4)	$ 675,000(4)						
	12/5/2006		$ 53,000(5)	$ 53,000(5)						
Wolfgang Fichtner(6)	12/14/2006					12,000	12,000			$ 320,760
	12/14/2006							75,000	$ 26.73	$ 665,910
Antun Domic	12/5/2006					14,000	14,000			$ 365,260
	12/5/2006							40,000	$ 26.09	$ 345,716
	12/5/2006		$ 296,000(4)	$ 532,800(4)						
	12/5/2006		$ 47,000(5)	$ 47,000(5)						

(1) All stock awards identified in this column were performance shares that vest only upon achievement of pre-established performance goals. Such awards are granted as restricted stock units under the 2006 Employee Equity Incentive Plan and are converted into Synopsys common stock following vesting. The vesting criteria was achievement of $189 million of non-GAAP net income for fiscal 2007, as further described in the Compensation Discussion and Analysis section. This goal was achieved, and accordingly, 25% of the awards vested subsequent to the fiscal year end, on December 6, 2007, and the remaining 75% are scheduled to vest in three equal, annual installments beginning December 6, 2008, subject to continued employment with us.

(2) All option awards were granted under the 2006 Employee Equity Incentive Plan. 1/16th of these non-statutory stock options vested on the three month anniversary of the grant date and continued vesting as to 1/48th per month thereafter, subject to continued employment with us.

(3) The value of an option award is based on the fair value of such award as of the grant date determined with a Black-Scholes valuation model in accordance with SFAS No. 123R. The assumptions used to calculate the value of option awards are set forth in Note 8 of the notes to consolidated financial statements included in our Annual Report on Form 10-K for fiscal 2007 filed with the SEC on December 21, 2007.

(4) Amounts shown are possible payouts for fiscal 2007 under the Executive Incentive Plan. Under the Executive Incentive Plan, bonuses paid to named executive officers are dependent on the level of achievement of each performance target. If the level of weighted achievement for all performance targets in the aggregate is below 90% of target, no bonus is paid. The maximum amount shown is 180% of the target amount for each named executive officer, pursuant to the Executive Incentive Plan. Actual bonuses received by the named executive officers for fiscal 2007 are reported in the Summary Compensation Table under the column entitled "Non-Equity Incentive Plan Compensation."

(5) Amounts shown are possible payouts under the Operating Plan Incentive arrangement, which provided for cash bonuses vesting upon our achievement of specified non-GAAP operating margin targets for fiscal 2007. Actual

cash bonuses received are reported in the Summary Compensation Table under the column entitled "Non-Equity Incentive Plan Compensation."

(6) Except for the performance-based restricted stock units, Dr. Fichtner's performance-based compensation for fiscal 2007 was based upon arrangements entered into with him when we acquired ISE Integrated Systems Engineering AG in fiscal 2005. Accordingly, he was not eligible for performance awards under the Executive Incentive Plan or Operating Plan Incentive arrangements.

OUTSTANDING EQUITY AWARDS AT FISCAL 2007 YEAR-END

The following table summarizes the number of securities underlying unexercised equity awards for our named executive officers as of November 3, 2007.

		Option Awards					Stock Awards(1)	
Name	**Grant Date**	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)**	**Option Exercise Price ($)**	**Option Expiration Date**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(2)**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(3)**
Aart J. de Geus	7/24/1998	150,000			$ 19.125000	7/24/2008		
	10/29/1998	120,000			$ 21.250000	10/29/2008		
	1/27/1999	136,600			$ 27.875000	1/27/2009		
	4/26/1999	106,000			$ 23.437500	4/26/2009		
	7/28/1999	126,800			$ 28.375000	7/28/2009		
	10/27/1999	262,000			$ 29.687500	10/27/2009		
	3/8/2000	300,000			$ 19.750000	3/8/2010		
	5/23/2000	140,000			$ 21.343750	5/23/2010		
	8/2/2000	760,000			$ 16.125000	8/2/2010		
	2/28/2001	60,000			$ 27.156250	2/28/2011		
	5/25/2001	57,000			$ 30.685000	5/25/2011		
	8/28/2001	54,000			$ 23.720000	8/28/2011		
	12/17/2001	116,000			$ 28.085000	12/17/2011		
	2/26/2002	31,000			$ 24.700000	2/26/2012		
	5/28/2002	36,000			$ 25.735000	5/28/2012		
	8/27/2002	30,000			$ 22.280000	8/27/2012		
	12/9/2002	60,000			$ 21.725000	12/9/2012		
	2/25/2003	16,500			$ 20.460000	2/25/2013		
	5/27/2003	16,600			$ 29.280000	5/27/2013		
	8/26/2003	11,500			$ 33.295000	8/26/2013		
	12/10/2003	25,683	1,117(4)		$ 32.670000	12/10/2013		
	2/24/2004	10,725	975(4)		$ 29.880000	2/24/2014		
	5/26/2004	7,943	1,357(4)		$ 29.870000	5/26/2014		
	12/17/2004	99,166	40,834(4)		$ 18.550000	12/17/2011		
	12/6/2005	91,666	108,334(4)		$ 20.730000	12/6/2012		
	12/6/2005	45,000	45,000(5)	45,000	$ 20.730000	12/6/2012		
	12/5/2006	33,958	129,042(4)		$ 26.090000	12/5/2013		
	12/5/2006						54,000	$ 1,513,080

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Name	Grant Date	Option Awards: Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Stock Awards(1): Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(2)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(3)
Chi-Foon Chan	10/29/1998	110,000			$ 21.250000	10/29/2008		
	1/27/1999	105,200			$ 27.875000	1/27/2009		

	$ (9,821)	$ (26,301)	$ (9,511)	
Other comprehensive income (loss):				
Foreign currency translation adjustments	(24)	(80)	(103)	(92)
Other comprehensive loss	(24)	(80)	(103)	(92)
Comprehensive loss	$ (9,865)	$ (9,901)	$ (26,404)	$ (9,603)

See accompanying notes to condensed consolidated financial statements.

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Noodles & Company
Condensed Consolidated Statements of Cash Flows
(in thousands, unaudited)

	Three Fiscal Quarters Ended	
	September 27, 2016	September 29, 2015
Operating activities		
Net loss	$(26,301)	$(9,511)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	20,983	20,959
Deferred income taxes	1,124	(7,826)
Restaurant impairments, closure costs and asset disposals	12,903	22,740
Amortization of debt issuance costs	91	73
Stock-based compensation	2,021	1,036
Gain on insurance proceeds received for property damage	(416)	—
Changes in operating assets and liabilities:		
Accounts receivable	194	686
Inventories	(717)	(945)
Prepaid expenses and other assets	(1,315)	(1,585)
Accounts payable	(3,182)	512
Deferred rent	4,480	5,027
Income taxes	121	1,538
Accrued expenses and other liabilities	6,078	5,182
Net cash provided by operating activities	16,064	37,886
Investing activities		
Purchases of property and equipment	(33,784)	(35,616)
Acquisition of franchise restaurant	—	(628)
Insurance proceeds received for property damage	500	—
Net cash used in investing activities	(33,284)	(36,244)
Financing activities		
Proceeds from issuance of long-term debt	314,181	328,008
Payments on long-term debt	(297,916)	(295,104)
Proceeds from exercise of stock options, warrants and employee stock purchase plan	1,065	(2,029)
Acquisition of treasury stock	—	(32,152)
Other financing activities	(98)	(163)
Net cash provided by (used in) financing activities	17,232	(1,440)
Effect of exchange rate changes on cash	42	(92)
Net increase in cash and cash equivalents	54	110
Cash and cash equivalents		
Beginning of period	1,912	1,906
End of period	$1,966	$2,016

See accompanying notes to condensed consolidated financial statements.

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NOODLES & COMPANY
Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Business Summary and Basis of Presentation
Business
Noodles & Company (the "Company" or "Noodles & Company"), a Delaware corporation, develops and operates fast casual restaurants that serve globally inspired noodle and pasta dishes, soups and salads. As of September 27, 2016, the Company had 455 company-owned restaurants and 73 franchise restaurants in 35 states, the District of Columbia and one Canadian province. The Company operates its business as one operating and reportable segment.
Basis of Presentation
The accompanying unaudited condensed consolidated financial statements include the accounts of Noodles & Company and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The accompanying interim unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America ("GAAP") for complete financial statements. In the opinion of the Company, all adjustments considered necessary for the fair presentation of the Company's results of operations, financial position and cash flows for the periods presented have been included and are of a normal, recurring nature. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The results of operations for any interim period are not necessarily indicative of results for the full year. Certain information and footnote disclosures normally included in the Company's annual consolidated financial statements on Form 10-K have been condensed or omitted. The condensed consolidated balance sheet as of December 29, 2015 was derived from audited financial statements. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the audited financial statements and the related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2015.
Fiscal Year
The Company operates on a 52- or 53-week fiscal year ending on the Tuesday closest to December 31. Fiscal year 2016, which ends on January 3, 2017, contains 53 weeks, and fiscal year 2015, which ended on December 29, 2015, contained 52 weeks. The Company's fiscal quarters each contain 13 operating weeks, with the exception of the fourth quarter of a 53-week fiscal year, which contains 14 operating weeks. The Company's fiscal quarter that ended September 27, 2016 is referred to as the third quarter of 2016, and the fiscal quarter ended September 29, 2015 is referred to as the third quarter of 2015.
Recent Accounting Pronouncements
In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, "Leases." The pronouncement amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheet and making targeted changes to lessor accounting. The pronouncement will be effective beginning in the first quarter of fiscal 2019, with early adoption permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company is currently evaluating the impact the adoption of this accounting standard will have on its financial position or results of operations and cash flows and related disclosures.
In March 2016, the FASB issued ASU No. 2016-09, "Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification of awards on the statement of cash flows. The pronouncement is effective for annual periods beginning after December 15, 2016 and interim periods therein. Early adoption is permitted. The Company is

currently evaluating the impact the adoption of this accounting standard will have on its financial position or results of operations and cash flows and related disclosures.

