# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

**For the quarterly period ended April 2, 2018**

**OR**

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

**For the transition period from to**

**Commission file number 001-36432**

# Papa Murphy's Holdings, Inc.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware**<br>(State or Other Jurisdiction of Incorporation or Organization) | **27-2349094**<br>(IRS Employer Identification No.) |
| **8000 NE Parkway Drive, Suite 350**<br>**Vancouver, WA**<br>(Address of principal executive offices) | **98662**<br>(Zip Code) |

**(360) 260-7272**
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X]. No [ ].

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X]. No [ ].

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "accelerated filer," "large accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer [ ] | Accelerated filer [X] |
| Non-accelerated filer [ ] | Smaller reporting company [ ] |
| | Emerging growth company [X] |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [X]

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

At May 4, 2018, there were 16,975,461 shares of the Registrant's common stock, $0.01 par value, outstanding.

## TABLE OF CONTENTS

### PART I — FINANCIAL INFORMATION



### PART II — OTHER INFORMATION

Table of Contents

# PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

### Papa Murphy's Holdings, Inc. and Subsidiaries

### Unaudited Condensed Consolidated Statements of Operations

| | Three Months Ended | |
|---|---|---|
| | April 2, 2018 | April 3, 2017 |
| *(In thousands, except share and per share data)* | (unaudited) | (as adjusted) |
| **Revenues** | | |
| Franchise related | $ 16,190 | $ 19,398 |
| Company-owned stores | 18,582 | 20,775 |
| Total revenues | 34,772 | 40,173 |
| | | |
| **Costs and Expenses** | | |
| Store operating costs: | | |
| Cost of food and packaging | 6,126 | 7,215 |
| Compensation and benefits | 5,631 | 6,334 |
| Advertising | 1,252 | 1,712 |
| Occupancy and other store operating costs | 3,103 | 3,701 |
| Selling, general, and administrative | 13,013 | 25,702 |
| Depreciation and amortization | 2,141 | 3,117 |
| Loss on disposal of property and equipment | 2 | 9 |
| Total costs and expenses | 31,268 | 47,790 |
| **Operating Income (Loss)** | 3,504 | (7,617) |
| | | |
| Interest expense, net | 1,292 | 1,227 |
| Other expense, net | 51 | 43 |
| **Income (Loss) Before Income Taxes** | 2,161 | (8,887) |
| | | |
| Provision for (benefit from) income taxes | 581 | (3,680) |
| **Net Income (Loss)** | $ 1,580 | $ (5,207) |
| | | |
| Earnings (loss) per share of common stock | | |
| Basic | $ 0.09 | $ (0.31) |
| Diluted | $ 0.09 | $ (0.31) |
| Weighted average common stock outstanding | | |
| Basic | 16,905,738 | 16,839,244 |
| Diluted | 16,944,894 | 16,839,244 |

See accompanying notes.

## Papa Murphy's Holdings, Inc. and Subsidiaries

### Unaudited Condensed Consolidated Balance Sheets

| (In thousands, except par value and share data) | April 2, 2018 (unaudited) | January 1, 2018 (as adjusted) |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 1,519 | $ 2,174 |
| Accounts receivable, net | 4,810 | 3,788 |
| Inventories | 819 | 719 |
| Prepaid expenses and other current assets | 2,302 | 2,281 |
| Total current assets | 9,450 | 8,962 |
| Property and equipment, net | 7,978 | 10,064 |
| Operating lease right of use assets | 13,365 | 16,331 |
| Goodwill | 102,596 | 107,751 |
| Trade name and trademarks | 87,002 | 87,002 |
| Definite-life intangibles, net | 30,550 | 31,655 |
| Assets held for sale | 8,557 | — |
| Other assets | 394 | 350 |
| Total assets | $ 259,892 | $ 262,115 |
| | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable | $ 4,596 | $ 5,389 |
| Accrued expenses and other current liabilities | 15,423 | 12,382 |
| Current portion of lease liabilities | 2,963 | 3,382 |
| Current portion of unearned franchise and development fees | 1,735 | 1,564 |
| Current portion of long-term debt | 5,600 | 8,400 |
| Total current liabilities | 30,317 | 31,117 |
| Long-term debt, net of current portion | 84,971 | 86,994 |
| Lease liabilities, net of current portion | 13,368 | 16,296 |
| Unearned franchise and development fees, net of current portion | 8,904 | 10,037 |
| Deferred tax liability | 22,355 | 21,825 |
| Other long-term liabilities | 4,070 | 1,704 |
| Total liabilities | 163,985 | 167,973 |
| Commitments and contingencies (Note 15) | | |
| | | |
| **Stockholders' Equity** | | |
| Preferred stock ($0.01 par value; 15,000,000 shares authorized; no shares issued) | — | — |
| Common stock ($0.01 par value; 200,000,000 shares authorized; 16,971,461 and 16,971,461 shares issued, respectively) | 170 | 170 |
| Additional paid-in capital | 120,799 | 120,614 |
| Accumulated deficit | (25,062) | (26,642) |
| Total stockholders' equity | 95,907 | 94,142 |
| Total liabilities and stockholders' equity | $ 259,892 | $ 262,115 |

See accompanying notes.

## Papa Murphy’s Holdings, Inc. and Subsidiaries

### Unaudited Condensed Consolidated Statements of Cash Flows

| | Three Months Ended | |
|---|---|---|
| | April 2, 2018 | April 3, 2017 |
| *(In thousands)* | (unaudited) | (as adjusted) |
| **Operating Activities** | | |
| Net income (loss) | $ 1,580 | $ (5,207) |
| Adjustments to reconcile to cash from operating activities | | |
| Depreciation and amortization | 2,141 | 3,117 |
| Loss on disposal/impairment of property and equipment | 2 | 9 |
| Deferred taxes | 530 | (3,746) |
| Stock-based compensation | 185 | 230 |
| Other non-cash items | 79 | 83 |
| Change in operating assets and liabilities | | |
| Accounts receivable | (1,023) | 2,051 |
| Prepaid expenses and other assets | 444 | 922 |
| Unearned franchise and development fees | (962) | (72) |
| Accounts payable | (785) | 1,141 |
| Accrued expenses and other liabilities | 2,061 | 837 |
| Net cash from operating activities | 4,252 | (635) |
| **Investing Activities** | | |
| Acquisition of property and equipment | (80) | (930) |
| Proceeds from sale of property and equipment | 73 | — |
| Payments received on notes receivable | — | 27 |
| Net cash from investing activities | (7) | (903) |
| **Financing Activities** | | |
| Payments on term loan | (4,900) | (3,679) |
| Advances on revolver | — | 5,300 |
| Payments on revolver | — | (1,700) |
| Repurchases of common stock | — | (3) |
| Net cash from financing activities | (4,900) | (82) |
| Net change in cash and cash equivalents | (655) | (1,620) |
| **Cash and Cash Equivalents, beginning of period** | 2,174 | 2,069 |
| **Cash and Cash Equivalents, end of period** | $ 1,519 | $ 449 |
| **Supplemental Disclosures of Cash Flow Information** | | |
| Cash paid during the period for interest | $ 1,277 | $ 1,137 |
| Cash paid (received) during the period for income taxes | $ — | $ (330) |

See accompanying notes.

# Papa Murphy’s Holdings, Inc. and Subsidiaries

## Notes to Unaudited Condensed Consolidated Financial Statements

## Note 1 — Description of Business and Basis of Presentation

### Description of Business

Papa Murphy’s Holdings, Inc. (“Papa Murphy’s” or the “Company”), together with its subsidiaries, is a franchisor and operator of a Take ‘N’ Bake pizza chain. The Company franchises the right to operate Papa Murphy’s Take ‘N’ Bake pizza franchises and operates Papa Murphy's Take ‘N’ Bake pizza stores owned by the Company. As of April 2, 2018, the Company had 1,504 stores consisting of 1,464 domestic stores (1,319 franchised stores and 145 Company-owned stores) across 39 states, plus 40 franchised stores in Canada and the United Arab Emirates.

Substantially all of the Company’s revenues are derived from retail sales of pizza and other food and beverage products to the general public by Company-owned stores and the collection of franchise royalties and fees associated with franchise and development rights.

### Basis of Presentation

The accompanying interim unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the “SEC”). Accordingly, they do not include all information and footnotes required by generally accepted accounting principles in the United States (“GAAP”) for complete financial statements. In the Company’s opinion, all necessary adjustments, consisting of only normal recurring adjustments, have been made for the fair statement of the results of the interim periods presented. The results of operations for such interim periods are not necessarily indicative of the results to be expected for the full year. The accompanying interim unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and the related notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended January 1, 2018.

### Principles of Consolidation

The interim unaudited condensed consolidated financial statements include the accounts of Papa Murphy’s Holdings, Inc., its subsidiaries and certain entities which the Company consolidates as variable interest entities. All significant intercompany transactions and balances have been eliminated.

Throughout the interim unaudited condensed consolidated financial statements and the related notes thereto, “Papa Murphy’s” and “the Company” refer to Papa Murphy’s Holdings, Inc. and its consolidated subsidiaries.

### Fiscal Year

The Company uses a 52- or 53-week fiscal year, ending on the Monday nearest to December 31. Fiscal years 2018 and 2017 are 52-week years. All three month periods presented herein contain 13 weeks. All references to years and quarters relate to fiscal periods rather than calendar periods. References to fiscal 2018 and 2017 are references to fiscal years ending December 31, 2018 and ended January 1, 2018, respectively.

### Recently Issued Accounting Standards

***Recently Adopted Accounting Standards***

*Revenue from Contracts with Customers*

The Company adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”) as of January 2, 2018. The Company adopted the new standard using the full retrospective method and elected applicable practical expedients on adoption. Accordingly, previously reported financial information has been restated to reflect the application of the new standard to all comparative periods presented.

Adoption of ASU 2014-09 had a material impact on the Company's interim unaudited condensed consolidated financial statements. The most significant impacts relate to the: (i) accounting for franchise and development fees, and (ii) accounting for the Company's advertising fund (the "Brand Marketing Fund" or "BMF") and Convention fund (with the BMF, the “Brand Funds”). Specifically, under the new standard the Company recognizes franchise fees ratably over the life of the contract rather than at the time the store is opened or a successive contract commences. Revenue related to the Company's franchise royalties, which are based on a percentage of franchise sales, and revenue from Company-owned stores remain substantially unchanged.

The Company has determined that ASU 2014-09 requires a gross presentation on the Company's Condensed Consolidated Statements of Operations for revenues and related expenses of the BMF and convention fund. These funds exist solely for the purpose of promoting the Papa Murphy's brand in the U.S. While this change will materially affect the gross amount of reported revenues and expenses, the effect will generally be an offsetting increase to both revenues and expenses with no net effect on previously reported Operating Income (Loss) and Net Income (Loss).

Refer to *Impacts to Reported Results* below for more detailed effects of adoption on the Company's financial statements and refer to *Note 9 — Revenue* for more information on our accounting for revenue.

*Leases*

The Company adopted ASU No. 2016-02, *Leases* (Topic 842) ("ASU 2016-02") as of January 2, 2018, concurrent with the adoption of the new revenue standard. The Company adopted this standard using the modified retrospective approach and elected the available practical expedients on adoption. Accordingly, previously reported financial information has been restated to reflect the application of the new standard to all comparative periods presented.

Adoption of the new standard had a material impact on the Company's interim unaudited condensed consolidated financial statements. The most significant impacts related to the (i) recognition of right-of-use ("ROU") assets and lease liabilities for operating leases, and (ii) changes in occupancy costs and impairment losses related to prior year store closures and impairments. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. A loss is recognized when the ROU asset is impaired in connection with the impairment of a store's assets due to economic or other factors.

Refer to *Impacts to Reported Results* below for more detailed effects of adoption on the Company's financial statements and refer to *Note 10 — Leases* for more information on our accounting for leases.

*Other standards adopted*

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 320)* ("ASU 2016-15"), which clarifies the presentation of certain cash receipts and cash payments in the statement of cash flows. The Company adopted the standard on January 2, 2018. Adoption of the new standard did not have a material impact on the Company's consolidated financial statements.

In preparation for the adoption of the above standards, the Company implemented internal controls and key system functionality to enable the preparation of financial information in accordance with the standards.

***Recent Accounting Pronouncements Not Yet Adopted***

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles-Goodwill and Other: Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). The new standard simplifies how an entity measures goodwill impairment by removing the second step of the two-step quantitative goodwill impairment test. An entity will no longer perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, impairment will be measured at the amount by which the carrying value exceeds the fair value of a reporting unit; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity still has the option to perform a qualitative assessment of whether it is more-likely-than-not that a reporting unit's fair value is less than its carrying amount. ASU 2017-04 requires prospective adoption and is effective for the annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is still evaluating the impact of ASU 2017-04 on its financial position and results of operations.

## Impacts to Reported Results

Adoption of the standards related to revenue recognition and leases affected the Company's previously reported results as follows:

| **Statement of Operations** | **Three Months Ended April 3, 2017** | | | |
|---|---|---|---|---|
| | **(unaudited)** | | | |
| *(in thousands, except earnings per share)* | **As Reported** | **New Revenue Standard Adjustment** | **New Lease Standard Adjustment** | **As Adjusted** |
| Total revenues [1] | $ 31,994 | $ 8,179 | $ — | $ 40,173 |
| Store operating costs | 19,600 | (425) | (213) | 18,962 |
| Selling, general, and administrative [1] | 17,213 | 8,506 | (17) | 25,702 |
| (Benefit from) provision for income taxes | (3,802) | 37 | 85 | (3,680) |
| Net (loss) income | (5,414) | 62 | 145 | (5,207) |
| Diluted (loss) earnings per share | (0.32) | 0.00 | 0.01 | (0.31) |

(1) Recognition of advertising revenue and expense on a gross basis instead of a net basis by the Brand Funds comprised $8.0 million of the revenue adjustment and $8.5 million of the expense adjustment under the revenue standard. The revenue adjustment due to the change in method of recognizing franchise and development fees was $0.2 million.

| **Balance Sheet** | **January 1, 2018** | | | |
|---|---|---|---|---|
| *(in thousands)* | **As Reported** | **New Revenue Standard Adjustment** | **New Lease Standard Adjustment** | **As Adjusted** |
| Prepaid expenses and other current assets | $ 2,671 | $ — | $ (390) | $ 2,281 |
| Operating lease right of use assets | — | — | 16,331 | 16,331 |
| Unearned franchise and development fees | 1,702 | 9,899 | — | 11,601 |
| Accrued expenses and other current liabilities | 13,139 | (507) | (250) | 12,382 |
| Lease liabilities | — | — | 19,678 | 19,678 |
| Deferred tax liability, net | 24,457 | (2,319) | (313) | 21,825 |
| Other long-term liabilities | 3,922 | — | (2,218) | 1,704 |
| Accumulated deficit | (18,613) | (7,073) | (956) | (26,642) |

Adoption of the revenue recognition and lease standards did not materially affect cash from or used in operating, financing, or investing cash flows on the Company’s Condensed Consolidated Statements of Cash Flows.

## Segment Definitions

As a result of changes in the Company's executive management responsibilities, effective January 2, 2018, the Company changed its reportable segments by combining its domestic and international franchise business into a single Franchise segment and separating its Brand Funds into a separate reportable segment. No changes were made to the Company's Company Stores segment. Management believes this change better reflects the priorities and decision making analysis around the allocation of the Company's resources. Prior period results for the affected segments have been retrospectively revised to reflect this change. See *Note 16 — Segment Information* for additional information.

## Note 2 — Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

| *(in thousands)* | April 2, 2018 (unaudited) | January 1, 2018 (as adjusted) |
|---|---|---|
| Prepaid media production costs | $ — | $ 376 |
| Prepaid software and support | 766 | 223 |
| Prepaid occupancy related costs | 276 | 159 |
| Prepaid insurance | 173 | 377 |
| Taxes receivable | 130 | 182 |
| POS software licenses for resale | 368 | 364 |
| Assets held for sale | 341 | 432 |
| Advertising cooperative assets, restricted | 97 | 4 |
| Other | 151 | 164 |
| Total prepaid expenses and other current assets | $ 2,302 | $ 2,281 |

## Note 3 — Property and Equipment

Property and equipment are net of accumulated depreciation of $20.4 million and $21.9 million at April 2, 2018, and January 1, 2018, respectively. Depreciation expense amounted to $1.0 million and $1.9 million during the three months ended April 2, 2018, and April 3, 2017, respectively.

## Note 4 — Goodwill

The following summarizes changes to the Company’s goodwill, by reportable segment:

| *(in thousands)* | Company Stores | Franchise | Total |
|---|---|---|---|
| Balance at January 1, 2018 | $ 26,205 | $ 81,546 | $ 107,751 |
| Allocated to assets held for sale | (5,155) | — | (5,155) |
| Balance at April 2, 2018 | $ 21,050 | $ 81,546 | $ 102,596 |

There is no goodwill associated with the Brand Funds segment. The Company has determined that during the three months ended April 2, 2018, there were no triggering events that would require an updated impairment review. The Company has allocated a portion of its goodwill in the Company Stores segment to assets being held for sale (see *Note 17 — Subsequent Events)*.

## Note 5 — Intangible Assets

Definite-lived intangible assets are net of accumulated amortization of $31.3 million and $30.2 million as of April 2, 2018, and January 1, 2018, respectively. Amortization expense amounted to $1.1 million and $1.2 million during the three months ended April 2, 2018, and April 3, 2017, respectively.