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2. Supplemental Financial Information

Property and equipment, net, consists of the following (in thousands):

	September 27, 2016	December 29, 2015
Leasehold improvements	$228,838	$216,474
Furniture, fixtures and equipment	128,606	120,132
Construction in progress	4,763	11,485
	362,207	348,091
Accumulated depreciation and amortization	(159,903)	(144,378)
	$202,304	$203,713

3. Long-Term Debt

The Company has a credit facility with a borrowing capacity on the revolving line of credit of $100.0 million, expiring in June 2020. As of September 27, 2016, the Company had $84.5 million of indebtedness and $2.7 million letters of credit outstanding under the revolving line of credit. The Company's ability to borrow funds pursuant to the revolving line of credit is further limited by the requirement that it comply with the revolving line of credit's financial covenants upon the measurement dates specified therein. These financial covenants include a maximum lease-adjusted leverage ratio and a minimum consolidated fixed charge coverage ratio. The credit agreement also contains other customary covenants, including limitations on additional borrowings, acquisitions, dividend payments and lease commitments.

The credit facility bore interest between 2.59% and 5.50% during the first three quarters of 2016. On August 2, 2016, the Company entered into an amendment to its credit facility to revise the financial covenant levels and related definitions and make certain other changes, including an increase in the interest rate and commitment fee. All other material terms remained the same. The Company also maintains outstanding letters of credit to secure obligations under its workers' compensation program and certain lease obligations. The Company was in compliance with all of its debt covenants as of September 27, 2016.

On November 4, 2016, the Company entered into an amendment to its credit facility to (i) remove the ability to increase the maximum commitment amount under the credit facility, (ii) require quarterly amortization payments of $2.5 million, with corresponding reductions of commitments, beginning in the third fiscal quarter of 2017, (iii) revise the financial covenant levels and related financial definitions (as described below), (iv) reduce certain of the baskets for permitted indebtedness, (v) add restrictions with respect to capital expenditures and the entry into new leases (as described below), (vi) increase the interest rate margin and commitment fees and (vii) make certain other changes. The Consolidated EBITDA definition in the amended credit facility will permit up to $1.5 million of one-time costs associated with the termination of leases associated with the Company's reduction in development and up to $2.7 million of pro forma general and administrative cash cost savings resulting from the headcount reduction completed prior to the end of the third fiscal quarter of 2016 to be added back into the EBITDA calculation. The credit facility amendment will increase the maximum lease-adjusted leverage ratio to 5.50x, and it provides for such ratio to step down to 5.25x in the second fiscal quarter of 2017, 5.00x in the fourth fiscal quarter of 2017 and 4.75x in the second fiscal quarter of 2018. The amendment also reduces the minimum fixed charge coverage level from 1.50x to 1.15x (stepping up to 1.25x in the third fiscal quarter of 2017). Growth capital expenditures (such as expenditures for new restaurants and acquisitions) will be limited under the amended credit facility to $4.0 million in the fourth fiscal quarter of 2016 and to $10.0 million in each fiscal year thereafter, and there will be a test of availability under the line of credit for any borrowings the proceeds of which are to be used for such growth capital expenditures. The amended credit facility also contains a new negative covenant that requires the Company to be in compliance with a 5.00x lease-adjusted leverage ratio or have liquidity of at least $10.0 million to enter into leases for new restaurants. Certain of the revisions to the financial covenants and financial covenant definitions in the credit facility amendment provide the Company with more flexibility; however, certain other terms of the amended credit facility, and specifically the

added restrictions with respect to capital expenditures and the entry into new leases, may restrict the Company's activities, particularly development of new restaurants.

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4. Fair Value Measurements

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and all other current liabilities approximate their fair values due to their short-term nature. The carrying amounts of borrowings under the credit facility approximate fair value as the line of credit and term borrowings vary with market interest rates and negotiated terms and conditions are consistent with current market rates. The fair value of the Company's line of credit borrowings is measured using Level 2 inputs.

Adjustments to the fair value of non-financial assets measured at fair value on a non-recurring basis as of September 27, 2016 and September 29, 2015 are discussed in Note 7, Restaurant Impairments, Closure Costs and Asset Disposals.

5. Income Taxes

The following table presents the Company's provision (benefit) for income taxes (in thousands):

	Fiscal Quarter Ended		Three Fiscal Quarters Ended	
	September 27, 2016	September 29, 2015	September 27, 2016	September 29, 2015
Provision (benefit) for income taxes	$41	$(5,872)	$1,124	$(5,911)
Effective tax rate	(0.4)%	37.4 %	(4.5)%	38.3 %

During the first three quarters of 2016, the Company recorded a valuation allowance of $0.9 million against U.S. and Canadian deferred tax assets and recognized a provision for income taxes for discrete and certain other items. This resulted in the Company recording a net provision for income taxes of $1.1 million during the first three quarters of 2016.

The Company will maintain the valuation allowance against deferred tax assets until there is sufficient evidence to support a full or partial reversal. The reversal of a previously recorded valuation allowance will generally result in a benefit to the effective tax rate. The effective tax rate for the third quarter of 2016 and the first three quarters of 2016 reflects the impact of a valuation allowance on deferred tax assets. For the remainder of fiscal 2016, the Company does not anticipate material income tax expense or benefit as a result of the valuation allowance recorded.

6. Stock-Based Compensation

The Company's Stock Incentive Plan, as amended and restated in May of 2013, authorizes the grant of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units ("RSUs") and incentive bonuses to employees, officers, nonemployee directors and other service providers. The number of shares of common stock available for issuance pursuant to awards granted under the Stock Incentive Plan on or after the IPO shall not exceed 3,750,500 shares.

The following table shows total stock-based compensation expense (in thousands):

	Fiscal Quarter Ended		Three Fiscal Quarters Ended	
	September 27, 2016	September 29, 2015	September 27, 2016	September 29, 2015
Stock-based compensation expense	$1,172	$ 455	$2,021	$ 1,155
Capitalized stock-based compensation expense	$47	$ 56	$171	$ 156

Included in stock-based compensation expense in the third quarter of 2016 and in the first three quarters of 2016 is a $0.7 million charge for modifying the outstanding stock options for Kevin Reddy, who resigned from his position as the Chairman of the Board and from his position as the Company's Chief Executive Officer in July 2016. In connection with Mr. Reddy's termination from the Company, the Company extended the exercise period of Mr. Reddy's vested options and as a result he has the right to exercise his vested options to purchase the Company's Class A common stock through October 23, 2017.

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7. Restaurant Impairments, Closure Costs and Asset Disposals

The following table presents restaurant impairments, closure costs and asset disposals (in thousands):

	Fiscal Quarter Ended		Three Fiscal Quarters Ended	
	September 27, 2016	September 29, 2015	September 27, 2016	September 29, 2015
Restaurant impairments [1]	$79	$16,213	$10,620	$22,157
Closure costs [1] [2]	642	16	1,729	52
Loss on disposal of assets and other [2]	1,562	250	2,198	606
	$2,283	$16,479	$14,547	$22,815

(1) Restaurant impairments and closure costs in all periods presented above include expenditures related to restaurants previously impaired or closed.

(2) The Company revised its classification of certain prior year closure costs and loss on disposal of assets and other expenses to conform with the current year presentation. Included in loss on disposal of assets and other for both the third quarter and first three quarters of 2016 is a $1.1 million charge to reduce capitalized labor and overhead as a result of the reduced growth for new restaurant development. Additionally the third quarter of 2016 and the first three quarters of 2016 include a $0.4 million gain from insurance proceeds received for property damage in excess of the loss recognized.

During the first three quarters of 2016, 12 restaurants were identified as impaired compared to 33 restaurants during the first three quarters of 2015, primarily related to management’s current assessment of the expected future cash flows of various restaurants based on recent results. Impairment expense is a Level 3 fair value measure and was determined by comparing the carrying value of restaurant assets to the estimated fair market value of the restaurant assets at resale value. The closure costs of $0.6 million recognized during the third quarter of 2016 and $1.7 million recognized during the first three quarters of 2016 are related to the ongoing costs of restaurants closed in the fourth quarter of 2015. These expenses are included in the “Restaurant impairments, closure costs and asset disposals” line in the Condensed Consolidated Statements of Operations.

8. Earnings (Loss) Per Share

Basic earnings per share (“EPS”) is calculated by dividing net income (loss) available to common shareholders by the weighted-average number of shares of common stock outstanding during each period. Diluted EPS is calculated using net income (loss) available to common stockholders divided by diluted weighted-average shares of common stock outstanding during each period. Potentially dilutive securities include shares of common stock underlying stock options and restricted common stock. Diluted EPS considers the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of the potential common shares would have an anti-dilutive effect.