# Note 6 — Financing Arrangements

Long-term debt consists of the following:

| *(in thousands)* | April 2, 2018 | January 1, 2018 |
|---|---|---|
| Term loan | $ 88,000 | $ 92,900 |
| Notes payable | 3,000 | 3,000 |
| Total principal amount of long-term debt | 91,000 | 95,900 |
| Unamortized debt issuance costs | (429) | (506) |
| Total long-term debt | 90,571 | 95,394 |
| Less current portion | (5,600) | (8,400) |
| Total long-term debt, net of current portion | $ 84,971 | $ 86,994 |

## Senior secured credit facility

On August 28, 2014, PMI Holdings, Inc., a wholly-owned subsidiary of Papa Murphy's Holdings, Inc., entered into a $132.0 million senior secured credit facility (the "Senior Credit Facility") consisting of a $112.0 million term loan and a $20.0 million revolving credit facility, which includes a $2.5 million letter of credit subfacility and a $1.0 million swing-line loan subfacility. The term loan and any loans made under the revolving credit facility mature in August 2019. As of April 2, 2018, the term loan bears interest at a rate of 5.1% per annum based on the LIBOR rate option plus the applicable margin.

With a maturity date of over one year from April 2, 2018, balances outstanding under the Senior Credit Facility are classified as non-current on the Condensed Consolidated Balance Sheets, except for mandatory, minimum term loan amortization payments of $2.1 million due on the last day of each fiscal quarter.

The weighted average interest rate for all borrowings under the Senior Credit Facility for the first quarter of 2018 was 4.9%.

## Notes payable

Papa Murphy's Company Stores, Inc., a wholly owned subsidiary of Papa Murphy's Holdings, Inc., has a $3.0 million note payable which bears interest at a rate of 5.0% per annum and matures in December 2018. This note is subordinated to the Senior Credit Facility.

# Note 7 — Fair Value Measurement

The Company determines the fair value of assets and liabilities based on the price that would be received to sell the asset or paid to transfer the liability to a market participant. GAAP defines a fair value hierarchy that prioritizes the assumptions used to measure fair value. The three levels of the fair value hierarchy are defined as follows:

- Level 1 — Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.
- Level 2 — Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis:

| | April 2, 2018 | | January 1, 2018 | | |
|---|---|---|---|---|---|
| *(in thousands)* | Carrying Value | Fair Value | Carrying Value | Fair Value | Fair Value Measurement |
| **Financial assets** | | | | | |
| Notes receivable [(1)] | $ 97 | $ 86 | $ 97 | $ 88 | Level 3 |

(1) The fair value of notes receivable was estimated primarily using a discounted cash flow method based on a discount rate, reflecting the applicable credit spread.

Financial instruments not included in the table above consist of cash and cash equivalents, accounts receivable, accounts payable, and long-term debt. The fair values of cash and cash equivalents, accounts receivable, and accounts payable approximate carrying value because of the short-term nature of the accounts. The fair value of long-term debt approximates carrying value because the borrowings are made with variable market rates and negotiated terms and conditions that are consistent with current market rates.

## Note 8 — Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

| (in thousands) | April 2, 2018 (unaudited) | January 1, 2018 (as adjusted) |
|---|---|---|
| Accrued compensation and related costs | $ 3,632 | $ 3,902 |
| Accrued legal settlement costs | 7,700 | 3,940 |
| Gift cards payable | 2,154 | 2,676 |
| Accrued interest and non-income taxes payable | 489 | 461 |
| Convention fund balance | 580 | 841 |
| Advertising cooperative liabilities | 151 | 60 |
| Lease liabilities held for sale | 450 | — |
| Other | 267 | 502 |
| Total accrued expenses and other current liabilities | $ 15,423 | $ 12,382 |

Accrued legal settlement costs increased since January 1, 2018 due to a $3.7 million accrual for legal settlement costs related to the lawsuit from franchise owners as discussed in *Note 15 — Commitments and Contingencies*. Included in Accounts receivable, net is an insurance receivable equal to 75% of the anticipated settlement.

## Note 9 — Revenue

The Company owns and franchises Papa Murphy's Take ‘N’ Bake Pizza stores. Revenue is recognized upon the transfer of control of promised goods or services to customers in an amount that reflects the consideration the Company expects to receive for those goods or services. The following are the principal activities from which the Company earns revenue:

***Company-owned Stores Revenue***

Company-owned stores revenue consists of retail sales of food through Company-owned stores located in the United States. Company-owned stores revenue is recognized when the food items are delivered to or carried out by customers. Customer payments are generally collected at the time of sale. Sales taxes collected from customers are remitted to the appropriate taxing authority and are not recognized as revenue.

***Franchise Revenues***

The franchise arrangement between the Company and each franchise owner of a Papa Murphy's Take ‘N’ Bake Pizza store is documented in the form of a franchise agreement and, in select cases, a development agreement. The franchise arrangement requires the Company as franchisor to perform various activities to support the Papa Murphy's Take ‘N’ Bake Pizza brand and does not involve the direct transfer of goods and services to the franchise owner as a customer. Activities performed by the Company are highly interrelated with the franchise license and are considered to represent a single performance obligation, which is the transfer of the franchise license. The nature of the Company's promise in granting the franchise license is to provide the franchise owner with access to the brand's intellectual property over the term of the franchise arrangement.

The transaction price in a standard franchise arrangement consists of (a) franchise/development fees; (b) continuing franchise fees (royalties); and (c) advertising fees. Since the Company considers the franchise license to be a single performance obligation, no allocation of the transaction price under a standard agreement is performed for revenue recognition purposes. However, if additional separate and distinct goods or services are included with a franchise arrangement and are deemed to be additional performance obligations, the total transaction price of the contract is allocated to each performance obligation based on the stand-alone selling price of each performance obligation.

Franchise revenues are recognized by the Company from the following different sources:

- **Royalty revenues.** Royalty revenues, which includes advertising fees from domestic franchise stores, are based on a percentage of sales and are recognized when the food items are delivered to or carried out by customers. Payments for domestic royalties and advertising fees are generally due and collected within seven days of the prior week end date. Payments for international royalties are due and collected within 30 days of month-end.

- **Franchise and development fees.** Franchise and development fees are paid in advance of a store opening, typically when entering into a new franchise or development agreement. Fees allocated to the franchise license are recognized as revenue on a straight-line basis over the term of each respective franchise store agreement. Initial franchise agreement terms are typically ten years while successive agreement terms are typically five years. The Company has determined that these fees, which are paid in advance of when they are recognized as revenue, do not contain a significant financing component.
- **E-commerce fees.** E-commerce fees include point-of-sale ("POS") support fees and transaction fees for purchases made through the Company's e-commerce platform. POS support fees are due quarterly in advance and recognized as revenue over the respective quarter. Transaction fees are recognized when the food items purchased from a store are delivered to or carried out by customers and are due and collected within seven days of the prior week end date.
- **Vendor payments.** Vendor payments are received from vendors that supply franchised and Company-owned stores with products and are typically based on the volume of product purchased by the stores. Revenues from the sale of products are recognized when product is shipped from a distribution center to a store. Payments are due and collected within 30 days after month-end.
- **Marketing kits.** The Company charges domestic stores for marketing materials shipped to stores one to three times per quarter. These products are sold at cost and the revenues from their sale are recognized when the product is shipped by the vendors producing the kits. Payments are due and collected within 30 days of shipment.

The timing of revenue recognition may differ from the timing of payment from customers. We record a receivable when revenue is recognized in advance of payment, and a contract liability ("unearned revenue"), when revenue is recognized subsequent to payment. Unearned revenue consists mainly of franchise and development fees paid in advance. A refund liability is recorded when it is known that an amount previously received will be refunded instead of recognized as revenue. The Company does not incur a significant amount of contract acquisition costs in conducting its franchising activities and has not capitalized any such costs.

## Revenue by Category

The following series of tables present revenue disaggregated by several categories for the periods reported.

Revenues by contract type were as follows:

| | Three Months Ended April 2, 2018 | | | |
|---|---|---|---|---|
| | (unaudited) | | | |
| *(in thousands)* | Franchise | Company Stores | Brand Funds | Total |
| Franchise royalties | $ 9,461 | $ — | $ 3,840 | $ 13,301 |
| Franchise fees | 740 | — | — | 740 |
| Vendor payments | — | — | 1,117 | 1,117 |
| E-commerce fees | 546 | — | — | 546 |
| Other franchise and brand | 23 | — | 463 | 486 |
| Company-owned stores | — | 18,582 | — | 18,582 |
| Total revenues | 10,770 | 18,582 | 5,420 | 34,772 |
| Intersegment revenues | 992 | — | 465 | 1,457 |
| Reconciliation to business segment revenues | $ 11,762 | $ 18,582 | $ 5,885 | $ 36,229 |

| (in thousands) | Three Months Ended April 3, 2017 (as adjusted) Franchise | Company Stores | Brand Funds | Total |
|---|---|---|---|---|
| Franchise royalties | $ 10,033 | $ — | $ 5,916 | $ 15,949 |
| Franchise fees | 756 | — | — | 756 |
| Vendor payments | — | — | 1,342 | 1,342 |
| E-commerce fees | 557 | — | — | 557 |
| Other franchise and brand | 27 | — | 767 | 794 |
| Company-owned stores | — | 20,775 | — | 20,775 |
| Total revenues | 11,373 | 20,775 | 8,025 | 40,173 |
| Intersegment revenues | 63 | — | 477 | 540 |
| Reconciliation to business segment revenues | $ 11,436 | $ 20,775 | $ 8,502 | $ 40,713 |

Revenues by geographic location were as follows:

| (in thousands) | Three Months Ended April 2, 2018 (unaudited) Franchise | Company Stores | Brand Funds | Total |
|---|---|---|---|---|
| United States | $ 10,690 | $ 18,582 | $ 5,420 | $ 34,692 |
| International | 80 | — | — | 80 |
| Total revenues | $ 10,770 | $ 18,582 | $ 5,420 | $ 34,772 |

| (in thousands) | Three Months Ended April 3, 2017 (as adjusted) Franchise | Company Stores | Brand Funds | Total |
|---|---|---|---|---|
| United States | $ 11,267 | $ 20,775 | $ 8,025 | $ 40,067 |
| International | 106 | — | — | 106 |
| Total revenues | $ 11,373 | $ 20,775 | $ 8,025 | $ 40,173 |

## Contract Balances

Changes in the balances of contract liabilities (unearned revenue) during the periods reported were as follows:

| (in thousands) | Contract Liabilities |
|---|---|
| Balance at January 1, 2018 | $ 11,151 |
| Revenue recognized that was included in the balance at the beginning of the period | (727) |
| Cash received, net of amounts recognized as revenue during the period | 345 |
| Contract refunds | (130) |
| Balance at April 2, 2018 | $ 10,639 |

The Company had a refund liability of $0.4 million and $0.5 million as of April 2, 2018 and January 1, 2018, respectively. Receivables from contracts with customers included in Accounts receivable, net were $1.9 million as of April 2, 2018 and $3.1 million as of January 1, 2018, respectively.

Table of Contents

The following table includes estimated franchise fee revenue expected to be recognized in the future related to performance obligations that were unsatisfied (or partially unsatisfied) as of April 2, 2018 (in thousands):

| | | | |
|---|---|---|---|
| Fiscal year | 2018 | $ | 1,199 |
| | 2019 | | 1,540 |
| | 2020 | | 1,393 |
| | 2021 | | 1,226 |
| | 2022 | | 1,055 |
| | Thereafter | | 4,226 |
| | Total | $ | 10,639 |

## Note 10 — Leases

The Company leases the property for its corporate headquarters, Company-owned stores, and certain office equipment. The Company is not a party to leases for franchise locations except for two locations that operate under a sublease and a few leases assigned to franchisees when stores were refranchised wherein it remains secondarily liable (see *Lease guarantees* below). The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease ROU assets, current portion of operating lease liabilities, and operating lease liabilities in the Condensed Consolidated Balance Sheets. The Company currently has no finance leases.

ROU assets and operating lease liabilities are recognized based on the present value of lease payments over the lease term at commencement date. Because most of the Company's leases do not provide an implicit rate of return, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. Operating lease ROU assets also exclude lease incentives received. The Company has lease agreements with lease and non-lease components, which are accounted for separately. For certain equipment leases, such as copiers, the Company accounts for the lease and non-lease components as a single lease component.

Lease terms for Company-owned stores are generally five years with one or more five-year renewal options and generally require the Company to pay a proportionate share of real estate taxes, insurance, common area, and other operating costs in addition to a base or fixed rent. The Company's leases have remaining lease terms of 1 to 11 years. For purposes of calculating operating lease liabilities, lease terms may be deemed to include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Economic performance of a store is the primary factor used to estimate whether an option to extend a lease term will be exercised or not.

Lease expense for lease payments is recognized on a straight-line basis over the lease term. The components of lease expense for the periods reported are as follows:

| | Three Months Ended | |
|---|---|---|
| | **April 2, 2018** | **April 3, 2017** |
| *(in thousands)* | **(unaudited)** | **(as adjusted)** |
| Operating lease cost | $ 1,046 | $ 1,161 |
| Short-term lease cost | 14 | 7 |
| Variable lease cost | 1 | 15 |
| Sublease income | (18) | (21) |
| Total lease cost | $ 1,043 | $ 1,162 |

Supplemental cash flow information related to leases for the periods reported is as follows:

| | Three Months Ended | |
|---|---|---|
| *(in thousands)* | **April 2, 2018** | **April 3, 2017** |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | $ 1,222 | $ 1,212 |
| Right-of-use assets obtained in exchange for new operating lease liabilities | — | 92 |
| Weighted-average remaining lease term of operating leases | 5.7 years | 6.7 years |
| Weighted-average discount rate of operating leases | 5.97% | 5.97% |

Future minimum lease payments under non-cancelable leases as of April 2, 2018 are as follows (in thousands):

| | | | |
|---|---|---|---|
| Fiscal year | 2018 | $ | 3,622 |
| | 2019 | | 5,022 |
| | 2020 | | 4,078 |
| | 2021 | | 2,676 |
| | 2022 | | 1,760 |
| | Thereafter | | 3,317 |
| | Total future minimum lease payments | | 20,475 |
| | Less imputed interest | | (1,760) |
| | Less lease liabilities held for sale(1) | $ | (2,384) |
| | Total Lease Liabilities | $ | 16,331 |

(1) Lease liabilities held for sale includes $0.5 million reported in Accrued expenses and other current assets (see *Note 8 — Accrued Expenses and Other Current Liabilities*) and $1.9 million reported in Other long-term liabilities in the Company's Condensed Consolidated Balance Sheets.

As of January 1, 2018, the Company had no operating leases that had not yet commenced.

### Lease guarantees

The Company is the guarantor for operating leases of 21 franchised stores that have terms expiring on various dates from April 2018 to November 2022. The obligations from these leases will generally continue to decrease over time as the leases expire. The applicable franchise owners continue to have primary liability for these operating leases. As of April 2, 2018, the Company does not believe it is probable it would be required to perform under the outstanding guarantees.

## Note 11 — Income Taxes

Information on the Company’s income taxes for the periods reported is as follows:

| | Three Months Ended | |
|---|---|---|
| | April 2, 2018 | April 3, 2017 |
| *(in thousands)* | (unaudited) | (as adjusted) |
| Provision for (benefit from) income taxes | $ 581 | $ (3,680) |
| Income (loss) before income taxes | 2,161 | (8,887) |
| Effective income tax rate | 26.9% | 41.4% |

The effective income tax rate for the three months ended April 2, 2018 includes the effect of certain permanent differences between tax reporting purposes and financial reporting purposes and the relative impact of those differences on a small quarterly income. The effective tax rate for the three months ended April 3, 2017, includes the effect of a discrete adjustment for the share-based compensation expense recorded for vesting restricted common shares.

## Note 12 — Share-based Compensation

In May 2010, the Company’s Board of Directors approved the 2010 Amended Management Incentive Plan (the “2010 Plan”). In May 2014, the Company’s Board of Directors adopted the 2014 Equity Incentive Plan (the “2014 Plan,” and together with the 2010 Plan, the “Incentive Plans”). The Incentive Plans reserve 2,116,747 common shares for equity incentive awards consisting of incentive stock options, non-qualified stock options, restricted stock awards, and unrestricted stock awards. Equity incentive awards may be issued from either the 2014 Plan or the 2010 Plan.

Table of Contents

## Restricted common shares

Information with respect to restricted stock awards is as follows:

| | Number of Shares of Restricted Common Stock | | Weighted Average Award Date Fair Value Per Share |
|---|---|---|---|
| | Time Vesting | Market Condition | |
| Unvested, January 1, 2018 | 34,898 | 40,354 | $ 3.44 |
| Vested | (13,143) | — | 4.71 |
| Unvested, April 2, 2018 | 21,755 | 40,354 | $ 3.17 |

## Stock options

Information with respect to stock option activity is as follows:

| | Number of Shares Subject to Options | | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value (thousands) |
|---|---|---|---|---|---|
| | Time Vesting | Market Condition | | | |
| Outstanding, January 1, 2018 | 949,115 | 158,127 | $ 7.60 | | |
| Forfeited | (79,104) | — | 9.24 | | |
| Outstanding, April 2, 2018 | 870,011 | 158,127 | $ 7.47 | 8.0 years | $ 239 |
| Exercisable, April 2, 2018 | 341,166 | — | $ 9.72 | 6.6 years | $ 60 |

## Compensation cost

Stock-based compensation expense recognized in connection with the Incentive Plans for each of the three month periods ended April 2, 2018 and April 3, 2017 amounted to $0.2 million, respectively.