The following table sets forth the computations of basic and diluted EPS (in thousands, except share and per share data):

	Fiscal Quarter Ended		Three Fiscal Quarters Ended	
	September 27, 2016	September 29, 2015	September 27, 2016	September 29, 2015
Net loss	$(9,841)	$(9,821)	$(26,301)	$(9,511)
Shares:				
Basic weighted average shares outstanding	27,802,020	28,253,859	27,786,827	29,349,061
Effect of dilutive securities	—	—	—	—
Diluted weighted average shares outstanding	27,802,020	28,253,859	27,786,827	29,349,061
Loss per share:				
Basic loss per share	$(0.35)	$(0.35)	$(0.95)	$(0.32)
Diluted loss per share	$(0.35)	$(0.35)	$(0.95)	$(0.32)

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The Company computes the effect of dilutive securities using the treasury stock method and average market prices during the period. Potential common shares are excluded from the computation of diluted earnings (loss) per share when the effect would be anti-dilutive. All potential common shares are anti-dilutive in periods of net loss. The number of shares issuable on the exercise of share based awards excluded from the calculation of diluted loss per share because the effect of their inclusion would have been anti-dilutive totaled 2,813,079 and 2,837,962 for the third quarters of 2016 and 2015, respectively, and totaled 1,494,700 and 2,837,962 for first three quarters of 2016 and 2015, respectively.

9. Supplemental Disclosures to Condensed Consolidated Statements of Cash Flows

The following table presents the supplemental disclosures to the Condensed Consolidated Statements of Cash Flows for the three quarters ended September 27, 2016 and September 29, 2015 (in thousands):

	September 27, 2016	September 29, 2015
Interest paid (net of amounts capitalized)	$ 1,983	$ 445
Income taxes (refunded) paid	(121)	379
Changes in purchases of property and equipment accrued in accounts payable, net	(2,014)	(115)

10. Commitments and Contingencies

Severance Costs

During the third quarter of 2016, the Company recorded a charge for severance expenses of $2.5 million. The charge was recorded in general and administrative expenses in the Company’s unaudited condensed consolidated statements of operations. The severance expenses primarily relate to the termination benefits for Kevin Reddy, who resigned from his position as the Chairman of the Board and from his position as the Company’s Chief Executive Officer in July 2016. Under the release agreement executed with Mr. Reddy, he is entitled to certain severance payments, including payments totaling one and one-half times his current base salary and COBRA premiums for eighteen months. The severance payments of $1.3 million owed to Mr. Reddy and one other former employee subsequent to September 27, 2016 are recorded in accrued expenses and other current liabilities in the Company’s unaudited condensed consolidated balance sheets.

Data Security Incident

Overview

On June 28, 2016, the Company announced that a data security incident compromised the security of the payment information of some customers who used debit or credit cards at certain Noodles & Company locations between January 31, 2016 and June 2, 2016. Credit and debit cards used at the affected locations are no longer at risk from the malware involved in this incident, and the Company has been implementing additional security procedures to further secure customers’ debit and credit card information.

Processor Assessments

The Company expects payment card companies to issue assessments to the Company’s credit card processor for card replacement and card issuer losses alleged to be associated with the data security incident. The credit card processor, in turn, will likely seek indemnification from the Company for these amounts, as provided for under the agreement between the Company and the credit card processor. At present, the Company cannot reasonably estimate the range of potential losses that will be associated with the payment card companies’ expected claims for non-ordinary course operating expenses and alleged card issuer losses and/or card replacement costs, although some amount of losses are probable in the Company’s judgment. This range is not reasonably estimable because the Company has not yet

received third-party card issuer loss reporting from the payment card networks, the investigation into the matter is ongoing and there are significant factual and legal issues to be resolved. Although the Company maintains data security liability insurance, it currently believes that it is possible that the ultimate amount paid by the Company with respect to this matter will be in excess of the limits of the data security liability insurance coverage applicable to claims of this nature. It is possible that losses associated with the data privacy incident, including losses associated with these assessments, could have a material impact on the Company's results of operations in future periods. The Company will continue to evaluate information as it becomes known and will record an estimate for losses at the time or times when it is probable that a loss will be incurred and the minimum amount of the loss is reasonably estimable.

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Data Security Litigation

In addition to claims by payment card companies with respect to the data security incident, Selco Community Credit Union filed a purported class action lawsuit against the Company in the United States District Court for the District of Colorado on September 6, 2016 alleging that the Company negligently failed to provide adequate security to protect the personal and financial information of customers of Selco and other similarly situated credit unions, banks and other financial institutions alleged to be part of the putative class (the "Selco Litigation"). The complaint in the Selco Litigation also claims the Company violated Section 5 of the Federal Trade Commission Act, which prohibits unfair practices in or affecting commerce, and it seeks monetary damages, injunctive relief and attorneys' fees.

Midwest America Federal Credit Union and Veridian Credit Union also filed a purported class action lawsuit against the Company in the United States District Court for the District of Colorado on October 6, 2016 on behalf of itself and similarly situated credit unions, banks and other financial institutions containing the same allegations and seeking the same remedies as the Complaint in the Selco Litigation (the "Midwest America Litigation").

Kemba Financial Credit Union also filed a purported class action lawsuit against the Company in the United States District Court for the District of Colorado on October 24, 2016 on behalf of itself and similarly situated credit unions, banks and other financial institutions containing the same allegations and seeking the same remedies as the complaints in the Selco Litigation and the Midwest America Litigation (the "Kemba Financial Litigation").

The Company intends to seek to consolidate the Selco Litigation, the Midwest America Litigation and the Kemba Financial Litigation, and it intends to vigorously defend these actions. The Company cannot reasonably estimate the range of potential losses that will be associated with these actions because each is at an early stage. Although the Company maintains data security liability insurance, it currently believes that it is possible that the ultimate amount paid by the Company with respect to this matter will be in excess of the limits of the Company's data security liability insurance coverage applicable to claims of this nature. It is possible that losses associated with the data privacy incident, including losses associated with these actions, could have a material impact on the Company's results of operations in future periods. The Company will continue to evaluate information as it becomes known and will record an estimate for losses at the time or times when it is probable that a loss will be incurred and the amount of the loss is reasonably estimable.

Fees and Costs

The Company has incurred fees and costs associated with this data security incident, including legal fees, investigative fees, other professional fees and costs of communications with customers, all of which to date have been paid or reimbursed by its data security liability insurer. The Company expects to continue to incur significant fees and costs associated with the data security incident in future periods. Fees and costs related to the data security incident may also include other liabilities to payment card networks, liabilities from future litigation, governmental investigations and enforcement proceedings and capital investments for remediation activities, among others. The aggregate amount of such fees and costs cannot be reasonably estimated by the Company at present, but these fees and costs may be in excess of the limit that the data security liability insurer will pay or reimburse, in which case the Company will bear these fees and costs. It is possible that losses associated with the data privacy incident, including such fees and costs, could have a material impact on the Company's results of operations in future periods.

Insurance Coverage

As discussed above, to limit its exposure to losses arising from matters such as the data security incident, the Company maintained at the time of the incident and continues to maintain data privacy liability insurance coverage. This coverage, and certain other customary business insurance coverage, has reduced the Company's exposure related to the data security incident. The Company will pursue the maximum recoveries available under these policies.

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Labor Law Matter

As the Company reported in its Quarterly Reports on Form 10-Q for the quarters ended March 29, 2016 and June 28, 2016, Carrie Castillo, Anastassia Letourneau and Jacquelyn Myhre, former employees of the Company, filed a purported collective and class action lawsuit against the Company on March 10, 2016 alleging violations of the Fair Labor Standards Act and Illinois and Minnesota wage laws (the “Labor Laws”) in the United States District Court for the Northern District of Illinois. The plaintiffs filed the case on their behalf and on behalf of all assistant general managers employed by the Company since January 5, 2013 whom the Company classified as exempt employees, and they allege that the Company violated the Labor Laws by not paying overtime compensation to its assistant general managers. The plaintiffs were seeking, on behalf of themselves and members of the putative class, unpaid overtime compensation, liquidated damages and available penalties under applicable state laws, a declaratory judgment, an injunction and attorneys’ fees and costs. In the third quarter of 2016, the Company and the plaintiffs in the litigation agreed in principle to settle the litigation. To cover the estimated costs of the settlement, including estimated payments to any opt-in members and class attorneys, as well as related settlement administration costs, the Company recorded a charge of $3.0 million in the third quarter of 2016. The charge was recorded in general and administrative expenses in the Company’s unaudited condensed consolidated statements of operations and in accrued expenses and other current liabilities in the Company’s unaudited condensed consolidated balance sheets. The settlement is subject to approval of the United States District Court for the Northern District of Illinois.

Other Matters

In the normal course of business, the Company is subject to other proceedings, lawsuits and claims. Such matters are subject to many uncertainties, and outcomes are not predictable. Consequently, the Company is unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters as of September 27, 2016. These matters could affect the operating results of any one financial reporting period when resolved in future periods. The Company believes that an unfavorable outcome with respect to these matters is remote or if an unfavorable result occurs, the potential range of loss is not material to its consolidated financial statements. Significant increases in the number of these claims, or one or more successful claims that result in greater liabilities than the Company currently anticipates, could materially and adversely affect its business, financial condition, results of operations or cash flows.

11. Share Repurchases

On June 4, 2015, the Company announced a share repurchase program of up to $35.0 million of the Company’s Class A common stock. Under this program, the Company was able to purchase shares of the Company’s Class A common stock in the open market (including in pre-arranged stock trading plans in accordance with the guidelines specified in Rule 10b5-1 under the Securities Exchange Act of 1934, as amended) or in privately negotiated transactions. During the three quarters ended September 29, 2015, the Company repurchased 2,423,871 shares of its common stock for approximately $35.0 million in open market transactions, thereby completing the repurchase program. Repurchased shares are held as treasury shares and may be used for the issuance of shares under the Company’s Stock Incentive Plan.

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NOODLES & COMPANY
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Noodles & Company is a Delaware corporation that was organized in 2002. Noodles & Company and its subsidiaries are sometimes referred to as "we," "us," "our" and the "Company" in this report. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes in Item 1 and with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for our fiscal year ended December 29, 2015. We operate on a 52- or 53-week fiscal year ending on the Tuesday closest to December 31. Our fiscal quarters each contain 13 operating weeks, with the exception of the fourth quarter of a 53-week fiscal year, which contains 14 operating weeks. Fiscal year 2016 contains 53 weeks and fiscal year 2015 contained 52 weeks.

Cautionary Note Regarding Forward-Looking Statements

In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks and uncertainties such as the number of restaurants we intend to open, projected capital expenditures and estimates of our effective tax rates. In some cases, you can identify forward-looking statements by terms such as "may," "might," "will," "objective," "intend," "should," "could," "can," "would," "expect," "believe," "design," "estima or the negative of these terms and similar expressions intended to identify forward-looking statements. These statements reflect our current views with respect to future events, are based on assumptions and are subject to risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements due to reasons including, but not limited to, costs associated with our data security incident, including legal fees, investigative fees, other professional fees and the cost of communications with customers, as well as potential losses associated with settling payment card networks' expected claims and litigation associated with the data security breach; our ability to achieve and maintain increases in comparable restaurant sales and to successfully execute our growth strategy; the success of our marketing efforts; our ability to open new restaurants on schedule; current economic conditions; price and availability of commodities; our ability to adequately staff our restaurants; changes in labor costs; consumer confidence and spending patterns; the assumptions used in the adjustment of interest expense and the adjustments for certain incremental legal, accounting, insurance and other compliance costs used to calculate adjusted net income; changes in consumer tastes and the level of acceptance of the Company's restaurant concepts (including consumer acceptance of prices and the success of our catering offerings); consumer reactions to public health issues and perceptions of food safety; seasonal factors; weather; and those discussed in "Special Note Regarding Forward-Looking Statements" and "Risk Factors" as filed in our Annual Report on Form 10-K for our fiscal year ended December 29, 2015.

Key Measures We Use to Evaluate Our Performance

To evaluate the performance of our business, we utilize a variety of financial and performance measures. These key measures include revenue, average unit volumes ("AUVs"), comparable restaurant sales, restaurant contribution, EBITDA and adjusted EBITDA.

Revenue

Restaurant revenue represents sales of food and beverages in company-owned restaurants. Several factors affect our restaurant revenue in any period, including the number of restaurants in operation and per-restaurant sales.

Franchise royalties and fees represent royalty income and initial franchise fees. While we expect that the majority of our revenue and net income growth will be driven by company-owned restaurants, our franchise restaurants remain an important factor impacting our revenue and financial performance.

Seasonal factors cause our revenue to fluctuate from quarter to quarter. Our revenue per restaurant is typically lower in the first and fourth quarters, due to reduced winter and holiday traffic, and is higher in the second and third quarters. As a result of these factors, our quarterly and annual operating results and comparable restaurant sales may fluctuate significantly.

Average Unit Volumes ("AUVs")

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AUVs consist of the average annualized sales of all company-owned restaurants for the trailing 12 periods. AUVs are calculated by dividing restaurant revenue by the number of operating days within each time period and multiplying by 361, which is the number of operating days we have in a typical year. This measurement allows management to assess changes in consumer traffic and per-person-spending patterns at our restaurants.

Comparable Restaurant Sales

Comparable restaurant sales refer to year-over-year sales comparisons for the comparable restaurant base. We define the comparable restaurant base to include restaurants open for at least 18 full periods. This measure highlights performance of existing restaurants, as the impact of new restaurant openings is excluded. Changes in comparable restaurant sales are generated by changes in traffic, which we calculate as the number of entrées sold, or changes in per-person spend, calculated as sales divided by traffic. Per-person spend can be influenced by changes in menu prices and the mix and number of items sold per person.

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

- consumer recognition of our brand and our ability to respond to changing consumer preferences;
- overall economic trends, particularly those related to consumer spending;
- our ability to operate restaurants effectively and efficiently to meet consumer expectations;
- pricing;
- per-person spend and average check amount;
- marketing and promotional efforts;
- weather;
- food safety and foodborne illness concerns;
- local competition;
- trade area dynamics;
- introduction of new and seasonal menu items and limited time offerings; and
- opening new restaurants in the vicinity of existing locations.

Since opening new company-owned and franchise restaurants is a part of our growth strategy and we anticipate new restaurants will be a component of our revenue growth, comparable restaurant sales are only one measure of how we evaluate our performance.

Restaurant Contribution

Restaurant contribution is defined as restaurant revenue less restaurant operating costs which are cost of sales, labor, occupancy and other restaurant operating costs. Fluctuations in restaurant contribution margin can also be attributed to those factors discussed above for the components of restaurant operating costs.

EBITDA and Adjusted EBITDA

We define EBITDA as net income (loss) before interest expense, provision (benefit) for income taxes and depreciation and amortization. We define adjusted EBITDA as net income (loss) before interest expense, provision (benefit) for income taxes, depreciation and amortization, restaurant impairments, closure costs and asset disposals, litigation settlements, severance costs and stock-based compensation.

EBITDA and adjusted EBITDA provide clear pictures of our operating results by eliminating certain non-cash expenses that may vary widely from period to period and are not reflective of the underlying business performance. The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or to be superior to, the financial information prepared and presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Company uses these non-GAAP financial measures for financial and operational decision making and as a means to evaluate period-to-period comparisons. The Company believes that they provide useful information about operating results, enhance the

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overall understanding of past financial performance and future prospects and allow for greater transparency with respect to key metrics used by management in its financial and operational decision making.

Recent Trends, Risks and Uncertainties

We plan to pursue a more moderate unit growth rate, which we anticipate will result in our revenue growing at a slower rate than would be expected if our unit growth rate continued at the historical rate. Our restaurant level margin may also be negatively affected in future periods as AUVs at our restaurants that have been open for less than 18 full periods have been lower than the system average in recent quarters. Like much of the restaurant industry, our labor costs have risen in recent periods and we expect that labor costs will continue to rise in future periods as wage rates and benefit costs increase. Conversely, we expect general and administrative expenses as a percentage of restaurant revenue to decrease as our efforts to reduce corporate overhead costs are realized. Furthermore, we anticipate pre-opening costs to decrease as a result of the more moderate anticipated growth rate. We intend to open a total of approximately 44 new restaurants system-wide, including 38 new company-owned restaurants, by the end of the current fiscal year, and we anticipate opening approximately 10 to 15 new company-owned restaurants in 2017.

Results of Operations

The following table presents a reconciliation of net loss to EBITDA and adjusted EBITDA:

	Fiscal Quarter Ended		Three Fiscal Quarters Ended	
	September 27, 2016	September 29, 2015	September 27, 2016	September 29, 2015
	(in thousands, unaudited)			
Net loss	$(9,841)	$ (9,821)	$(26,301)	$ (9,511)
Depreciation and amortization	7,006	7,117	20,983	20,959
Interest expense, net	738	391	1,964	818
Provision (benefit) for income taxes	41	(5,872)	1,124	(5,911)
EBITDA	$(2,056)	$ (8,185)	$(2,230)	$ 6,355
Restaurant impairments, closure costs and asset disposals [1]	2,283	16,479	14,547	22,815
Litigation settlement [2]	3,000	—	3,000	—
Severance costs [3]	1,740	—	1,740	—
Stock-based compensation expense [4]	1,219	411	2,192	1,036
Adjusted EBITDA	$6,186	$ 8,705	$19,249	$ 30,206

(1) The first three quarters of 2016 include the impairment of 12 restaurants and the ongoing closure costs of restaurants closed in the fourth quarter of 2015. The first three quarters of 2015 include the impairment of 33 restaurants. See Note 7, Restaurant Impairments, Closure Costs and Asset Disposals.

(2) The third quarter of 2016 included a charge of $3.0 million recorded to cover estimated costs of an employment-related litigation settlement.

(3) The third quarter of 2016 included severance costs from a reduction in headcount as a result of reducing new restaurant development.

(4) Included in stock-based compensation expense in the third quarter of 2016 and in the first three quarters of 2016 is a $0.7 million charge for modifying the outstanding stock options for Kevin Reddy, who resigned from his position as the Chairman of the Board and from his position as the Company's Chief Executive Officer in July 2016.