As of April 2, 2018, total unrecognized stock-based compensation expense was $1.3 million, with $1.0 million associated with time vesting awards and $0.3 million associated with market condition awards. The remaining weighted average period for unrecognized stock-based compensation expense was 2.4 years as of April 2, 2018.

# Note 13 — Brand Marketing Fund

The Company manages the BMF on behalf of all Papa Murphy's stores in the United States. The Company is committed under its franchise and other agreements to spend revenues of the BMF on marketing, creative efforts, media support, or related purposes specified in the agreements. Contributions to the BMF are recognized as revenue, while expenditures are included in selling, general, and administrative expenses. Expenditures of the BMF are primarily amounts paid to third-parties, but may also include personnel expenses and allocated costs. At each reporting date, to the extent contributions to the BMF exceed expenditures on a cumulative basis, the excess contributions are recorded in accrued expenses in the Company’s Condensed Consolidated Balance Sheets. While no profit is recognized on amounts received by the BMF, when expenditures exceed contributions to the BMF on a cumulative basis, income from operations and net income may be affected due to the timing of when revenues are received and expenses are incurred.

Information on the Company’s BMF balances for the periods reported is as follows:

| | Three Months Ended | |
|---|---|---|
| | April 2, 2018 | April 3, 2017 |
| *(in thousands)* | (unaudited) | (as adjusted) |
| Opening fund deficit | $ (5,461) | $ (1,071) |
| Net activity during the period | (401) | (8,342) |
| Ending fund deficit | $ (5,862) | $ (9,413) |

As of April 2, 2018, previously recognized expenses of $5.9 million may be recovered in future periods if subsequent BMF contributions exceed expenditures.

## Note 14 — Earnings per Share (EPS)

The number of shares and earnings per share (“EPS”) data for all periods presented are based on the historical weighted-average shares of common stock outstanding. Basic EPS is calculated by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding during each period. Diluted EPS is calculated using income available to common stockholders divided by diluted weighted-average shares of common stock outstanding during each period, which includes unvested restricted common stock and outstanding stock options. Diluted EPS considers the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of the common shares underlying such securities would have an anti-dilutive effect.

The following table sets forth the computations of basic and diluted EPS:

| | Three Months Ended | |
|---|---|---|
| | April 2, 2018 | April 3, 2017 |
| *(in thousands, except per share data)* | (unaudited) | (as adjusted) |
| **Earnings:** | | |
| Net income (loss) | $ 1,580 | $ (5,207) |
| **Shares:** | | |
| Weighted average common shares outstanding | 16,906 | 16,839 |
| Dilutive effect of restricted equity awards | 39 | — |
| Diluted weighted average number of shares outstanding | 16,945 | 16,839 |
| **Earnings (loss) per share:** | | |
| Basic earnings (loss) per share | $ 0.09 | $ (0.31) |
| Diluted earnings (loss) per share | $ 0.09 | $ (0.31) |

For the three months ended April 2, 2018, and April 3, 2017, an aggregated total of 0.6 million shares and 1.4 million shares, respectively, have been excluded from the diluted EPS calculation because their effect would have been anti-dilutive.

## Note 15 — Commitments and Contingencies

### Legal proceedings

The Company is from time to time involved in litigation, certain other claims and arbitration matters arising in the ordinary course of business. The company accrues a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Significant judgment is required in both the determination of the probability of a loss and the determination as to whether a loss is reasonably estimable. These accruals are reviewed at least quarterly and adjusted to reflect the effects of negotiations, settlements, rulings, advice of legal counsel and technical experts and other information and events pertaining to a particular matter. To the extent there is a reasonable possibility (within the meaning of Accounting Standards Codification (“ASC”) 450) that losses could exceed amounts already accrued, if any, and the additional loss or range of loss is able to be estimated, the Company discloses the additional loss or range of loss.

In some instances, the Company is unable to reasonably estimate any potential loss or range of loss. The nature and progression of litigation can make it difficult to predict the impact a particular lawsuit will have on its business. There are many reasons that the Company cannot make these assessments, including, among others, one or more of the following: the early stages of a proceeding; damages sought that are unspecified, unsupportable, unexplained or uncertain; discovery not having been started or incomplete; the complexity of the facts that are in dispute; the difficulty of assessing novel claims; the parties not having engaged in any meaningful settlement discussions; the possibility that other parties may share in any ultimate liability; and/or the often slow pace of litigation.

The Company currently is subject to litigation with a group of its franchise owners. In January 2014, six franchise owner groups claimed that the Company misrepresented its sales volumes, made false representations to them and charged excess advertising fees, among other things. The Company engaged in mediation with these franchise owners, which is required under the terms of their franchise agreements, in order to address and resolve their claims, but was unable to reach a settlement agreement. On April 4, 2014, a total of 12 franchise owner groups, including those franchise owners that previously made the allegations described above, filed a lawsuit against the Company in the Superior Court in Clark County, Washington, making essentially the same allegations for violation of the Washington Franchise Investment Protection Act, fraud, negligent misrepresentation and breach of contract, and seeking declaratory and injunctive relief, as well as monetary damages. Based on motions filed by the Company in that lawsuit, the court ruled on July 9, 2014, that certain of the plaintiffs’ claims under the anti-fraud and nondisclosure provisions of the Washington Franchise Investment Protection Act should be dismissed and that certain other claims in the case would need to be more specifically alleged. The court also ruled that the six franchise owner groups who had not mediated with the Company prior to filing the lawsuit must mediate with the Company in good faith, and that their claims shall be stayed until they have done so.

On June 18, 2014, an additional 16 franchise owner groups, represented by the same counsel as the plaintiffs described above, filed a lawsuit in the Superior Court in Clark County, Washington making essentially the same allegations as made in the lawsuit described above and seeking declaratory and injunctive relief, as well as monetary damages. The court consolidated the two lawsuits into a single case and ordered that the plaintiffs in the new lawsuit, none of whom had mediated with the Company prior to filing the lawsuit, must do so, and that their claims be stayed until they have completed mediating with the Company in good faith.

In October 2014, the Company engaged in mediation with the 22 franchise owner groups who had not previously done so. As a result of that mediation and other efforts, the Company reached resolution with 13 of the franchise owner groups involved in the consolidated lawsuits, and their claims have either been dismissed or dismissal is pending.

In February 2015, the remaining franchise owner groups in the consolidated lawsuits filed an amended complaint, removing some claims, amending some claims, adding claims and naming some of the Company's former and current franchise sales staff as additional individual defendants. In September 2016, the remaining 15 franchise owner groups in the consolidated lawsuits filed an amended complaint to add a claim under the Washington Consumer Protection Act based on substantially the same allegations as the prior claims, to re-plead claims under the Washington Franchise Investment Protection Act that had previously been dismissed, and to dismiss Dan Harmon as a defendant.

In June 2017, the parties moved for summary judgment. The Company moved for summary judgment against two of the remaining franchise owner groups, the board of directors members moved for summary judgment on all claims against them, and the plaintiffs moved for summary judgment against all defendants on their Washington Consumer Protection Act and Washington Franchise Investment Protection Act claims. A hearing on the summary judgment motions was held on October 13, 2017.

In July 2017, the Company engaged in mediation with the remaining 15 franchise owner groups in the consolidated lawsuits. As a result of that mediation and other efforts, the Company reached resolutions with six of the remaining franchise owner groups, and their claims have been dismissed.

In April 2018, the Company reached resolution with four of the remaining franchise owner groups, conditioned upon dismissal of their claims.

The Company is named as a defendant in a putative class action lawsuit filed by plaintiff John Lennartson on May 7, 2015, in the United States District Court for the Western District of Washington. The lawsuit alleges the Company failed to comply with the requirements of the Telephone Consumer Protection Act ("TCPA") when it sent SMS text messages to consumers. Mr. Lennartson asks that the court certify the putative class and that statutory damages under the TCPA be awarded to plaintiff and each class member. On October 14, 2016, the Federal Communications Commission ("FCC") granted the Company a limited waiver from the TCPA’s written consent requirements for certain text messages that it sent up through October 16, 2013 to individuals who, like Mr. Lennartson, provided written consent prior to October 16, 2013. On October 20, 2016, the Company filed a motion for summary judgment seeking dismissal. On October 27, 2016, Mr. Lennartson filed a motion seeking to extend the time to respond to the summary judgment motion on the basis that he intends to appeal the FCC’s waiver. On November 4, 2016, the Court granted Mr. Lennartson’s motion to continue his response to the Company’s summary judgment motion until he could complete his appeal of the FCC’s waiver order. In addition, on January 9, 2017, Mr. Lennartson filed an amended complaint adding additional plaintiffs, some of whom provided consent after October 16, 2013, and who are therefore differently situated from Mr. Lennartson, as well as additional Washington state law claims. On October 27, 2017, plaintiffs moved to certify their putative class, which the Company opposed, and on November 22, 2017, the Company moved for summary judgment on all of plaintiffs’ claims. The Court issued a stay of the case for 30 days while the parties pursued settlement negotiations. On April 23, 2018, the parties entered into a Settlement Agreement and Release and plaintiffs filed a Motion and Memorandum for Preliminary Approval of Settlement with the Court. The Settlement Agreement, subject to necessary court approvals and other conditions, will result in the final resolution of the lawsuit; however, the Company provides no assurance that the final settlement agreement will be approved by the Court, or that the lawsuit will be finally resolved. The Company has recorded a contingent liability of $3.9 million related to this lawsuit. An adverse judgment or settlement related to this lawsuit could have a material adverse effect on the Company’s consolidated financial position, results of operations, or cash flows.

In addition to the foregoing, the Company is subject to routine legal proceedings, claims and litigation in the ordinary course of its business. The Company may also engage in future litigation with franchise owners to enforce the terms of franchise agreements and compliance with brand standards as determined necessary to protect the Company’s brand, the consistency of products and the customer experience. Lawsuits require significant management attention and financial resources and the outcome of any litigation is inherently uncertain. The Company does not, however, currently expect that the costs to resolve these routine matters will have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

## Note 16 — Segment Information

As a result of changes in the Company's executive management responsibilities, effective January 2, 2018, the Company changed its reportable segments by combining its domestic and international franchise business into a single Franchise segment and separating its Brand Funds business into a separate reportable segment. No changes were made to the Company's Company Stores segment. Management believes this change better reflects the priorities and decision making analysis around the allocation of the Company's resources. Prior period results for the affected segments have been retrospectively revised to reflect this change.

The Company now has the following reportable segments: (i) Franchise; (ii) Company Stores; and (iii) Brand Funds. The Franchise segment includes operations with respect to franchised stores and derives its revenues primarily from franchise and development fees and franchise royalties from franchised stores. The Company Stores segment includes operations with respect to Company-owned stores and derives its revenues from retail sales of pizza and side items to the general public. The Brand Funds segment includes the Brand Marketing Fund and the Company's Convention Fund.

The Company measures the performance of its segments based on segment adjusted EBITDA and allocates resources based primarily on this measure. “EBITDA” is calculated as net income (loss) before interest expense, income taxes, depreciation, and amortization. Segment adjusted EBITDA excludes certain unallocated and corporate expenses. Although segment adjusted EBITDA is not a measure of financial condition or performance determined in accordance with GAAP, the Company uses segment adjusted EBITDA to compare the operating performance of its segments on a consistent basis and to evaluate the performance and effectiveness of its operational strategies. The Company’s calculation of segment adjusted EBITDA may not be comparable to that reported by other companies.

The following tables summarize information on revenues, adjusted EBITDA and assets for each of the Company’s reportable segments and include a reconciliation of segment adjusted EBITDA to income (loss) before income taxes:

| | Three Months Ended | |
|---|---|---|
| | April 2, 2018 | April 3, 2017 |
| *(in thousands)* | (unaudited) | (as adjusted) |
| **Revenues** | | |
| Franchise | $ 11,762 | $ 11,436 |
| Company Stores | 18,582 | 20,775 |
| Brand Funds | 5,885 | 8,502 |
| Total business segment revenues | 36,229 | 40,713 |
| Intersegment eliminations | (1,457) | (540) |
| Total | $ 34,772 | $ 40,173 |

| | Three Months Ended | |
|---|---|---|
| | April 2, 2018 | April 3, 2017 |
| *(in thousands)* | (unaudited) | (as adjusted) |
| **Segment Adjusted EBITDA** | | |
| Franchise | $ 7,287 | $ 8,687 |
| Company Stores | 1,074 | 788 |
| Brand Funds | (238) | (8,342) |
| Total reportable segments adjusted EBITDA | 8,123 | 1,133 |
| Corporate and unallocated | (987) | (3,478) |
| Depreciation and amortization | (2,141) | (3,117) |
| Interest expense, net | (1,292) | (1,227) |
| CEO transition and restructuring costs(1) | (244) | (2,198) |
| Litigation contingency(2) | (940) | — |
| E-commerce transition costs(3) | (358) | — |
| **Income (Loss) Before Income Taxes** | $ 2,161 | $ (8,887) |

(1) Represents non-recurring management transition and restructuring costs in connection with the recruitment of a new Chief Executive Officer and other executive positions.
(2) Accruals made for franchisee litigation settlements.
(3) Non-recurring costs incurred to complete the transition to a new e-commerce platform.

| | April 2, 2018 | January 1, 2018 |
|---|---|---|
| *(in thousands)* | (unaudited) | (as adjusted) |
| **Total Assets** | | |
| Franchise | $ 121,117 | $ 121,179 |
| Company Stores | 51,561 | 53,226 |
| Brand Funds | 72 | 509 |
| Other(1) | 87,142 | 87,201 |
| Total | $ 259,892 | $ 262,115 |

(1) Other assets which are not allocated to the individual segments primarily include trade names and trademarks and taxes receivable.

## Note 17 — Subsequent Events

On April 17, 2018, the Company signed a purchase and sale agreement to refranchise 18 Company-owned stores in Colorado. Under the terms of the agreement, the aggregate sale price for the stores is approximately $7.7 million, inclusive of franchise fees. The Denver area stores are expected to transfer in May 2018 and the Colorado Springs area stores in July 2018. This disposition did not meet the criteria for accounting as a discontinued operation. The components of the assets and liabilities being sold and their classification on the Company's Condensed Consolidated Balance Sheets are as follows:

| *(in thousands)* | Balance sheet location | April 2, 2018 |
|---|---|---|
| Property and equipment, net | Assets held for sale | $ 1,139 |
| Operating lease right-of-use assets | Assets held for sale | 2,224 |
| Goodwill | Assets held for sale | 5,155 |
| Other assets | Assets held for sale | 39 |
| Current portion of lease liabilities | Accrued expenses and other current liabilities | 450 |
| Lease liabilities, net of current portion | Other long-term liabilities | 1,934 |

Under the Company's Senior Credit Facility, net proceeds after taxes from the sale of Company-owned stores must be used to repay amounts outstanding on the Senior Credit Facility when proceeds of a transaction exceed $500,000 or proceeds from all dispositions exceed $1 million in any fiscal year. Accordingly, the assets held for sale associated with this transaction are reported as non-current assets.

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with 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 the fiscal year ended January 1, 2018. To match our operating cycle, we use a 52- or 53-week fiscal year, ending on the Monday nearest 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 2018 is a 52-week period ending on December 31, 2018, and fiscal year 2017 was a 52-week period ended on January 1, 2018.*

***Cautionary Note Regarding Forward-Looking Statements***

*In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors including, but not limited to, those discussed in the section entitled “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended January 1, 2018. All statements other than statements of historical fact or relating to present facts or current conditions included in this discussion and analysis are forward-looking statements. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. Examples of forward-looking statements include those regarding our future financial or operating results, cash flows, sufficiency of liquidity, financing resources, business strategies and priorities, shift in mix of marketing efforts, resolution of litigation and claims, expansion and growth opportunities, the mix of new store openings, our refranchising initiative, reduction in the number of Company-owned stores, timing for the completion of pending dispositions of Company-owned stores, adoption of new accounting standards and the estimated effect of those new standards, our qualification as an “emerging growth company,” exposure to foreign currency and interest rate risk, as well as industry trends and outlooks. These statements may include words such as “anticipate,” “estimate,” “expect,” “project,” “plan,” “intend,” “believe,” “may,” “should,” “can have,” “likely” and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events.*

*The forward-looking statements contained in this discussion and analysis are based on assumptions that we have made in light of our industry experience and our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. As you read and consider this discussion and analysis, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties (many of which are beyond our control) and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual operating and financial performance and cause our performance to differ materially from the performance anticipated in the forward-looking statements. We believe these factors include, but are not limited to, those described under the section entitled “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended January 1, 2018. Should one or more of these risks or uncertainties materialize, or should any of these assumptions prove incorrect, our actual operating and financial performance may vary in material respects from expectations based on these forward-looking statements.*

*Any forward-looking statement made by us in this discussion and analysis speaks only as of the date on which we make it. Factors or events that could cause our actual operating and financial performance to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.*

## 2018 Highlights

### Revenue

Total revenues for the three months ended April 2, 2018, compared to the three months ended April 3, 2017, declined 13.4% from $40.2 million to $34.8 million, due to a (a) decline in Company-owned store sales attributable to the refranchising of seven and closure of 16 Company-owned stores in 2017 after April 3, 2017, and (b) a decline in royalties and advertising fees due to negative comparable store sales as noted below and a net decline of 39 franchise stores. Comparable store sales in 2018 compared to 2017 for selected segments were as follows:

Table of Contents

| | Three Months Ended | |
|---|---|---|
| | April 2, 2018 | April 3, 2017 |
| Franchise | (4.0)% | (4.5)% |
| Company Stores | (2.7)% | (9.9)% |
| Total | (3.9)% | (5.0)% |

Comparable store sales for the three months ended April 2, 2018 were lower due to a variety of competitive actions, including lower advertising expenditures in the three months ended April 2, 2018 compared to the same period last year.

### Refranchising

In recent years, we had focused our financial resources on accelerating the build out of several markets with Company-owned stores. Consistent with our strategy, we are now working to refranchise a significant number of our Company-owned stores to experienced and well-capitalized franchisees who can further grow these markets. On April 17, 2018, we signed a purchase and sale agreement to refranchise 18 Company-owned stores in Colorado. Our target is to continue reducing the number of Company-owned stores to no more than 50 stores by 2020.

### Store Development

During the three months ended April 2, 2018, our franchise owners opened four stores, all in the United States, and we did not open any Company-owned stores. While we operate some stores as Company-owned stores, we expect the majority of our new store expansion to continue to come from new franchised store openings.

### E-commerce

We began the system-wide roll-out of an e-commerce platform in early 2017 and have seen positive results to date as the average transaction amount continues to be about 20% higher for online orders than for in-store orders. We strategically use online-only promotions communicated through text and email messaging. On March 15, 2018, we completed our switchover to a third-party's e-commerce platform as previously announced to accelerate progress on our convenience strategy. The new platform enables online and mobile ordering to be fully integrated with third-party marketplace and delivery services, where available. As part of the transition, we incurred $358,000 in non-recurring conversion costs during the three months ended April 2, 2018.

### Accounting Standards

We adopted the new accounting standards for revenue recognition and leases effective January 2, 2018. These new standards had a material impact on our condensed consolidated financial statements. Beginning in fiscal year 2018, our financial results reflect adoption of the standards with prior periods restated accordingly. The retrospective adoption of the revenue and lease standards increased our net income by $207,000 for the three months ended April 3, 2017, approximately $0.01 per diluted share. Refer to *Recently Adopted Accounting Standards* under *Note 1 — Description of Business and Basis of Presentation* (Part I, Item 1 of this Form 10-Q) for further discussion.

## Key Operating Metrics

We evaluate the performance of our business using a variety of operating and performance metrics. Set forth below is a description of our key operating metrics.

| | Three Months Ended | |
|---|---|---|
| | April 2, 2018 | April 3, 2017 |
| Store average weekly sales | $ 10,874 | $ 11,033 |
| Comparable store sales | (3.9)% | (5.0)% |
| Comparable stores | 1,469 | 1,472 |
| System-wide sales (in thousands) | $ 213,759 | $ 225,610 |
| System-wide stores | 1,504 | 1,566 |
| Adjusted EBITDA (in thousands) | $ 7,136 | $ (2,345) |

## Average Weekly Sales

Average Weekly Sales ("AWS") consists of the average weekly sales of stores over a specified period of time. AWS is calculated by dividing the total net sales of our system-wide stores for the relevant time period by the number of weeks these stores were open in such time period. This measure allows management to assess changes in customer traffic and spending patterns in our stores.

## Comparable Store Sales

Comparable store sales represents the change in year-over-year sales for comparable stores. A comparable store is a store open for at least 52 full weeks from the comparable date (the Tuesday following the opening date). Comparable store sales reflects changes in the number of transactions and in customer spend per transaction at existing stores. Customer spend per transaction is affected by changes in menu prices, sales mix, and the number of items sold per customer.

## System-Wide Sales

System-wide sales include net sales by all of our system-wide stores. This measure allows management to assess the health of our brand, our relative position to competitors, and changes in our royalty revenues.

## Store Openings, Closures, Acquisitions, and Divestitures

We review the number of new stores, the number of closed stores, and the number of acquired and divested stores to assess growth in system-wide sales, royalty revenues, and Company-owned store sales. We operate through a footprint of 1,504 stores as of April 2, 2018, of which 90.4% are franchised, located in 39 states plus Canada and the Middle East. The following table presents the changes in the number of stores in our system for the three months ended April 2, 2018.

| | Franchise | | | | |
|---|---|---|---|---|---|
| | **Domestic** | **International** | **Total Franchise** | **Company Stores** | **Total** |
| Store count at January 1, 2018 | 1,338 | 40 | 1,378 | 145 | 1,523 |
| Openings | 4 | — | 4 | — | 4 |
| Closings | (23) | — | (23) | — | (23) |
| Store count at April 2, 2018 | 1,319 | 40 | 1,359 | 145 | 1,504 |

## EBITDA and Adjusted EBITDA

To supplement our interim unaudited condensed consolidated financial statements presented in accordance with generally accepted accounting principles in the U.S. ("GAAP"), we consider certain financial measures that are not prepared in accordance with GAAP. These non-GAAP financial measures are not based on any standardized methodology prescribed by GAAP and are not necessarily comparable to similarly-titled measures presented by other companies.

Adjusted EBITDA is calculated as net income (loss) before interest expense, income taxes, depreciation, and amortization ("EBITDA") as adjusted for the effects of items that we do not consider indicative of our operating performance. Adjusted EBITDA is a supplemental measure of operating performance that does not represent and should not be considered as an alternative to net income (loss), as determined by GAAP, and our calculation of Adjusted EBITDA may not be comparable to that reported by other companies.

Adjusted EBITDA is a non-GAAP financial measure. Management believes that this financial measure, when viewed with our results of operations in accordance with GAAP and our reconciliation of Adjusted EBITDA to net income (loss), provides additional information to investors about certain material or unusual items that we do not expect to continue at the same level in the future. By providing this non-GAAP financial measure, we believe we are enhancing investors' understanding of our business and our results of operations, and assisting investors in evaluating how well we are executing strategic initiatives. We believe Adjusted EBITDA is used by investors as a supplemental measure to evaluate the overall operating performance of companies in our industry.

Management uses Adjusted EBITDA and other similar measures:

- in comparing our operating performance on a consistent basis;
- to calculate incentive compensation for our employees;
- for planning purposes, including the preparation of our internal annual operating budget; and
- to evaluate the performance and effectiveness of our operational strategies.

Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of the limitations are:

- Adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect the cash requirements for such replacements; and
- Adjusted EBITDA does not reflect our tax expense or the cash requirements to pay our taxes.

To address these limitations, we reconcile Adjusted EBITDA to the most directly comparable GAAP measure, net income. Further, we also review GAAP measures and evaluate individual measures that are not included in Adjusted EBITDA.

The following table provides a reconciliation of our net income (loss) to Adjusted EBITDA for the periods presented:

| | Three Months Ended | |
|---|---|---|
| *(in thousands)* | April 2, 2018 | April 3, 2017 |
| **Net Income (Loss)** | $ 1,580 | $ (5,207) |
| Depreciation and amortization | 2,141 | 3,117 |
| Provision for (benefit from) income taxes | 581 | (3,680) |
| Interest expense, net | 1,292 | 1,227 |
| **EBITDA** | $ 5,594 | $ (4,543) |
| CEO transition and restructuring costs(1) | 244 | 2,198 |
| Litigation settlements(2) | 940 | — |
| E-commerce transition costs(3) | 358 | — |
| **Adjusted EBITDA** | $ 7,136 | $ (2,345) |

(1) Represents non-recurring management transition and restructuring costs in connection with the recruitment of a new Chief Executive Officer and other executive positions.
(2) Accruals made for franchisee litigation settlements.
(3) Non-recurring costs incurred to complete the transition to a new e-commerce platform.

## Our Segments

As a result of changes in our executive management responsibilities, effective January 2, 2018 we changed our reportable segments by combining our domestic and international franchise business into a single Franchise segment and separating the Brand Funds business into a separate reportable segment. Management believes this change better reflects the priorities and decision-making analysis around the allocation of our resources. Prior period results for the affected segments have been retrospectively revised to reflect this change.

We operate in three business segments: Franchise, Company Stores, and Brand Funds. Our Franchise segment consists of our franchised stores, our Company Stores segment consists of our Company-owned stores, and our Brand Funds segment consists of our BMF and our Convention fund.

Our Chief Operating Decision Maker (“CODM”) uses segment adjusted EBITDA as the primary measure of segment performance to allocate resources. The CODM believes this measure provides an enhanced basis for consistently measuring segment performance against operational objectives and strategies. Segment adjusted EBITDA excludes certain unallocated and corporate expenses, which include costs related to our board of directors, CEO, CFO, and certain legal expenses. Although segment adjusted EBITDA is not a measure of financial condition or performance determined in accordance with GAAP, we use segment adjusted EBITDA to compare the operating performance of our segments on a consistent basis and to evaluate the performance and effectiveness of our operational strategies. Our calculation of segment adjusted EBITDA may not be comparable to that reported by other companies.

Table of Contents

The following tables set forth our revenues and segment adjusted EBITDA for each of our segments for the periods presented:

| (in thousands) | Three Months Ended April 2, 2018 | Three Months Ended April 3, 2017 |
|---|---|---|
| **Revenues** | | |
| Franchise | $ 11,762 | $ 11,436 |
| Brand Funds | 5,885 | 8,502 |
| Franchise related | 16,190 | 19,398 |
| Company Stores | 18,582 | 20,775 |
| Total business segment revenues | 36,229 | 40,713 |
| Intersegment eliminations | (1,457) | (540) |
| Total | $ 34,772 | $ 40,173 |

| (in thousands) | Three Months Ended April 2, 2018 | Three Months Ended April 3, 2017 |
|---|---|---|
| **Segment Adjusted EBITDA** | | |
| Franchise | $ 7,287 | $ 8,687 |
| Company Stores | 1,074 | 788 |
| Brand Funds | (238) | (8,342) |
| Total reportable segments adjusted EBITDA | 8,123 | 1,133 |
| Corporate and unallocated | (987) | (3,478) |
| Depreciation and amortization | (2,141) | (3,117) |
| Interest expense, net | (1,292) | (1,227) |
| CEO transition and restructuring costs(1) | (244) | (2,198) |
| Litigation settlements(2) | (940) | — |
| E-commerce transition costs(3) | (358) | — |
| **Income (Loss) Before Income Taxes** | $ 2,161 | $ (8,887) |

(1) Represents non-recurring management transition and restructuring costs in connection with the recruitment of a new Chief Executive Officer and other executive positions.
(2) Accruals made for franchisee litigation settlements.
(3) Non-recurring costs incurred to complete the transition to a new e-commerce platform.

# Results of Operations

The following table sets forth our results of operations in dollars and as a percentage of total revenues for the three months ended April 2, 2018, and April 3, 2017. Prior year numbers have been adjusted to reflect the impacts of adopting ASU 2014-09 (the new revenue accounting standard) and ASU 2016-02 (the new lease accounting standard). See *Recently Adopted Accounting Standards* under *Note 1 — Description of Business and Basis of Presentation* for more information on these two standards and a reconciliation of results as previously reported to adjusted results as presented below.

| | Three Months Ended | | | |
|---|---|---|---|---|
| | April 2, 2018 | | April 3, 2017 | |
| (dollars in thousands) | $ | Total % of Revenues | $ (1) | Total % of Revenues |
| **Revenues** | | | | |
| Franchise related | $ 16,190 | 46.6% | $ 19,398 | 48.3 % |
| Company-owned stores | 18,582 | 53.4% | 20,775 | 51.7 % |
| Total revenues | 34,772 | 100.0% | 40,173 | 100.0 % |
| **Costs and Expenses** | | | | |
| Store operating costs: | | | | |
| Cost of food and packaging (2) | 6,126 | 17.6% | 7,215 | 17.9 % |
| Compensation and benefits (2) | 5,631 | 16.2% | 6,334 | 15.8 % |
| Advertising (2) | 1,252 | 3.6% | 1,712 | 4.3 % |
| Other store operating costs (2) | 3,103 | 8.9% | 3,701 | 9.2 % |
| Selling, general, and administrative | 13,013 | 37.4% | 25,702 | 64.0 % |
| Depreciation and amortization | 2,141 | 6.2% | 3,117 | 7.8 % |
| Loss on disposal of property and equipment | 2 | 0.0% | 9 | 0.0 % |
| Total costs and expenses | 31,268 | 89.9% | 47,790 | 119.0 % |
| **Operating Income (Loss)** | 3,504 | 10.1% | (7,617) | (19.0)% |
| Interest expense, net | 1,292 | 3.8% | 1,227 | 3.0 % |
| Other expense, net | 51 | 0.1% | 43 | 0.1 % |
| **Income (Loss) Before Income Taxes** | 2,161 | 6.2% | (8,887) | (22.1)% |
| Provision for (benefit from) income taxes | 581 | 1.7% | (3,680) | (9.1)% |
| **Net Income (Loss)** | 1,580 | 4.5% | (5,207) | (13.0)% |

(1) Prior year numbers have been adjusted to reflect the impacts of adopting ASU 2014-09 (the new revenue accounting standard) and ASU 2016-02 (the new lease accounting standard). See Recently Adopted Accounting Standards under *Note 1 — Description of Business and Basis of Presentation* for more information on these two standards and a reconciliation of results as previously reported to adjusted results as presented above.

(2) Please see the table presented under *Costs and Expenses* below, which presents Company-owned store expenses as a percentage of Company-owned store sales for the three months ended April 2, 2018, and April 3, 2017.

## Revenues

***Total revenues.*** In the three months ended April 2, 2018, total revenues decreased compared to the three months ended April 3, 2017, primarily due to (a) a decline in comparable store sales of 3.9%, (b) a decline in the number of Company-owned and franchise stores period-over-period; and (c) the elimination of an incremental advertising fee of 0.85% of sales charged to all stores only in fiscal year 2017 to help fund the test of national advertising in the first quarter of 2017.

***Franchise revenues.*** Franchise revenues decreased in the three months ended April 2, 2018, compared to the three months ended April 3, 2017, due to (a) a decline in Franchise comparable store sales of 4.0%, (b) a net decline of 39 franchise stores period-over-period, and (c) the elimination of an incremental advertising fee of 0.85% of sales charged to all stores only in fiscal year 2017 to help fund the test of national advertising in the first quarter of 2017.

***Company-owned stores revenue.*** Company-owned stores revenue decreased in the three months ended April 2, 2018, compared to the three months ended April 3, 2017, due to a decline in comparable store sales of 2.7% in the three months ended April 2, 2018, compared to the three months ended April 3, 2017, and a reduction in the number of Company-owned stores period-over-period due to the refranchising of seven and closure of 16 Company-owned stores since April 3, 2017.

## Costs and Expenses

***Total costs and expenses.*** Total costs and expenses decreased in the three months ended April 2, 2018, compared to the three months ended April 3, 2017, primarily as a result of the additional advertising costs incurred during the first quarter of 2017 associated with the national advertising test.

***Store operating costs.*** Store operating costs as a percentage of total revenues decreased in the three months ended April 2, 2018, compared to the three months ended April 3, 2017. The following table presents the components of store operating costs as a percentage of Company-owned store sales for the periods reported:

| | Three Months Ended | |
|---|---|---|
| | April 2, 2018 | April 3, 2017 |
| **Store operating costs as a % of Company-owned store sales:** | | |
| Cost of food and packaging | 33.0% | 34.7% |
| Compensation and benefits | 30.3% | 30.5% |
| Advertising | 6.7% | 8.2% |
| Occupancy and other store operating costs | 16.7% | 17.9% |
| Total store operating costs | 86.7% | 91.3% |

Total store operating costs as a percentage of Company-owned store sales decreased 460 basis points overall in the three months ended April 2, 2018, compared to the three months ended April 3, 2017, due primarily to the effect of Company-owned store portfolio changes in select markets and as further explained below:

- ***Cost of food and packaging.*** Food and packaging costs declined during the three months ended April 2, 2018 compared to the three months ended April 3, 2017 primarily due to the closing of 16 stores since April 3, 2017 that had lower sales and higher food costs as a percentage of store sales than the system average.
- ***Advertising costs.*** Advertising costs decreased in the three months ended April 2, 2018 compared to the three months ended April 3, 2017 due primarily to additional spending on our first test of national advertising during the three months ended April 3, 2017.
- ***Occupancy and other store operating costs.*** The decrease in occupancy and other store operating costs as a percentage of Company-owned store sales during the three months ended April 2, 2018, compared to the three months ended April 3, 2017 was primarily a result of closing 16 stores since April 3, 2017 that had lower sales and higher occupancy costs as a percentage of store sales than the system average. In addition, during the third quarter of 2017, the Company recorded an impairment charge for underperforming stores in four markets, including lease ROU assets, which reduced future occupancy costs recognized from leases in those markets.

***Selling, general, and administrative.*** Selling, general, and administrative costs decreased in the three months ended April 2, 2018, compared to the three months ended April 3, 2017, primarily due to advertising fund expenses incurred in the first quarter of 2017 associated with our first test of a national media campaign, and severance and restructuring costs incurred in the first quarter of 2017 associated with executive turnover and staff reductions.

***Depreciation and amortization.*** Depreciation and amortization decreased in the three months ended April 2, 2018, compared to the three months ended April 3, 2017, due to a reduction in Company-owned stores period-over-period and the recording of impairment charges for our former e-commerce platform and Company-owned stores in four markets during 2017.

***Interest expense, net.*** Interest expense, net increased in the three months ended April 2, 2018, compared to the three months ended April 3, 2017, due to increased average interest rates, partially offset by a reduction in the total amount of debt outstanding period-over-period.