Restaurant Openings, Closures and Relocations

The following table shows restaurants opened, closed or relocated during the periods indicated:

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	Fiscal Quarter Ended		Three Fiscal Quarters Ended	
	September 27, 2016	September 29, 2015	September 27, 2016	September 29, 2015
Company-Owned Restaurant Activity				
Beginning of period	443	411	422	386
Openings	12	13	34	37
Acquisitions [(1)]	—	—	—	1
Closures	—	—	(1)	—
Restaurants at end of period	455	424	455	424
Franchise Restaurant Activity				
Beginning of period	71	61	70	53
Openings	2	3	4	12
Divestitures [(1)]	—	—	—	(1)
Closures	—	—	(1)	—
Restaurants at end of period	73	64	73	64
Total restaurants	528	488	528	488

(1) Represents franchise restaurants acquired/divested by the Company.

The following table summarizes key components of our results of operations for the periods indicated as a percentage of our total revenue, except for the components of restaurant operating costs, which are expressed as a percentage of restaurant revenue.

	Fiscal Quarter Ended		Three Fiscal Quarters Ended	
	September 27, 2016	September 29, 2015	September 27, 2016	September 29, 2015
Revenue:				
Restaurant revenue	99.0 %	99.0 %	99.0 %	98.9 %
Franchising royalties and fees	1.0 %	1.0 %	1.0 %	1.1 %
Total revenue	100.0 %	100.0 %	100.0 %	100.0 %
Costs and expenses:				
Restaurant operating costs (exclusive of depreciation and amortization shown separately below): [(1)]				
Cost of sales	27.3 %	26.6 %	26.9 %	26.5 %
Labor	33.7 %	32.4 %	33.2 %	31.6 %
Occupancy	11.4 %	11.1 %	11.5 %	11.2 %
Other restaurant operating costs	15.2 %	14.6 %	15.2 %	14.0 %
General and administrative	12.4 %	8.0 %	9.8 %	8.0 %
Depreciation and amortization	5.7 %	6.1 %	5.9 %	6.2 %
Pre-opening	0.7 %	0.9 %	0.8 %	0.9 %
Restaurant impairments, closure costs and asset disposals	1.9 %	14.0 %	4.1 %	6.7 %
Total costs and expenses	107.4 %	113.1 %	106.5 %	104.3 %
Loss from operations	(7.4)%	(13.1)%	(6.5)%	(4.3)%
Interest expense, net	0.6 %	0.3 %	0.5 %	0.2 %
Loss before income taxes	(8.0)%	(13.4)%	(7.0)%	(4.5)%
Provision (benefit) for income taxes	— %	(5.0)%	0.3 %	(1.7)%
Net loss	(8.0)%	(8.4)%	(7.3)%	(2.8)%

(1) As a percentage of restaurant revenue.

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Third Quarter Ended September 27, 2016 Compared to Third Quarter Ended September 29, 2015

The table below presents our unaudited operating results for the third quarters of 2016 and 2015, and the related quarter-over-quarter changes.

	Fiscal Quarter Ended		Increase / (Decrease)	
	September 27, 2016	September 29, 2015	$	%
	(in thousands)			
Revenue:				
Restaurant revenue	$121,442	$116,151	$5,291	4.6 %
Franchising royalties and fees	1,239	1,177	62	5.3 %
Total revenue	122,681	117,328	5,353	4.6 %
Costs and expenses:				
Restaurant operating costs (exclusive of depreciation and amortization shown separately below):				
Cost of sales	33,112	30,941	2,171	7.0 %
Labor	40,973	37,687	3,286	8.7 %
Occupancy	13,792	12,911	881	6.8 %
Other restaurant operating costs	18,470	17,003	1,467	8.6 %
General and administrative	15,251	9,384	5,867	62.5 %
Depreciation and amortization	7,006	7,117	(111)	(1.6)%
Pre-opening	856	1,108	(252)	(22.7)%
Restaurant impairments, asset disposals and closure costs	2,283	16,479	(14,196)	(86.1)%
Total costs and expenses	131,743	132,630	(887)	(0.7)%
Loss from operations	(9,062)	(15,302)	6,240	40.8 %
Interest expense, net	738	391	347	88.7 %
Loss before income taxes	(9,800)	(15,693)	5,893	37.6 %
Provision (benefit) for income taxes	41	(5,872)	5,913	*
Net loss	$(9,841)	$(9,821)	$(20)	(0.2)%
Company-owned:				
Average unit volumes	$1,087	$1,111	$(24)	(2.2)%
Comparable restaurant sales	(0.9)%	(0.7)%		

* Not meaningful.

Revenue

Total revenue increased $5.4 million in the third quarter of 2016, or 4.6%, to $122.7 million, compared to $117.3 million in the third quarter of 2015. This increase was the result of new restaurants opened system-wide since the beginning of the third quarter of 2015, partially offset by the closure of 16 company-owned restaurants in the fourth quarter of 2015 and a decline in comparable restaurant sales. Additionally, AUVs decreased $24,000 due primarily to lower AUVs at our restaurants that have been open for less than 18 full periods compared to our system-wide average. Comparable restaurant sales decreased by 0.9% at company-owned restaurants, increased by 0.6% at franchise-owned restaurants and decreased by 0.7% system-wide in the third quarter of 2016.

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Cost of Sales

Cost of sales increased by $2.2 million, or 7.0%, in the third quarter of 2016 compared to the same period of 2015, due primarily to the increase in restaurant revenue in the third quarter of 2016. As a percentage of restaurant revenue, cost of sales increased to 27.3% in the third quarter of 2016 from 26.6% in third quarter of 2015. The increase as a percentage of restaurant revenue was primarily the result of modest commodity inflation and the introduction of naturally raised steak to our menu in late July 2016.

Labor Costs

Labor costs increased by $3.3 million, or 8.7%, in the third quarter of 2016 compared to the same period of 2015, due primarily to the increase in restaurant revenue in the third quarter of 2016. As a percentage of restaurant revenue, labor costs increased to 33.7% in the third quarter of 2016 from 32.4% in the third quarter of 2015. The increase as a percentage of restaurant revenue was due to increases in wage rates and benefit costs, deleverage on lower AUVs and incremental costs associated with our bi-annual restaurant manager conference.

Occupancy Costs

Occupancy costs increased by $0.9 million, or 6.8%, in the third quarter of 2016 compared to the third quarter of 2015, due primarily to 31 net restaurant openings. As a percentage of revenue, occupancy costs increased to 11.4% in the third quarter of 2016, compared to 11.1% in the third quarter of 2015. The increase was due primarily to deleverage on lower AUVs.

Other Restaurant Operating Costs

Other restaurant operating costs increased by $1.5 million, or 8.6%, in the third quarter of 2016 compared to the third quarter of 2015, due primarily to increased restaurant revenue in the third quarter of 2016. As a percentage of restaurant revenue, other restaurant operating costs increased to 15.2% in the third quarter of 2016 from 14.6% in the third quarter of 2015. The increase as a percentage of restaurant revenue was primarily due to deleverage on lower AUVs and additional maintenance costs.

General and Administrative Expense

General and administrative expense increased by $5.9 million, or 62.5%, in the third quarter of 2016 compared to the third quarter of 2015, primarily attributable to a $2.5 million charge for severance expenses and a $3.0 million charge for a litigation settlement related to the Labor Law Matter described under Part II, Item 1 of this report. As a percentage of revenue, general and administrative expense increased to 12.4% in the third quarter of 2016 from 8.0% in the third quarter of 2015.

Depreciation and Amortization

Depreciation and amortization decreased by $0.1 million, or 1.6%, in the third quarter of 2016 compared to the third quarter of 2015. As a percentage of revenue, depreciation and amortization decreased to 5.7% in the third quarter of 2016 from 6.1% in the third quarter of 2015, due primarily to restaurants impaired or closed in prior quarters.

Pre-Opening Costs

Pre-opening costs decreased by $0.3 million, or 22.7%, in the third quarter of 2016 compared to the third quarter of 2015. As a percentage of revenue, pre-opening costs decreased to 0.7% in the third quarter of 2016 from 0.9% in the third quarter of 2015. The decrease in pre-opening costs was due to fewer restaurants under construction compared to the comparable period in the prior year.

Restaurant Impairments, Closure Costs and Asset Disposals

Restaurant impairments, closure costs and asset disposals decreased by $14.2 million, or 86.1%, in the third quarter of 2016 compared to the third quarter of 2015, due primarily to the impairment of 25 restaurants in the third quarter of 2015, partially offset by ongoing closure costs recognized in the third quarter of 2016 associated with the restaurants closed in the fourth quarter of 2015 and a $1.1 million charge to reduce capitalized labor and overhead as a result of the reduced growth for new restaurant development. Additionally, the third quarter of 2016 includes a $0.4 million gain from insurance proceeds received for property damage in excess of the loss recognized.

Each quarter we evaluate possible impairment of fixed assets at the restaurant level and record an impairment loss whenever we determine that the fair value of these assets is less than their carrying value. There can be no assurance that such evaluations will not result in additional impairment costs in future periods.

Interest Expense

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Interest expense increased by $0.3 million, or 88.7%, in the third quarter of 2016 compared to the third quarter of 2015. The increase was the result of higher average borrowings and an increase in the interest rate on our credit facility in the third quarter of 2016 compared to the third quarter of 2015.

Provision (Benefit) for Income Taxes

In the third quarter of 2016, we had a provision for income taxes compared to a benefit from income taxes of $5.9 million in the third quarter of 2015. The benefit from income tax in the third quarter of 2015 is primarily based on the annual tax rate adjusted for non-deductible expenses and discrete items. As of September 27, 2016, we continued to maintain a full valuation allowance on our U.S. and Canadian deferred tax assets due to uncertainty regarding the realizability of future tax benefits. As a result, the effective tax rate decreased to (0.4)% for the third quarter of 2016 compared to 37.4% for the third quarter of 2015. For the remainder of fiscal 2016 we do not anticipate material income tax expense or benefit as a result of the valuation allowance recorded.

Three Quarters Ended September 27, 2016 compared to Three Quarters Ended September 29, 2015

The table below presents our unaudited operating results for the first three quarters of 2016 and 2015, and the related period-over-period changes.

	Three Fiscal Quarters Ended		Increase / (Decrease)	
	September 27, 2016	September 29, 2015	$	%
	(in thousands)			
Revenue:				
Restaurant revenue	$354,511	$334,767	$19,744	5.9 %
Franchising royalties and fees	3,563	3,555	8	0.2 %
Total revenue	358,074	338,322	19,752	5.8 %
Costs and expenses:				
Restaurant operating costs (exclusive of depreciation and amortization shown separately below):				
Cost of sales	95,465	88,616	6,849	7.7 %
Labor	117,723	105,865	11,858	11.2 %
Occupancy	40,794	37,609	3,185	8.5 %
Other restaurant operating costs	53,958	46,878	7,080	15.1 %
General and administrative	35,128	27,034	8,094	29.9 %
Depreciation and amortization	20,983	20,959	24	0.1 %
Pre-opening	2,689	3,150	(461)	(14.6)%
Restaurant impairments, asset disposals and closure costs	14,547	22,815	(8,268)	(36.2)%
Total costs and expenses	381,287	352,926	28,361	8.0 %
Loss from operations	(23,213)	(14,604)	(8,609)	(58.9)%
Interest expense, net	1,964	818	1,146	*
Loss before income taxes	(25,177)	(15,422)	(9,755)	(63.3)%
Provision (benefit) for income taxes	1,124	(5,911)	7,035	*
Net loss	$(26,301)	$(9,511)	$(16,790)	*
Company-owned:				
Average unit volumes	$1,087	$1,111	$(24)	(2.2)%
Comparable restaurant sales	(0.6)%	(0.6)%		

* Not meaningful.

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Revenue

Total revenue increased by $19.8 million, or 5.8%, in the first three quarters of 2016 to $358.1 million, compared to $338.3 million the same period of 2015. This increase was the result of new restaurants opened system-wide since the beginning of the first quarter of 2015, partially offset by the closure of 16 company-owned restaurants in the fourth quarter of 2015 and a decline in comparable restaurant sales. Additionally, AUVs overall decreased $24,000 due primarily to lower AUVs at our restaurants that have been open for less than 18 full periods compared to our system-wide average.

Comparable restaurant sales decreased by 0.6% at company-owned restaurants, 0.6% at franchise-owned restaurants and 0.6% system-wide during the first three quarters of 2016 compared to the same period of 2015.

Cost of Sales

Cost of sales increased by $6.8 million, or 7.7%, in the first three quarters of 2016 compared to the same period of 2015, due primarily to the increase in restaurant revenue in the first three quarters of 2016. As a percentage of restaurant revenue, cost of sales increased to 26.9% in the first three quarters of 2016 from 26.5% in the first three quarters of 2015. The increase was primarily the result of modest commodity inflation.

Labor Costs

Labor costs increased by $11.9 million, or 11.2%, in the first three quarters of 2016 compared to the same period of 2015, due primarily to the increase in restaurant revenue in the first three quarters of 2016. As a percentage of restaurant revenue, labor costs increased to 33.2% in the first three quarters of 2016 from 31.6% in the first three quarters of 2015 as a result of an increase in wage rates and benefit costs, as well as deleverage on lower AUVs.

Occupancy Costs

Occupancy costs increased by $3.2 million, or 8.5%, in the first three quarters of 2016 compared to the first three quarters of 2015, due primarily to 31 net restaurant openings. As a percentage of revenue, occupancy costs increased to 11.5% in first three quarters of 2016, compared to 11.2% in the first three quarters of 2015. The increase was due primarily to deleverage on lower AUVs.

Other Restaurant Operating Costs

Other restaurant operating costs increased by $7.1 million, or 15.1%, in the first three quarters of 2016 compared to the first three quarters of 2015, primarily due to increased restaurant revenue in the first three quarters of 2016. As a percentage of restaurant revenue, other restaurant operating costs increased to 15.2% in the first three quarters of 2016, compared to 14.0% in the first three quarters of 2015. The increase as a percentage of restaurant revenue was due to increased marketing initiatives, deleverage on lower AUVs and additional maintenance costs.

General and Administrative Expense

General and administrative expense increased by $8.1 million, or 29.9%, in the first three quarters of 2016 compared to the first three quarters of 2015, due primarily to a $2.5 million charge for severance expenses, a $3.0 million charge for a litigation settlement related to the Labor Law Matter described under Part II, Item 1 of this report, and an increase in wages and benefits, including support for additional restaurants. As a percentage of revenue, general and administrative expense increased to 9.8% in the first three quarters of 2016 compared to 8.0% in first three quarters of 2015.

Depreciation and Amortization

Depreciation and amortization remained relatively flat in the first three quarters of 2016 compared to the first three quarters of 2015. As a percentage of revenue, depreciation and amortization decreased to 5.9% in the first three quarters of 2016, compared to 6.2% in the first three quarters of 2015, due primarily to restaurants impaired or closed in previous quarters.

Pre-Opening Costs

Pre-opening costs decreased by $0.5 million, or 14.6%, in the first three quarters of 2016 compared to the first three quarters of 2015. As a percentage of revenue, pre-opening costs decreased slightly to 0.8% in the first three quarters of 2016 compared to 0.9% in the first three quarters of 2015.

Restaurant Impairments, Closure Costs and Asset Disposals

Restaurant impairments, closure costs and asset disposals decreased by $8.3 million, or 36.2%, in the first three quarters of 2016 compared to the first three quarters of 2015, due primarily to the impairment of twelve restaurants in

the first three quarters of 2016 as a result of our current assessment of expected future cash flows, compared to the impairment of 33 restaurants in the

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first three quarters of 2015. The performance at these restaurants, compounded by the higher than average construction costs of some of these restaurants, resulted in us recording an impairment of the fixed assets during the first three quarters of 2016 and 2015. This decrease was partially offset by ongoing closure costs recognized in the first three quarters of 2016 associated with the restaurants closed in the fourth quarter of 2015 and $1.1 million charge to reduce capitalized labor and overhead as a result of the reduced growth for new restaurant development. Additionally, the first three quarters of 2016 include a $0.4 million gain from insurance proceeds received for property damage in excess of the loss recognized.

Interest Expense

Interest expense increased by $1.1 million in the first three quarters of 2016 compared to the same period of 2015. The increase was the result of higher average borrowings and an increase in the interest rate on our credit facility in the first three quarters of 2016 compared to the first three quarters of 2015.

Provision (Benefit) for Income Taxes

In the first three quarters of 2016, we had a provision for income taxes of $1.1 million compared to a benefit from income taxes in the first three quarters of 2015 of $5.9 million. The provision for income taxes reported in the first three quarters of 2016 is primarily related to a valuation allowance on deferred tax assets, whereas the benefit from income taxes reported in the first three quarters of 2015 was based on the annual tax rate adjusted for non-deductible expenses. During the first three quarters of 2016, we recorded a valuation allowance of $0.9 million against U.S. and Canadian deferred tax assets and recognized a provision for income taxes for discrete and certain other items. As a result, the effective tax rate decreased to (4.5)% for the first three quarters of 2016 compared to 38.3% for the three quarters 2015. For the remainder of fiscal 2016 we do not anticipate material income tax expense or benefit as a result of the valuation allowance recorded.

Liquidity and Capital Resources

Summary of Cash Flows

Our primary sources of liquidity and cash flows are operating cash flows and borrowings on our revolving line of credit. We use these cash sources to fund capital expenditures for new restaurant openings, to reinvest in our existing restaurants, to invest in infrastructure and information technology and to maintain working capital. Our working capital position benefits from the fact that we generally collect cash from sales to customers on the same day, or in the case of credit or debit card transactions, within several days of the related sale, and we typically have at least 30 days to pay our vendors. We believe that expected cash flows from operations and planned borrowing capacity are adequate to fund debt service requirements, operating lease obligations, capital expenditures and working capital obligations for the remainder of fiscal year 2016.