***Income taxes.*** The provision for income taxes increased in the three months ended April 2, 2018, compared to the three months ended April 3, 2017, due to a GAAP loss before income taxes in 2017, compared to GAAP income before income taxes in the current period.

The effective tax rate for the three months ended April 2, 2018, was 26.9% compared to 41.4% for the three months ended April 3, 2017. The effective income tax rate decreased as a result of the lower 2018 Federal tax rates enacted in late 2017 as part of the Tax Cuts and Jobs Act. Our income taxes have varied from what would be expected from the application of prevailing statutory rates mainly due to the effect of meal and entertainment expenses and share-based compensation expenses.

## Segment Results

***Franchise.*** Total revenues for the Franchise segment increased $0.3 million in the three months ended April 2, 2018 compared to the three months ended April 3, 2017, primarily due to a change in intersegment revenues. Starting in fiscal year 2018, a royalty fee, comparable to what is charged to franchised stores, is charged to each Company-owned store. This royalty fee replaces the corporate overhead allocation that was in place through fiscal year 2017. This change increased Franchise intersegment revenues for the three months ended April 2, 2018 by about $1 million compared to the three months ended April 3, 2017. This increase in Franchise revenues was partially offset by a $0.7 million decline in Franchise revenues for the three months ended April 2, 2018 compared to the three months ended April 3, 2017 as a result of a decline in Franchise comparable store sales of 4.0% and a reduction in the number of franchised stores period-over-period.

Adjusted EBITDA for the Franchise segment decreased $1.4 million in the three months ended April 2, 2018, compared to the three months ended April 3, 2017, primarily due to the aforementioned changes in the corporate overhead cost allocation methodology.

***Company Stores.*** Total revenues for the Domestic Company Stores segment decreased $2.2 million in the three months ended April 2, 2018 compared to the three months ended April 3, 2017, primarily due to a decline in comparable store sales of 2.7% and a reduction in the number of Company-owned stores period-over-period.

Adjusted EBITDA for the Domestic Company Stores segment increased $0.3 million in the three months ended April 2, 2018, compared to the three months ended April 3, 2017, primarily as a result of the closure of 16 underperforming stores since April 3, 2017 and a change to the corporate overhead cost allocation methodology.

***Brand Funds.*** Total revenues for the Brand Funds segment decreased for the three months ended April 2, 2018, compared to the three months ended April 3, 2017 primarily as a result of eliminating the incremental advertising fee of 0.85% of sales charged to domestic stores in fiscal year 2017 to partially fund the test of national advertising in the first quarter of 2017. Brand Funds revenues also declined due to a reduction in Franchise comparable domestic store sales of 3.7% and fewer domestic franchised stores period-over-period.

Adjusted EBITDA from the Brand Funds segment increased $8.1 million for the three months ended April 2, 2018, compared to the three months ended April 3, 2017, due to the elimination of advertising expenditures associated with our test of national advertising during the three months ended April 3, 2017. Total advertising fund expenditures exceeded fund contributions by $0.4 million and $8.3 million in the three months ended April 2, 2018 and April 3, 2017, respectively.

The table below shows the net impact of the BMF on the Brand Funds segment adjusted EBITDA and the current fund deficit. The Convention Fund had EBITDA of zero and a fund surplus of $0.6 million and $1.2 million as of April 2, 2018 and April 3, 2017, respectively.

| | Three Months Ended | |
|---|---|---|
| *(in thousands)* | April 2, 2018 | April 3, 2017 |
| Opening fund deficit | $ (5,461) | $ (1,071) |
| Net activity during the period | (401) | (8,342) |
| Ending fund deficit | $ (5,862) | $ (9,413) |

# Liquidity and Capital Resources

Our primary sources of liquidity are cash flows from operating activities and proceeds from the incurrence of debt, which together are sufficient to fund our operations, tax payments, capital expenditures, interest, fees, and principal payments on our debt as well as support our growth strategy. If the need arises, we may seek additional funding. Our ability to obtain additional financing will depend on many factors, including prevailing market conditions, our financial condition, and our ability to negotiate favorable terms and conditions. Financing may not be available on terms that are acceptable or favorable to us, if at all.

As of April 2, 2018, we had Cash and cash equivalents of $1.5 million and $20.0 million of available borrowings under a revolving line of credit, of which none was drawn. As of April 2, 2018, we had $91.0 million of outstanding indebtedness. Principal payments under our Senior Credit Facility are due on the last day of each fiscal quarter through the life of the Senior Credit Facility. We believe that our cash flows from operations, available cash and cash equivalents, and available borrowings under our revolving credit facility will be sufficient to meet our liquidity needs for at least the next 12 months.

As of April 2, 2018, we were in compliance with all of our covenants and other obligations under our Senior Credit Facility.

## Cash Flows

The following table presents a summary of cash flows from operating, investing, and financing activities for the periods presented:

| | Three Months Ended | |
|---|---|---|
| *(in thousands)* | April 2, 2018 | April 3, 2017 |
| Cash flows from operating activities | $ 4,252 | $ (635) |
| Cash flows from investing activities | (7) | (903) |
| Cash flows from financing activities | (4,900) | (82) |
| Total cash flows | $ (655) | $ (1,620) |

***Cash Flows from Operating Activities***

Net cash provided by operating activities of $4.3 million for the three months ended April 2, 2018, resulted primarily from net income of $1.6 million, adjusted for items such as depreciation and amortization, gains and losses on the disposal or impairment of property and equipment, and changes in operating assets and liabilities. The $4.9 million increase for the three months ended April 2, 2018, compared to the three months ended April 3, 2017, was primarily driven by reduced spending on marketing during the first quarter of 2018 compared to the first quarter of 2017, which included our test of national advertising. This reduction in advertising spend was partially offset by lower advertising fee revenues due to the elimination of an incremental advertising fee of 0.85% of sales charged to all stores only in fiscal year 2017 to help fund the test of national advertising in the first quarter of 2017.

***Cash Flows from Investing Activities***

Net cash used by investing activities was $7,000 for the three months ended April 2, 2018, compared to net cash used of $0.9 million for the three months ended April 3, 2017. The $0.9 million decrease in cash used by investing activities was due primarily to a period-over-period decrease of $0.9 million in capital expenditures for property, plant, and equipment

***Cash Flows from Financing Activities***

Net cash used by financing activities was $4.9 million for the three months ended April 2, 2018, compared to net cash used of $0.1 million for the three months ended April 3, 2017. The $4.8 million increase in net cash used by financing activities was due to extra payments on our long-term debt and no borrowings under our revolving credit facility during the three months ended April 2, 2018.

# Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses. On an ongoing basis, we evaluate our judgments and estimates, including those related to revenue recognition, impairment of goodwill and intangible assets, income taxes, advertising expense, leases, and share-based compensation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable in the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

The accounting policies we believe to be most critical to understanding our financial results and condition and that require complex and subjective management judgments and estimates are identified and described in our annual consolidated financial statements and the notes included in our Annual Report on Form 10-K for the fiscal year ended January 1, 2018. For a discussion of new accounting standards that have been issued by the FASB and have been adopted during the current year, see *Note 1 — Description of Business and Basis of Presentation* to the interim unaudited condensed consolidated financial statements in Part I, Item 1.

## JOBS Act

We qualify as an “emerging growth company” pursuant to the provisions of the Jumpstart Our Business Startup Act of 2012 (the “JOBS Act”). For as long as we are an “emerging growth company,” we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies,” including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, reduced disclosure obligations relating to the presentation of financial statements in Management’s Discussion and Analysis of Financial Condition and Results of Operations, exemptions from the requirements of holding advisory “say-on-pay” votes on executive compensation and shareholder advisory votes on golden parachute compensation. We have availed ourselves of these reduced reporting and disclosure requirements in our existing filings and expect to continue to avail ourselves of the reduced reporting and disclosure requirements available to emerging growth companies in future filings. We could be an “emerging growth company” until the end of our 2019 fiscal year.

In addition, an emerging growth company can delay its adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we chose to “opt out” of this extended transition period, and as a result, we will comply with any new or revised accounting standards on the relevant dates on which non-emerging growth companies must adopt the standards. 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

As of April 2, 2018, there have been no material changes in our market risk exposure from that disclosed in our Annual Report on Form 10-K for the fiscal year ended January 1, 2018. For a discussion of our market risk exposure, please see “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” contained in our Annual Report on Form 10-K for the fiscal year ended January 1, 2018.

# Item 4. Controls and Procedures

## Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 (the “Exchange Act”). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, 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 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 last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

# PART II — OTHER INFORMATION

## Item 1. Legal Proceedings

There have been no material developments in the legal proceedings described in Part I, Item 3, of our Annual Report on Form 10-K for the fiscal year ended January 1, 2018.

## Item 1A. Risk Factors

An investment in our common stock involves a high degree of risk. A detailed discussion of our risk factors is included under the section title "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended January 1, 2018. There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended January 1, 2018. If any of these risks, as well as other risks and uncertainties that are not yet identified or that we currently think are immaterial, actually occur, our business, results of operations or financial condition could be materially and adversely affected. In such an event, the trading price of our common stock could decline and you could lose part or all of your investment. The risk factors and other information included in our Annual Report on Form 10-K for the fiscal year ended January 1, 2018, should be carefully considered before making an investment decision relating to our common stock.

## Item 6. Exhibits.

| Exhibit Number | Description of Exhibits |
|---|---|
| 10.1*† | Offer Letter dated as of March 22, 2018 between Papa Murphy's Holdings, Inc. and Nik Rupp. |
| 10.2*† | Employment Agreement dated as of May 9, 2018 between Papa Murphy's Holdings, Inc. and Nik Rupp. |
| 10.3*‡ | Purchase and Sale Agreement dated April 17, 2018 among Papa Murphy's Company Stores, Inc., Papa Murphy's International LLC, and Fresh Take, LLC. |
| 31.1* | Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1* | Certificate of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2* | Certificate of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS* | XBRL Instance 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 |

* Filed herewith

† A management contract or compensatory plan or arrangement

‡ The exhibits to this agreement have been omitted in accordance with Item 601(b)(2) of Regulation S-K. A copy of any omitted exhibit will be furnished to the Securities and Exchange Commission upon request.

# SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized

PAPA MURPHY’S HOLDINGS, INC.

By: /s/ Nik Rupp

Name: Nik Rupp

Title: Chief Financial Officer

Date: May 9, 2018

March 21, 2018

Confidential to: Nik Rupp:

Dear Nik:

We are pleased to offer you the position of Chief Financial Officer with Papa Murphy's. In this position you would be a full-time employee reporting directly to me.

We look forward to a mutually beneficial relationship and believe that your skills and experience will help us to reach our goals. This letter will serve as an outline of the terms of the agreement.

***Base Salary and Short-Term Incentive Compensation***
Base salary of $315,000 annualized. Your salary will be reviewed every year beginning in 2019 consistent with the Leadership Team compensation and performance review cycle.

This position qualifies to receive a target incentive payment of 50% of your base salary contingent on the Company's attainment of its sales and profitability goals, the Company's ability to fund the incentive compensation pool, and attainment of your personal performance goals. You will be eligible to receive a pro-rated short term incentive payment in 2019 based on 2018's performance against the criteria above and your start date.

***Long-Term Incentive Compensation***
This position qualifies to receive the right and option to purchase, on the terms and conditions set forth in the 2014 Equity Incentive Plan and the Stock Option Agreement, 50,000 shares of Papa Murphy's Holdings, Inc. stock. The options will vest in 1/4th installments on the first, second, third and fourth anniversaries of the date of grant, subject to your continued employment on the applicable vesting dates. The options will be granted to you on the first business day of the quarter following your start date (e.g., if you were to start in April 2018, the options would be granted on the first business day of the first quarter or July 3, 2018).

***Executive Employment and Non-Competition Agreement***
Upon your start date Papa Murphy's will enter into an Executive Employment and Non-Competition Agreement in the form attached hereto which will set forth terms of severance should your employment be terminated after its execution. The Executive Employment and Non-Competition Agreement will include, among other provisions, that should Papa Murphy's terminate your employment without Cause (as defined in the Executive Employment and Non-Competition Agreement) you will be eligible to receive salary and benefits for 12 months, subject to non-competition, non-solicitation and confidentiality provisions. Once the Executive Employment and Non-Competition Agreement is executed, unless terminated, the employment

period under it will be automatically extended annually on April 1st of each year for an additional 12-month period.

***Sign-On Bonus***
Papa Murphy's will provide a $25,000 signing bonus, less applicable tax withholding, to be paid on the first payday following your start date. If you voluntarily separate from Papa Murphy's before your one-year anniversary, you will repay this bonus to the company on a pro-rated basis (i.e. separate at 10 months, repay 2/12ths).

***Medical Benefits and 401(k)***
You will be eligible to apply for Papa Murphy's Health and Welfare plan which includes: Medical, Dental, Rx, optional Vision and FSA coverage.

Company paid Life and Accidental Death and Dismemberment Insurance. Life Insurance is equal to your annual base salary up to a maximum of $400,000.

You will be eligible to enroll in the 401(k) savings plan the first of the month after six months of service. If you contribute to the 401(k) plan, you will be eligible to receive a Safe Harbor matching contribution equal to 100% of the amount you contribute to the plan up to the first 3% plus 50% of the amount you contribute between 3% and 5%. Match contributions are immediately vested.

***Paid Time Off and Observed Company Holidays***
As Papa Murphy's Chief Executive Officer your Paid Time Off (PTO) is subject to the terms and conditions of the Company's *Leadership Team Flexible PTO Policy*. This policy applies to eligible employees' absences not related to the Family and Medical Leave Act (FMLA) leave lasting less than four weeks, including bereavement, sick, vacation, and jury duty. In essence, you are not held to the constraints of a PTO bank of hours. PTO simply requires my approval.

Company paid Holidays include: New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving, Day after Thanksgiving, and Christmas.

***Liability***
As the Chief Executive Officer and a Director, you will have insurance coverage under Papa Murphy's Directors and Officers liability insurance plans.

***Pizza Perk***
50% pizza discount at Papa Murphy's Company Stores.

This offer is contingent upon the successful completion of an investigative consumer report (background check). We will notify you upon completion of this check

As discussed, we would like you to start work on April 9th, 2018 and will determine a mutually agreed to start date upon your acceptance. Please sign the acceptance portion of this letter within 24 hours and fax it to 360-397-6665 or scan/email it to Stephanie Richmond at stephanie.richmond@papamurphys.com.

We look forward to you joining the Papa Murphy's team! Please contact me at (503) 360-XXXX if you have any questions.

Sincerely,

/s/ Weldon Spangler
Weldon Spangler
Chief Executive Officer

Accepted: ________________________ ________________________
Nik Rupp Date

# EXECUTIVE EMPLOYMENT AND NON-COMPETITION AGREEMENT

This EXECUTIVE EMPLOYMENT AND NON-COMPETITION AGREEMENT (this "Agreement"), dated as of the 9th day of May, 2018, by and between Papa Murphy's Holdings, Inc., a Delaware corporation (the "Company"), and Nik Rupp, a resident of Oregon ("Executive").

WHEREAS, the purpose and business of the Company is to operate a 'take and bake' pizza franchising business (the "Business");

WHEREAS, the Company desires to be assured that the confidential information and goodwill of the Company will be preserved for the exclusive benefit of the Company;

WHEREAS, the Company desires to be assured that the unique and expert services of Executive will be available to the Company, and that Executive is willing and able to continue to render such services on the terms and conditions hereinafter set forth; and

NOW, THEREFORE, in consideration of such employment and the mutual covenants and promises herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Executive agree as follows:

1. **Employment**. The Company hereby agrees to employ Executive, and Executive hereby agrees to accept employment with the Company, upon the terms and conditions contained in this Agreement, to be effective on the date that Executive commences employment with the Company (the "Effective Date"). Executive's employment with the Company shall continue, subject to earlier termination of such employment pursuant to the terms hereof, until April 1, 2019 after the Effective Date (the "Employment Period"). Notwithstanding anything herein to the contrary, this Agreement shall be of no force or effect until the Effective Date. On April 1, 2019 and on each anniversary thereof, the Employment Period shall be automatically extended for an additional twelve-month period. The Company or Executive may elect to terminate the automatic extension of the Employment Period by giving written notice of such election not less than ninety (90) days prior to the end of the then current Employment Period.

2. **Duties**. During the Employment Period, Executive shall serve on a full-time basis and perform services in a managerial capacity in a manner consistent with Executive's position as Chief Financial Officer of the Company and Executive's duties and responsibilities shall include those duties reasonably assigned to him from time to time by the Company's Chief Executive Officer. Executive shall devote his entire business time, attention and energies (excepting vacation time, holidays, sick days and periods of disability) and use his best efforts in his employment with the Company; provided, however, that this Agreement shall not be interpreted as prohibiting Executive from managing his personal affairs, engaging in charitable or civic activities, or serving as a director of or providing services to another business or enterprise (whether engaged in for profit or not; provided, however, with respect to for profit businesses, Executive shall be limited to serving as a director to three for-profit business enterprises other than the Company), so long as such activities do not interfere in any material respect with the performance of Executive's duties and responsibilities hereunder.

3. **Compensation**.

3.1 Base Salary.

(a) In consideration of the services rendered by Executive under this Agreement, the Company shall pay Executive a base salary (the "Base Salary") at the rate of $315,000 per calendar year during his employment.