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

	Three Fiscal Quarters Ended	
	September 27, 2016	**September 29, 2015**
Net cash provided by operating activities	$16,064	$37,886
Net cash used in investing activities	(33,284)	(36,244)
Net cash provided by (used in) financing activities	17,232	(1,440)
Effect of exchange rate changes on cash	42	(92)
Net increase in cash and cash equivalents	$54	$110

Operating Activities

Net cash provided by operating activities was $16.1 million for the first three quarters of 2016, a decrease from $37.9 million for the first three quarters of 2015. The decrease resulted primarily from the higher net loss during the first three quarters of 2016, compared to the first three quarters of 2015, adjusted for non-cash items such as depreciation and amortization, restaurant impairments, closure costs and asset disposals and stock-based compensation expense, as well as changes in certain working capital accounts for recording accruals for severance costs and a litigation settlement during the first three quarters of 2016.

Investing Activities

Net cash flows used in investing activities decreased to $33.3 million for the first three quarters of 2016 from $36.2 million for the first three quarters of 2015, primarily due to the timing of new restaurant construction, partially offset by insurance proceeds

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received for property damage during the first three quarters of 2016 and by the acquisition of a franchise restaurant during the first three quarters of 2015.

Financing Activities

Net cash provided by financing activities was $17.2 million for the first three quarters of 2016, as compared to cash used in financing activities of $1.4 million for the first three quarters of 2015. The increase in net cash provided by financing activities is primarily due to lower operating cash flow generated during the first three quarters of 2016 compared to the same period in 2015, which resulted in the need to increase our borrowings on our revolving line of credit.

Capital Resources

Future Capital Expenditure Requirements. Our capital expenditure requirements are primarily dependent upon the pace of our real estate development program and resulting new restaurants opened. Our real estate development program is dependent upon many factors, including economic conditions, real estate markets, site locations and the nature of lease agreements. Our capital expenditure outlays are also dependent on costs for maintenance and remodeling our existing restaurants as well as information technology expenses and other general corporate capital expenditures.

We estimate capital expenditures for the fourth quarter of 2016 to be in the range of approximately $5.0 million to $8.0 million for a total of $35.0 million to $40.0 million for the fiscal year, of which $26.0 million to $31.0 million relates to our construction of new restaurants before any reductions for landlord reimbursements, and the remainder relates primarily to reinvestment in existing restaurants and investments in technology. We anticipate capital expenditures in 2017 to decline relative to 2016 as we expect to open significantly fewer new restaurants. We expect such capital expenditures to be funded by a combination of cash from operations and borrowings under our revolving credit facility.

Current Resources. Our operations have not required significant working capital and, like many restaurant companies, we operate with negative working capital. Restaurant sales are primarily paid for in cash or by credit or debit card, and restaurant operations do not require significant inventories or receivables. In addition, we receive trade credit for the purchase of food, beverages and supplies, therefore reducing the need for incremental working capital to support growth.

Liquidity. We believe that our current cash and cash equivalents, the expected cash flows from Company-owned restaurant operations, the expected franchise fees and royalties and borrowings under the credit facility will be sufficient to fund our cash requirements for working capital needs and capital improvements and maintenance of existing restaurants for the next twelve months.

Credit Facility

We maintain a $100.0 million revolving line of credit under our credit facility. The revolving line of credit includes a swing line loan of $10.0 million used to fund working capital requirements. The credit facility matures in June 2020. On August 2, 2016, we entered into an amendment to our credit facility to revise the financial covenant levels and related definitions and make certain other changes, including adjusting the interest rate and commitment fee. All other material terms remained the same. We also maintain outstanding letters of credit to secure obligations under our workers' compensation program and certain lease obligations.

As of September 27, 2016, we had $84.5 million of indebtedness and $2.7 million of letters of credit outstanding under our revolving line of credit. Our ability to borrow funds pursuant to the revolving line of credit is further limited by the requirement that we comply with the revolving line of credit's financial covenants upon the measurement dates specified therein. These financial covenants include a maximum lease-adjusted leverage ratio and a minimum consolidated fixed charge coverage ratio. The credit agreement contains other customary covenants, including limitations on additional borrowings, acquisitions, dividend payments and lease commitments.

As of September 27, 2016, we were in compliance with all of our debt covenants. The maximum lease-adjusted leverage ratio applicable at the end of our third quarter was 5.25:1.00 and as of September 27, 2016 our ratio was 5.22:1.00. The minimum consolidated fixed charge coverage ratio at September 27, 2016 was 1.50:1.00 and as of September 27, 2016 our ratio was 1.57:1.00.

On November 4, 2016, we entered into an amendment to our credit facility to (i) remove the ability to increase the maximum commitment amount under the credit facility, (ii) require quarterly amortization payments of $2.5 million, with corresponding reductions of commitments, beginning in the third fiscal quarter of 2017, (iii) revise the financial covenant levels and related financial definitions (as described below) , (iv) reduce certain of the baskets for permitted indebtedness, (v) add restrictions with respect to capital expenditures and the entry into new leases (as described below), (vi) increase the interest rate margin and commitment fees and (vii) make certain other changes. The Consolidated EBITDA definition in the amended credit facility will

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permit up to $1.5 million of one-time costs associated with the termination of leases associated with our reduction in development and up to $2.7 million of pro forma general and administrative cash cost savings resulting from the headcount reduction completed prior to the end of the third fiscal quarter of 2016 to be added back into the EBITDA calculation. The credit facility amendment will increase the maximum lease-adjusted leverage ratio to 5.50x, and it provides for such ratio to step down to 5.25x in the second fiscal quarter of 2017, 5.00x in the fourth fiscal quarter of 2017 and 4.75x in the second fiscal quarter of 2018. The amendment also reduces the minimum fixed charge coverage level from 1.50x to 1.15x (stepping up to 1.25x in the third fiscal quarter of 2017). Growth capital expenditures (such as expenditures for new restaurants and acquisitions) will be limited under the amended credit facility to $4 million in the fourth fiscal quarter of 2016 and to $10 million in each fiscal year thereafter, and there will be a test of availability under the line of credit for any borrowings the proceeds of which are to be used for such growth capital expenditures. The amended credit facility also contains a new negative covenant that requires us to be in compliance with a 5.00x lease-adjusted leverage ratio or have liquidity of at least $10 million to enter into leases for new restaurants. Certain of the revisions to the financial covenants and financial covenant definitions in the credit facility amendment provide us with more flexibility; however, certain other terms of our amended credit facility, and specifically the added restrictions with respect to capital expenditures and the entry into new leases, may restrict our activities, particularly development of new restaurants.

We expect that we will meet all applicable financial covenants in our credit facility, including the maximum lease-adjusted leverage ratio, throughout the fiscal year ending January 3, 2017, giving effect to the amendment of our credit facility on November 4, 2016. However, there can be no assurance we will meet such financial covenants. If such covenants are not met, we would be required to seek a waiver or amendment from the banks participating in the credit facility. There can be no assurance that such waiver or amendment would be granted, which could have a material adverse impact on our liquidity.

Our credit facility is secured by a pledge of stock of substantially all of our subsidiaries and a lien on substantially all of our and our subsidiaries' personal property assets.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements or obligations as of September 27, 2016.

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Critical Accounting Policies and Estimates

Our condensed consolidated financial statements and accompanying notes are prepared in accordance with GAAP. Preparing consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by the application of our accounting policies. Our significant accounting policies are described in our Annual Report on Form 10-K for the year ended December 29, 2015. Critical accounting estimates are those that require application of management's most difficult, subjective or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods. While we apply our judgment based on assumptions believed to be reasonable under the circumstances, actual results could vary from these assumptions. It is possible that materially different amounts would be reported using different assumptions. Our critical accounting estimates are identified and described in our annual consolidated financial statements and the related notes included in our Annual Report on Form 10-K for our fiscal year ended December 29, 2015.

JOBS Act

We qualify as an "emerging growth company" pursuant to the provisions of the Jumpstart our Business Startups ("JOBS") Act. For as long as we are an "emerging growth company," we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies," including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements of holding advisory "say-on-pay" votes on executive compensation and shareholder advisory votes on golden parachute compensation. We could be an "emerging growth company" until the end of our 2018 fiscal year.

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

We are exposed to market risk from changes in interest rates on debt. Our exposure to interest rate fluctuations is limited to our outstanding bank debt, which bears interest at variable rates. As of September 27, 2016, we had $84.5 million of indebtedness under our revolving line of credit. An increase or decrease of 1.0% in the effective interest rate applied on this loan would have resulted in a pre-tax interest expense fluctuation of approximately $0.8 million on an annualized basis.

Commodity Price Risk

We purchase certain products that are affected by commodity prices and are, therefore, subject to price volatility caused by weather, market conditions and other factors which are not considered predictable or within our control. Although these products are subject to changes in commodity prices, certain purchasing contracts or pricing arrangements contain risk management techniques designed to minimize price volatility. The purchasing contracts and pricing arrangements we use may result in unconditional purchase obligations, which are not reflected in our consolidated balance sheets. Typically, we use these types of purchasing techniques to control costs as an alternative to directly managing financial instruments to hedge commodity prices. In many cases, we believe we will be able to address material commodity cost increases by adjusting our menu pricing or changing our product delivery strategy. However, increases in commodity prices, without adjustments to our menu prices, could increase restaurant operating costs as a percentage of company-owned restaurant revenue.