(b) The Base Salary shall be paid in such installments and at such times as the Company pays its regularly salaried executives and shall be subject to all necessary withholding taxes, FICA contributions and similar deductions in accordance with the Company's customary payroll procedures.

(c) The Base Salary will be reviewed on an annual basis by the Board and may be increased based on individual performance and/or the performance of the Company; provided, however, that Executive's Base Salary may not be decreased at any time (including after any increase) other than as part of an across-the-board salary reduction similarly affecting all or substantially all management employees.

3.2 Bonus. During the Employment Period, Executive shall be eligible to receive an annual bonus award (the "Annual Bonus") with the target amount equal to at least 50% of the Base Salary, payable in accordance with the Company's incentive compensation policy; provided, that, such Annual Bonus shall in no event be paid later than March 15 of the calendar year immediately following the fiscal year to which such Annual Bonus relates. The Annual Bonus shall be based upon the attainment of certain targets as agreed upon by Executive and the Board with respect to the Company's financial performance for any fiscal year ending during the Employment Period. The Annual Bonus shall be subject to all necessary withholding taxes, FICA contributions and similar deductions.

3.3 Equity Incentive Awards. The Compensation Committee shall determine the timing, amount and form of any grants equity-based incentive compensation awards to be made to Executive.

3.4 Vacation. Executive shall be entitled to take vacation consistent with Company policy, such vacation to extend for such periods and to be taken at such intervals as shall be appropriate and consistent with the proper performance of Executive's duties hereunder.

3.5 Benefits. During the term of Executive's employment under this Agreement, Executive shall be entitled to participate in any benefit plans (excluding any severance or bonus plans unless specifically referenced in this Agreement) offered by the Company as in effect from time to time (collectively, "Benefit Plans"), on the same basis as that generally made available to other senior executives of the Company, to the extent Executive may be eligible to do so under the terms of any such Benefit Plan. Executive understands that any such Benefit Plans may be terminated or amended from time to time by the Company in its discretion.

4. **Termination**. Executive's employment hereunder may be terminated as follows:

4.1 By the Company. With or without Cause (as defined below), the Company may terminate the employment of Executive at any time during the term of employment upon giving Executive at least 90 days' prior written notice thereof. The effective date of the termination of Executive's employment shall be the date on which such applicable 90-day period expires; provided, however, that the Company may, upon notice to Executive and without reducing Executive's Base Salary during such 90-day period, excuse Executive from any or all of his duties during such period and request Executive to immediately resign as a director of the Company, if applicable, and officer of the Company, whereupon, if requested to so resign, Executive shall immediately resign.

4.2 By Executive. Executive may terminate his employment at any time upon giving the Company, in the case of termination by Executive (a) other than with Good Reason, at least 60 days' prior written notice thereof and (b) with Good Reason, at least 31 days' prior written notice thereof. The effective date of the termination of Executive's employment shall be the date on which such applicable 60- or 31-day period expires; provided, however, that the Company may, upon notice to Executive and without reducing Executive's annual base salary during such 60- or 31-day period, excuse Executive from any or all of his duties during such period and request Executive to immediately resign as a Director, if applicable, and officer of the Company, whereupon, if requested to so resign, Executive shall immediately resign; and provided further, that in the case of termination with Good Reason, the Company has not cured the condition constituting Good Reason. Any such resignation at the Company's request following Executive's notice of termination other than with Good Reason shall not be deemed to represent termination of Executive's employment by the Company for purposes of this Agreement or otherwise, but shall be deemed voluntary termination by Executive of his employment without Good Reason.

4.3 Total Disability of Executive. This Agreement and Executive's employment hereunder shall terminate automatically upon the death or Total Disability of Executive. The term "Total Disability" as used herein shall mean a physical or mental incapacity or disability which renders Executive unable to render the services required hereunder (a), with or without reasonable accommodation, for a period or periods aggregating 180 days in any 12-month period or (b) for a period of 90 consecutive days. Executive and Employer hereby acknowledge that Executive's ability to perform the duties specified in Section 2 hereof is of the essence of this Agreement. Termination hereunder shall be deemed to be effective immediately upon Executive's death or a determination by the Board of Directors of Executive's Total Disability.

5. **Termination Payments**.

5.1 Death or Total Disability. Subject to Section 5.7, upon the termination of Executive's employment due to death or Total Disability, Executive or his legal representatives shall be entitled to receive (a) an amount equal to Base Salary payable through the date of termination and (b) a pro rata portion of Executive's Annual Bonus, if any, for the applicable period of the calendar year for which Executive was employed (which portion of the Annual Bonus shall be reasonably determined by the Board at the end of the year in which termination occurs in accordance with the Board's bonus determination policies then in effect), payable at the same time as such payment would have been made if not for Executive's death or Total Disability. Executive or his legal representatives shall also be entitled to any accrued and unpaid vacation pay or other benefits which may be owing in accordance with the Company's policies.

5.2 Termination Without Cause or by Executive for Good Reason. Subject to Section 5.7, if Executive's employment is terminated by the Company at any time during the Employment Period without Cause or by Executive at any time during the Employment Period for Good Reason, Executive shall be entitled to receive (a) any accrued but unpaid Base Salary through the date of termination; (b) Base Salary through the one-year anniversary of such date of termination, payable at the time such payments would have otherwise been payable under this Agreement had the Executive not been terminated; provided, however, that no portion of such severance pay shall be paid to the Executive prior to the first regular payroll following the 60th day of the date of the Executive's termination of employment with the Company (the "First Payroll Date") and the portion of the severance pay that would have been paid to the Executive prior to the First Payroll Date shall be paid to the Executive on the First Payroll Date in a single lump sum; (c) a pro rata portion of Executive's Annual Bonus, if any, for the applicable period of the calendar year for which Executive was employed (which portion of the Annual Bonus shall be reasonably determined by the Board at the end of the year in which termination occurs in accordance with the Board's bonus determination policies then in effect), payable at the later of (i) same time as such payment would have been made if not for termination of Executive's employment with the Company as set forth in Section 3.2 hereof and (ii) the First Payroll Date; (d) if Executive is entitled (and timely and properly elects) to continue his coverage under the Company's group health plans pursuant to Section 4980B of the Internal Revenue Code of 1986, as amended (commonly known as ("COBRA")), payment by (or reimbursement from) the Company of the same portion of the premium for such coverage as the Company was paying for Executive's coverage under such plans as of Executive's date of termination, for a period of one year after the date of termination or until Executive is no longer entitled to COBRA continuation coverage under the Company's group health plans, whichever period is shorter; provided, however, that the Company may unilaterally amend clause (d) of this sentence or eliminate the benefit provided thereunder to the extent it deems necessary to avoid the imposition of excise taxes, penalties or similar charges on the Company or its affiliates (or successors), including, without limitation, under Section 4980D of Internal Revenue Code of 1986, as amended (the "Code"); (e) (1) outstanding stock options held by Executive with solely time-based vesting shall become immediately exercisable with respect to the portion that would have otherwise become exercisable on or before the one-year anniversary of Executive's date of termination and shall remain exercisable until the earlier of (x) the 60th day after the one-year anniversary of Executive's date of termination and (y) the stock option expiration date as set forth in the applicable stock option agreement; (2) for outstanding restricted stock awards held by Executive with solely time-based vesting, any vesting requirements shall be deemed satisfied, and any Company repurchase rights shall immediately terminate, with respect to the portion that would have otherwise become vested and no longer subject to forfeiture or repurchase on or before the one-year anniversary of Executive's date of termination; and (3) with respect to any other outstanding equity compensation awards other than stock options and restricted stock awards (but including restricted stock units) with solely time-based vesting, Executive will immediately vest in and have the right to exercise or payment of such awards, restrictions on such awards will lapse, and all other terms and conditions of such awards will be deemed met, with respect to the portion that would have otherwise become vested and exercisable or payable and no longer subject to restriction on or before the one-year anniversary of Executive's date of termination; and (f) (1) outstanding stock options held by Executive with performance-based vesting that are not vested and exercisable on Executive's date of termination will not be forfeited when Executive's employment terminates and shall instead remain outstanding until the earlier of (x) the fifth anniversary of the date on which such stock options become vested and exercisable and (y) the stock option expiration date as set forth in the applicable stock option agreement and (2) for outstanding restricted stock awards held by Executive with performance-based vesting, such restricted stock awards shall not cease to vest upon Executive's date of termination and any Company repurchase right shall not become exercisable with respect to any such restricted stock awards. Executive shall also be entitled to any accrued and unpaid vacation pay or other benefits which may be owing in accordance with the Company's policies.

5.3 Termination for Cause, by Executive without Good Reason or by Nonrenewal. Except for Base Salary through the day on which Executive's employment was terminated and any accrued and unpaid vacation pay or other benefits which may be owing in accordance with the Company's policies or applicable law, Executive shall not be entitled to receive severance or any other compensation or benefits after the last date of employment with the Company upon the termination of Executive's employment hereunder by the Company for Cause pursuant to Section 4.1, by Executive without Good Reason pursuant to Section 4.2 or as a result of non-renewal by the Company or Executive pursuant to Section 1.

5.4 Cause Defined. For purposes of this Agreement, the following shall constitute "Cause" for termination:

(a) dishonest statements or acts of Executive with respect to the Company or any affiliate of the Company;

(b) the commission by or indictment of Executive for (A) a felony or (B) any misdemeanor involving moral turpitude, deceit, dishonesty or fraud ("indictment," for these purposes, meaning an indictment, probable cause hearing or any other procedure pursuant to which an initial determination of probable or reasonable cause with respect to such offense is made);

(c) gross negligence, willful misconduct or insubordination of Executive with respect to the Company or any affiliate of the Company; or

(d) material breach by Executive of any of Executive's obligations to the Company;

provided, that, in the case of clause (d), in the event that the Company provides written notice of termination for Cause in reliance upon this, Executive shall have the opportunity to cure such circumstances within 30 days of receipt of such notice.

5.5 Good Reason Defined. For purposes of this Agreement, the term "Good Reason" shall mean, without Executive's verbal or written consent:

(a) the Company materially breached its obligations under this Agreement;

(b) any material diminution of significant duties of Executive;

(c) a reduction in Executive's Base Salary of 10% or more, other than pursuant to a reduction applicable to all senior executives or employees generally; or

(d) the company's corporate headquarters is moved a distance of at least 50 miles from its current corporate headquarters in Vancouver, Washington.

Notwithstanding the foregoing subsections (a) through (d), Good Reason for termination shall not exist unless (i) Executive notifies Employer in writing of the occurrence or existence of the event or condition which Executive believes constitutes Good Reason within 90 days of the occurrence or initial existence of such event or condition (which notice specifically identifies such event or condition), (ii) the Company fails to cure or remedy such event or condition within 30 days after the date on which it receives such notice (the "Remedial Period"), and (iii) Executive actually terminates employment within 90 days after the expiration of the Remedial Period.

5.6 Termination for Good Reason or Without Cause Following a Change in Control.

(a) Payment. Notwithstanding anything to the contrary in the Company's 2010 Management Incentive Plan, if Executive's employment is terminated (i) in connection with a Change in Control or (ii) within one year after a Change in Control (A) by Executive for Good Reason, or (B) by the Company without Cause, then Executive's compensation and benefits upon termination shall be governed by this Section 5.6 and Section 5.7 instead of the provisions of Section 5.2 above. In such event, Executive shall be entitled solely to the following: (1) Base Salary through the date of termination, paid on the Company's' normal payroll payment date; (2) an amount equal to the sum of his Base Salary and his target annual bonus for the year of termination, payable in a lump sum on the First Payroll Date; (3) an additional amount equal to Executive's target annual bonus for such year pro rated for the number of full months during the bonus year prior to such termination of employment, payable in a lump sum on the First Payroll Date; (4) if Executive is entitled (and timely and properly elects) to continue his coverage under the Company's group health plans pursuant to COBRA, payment by (or reimbursement from) the Company of the same portion of the premium for such coverage as the Company was paying for Executive's coverage under such plans as of Executive's date of termination for a period of one year after the date of termination or until Executive is no longer entitled to COBRA continuation coverage under the Company's group health plans, whichever period is shorter; provided, however, that the Company may unilaterally amend clause (4) of this sentence or eliminate the benefit provided thereunder to the extent it deems necessary to avoid the imposition of excise taxes, penalties or similar charges on the Company or its affiliates (or successors), including, without limitation, under Section 4980D of the Code; and (5) any accrued and unpaid vacation pay or other benefits which may be owing to Executive in accordance with the Company's policies.

(b) Equity Compensation. If Executive's employment is terminated (i) in connection with a Change in Control or (ii) within one year after a Change in Control (A) by Executive for Good Reason, or (B) by the Company without Cause, then: (1) outstanding stock options held by Executive with solely time-based vesting shall become immediately fully exercisable and shall remain exercisable until the earlier of (x) the 60th day after the one-year anniversary of Executive's date of termination and (y) the stock option expiration date as set forth in the applicable stock option agreement; (2) for outstanding restricted stock awards held by Executive with solely time-based vesting, any vesting or performance requirements shall be deemed satisfied, and any Company repurchase rights shall immediately terminate; (3) with respect to any outstanding equity compensation awards other than stock options and restricted stock awards (but including restricted stock units) with solely time-based vesting, Executive will immediately vest in and have the right to exercise or payment of such awards, all restrictions on such awards will lapse, and all other terms and conditions of such awards will be deemed met; (4) outstanding stock options held by Executive with performance-based vesting that are not vested and exercisable on Executive's date of termination will not be forfeited when Executive's employment terminates and shall instead remain outstanding until the stock option expiration date as set forth in the applicable stock option agreement; and (5) for outstanding restricted stock awards held by Executive with performance-based vesting, such restricted stock awards shall not cease to vest upon

Executive's date of termination and any Company repurchase right shall not become exercisable with respect to any such restricted stock awards.

(c) Change in Control Defined. A "Change in Control" shall mean: (i) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of Company's Common Stock would be converted into the right to receive cash, securities or other property, other than a merger of the Company in which the holders of Common Stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger; (ii) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of the Company; (iii) the acquisition by any person (as such term is defined in Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), excluding, for this purpose, the Company) of any shares of Common Stock (or securities convertible into Common Stock), if after making such acquisition, such person is the beneficial owner (as such term is defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of 40% or more of the outstanding Common Stock (calculated as provided in paragraph (d) of such Rule 13d-3 in the case of rights to acquire common stock); or (iv) the failure, for any reason, of the persons comprising the Board of Directors as of the date hereof (the "Incumbent Board") to constitute at least a majority of the Board of Directors; provided, however, that any person whose election or nomination for election was approved by a majority of the persons then comprising the Incumbent Board (other than an election or nomination of a person whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of directors) shall be, for purposes of this Agreement, deemed to be a member of the Incumbent Board.

5.7 Condition to Payment. All payments and benefits due to Executive under this Section 5 which are not otherwise required by law shall be contingent upon (a) execution by Executive (or Executive's beneficiary or estate) of a fully effective and non-revocable general release of all claims to the maximum extent permitted by law against the Company, its affiliates and its current and former stockholders, directors, members, managers, employees and agents, in such form as determined by the Company in its sole discretion within 60 days of Executive's termination of employment and (b) compliance by Executive with his obligations under this Agreement, including, without limitation, the restrictions on activities of Executive set forth in Section 7 and under any stockholders or other agreement to which the Company and Executive are a party. No payments (or reimbursements) that are subject to this Section 5.7 shall be made prior to the First Payroll Date. Any payments that would have been made to (or on behalf of) Executive under Section 5.2 during the period between the date of termination of Executive's employment with the Company and the First Payroll Date, but for the requirements of this Section 5.7, shall be paid to Executive in a lump sum on the First Payroll Date and, thereafter, the remaining portion of such benefits shall be paid over the remainder of the time period originally scheduled for such payments.

5.8 Section 280G.

(a) Amount of Payments and Benefits. Notwithstanding anything to the contrary herein, in the event that the Executive becomes entitled to receive or receives any payments, options, awards or benefits (including, without limitation, the monetary value of any noncash benefits and the accelerated vesting of equity-based awards) under this Agreement or under any other plan, agreement or arrangement with the Company or any person affiliated with the Company (collectively, the

"Payments"), that may separately or in the aggregate constitute "parachute payments" within the meaning of Section 280G of the Code and the Treasury Regulations promulgated thereunder (or any similar or successor provision) (collectively, "Section 280G") and it is determined that, but for this Section 5.8 any of the Payments will be subject to any excise tax pursuant to Section 4999 of the Code or any similar or successor provision (the "Excise Tax"), the Company shall pay to the Executive either (i) the full amount of the Payments or (ii) an amount equal to the Payments, reduced by the minimum amount necessary to prevent any portion of the Payments from being an "excess parachute payment" (within the meaning of Section 280G) (the "Capped Payments"), whichever of the foregoing amounts results in the receipt by the Executive, on an after-tax basis, of the greatest amount of Payments notwithstanding that all or some portion of the Payments may be subject to the Excise Tax. For purposes of determining whether the Executive would receive a greater after-tax benefit from the Capped Payments than from receipt of the full amount of the Payments, (i) there shall be taken into account any Excise Tax and all applicable federal, state and local taxes required to be paid by the Executive in respect of the receipt of such payments and (ii) such payments shall be deemed to be subject to federal income taxes at the highest rate of federal income taxation applicable to individuals that is in effect for the calendar year in which the payments and benefits are to be paid, and state and local income taxes at the highest rate of taxation applicable to individuals in the state and locality of the Executive's residence on the effective date of the relevant transaction described under Section 280G(b)(2)(A)(i) of the Code, net of the maximum reduction in federal income taxes that could be obtained from deduction of such state and local taxes (as determined by assuming that such deduction is subject to the maximum limitation applicable to itemized deductions under Section 68 of the Code and any other limitations applicable to the deduction of state and local income taxes under the Code). In the event that Executive will receive Capped Payments and to the extent that an ordering of the reduction other than by the Executive is required by Section 11.7 or other tax requirements, the Payments shall be reduced by the Company in a manner and order of priority that provides the Executive with the largest net after-tax value; provided that payments of equal after-tax present value shall be reduced in the reverse order of payment. Notwithstanding anything to the contrary herein, any such reduction shall be structured in a manner intended to comply with Section 409A of the Code.

(b) Computations and Determinations. All computations and determinations called for by this Section 5.8 shall be made by an independent accounting firm or independent tax counsel appointed by the Company (the "Tax Counsel"), and all such computations and determinations shall be conclusive and binding on the Company and the Executive. For purposes of such calculations and determinations, the Tax Counsel may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Tax Counsel shall submit its determination and detailed supporting calculations to both the Executive and the Company within 15 days after receipt of a notice from either the Company or the Executive that the Executive may receive payments which may be considered "parachute payments." The Company and the Executive shall furnish to the Tax Counsel such information and documents as the Tax Counsel may reasonably request in order to make the computations and determinations called for by this Section 5.8. The Company shall bear all costs that the Tax Counsel may reasonably incur in connection with the computations and determinations called for by this Section 5.8.

5.9 No Other Severance. Executive hereby acknowledges and agrees that, other than the severance payment described in Sections 5.2 and 5.6 hereof, upon termination, Executive shall not be entitled to any other severance under any Company benefit plan or severance policy generally available to the Company's employees or otherwise.

5.10 Board Resignation. Upon termination of Executive's employment for any reason, Executive agrees to resign, as of the date of such termination and to the extent applicable, as an officer and director of the Company and all of its subsidiaries and affiliates.

5.11 Survival. This Section 5 shall survive any termination or expiration of this Agreement.

6. **Reimbursement of Expenses**. The Company shall reimburse Executive for all reasonable and necessary expenses actually incurred by Executive directly in connection with the business and affairs of the Company and the performance of his duties hereunder, upon presentation of proper receipts or other proof of expenditure and in accordance with such reasonable guidelines or limitations established by the Board from time to time.

7. **Non-Competition; Non-Solicitation; Confidentiality; Proprietary Rights**.

7.1 Executive hereby agrees that during the period commencing on the date hereof and ending on the date that is one year following the date of the termination of Executive's employment with the Company (the "Noncompetition Period"), Executive will not, without the express written consent of the Company, directly or indirectly, anywhere in the United States or in any foreign country in which the Company has conducted business, is conducting business or is then contemplating conducting business, engage in any activity which is, or participate or invest in, or provide or facilitate the provision of financing to, or assist (whether as owner, part-owner, shareholder, member, partner, director, officer, trustee, employee, agent or consultant, or in any other capacity), any business, organization or person other than the Company (or any subsidiary or affiliate of the Company), and including any such business, organization or person involving, or which is, a family member of Executive, whose business, activities, products or services are competitive with any of the business, activities, products or services conducted, offered or then contemplated to be conducted or offered by the Company or its subsidiaries or affiliates; provided, however, nothing herein shall prohibit Executive from being employed by any business, organization or person that operates in the quick service restaurant industry and derives less than 10% of its total revenue from the sale of pizza. Without implied limitation, the foregoing covenant shall be deemed to prohibit (a) hiring or engaging or attempting to hire or engage for or on behalf of Executive or any such competitor any officer or employee of the Company or any of its direct and/or indirect subsidiaries and affiliates, or any former employee of the Company and any of its direct and/or indirect subsidiaries and affiliates who was employed during the 6-month period immediately preceding the date of such attempt to hire or engage, (b) encouraging for or on behalf of Executive or any such competitor any such officer or employee to terminate his or his relationship or employment with the Company or any of its direct or indirect subsidiaries and affiliates, (c) soliciting for or on behalf of Executive or any such competitor any client (including all franchisees) of the Company or any of its direct or indirect subsidiaries and affiliates, or any former client (including all franchisees) of the Company or any of its direct or indirect subsidiaries and affiliates who was a client (including all franchisees) during the 6-month period immediately preceding the date of such solicitation and (d) diverting to any person (as hereinafter defined) any client (including all franchisees) or business opportunity of the Company or any of its direct or indirect subsidiaries and affiliates.

Notwithstanding anything herein to the contrary, Executive may make passive investments in any enterprise the shares of which are publicly traded if such investment constitutes less than 2% of the equity of such enterprise. Neither Executive nor any business entity controlled by Executive is a party to any contract, commitment, arrangement or agreement which could, following the date hereof, restrain or restrict the Company or any subsidiary or affiliate of the Company from carrying on its business or restrain or restrict Executive from performing his employment obligations, and as of the date of this Agreement Executive has no business interests whatsoever in or relating to the industries in which the Company or its subsidiaries or affiliates currently engage, and other than passive investments in the shares of public companies of less than 2%.

7.2 In the course of performing services hereunder, on behalf of the Company (for purposes of this Section 7 including all predecessors of the Company) and its affiliates, Executive has had and from time to time will have access to Confidential Information (as defined below). Executive agrees (a) to hold the Confidential Information in strict confidence, (b) not to disclose the Confidential Information to any person (other than in the regular business of the Company or its affiliates), and (c) not to use, directly or indirectly, any of the Confidential Information for any purpose other than on behalf of the Company and its affiliates. All documents, records, data, apparatus, equipment and other physical property, whether or not pertaining to Confidential Information, that are furnished to Executive by the Company or are produced by Executive in connection with Executive's employment will be and remain the sole property of the Company. Upon the termination of Executive's employment with the Company for any reason and as and when otherwise requested by the Company, all Confidential Information (including, without limitation, all data, memoranda, customer lists, notes, programs and other papers and items, and reproductions thereof relating to the foregoing matters) in Executive's possession or control, shall be immediately returned to the Company. Executive recognizes that the Company and its affiliates possess a proprietary interest in all of the Confidential Information and have the exclusive right and privilege to use, protect by copyright, patent or trademark, or otherwise exploit the processes, ideas and concepts described therein to the exclusion of Executive, except as otherwise agreed between the Company and Executive in writing. Executive expressly agrees that any products, inventions, discoveries or improvements made by Executive or Executive's agents or affiliates in the course of Executive's employment shall be the property of and inure to the exclusive benefit of the Company. Executive further agrees that any and all products, inventions, discoveries or improvements developed by Executive (whether or not able to be protected by copyright, patent or trademark) during the course of his employment, or involving the use of the time, materials or other resources of the Company or any of its affiliates, shall be promptly disclosed to the Company and shall become the exclusive property of the Company, and Executive shall execute and deliver any and all documents necessary or appropriate to implement the foregoing. Nothing in this Agreement is intended to or will be used in any way to limit Executive's rights to communicate with a government agency, as provided for, protected under or warranted by applicable law.

7.3 During and after Executive's employment, Executive shall cooperate fully with the Company in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of the Company that relate to events or occurrences that transpired while Executive was employed by the Company. The Company shall reimburse Executive for any reasonable out-of-pocket expenses incurred in connection with Executive's performance of obligations pursuant to this Section 7.3.

7.4 The term "Confidential Information" shall mean information belonging to the Company which is of value to the Company or with respect to which Company has right in the course of conducting its business and the disclosure of which could result in a competitive or other disadvantage to the Company. Confidential Information includes information, whether or not patentable or copyrightable, in written, oral, electronic or other tangible or intangible forms, stored in any medium, including, by way of example and without limitation, trade secrets, ideas, concepts, designs, configurations, specifications, drawings, blueprints, diagrams, models, prototypes, samples, flow charts processes, techniques, formulas, software, improvements, inventions, data, know-how, discoveries, copyrightable materials, marketing plans and strategies, sales and financial reports and forecasts, customer lists, studies, reports, records, books, contracts, instruments, surveys, computer disks, diskettes, tapes, computer programs and business plans, prospects and opportunities (such as possible acquisitions or dispositions of businesses or facilities) which have been discussed or considered by the management of the Company. Confidential Information includes information developed by Executive in the course of Executive's employment by the Company, as well as other information to which Executive may have access in connection with Executive's employment. Confidential Information also includes the confidential information of others with which the Company has a business relationship. Notwithstanding the foregoing, Confidential Information does not include information in the public domain, unless due to breach of Executive's duties under Section 7.2.

8. **Remedies**. It is specifically understood and agreed that any breach of the provisions of Section 7 of this Agreement is likely to result in irreparable injury to the Company and that the remedy at law alone will be an inadequate remedy for such breach, and that in addition to any other remedy it may have, the Company shall be entitled (a) to enforce the specific performance of this Agreement by Executive and to seek both temporary and permanent injunctive relief (to the extent permitted by law) without bond and without liability should such relief be denied, modified or violated and (b) to cease making any payments or providing any benefit otherwise required by this Agreement, including, without limitation, any severance payment required under Section 5.2, in each case in addition to any other remedy to which the Company may be entitled at law or in equity.

9. **Severable Provisions**. The provisions of this Agreement are severable and the invalidity of any one or more provisions shall not affect the validity of any other provision. In the event that a court of competent jurisdiction shall determine that any provision of this Agreement or the application thereof is unenforceable in whole or in part because of the duration or scope thereof, the parties hereto agree that said court in making such determination shall have the power to reduce the duration and scope of such provision to the extent necessary to make it enforceable, and that the Agreement in its reduced form shall be valid and enforceable to the full extent permitted by law.

10. **Notices**. All notices hereunder, to be effective, shall be in writing and shall be deemed effective when delivered by hand or mailed by (a) certified mail, postage and fees prepaid, or (b) nationally recognized overnight express mail service, as follows:

If to the Company:

Papa Murphy's Holdings, Inc.
8000 N.E. Parkway Drive, Suite 350
Vancouver, WA 98662
Attn: Legal Department

If to the Executive:

Nik Rupp
5699 NW Bannister Dr
Portland, OR 97229

or to such other address as a party may notify the other pursuant to a notice given in accordance with this Section 10.

11. **Miscellaneous**.

11.1 Executive Representation. Executive hereby represents to the Company that the execution and delivery of this Agreement by Executive and the Company and the performance by Executive of Executive's duties hereunder shall not constitute a breach of, or otherwise contravene, or be prevented, interfered with or hindered by, the terms of any employment agreement or other agreement or policy to which Executive is a party or otherwise bound.

11.2 Entire Agreement; Amendment. This Agreement constitutes the entire Agreement between the parties hereto with regard to the subject matter hereof, superseding all prior understandings and agreements, whether written or oral. This Agreement may not be amended or revised except by a writing signed by the parties.

11.3 Assignment and Transfer. The provisions of this Agreement shall be binding on and shall inure to the benefit of the Company and any successor in interest to the Company. Neither this Agreement nor any of the rights, duties or obligations of Executive shall be assignable by Executive, nor shall any of the payments required or permitted to be made to the Executive by this Agreement be encumbered, transferred or in any way anticipated, except as required by applicable laws. All rights of Executive under this Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, estates, executors, administrators, heirs and beneficiaries. All amounts payable to Executive hereunder shall be paid, in the event of Executive's death, to the Executive's estate, heirs or representatives.

11.4 Waiver of Breach. A waiver by either party of any breach of any provision of this Agreement by the other party shall not operate or be construed as a waiver of any other or subsequent breach by the other party.

11.5 Withholding. The Company shall be entitled to withhold from any amounts to be paid or benefits provided to Executive hereunder any federal, state, local or foreign withholding, FICA contributions, or other taxes, charges or deductions which it is from time to time required to withhold. The Company shall be entitled to rely on advice of counsel if any question as to the amount or requirement of any such withholding shall arise.

11.6 Set Off. The Company's obligation to pay Executive the amounts provided and to make the arrangements provided hereunder shall be subject to set-off, counterclaim or recoupment of amounts owed by Executive to the Company or its affiliates; provided, however, this set-off right is limited to actual amounts owed by Executive to the Company (which, for the avoidance of doubt, shall exclude any consequential or indirect damages).

11.7 Section 409A. The parties intend that this Agreement and the payments and benefits provided hereunder be exempt from the requirements of Section 409A of the Code to the maximum extent possible, whether pursuant to the short-term deferral exception described in Treas. Reg. Section 1.409A-1(b)(4), the involuntary separation pay plan exception described in Treas. Reg. Section 1.409A-1(b)(9)(iii), or otherwise. To the extent Section 409A of the Code is applicable to this Agreement, the parties intend that this Agreement and any payments and benefits thereunder comply with the deferral, payout and other limitations and restrictions imposed under Section 409A of the Code. Notwithstanding anything herein to the contrary, this Agreement shall be interpreted, operated and administered in a manner consistent with such intentions; provided, however that in no event shall the Company (or any of its affiliates or successors) be liable for any additional tax, interest or penalty that may be imposed on Executive pursuant to Section 409A of the Code or for any damages incurred by Executive as a result of this Agreement (or the payments or benefits hereunder) failing to comply with, or be exempt from, Section 409A of the Code. Without limiting the generality of the foregoing and notwithstanding any other provision of this Agreement to the contrary:

(a) If any payment, compensation or other benefit provided to Executive in connection with his employment termination is determined, in whole or in part, to constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Code and Executive is a specified employee as defined in Section 409A(a)(2)(B)(i) of the Code, then no portion of such "nonqualified deferred compensation" shall be paid before the day that is 6 months plus one (1) day after the date of termination (the "New Payment Date"). The aggregate of any payments that otherwise would have been paid to Executive during the period between the date of termination and the New Payment Date shall be paid to Executive in a lump sum on such New Payment Date. Thereafter, any payments that remain outstanding as of the day immediately following the New Payment Date shall be paid without delay over the time period originally scheduled, in accordance with the terms of this Agreement. Notwithstanding the foregoing, to the extent that the foregoing applies to the provision of any ongoing welfare benefits to Executive that would not be required to be delayed if the premiums therefor were paid by Executive, Executive shall pay the full cost of premiums for such welfare benefits during the six-month period and the Company shall pay Executive an amount equal to the amount of such premiums paid by Executive during such six-month period promptly after its conclusion.

(b) The parties hereto acknowledge and agree that the interpretation of Section 409A of the Code and its application to the terms of this Agreement is uncertain and may be subject to change as additional guidance and interpretations become available. Anything to the contrary herein notwithstanding, all benefits or payments provided by the Company to Executive that would be deemed to constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Code are intended to comply with Section 409A of the Code. If, however, any such benefit or payment is deemed to not comply with Section 409A of the Code, the Company and Executive agree to renegotiate in good faith any such benefit or payment (including, without limitation, as to the timing of any severance payments payable hereof) so that either (i) Section 409A of the Code will not apply or (ii) compliance with Section 409A of the Code will be achieved; provided, that, neither the Company nor its employees or representatives shall have liability to Executive with respect hereto.

(c) Notwithstanding anything to the contrary contained in this Agreement, all reimbursements for costs and expenses under this Agreement shall be paid in no event later than the end of the taxable year following the taxable year in which Executive incurs such expense. With regard to any provision herein that provides for reimbursement of costs and expenses or in-kind benefits, except as permitted by Section 409A of the Code, (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (ii) the amount of expenses eligible for reimbursements or in-kind benefits provided during any taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits to be provided in any other taxable year.

(d) If under this Agreement, an amount is paid in two or more installments, for purposes of Section 409A of the Code, each installment shall be treated as a separate payment.

(e) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits subject to Section 409A of the Code upon or following a termination of employment unless such termination is also a "separation from service" as defined in Section 1.409A-1(h) of the Department of Treasury final regulations, including the default presumptions, and for purposes of any such provision of this Agreement, references to a "resignation," "termination," "terminate," "termination of employment" or like terms shall mean separation from service.

11.8 Governing Law. This Agreement shall be construed under and enforced in accordance with the laws of the State of Delaware, without regard to the conflicts of law provisions thereof.

11.9 Arbitration of Disputes. Any controversy or claim arising out of or relating to this Agreement or the breach thereof or otherwise arising out of the termination of Executive's employment (including, without limitation, any claims of unlawful employment discrimination whether based on age or otherwise) shall, to the fullest extent permitted by law, be settled by arbitration in any forum and form agreed upon by the parties or, in the absence of such an agreement, under the auspices of the American Arbitration Association ("AAA") in Vancouver, Washington in accordance with the Employment Dispute Resolution Rules of the AAA, including, but not limited to, the rules and procedures applicable to the selection of arbitrators. In the event that any person or entity other than Executive or the Company may be a party with regard to any such controversy or claim, such controversy or claim shall be submitted to arbitration subject to such other person or entity's agreement. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. This Section 11.9 shall be specifically enforceable. Notwithstanding the foregoing, this Section 11.9 shall not preclude either party from pursuing a court action for the sole purpose of obtaining a temporary restraining order or a preliminary injunction in circumstances in which such relief is appropriate; provided that any other relief shall be pursued through an arbitration proceeding pursuant to this Section 11.9.

11.10 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and shall have the same effect as if the signatures hereto and thereto were on the same instrument.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

COMPANY:

PAPA MURPHY'S HOLDINGS, INC.