Inflation

The primary inflationary factors affecting our operations are food, labor costs, energy costs and materials used in the construction of new restaurants. Increases in the minimum wage directly affect our labor costs. Many of our leases require us to pay taxes, maintenance, repairs, insurance and utilities, all of which are generally subject to inflationary increases. Finally, the cost of constructing our restaurants is subject to inflationary increases in the costs of labor and material. Over the past five years, inflation has not significantly affected our operating results with the exception of increased wage inflation that affected our results in 2015 and in 2016 to date. We expect wage inflation to continue to affect our results in the near future.

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Item 4. Controls and Procedures

Our management carried out an evaluation, under the supervision and with the participation of our interim chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 27, 2016, pursuant to Rule 13a-15 under the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on that evaluation, our interim chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our interim chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II

Item 1. Legal Proceedings

Data Security Litigation

On June 28, 2016, we announced that a data security incident compromised the security of the payment information of some customers who used debit or credit cards at certain Noodles & Company locations between January 31, 2016 and June 2, 2016. In addition to claims by payment card companies with respect to the data security incident, Selco Community Credit Union filed a purported class action lawsuit against us in the United States District Court for the District of Colorado on September 6, 2016 alleging that we negligently failed to provide adequate security to protect the personal and financial information of customers of Selco and other similarly situated credit unions, banks and other financial institutions alleged to be part of the putative class (the "Selco Litigation"). The complaint in the Selco Litigation also claims that we violated Section 5 of the Federal Trade Commission Act, which prohibits unfair practices in or affecting commerce, and it seeks monetary damages, injunctive relief and attorneys' fees.

Midwest America Federal Credit Union and Veridian Credit Union also filed a purported class action lawsuit against us in the United States District Court for the District of Colorado on October 6, 2016 on behalf of itself and similarly situated credit unions, banks and other financial institutions containing the same allegations and seeking the same remedies as the Complaint in the Selco Litigation (the "Midwest America Litigation").

Kemba Financial Credit Union also filed a purported class action lawsuit against us in the United States District Court for the District of Colorado on October 24, 2016 on behalf of itself and similarly situated credit unions, banks and other financial institutions containing the same allegations and seeking the same remedies as the complaints in the Selco Litigation and the Midwest America Litigation (the "Kemba Financial Litigation").

We intend to seek to consolidate the Selco Litigation, the Midwest America Litigation and the Kemba Financial Litigation, and intend to vigorously defend these actions. We cannot reasonably estimate the range of potential losses that will be associated with these actions because each is at an early stage. Although we maintain data security liability insurance, we currently believe that it is possible that the ultimate amount paid by us with respect to this matter will be in excess of the limits of our data security liability insurance coverage applicable to claims of this nature. It is possible that losses associated with the data privacy incident, including losses associated with these actions, could have a material impact on our results of operations in future periods. We will continue to evaluate information as it becomes known and will record an estimate for losses at the time or times when it is probable that a loss will be incurred and the amount of the loss is reasonably estimable.

Labor Law Matter

As we reported in our Quarterly Reports on Form 10-Q for the quarters ended March 29, 2016 and June 28, 2016, Carrie Castillo, Anastassia Letourneau and Jacquelyn Myhre, former employees of the Company, filed a purported collective and class action lawsuit against us on March 10, 2016 alleging violations of the Fair Labor Standards Act and Illinois and Minnesota wage laws (the "Labor Laws") in the United States District Court for the Northern District of Illinois. The plaintiffs filed the case on their behalf and on behalf of all assistant general managers employed by us since January 5, 2013 whom we classified as exempt employees, and they allege that we violated the Labor Laws by not paying overtime compensation to our assistant general managers. The plaintiffs were seeking, on behalf of themselves and members of the putative class, unpaid overtime compensation, liquidated damages and available penalties under applicable state laws, a declaratory judgment, an injunction and attorneys' fees and costs. In the third quarter of 2016, we and the plaintiffs in the litigation agreed in principle to settle the litigation. To cover the estimated costs of the settlement, including estimated payments to any opt-in members and class attorneys, as well as related

settlement administration costs, we recorded a charge of $3.0 million in the third quarter of 2016. The charge was recorded in general and administrative expenses in our unaudited condensed consolidated statements of operations and in accrued expenses and other current liabilities in our unaudited condensed consolidated balance sheets. The settlement is subject to approval of the United States District Court for the Northern District of Illinois.

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Other Matters

In the normal course of business, we are subject to other proceedings, lawsuits and claims. Such matters are subject to many uncertainties, and outcomes are not predictable. Consequently, we are unable to ascertain the ultimate aggregate amount of monetary liability or financial impact with respect to these matters as of September 27, 2016. These matters could affect the operating results of any one financial reporting period when resolved in future periods. We believe that an unfavorable outcome with respect to these matters is remote or if an unfavorable result occurs, the potential range of loss is not material to its consolidated financial statements. Significant increases in the number of these claims, or one or more successful claims that result in greater liabilities than we currently anticipate, could materially and adversely affect our business, financial condition, results of operations or cash flows.

Item 1A. Risk Factors

A description of the risk factors associated with our business is contained in the "Risk Factors" section of our Annual Report on Form 10-K for our fiscal year ended December 29, 2015. There have been no material changes to our Risk Factors as previously reported.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

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Item 5. Other Information

The information set forth below is included herewith for the purpose of providing disclosure under "Item 1.01 Entry into a Material Definitive Agreement" and "Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant" of a Current Report on Form 8-K.

On November 4, 2016, we entered into an amendment to our credit facility to (i) remove the ability to increase the maximum commitment amount under the credit facility, (ii) require quarterly amortization payments of $2.5 million, with corresponding reductions of commitments, beginning in the third fiscal quarter of 2017, (iii) revise the financial covenant levels and related financial definitions (as described below) , (iv) reduce certain of the baskets for permitted indebtedness, (v) add restrictions with respect to capital expenditures and the entry into new leases (as described below), (vi) increase the interest rate margin and commitment fees and (vii) make certain other changes. The Consolidated EBITDA definition in the amended credit facility will permit up to $1.5 million of one-time costs associated with the termination of leases associated with our reduction in development and up to $2.7 million of pro forma general and administrative cash cost savings resulting from the headcount reduction completed prior to the third fiscal quarter of 2016 to be added back into the EBITDA calculation. The credit facility amendment will increase the maximum lease-adjusted leverage ratio to 5.50x, and it provides for such ratio to step down to 5.25x in the second fiscal quarter of 2017, 5.00x in the fourth fiscal quarter of 2017 and 4.75x in the second fiscal quarter of 2018. The amendment also reduces the minimum fixed charge coverage level from 1.50x to 1.15x (stepping up to 1.25x in the third fiscal quarter of 2017). Growth capital expenditures (such as expenditures for new restaurants and acquisitions) will be limited under the amended credit facility to $4 million in the fourth fiscal quarter of 2016 and to $10 million in each fiscal year thereafter, and there will be a test of availability under the line of credit for any borrowings the proceeds of which are to be used for such growth capital expenditures. The amended credit facility also contains a new negative covenant that requires us to be in compliance with a 5.00x lease-adjusted leverage ratio or have liquidity of at least $10 million to enter into leases for new restaurants. Certain of the revisions to the financial covenants and financial covenant definitions in the credit facility amendment provide us with more flexibility; however, certain other terms of our amended credit facility, and specifically the added restrictions with respect to capital expenditures and the entry into new leases, may restrict our activities, particularly development of new restaurants.

The foregoing description of the Amendment does not purport to be complete and is qualified in its entirety by reference to the full text of the Amendment, which is filed as Exhibit 10.3 to this Quarterly Report on Form 10-Q.

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Item 6. Exhibit Index

Exhibit Number	Description of Exhibit
10.1	Noodles & Company Compensation Plan for Non-Employee Directors Amended and Restated July 25, 2016
10.2	Amendment No. 3 to Amended and Restated Credit Agreement, dated as of August 2, 2016, by and among Noodles & Company, each of the Guarantors signatory thereto, Bank of America, N.A., as administrative agent and the lenders signatory thereto (incorporated herein by reference from Exhibit 10.2 of the Form 10-Q filed with the SEC on August 5, 2016)
10.3	Amendment No. 4 to Amended and Restated Credit Agreement, dated as of November 4, 2016, by and among Noodles & Company, each of the Guarantors signatory thereto, Bank of America, N.A., as administrative agent and the lenders signatory thereto
10.4	Interim Chief Executive Officer Letter Agreement, dated July 25, 2016, between Noodles & Company and Dave Boennighausen (incorporated herein by reference from Exhibit 10.1 of the Form 8-K filed with the SEC on July 26, 2016)
10.5	Indemnification Agreement, dated July 25, 2016, between Noodles & Company and Robert M. Hartnett (incorporated herein by reference from Exhibit 10.2 of the Form 8-K filed with the SEC on July 26, 2016)
10.6	Release Agreement, dated July 25, 2016, between Noodles & Company and Kevin Reddy (incorporated herein by reference from Exhibit 10.3 of the Form 8-K filed with the SEC on July 26, 2016)
10.7	Offer Letter, dated July 25, 2016, between the Company and Robert Hartnett
10.8	Offer Letter, dated July 3, 2016, between the Company and Victor R. Heutz
31.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NOODLES & COMPANY

By: /s/ DAVE BOENNIGHAUSEN
Dave Boennighausen
Interim Chief Executive Officer and Chief Financial Officer

Date November 4, 2016

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