By: /s/ Weldon Spangler
Weldon Spangler, Chief Executive Officer

EXECUTIVE:

/s/ Nik Rupp
Nik Rupp

# PURCHASE AND SALE AGREEMENT

THIS PURCHASE AND SALE AGREEMENT ("**Agreement**") is made and entered into as of April 17, 2018, by and among Papa Murphy's Company Stores, Inc., a Washington corporation ("**Seller**"), Papa Murphy's International LLC, a Delaware limited liability company, franchisor of the Papa Murphy's Take 'N' Bake system ("**Franchisor**") and Fresh Take, LLC, a Colorado limited liability company ("**Buyer**"). Seller and Buyer are referred to as the "**Parties**" or individually as a "**Party**."

## RECITALS

WHEREAS, Seller owns and operates Papa Murphy's Take 'N' Bake stores (the "**Business**") located at or about the following locations:

- 2800 West 10th Street, Greeley, Colorado 80634 (CO002)
- 15440 East Hampden Avenue, Aurora, Colorado 80013 (CO010)
- 18741 Ponderosa Drive, Parker, Colorado 80134 (CO013)
- 12650 West 64th Avenue, Arvada, Colorado 80004 (CO029)
- 18525 East Smoky Hill Road, Centennial, Colorado 80015 (CO032)
- 18613 Green Valley Ranch Boulevard, Denver, Colorado 80249 (CO059)
- 11614 West Belleview Avenue, Littleton, Colorado 80127 (CO070)
- 1031 South Taft Hill Road, Fort Collins, Colorado 80521 (CO098)

Each of the above-referenced stores shall be collectively referred to as the "**Denver Stores**."

- 1708 Dublin Boulevard, Colorado Springs, Colorado 80918 (CO006)
- 840 South Prairie Avenue, Pueblo, Colorado 81005 (CO019)
- 2888 North Powers Boulevard, Colorado Springs, Colorado 80922 (CO022)
- 2460 South Academy Boulevard, Colorado Springs, Colorado 80916 (CO045)
- 1203 North Circle Drive, Colorado Springs, Colorado 80909 (CO047)
- 7669 McLaughlin Road, Falcon, Colorado 80831 (CO055)
- 1617 West US Highway 50, Pueblo, Colorado 81008 (CO058)
- 300 East Highway 24, Woodland Park, Colorado 80863 (CO073)
- 3105 West Colorado Avenue, Colorado Springs, Colorado 80904 (CO077)
- 7085 Austin Bluffs Parkway, Colorado Springs, Colorado 80918 (CO127)

Each of the above-referenced stores shall be collectively referred to as the "**Colorado Springs Stores**."

The Denver Stores and Colorado Springs Stores shall be each referred to as a "**Store**" and collectively referred to as the "**Stores**" or "**Premises**."

WHEREAS, Franchisor offers the right to operate the Papa Murphy's Take 'N' Bake franchise ("**Franchise Rights**").

WHEREAS, in connection with the ownership and operation of the Denver Stores, Seller owns certain personal property, supplies, furniture, fixtures, and equipment associated with the Business (collectively, the "**Denver Personal Property**," and whether or not listed on the attached and mutually acceptable **Exhibit A**, and together with the Franchise Rights, collectively, "**Denver Acquired Assets**"). The parties agree that **Exhibit A** is an approximate list of equipment located in the Denver Stores and that all equipment necessary to operate a Papa Murphy's store will be included.

WHEREAS, in connection with the ownership and operation of the Colorado Springs Stores, Seller owns certain personal property, supplies, furniture, fixtures, and equipment associated with the Business (collectively, the "**Colorado Springs Personal Property**," and whether or not listed on the attached and mutually acceptable **Exhibit A**, and together with the Franchise Rights, collectively, "**Colorado Springs Acquired Assets**"). The parties agree that **Exhibit A** is an approximate list of equipment located in the Colorado Springs Stores and that all equipment necessary to operate a Papa Murphy's store will be included.

WHEREAS, Seller owns all of the Denver Acquired Assets and Colorado Springs Acquired Assets (collectively, the "**Acquired Assets**"), and does not lease any of the Acquired Assets.

WHEREAS, upon the terms and conditions set forth herein, Seller desires to sell, transfer and assign to Buyer, and Buyer desires to purchase and acquire from Seller, the Acquired Assets, free and clear of all liens, claims, encumbrances and security interests.

WHEREAS, Franchisor, as part of the transaction contemplated hereby, is willing to sell Franchise Rights to operate the Stores at the Premises, and Buyer desires to purchase the Acquired Assets for the purpose of operating the Business at the Premises.

WHEREAS, the following Exhibits are attached and incorporated herein:

Exhibit A Acquired Assets
Exhibit B Bill of Sale
Exhibit C Rents and Lease Deposits
Exhibit D Assumed Liabilities
Exhibit E Allocation of Purchase Price
Exhibit F Remodel Deadlines and Extensions

**AGREEMENT**

NOW, THEREFORE, in consideration of the promises and the mutual covenants, obligations, agreements and other good and valuable consideration contained herein, the Parties hereby agree as follows:

1. <u>Purchase and Sale of Acquired Assets</u>. Subject to and upon the terms and conditions set forth in this Agreement, Seller and Franchisor hereby agree to sell, assign, convey and transfer to Buyer, and Buyer hereby agrees to purchase and acquire from Seller and Franchisor, all of the Acquired Assets. The foregoing purchase and sale of the Denver Acquired Assets and Colorado

Springs Acquired Assets shall be consummated on the Denver Closing Date and Colorado Springs Closing Date (each, a "**Closing Date**"; defined below), respectively. Seller and Buyer agree that Buyer shall take possession of the Denver Stores and Denver Assumed Liabilities on the Denver Closing Date and the Colorado Springs Stores and Colorado Springs Assumed Liabilities on the Colorado Springs Closing Date.

On each Closing Date, Seller shall execute and deliver to Buyer, a Bill of Sale in the form attached hereto as **Exhibit B**, relating to the sale, assignment, conveyance, transfer and delivery to Buyer of the equipment located at the relevant portion of the Premises.

From time to time, at Buyer's request and without further consideration or expense, Seller shall promptly provide such further instruments of conveyance, assignment and transfer as may reasonably be requested by Buyer, and Seller shall take such other action as Buyer reasonably may request to convey, assign and transfer more effectively to Buyer any of the Acquired Assets and will assist Buyer in the collection or reduction to possession of the Acquired Assets.

2. Franchise Rights. In connection with the purchase of the Stores, Franchisor and Buyer agree to execute Franchisor's latest form of Franchise Agreement for each Store.

3. Purchase Price for Acquired Assets.

3.1. Buyer shall provide to Seller a deposit in the amount of Twenty-Five Thousand and No/100 Dollars ($25,000.00) within five business days of execution of this Agreement. This deposit will become non-refundable 30 days after receipt unless: (i) Seller does not approve the transaction contemplated herein; (ii) Seller cannot deliver the Acquired Assets free and clear of any liens; (iii) there is a failure to obtain necessary consents to lease assignments from any landlord of any leasehold interest related to Stores in accordance with Section 11.1 below; or (iv) Seller, for any reason, fails to complete the transaction as set forth herein.

3.2. The total purchase price for the Denver Stores and the Denver Acquired Assets, including, without limitation, the Franchise Rights, is Two Million Five Hundred One Thousand and No/100 Dollars ($2,501,000.00) ("**Denver Purchase Price**") and shall be paid on the Denver Closing Date, via wire transfer. The total purchase price for the Colorado Springs Stores and the Colorado Springs Acquired Assets, including, without limitation, the Franchise Rights, is Five Million Two Hundred Thirty-Nine Thousand and No/100 Dollars ($5,239,000.00) ("**Colorado Springs Purchase Price**") and shall be paid on the Colorado Springs Closing Date, via wire transfer. The Denver Purchase Price and Colorado Springs Purchase price shall be collectively referred to as the "**Purchase Price**." The Purchase Price is Seven Million Seven Hundred Forty Thousand and No/100 Dollars ($7,740,000.00).

4. Inventory and Petty Cash. In addition to the Purchase Price, Buyer shall purchase the usable food inventory at cost, as well as the petty cash and shall pay cash for said items within ten days after each Closing Date.

5. Lease Deposits and Prepaid Rents. Any lease security deposits and prepaid rents as set forth on **Exhibit C** shall remain with the landlord of the Premises and inure to the benefit of the

Buyer. Buyer shall reimburse Seller for all prorated rents and shall pay cash for said items within fifteen (15) days after the Closing Date.

6. Point of Sale System. Buyer will be responsible for securing the transfer of rights, permits or licenses associated with the point of sale system located in the Stores. The transfer fees and any other fees associated with said transfers will be paid by Buyer. Buyer will be responsible for all costs and fees incurred in upgrading the point of sale systems in the Denver Stores. Seller will be responsible for all costs and fees incurred in upgrading the point of sale systems in the Colorado Springs Stores.

7. Liabilities.

7.1. On each Closing Date, subject to the terms and conditions of this Agreement, Buyer shall assume and agrees to pay, perform and discharge when due each of those debts and liabilities of Seller set forth on Exhibit D attached hereto which accrue on or after each Closing Date (collectively, "Assumed Liabilities").

7.2. Subject to successfully obtaining consents from landlords, Buyer will assume the existing lease agreements or enter into new lease agreements with the landlords at the premises.

7.3. Buyer does not assume, agree to pay, perform or discharge, or take subject to any liabilities or obligations of Seller whatsoever which are not expressly set forth under the heading "Assumed Liabilities" on **Exhibit D**. Seller shall indemnify, defend and hold harmless Buyer from: (a) all liabilities and obligations of Seller associated with the Stores that accrued prior to each Closing Date relating to any of the Excluded Assets (as defined below); (b) any indebtedness, liability or obligation incurred by Seller in connection with the operation of the Stores prior to each Closing Date that is not an Assumed Liability, and (c) any liabilities and obligations of Seller to its employees for any wages due to such employees as of each Closing Date and under any severance, welfare, vacation, bonus or other program or benefit or plan maintained by Seller prior to each Closing Date.

8. Allocation of Purchase Price. The Purchase Price shall be allocable as set forth on **Exhibit E** attached hereto.

9. Personal Property Tax; Common Area Maintenance Reconciliation. Seller and Buyer agree that any amounts due resulting from the 2018 personal property tax or 2018 common area maintenance, insurance or tax reconciliations shall be prorated between Seller and Buyer, Seller being responsible for the period prior to each Closing Date, and Buyer being responsible for the period of each Closing Date and thereafter.

10. Advertising. Buyer assumes and will pay for advertising and marketing scheduled to run after each Closing Date only to the extent that such liabilities are set forth on **Exhibit D** pursuant to Section 7.1 hereof.

11. Contingencies to Purchase and Sale of Acquired Assets. Buyer's and Seller's obligations with respect to the purchase and sale of the Acquired Assets, including, without limitation, the Franchise Rights, shall be expressly subject to and conditioned upon, the following:

11.1. Buyer's ability, prior to or in conjunction with taking possession of the Acquired Assets to assume the existing lease agreements or enter into new lease agreements with the landlords of the Premises.

11.2. The receipt of all necessary approvals, consents, authorizations, licenses and certifications from any local, state or federal authority including, without limitation, any food or beverage license or inspection.

12. Items Not Included. Notwithstanding anything herein to the contrary, it is understood that Seller is not transferring, and Buyer is not acquiring pursuant to this Agreement, any of the following properties and assets, all of which shall be retained by Seller after each Closing Date ("**Excluded Assets**"):

12.1. All cash (other than cash located at the Premises), checks, notes, securities, refundable prepaid insurance, refundable prepaid fees, and refundable deposits of Seller (other than lease deposits transferred hereunder).

12.2. Accounts receivable and accounts payable of Seller as of each Closing Date. Except as specifically set forth herein, Seller shall remain solely and expressly responsible for all accounts payable, contractual obligations and any and all other liabilities incurred by Seller prior to the date of this Agreement.

12.3. Any Microsoft Office software (Excel, Outlook, Word, Powerpoint) on the laptops.

13. Closing Date; Possession of Acquired Assets. Consummation of the purchase and sale of the Denver Acquired Assets shall take place not later than May 21, 2018 or such other date as is mutually agreed to by the Parties ("**Denver Closing Date**"). Consummation of the purchase and sale of the Colorado Springs Acquired Assets shall take place not later than July 16, 2018 or such other date as is mutually agreed to by the Parties ("**Colorado Springs Closing Date**"). The Parties hereto agree that possession of the Denver Stores and Colorado Spring Stores shall transfer on the Denver Closing Date and Colorado Springs Closing Date, respectively.

14. CO017 and CO024 Stores. No later than ten business days, or such date as is mutually agreed to by the Parties, after this Agreement is fully-executed, Seller will notify Buyer whether or not it intends to operate the Papa Murphy's Take 'N' Bake stores located on or about 6350 Sheridan Boulevard, Unit 105A, Arvada, Colorado 80003 ("**CO017**") and 680 East 120th Avenue, Suite A, Northglenn, Colorado 80233 ("**CO024**").

14.1. In the event Buyer notifies Seller that Buyer will take over operations at CO017 and/or CO024:

14.1.1. CO017 and/or CO024 shall be included in the definition of Denver Stores.

14.1.2. There will be no change to the Denver Purchase Price.

14.1.3. The Parties agree that all other terms in this Agreement that apply to the Denver Stores shall apply to CO017 and/or CO024.

14.1.4. The Parties agree that the Bill of Sale attached hereto as **Exhibit B** and the Allocation Schedule for the Denver Stores attached hereto as **Exhibit E** will be replaced to include CO017 and CO024.

14.1.5. Franchisor and Buyer agree to enter into a Franchise Agreement at no cost for CO017 and/or CO024 for a three-year term from the Denver Closing Date ("**Initial Term**").

14.1.6. In order for Buyer to continue to operate beyond the Initial Term of the Franchise Agreement for CO017 and/or CO024, Buyer, at its sole option, must enter into a new Franchise Agreement pursuant to Section 7.1 of the Franchise Agreement. Buyer and Franchisor agree that the term of the new Franchise Agreement shall be ten (10) years and the Successive Franchise Fee (as defined in the Franchise Agreement) shall be $25,000. If Buyer does not elect to enter into a new Franchise Agreement, then CO017 and/or CO024 will be permanently closed at the conclusion of the Initial Term.

14.1.7. Notwithstanding anything to the contrary in the Franchise Agreement for CO017 and/or CO024, Franchisor agrees to waive Royalty Fees (as defined in the Franchise Agreement) beginning on the Closing Date of this Agreement and continuing until the expiration of the Initial Term.

14.2. In the event Buyer does not wish to take over operations at CO017 and/or CO024, Seller agrees that CO017 and CO024 shall be permanently closed on, or as close as possible to the Denver Closing Date. Upon each store closure, Buyer shall have the right to enter the premises and remove any equipment, signage or smallwares it deems usable at no additional cost to Buyer.

15. Seller's Representations and Warranties. Seller hereby represents and warrants to Buyer the following matters, upon which representations and warranties Buyer relied on in entering into this Agreement and performing the transactions contemplated herein, and which representations and warranties shall be true and correct as of each Closing Date.

15.1. Seller is a corporation, duly organized, validly existing and in good standing under the laws of the State of Washington and has full power and authority to carry on its business as now conducted and to own and operate its assets, properties and businesses and the assets, properties and business that are the subject of this transaction.

15.2. Franchisor is a limited liability company, duly organized, validly existing and in good standing under the laws of the State of Delaware and has full power and authority to carry on its business as now conducted and to own and operate its assets, properties and businesses and the assets, properties and business that are the subject of this transaction.

15.3. The execution and delivery of this Agreement by Seller and Franchisor, and Seller's and Franchisor's performance of the transactions contemplated hereby and Seller's and

Franchisor's obligations hereunder, have been duly and validly authorized, and this Agreement is binding and enforceable against Seller and Franchisor in accordance with its terms.

15.4. Seller and Franchisor are the lawful owner of the Acquired Assets with the full right, power and authority to sell, transfer, convey, assign and deliver the Acquired Assets to Buyer as provided hereby, with good and marketable title to all Acquired Assets and the Acquired Assets will be free and clear of any security interests of any kind or nature.

15.5. Seller and Franchisor are not aware of any actual or potential lawsuits, causes of actions, or claims, of any kind (collectively, "**Claims**"), that have been or might be asserted by third parties against or with respect to the Business or the Acquired Assets including, without limitation, any Claims that would or might affect Buyer's ownership or use of the Business or any of the Acquired Assets being sold, assigned, transferred and conveyed pursuant to the terms hereof.

15.6. As more specifically set forth in the Bill of Sale attached hereto as **Exhibit B**, all equipment listed in **Exhibit** A is sold to Buyer in its "as is" condition, and Seller makes no warranties or representations, express or implied, as to the condition thereof or its use for any purpose. In the event any repairs are necessary, the Parties agree that Seller will reimburse Buyer up to a total of $5,000 for repairs made to correct pre-existing conditions to the Personal Property at the Denver Stores and up to a total of $5,000 for repairs made to correct pre-existing conditions to the Personal Property at the Colorado Springs Stores, contingent upon the following:

15.6.1. No later than ten days after each Closing Date, Buyer will provide Seller with a notice of any required repairs to the Personal Property that were pre-existing as of each Closing Date.

15.6.2. Buyer will have 30 days from each Closing Date to complete any required repairs to the Personal Property and submit to Seller copies of the invoices for reimbursement not to exceed the amount set forth in Section 15.6 above.

15.7. The Parties agree that on the Closing Date, each Store's remodel deadline shall be as set forth on **Exhibit F**, attached hereto and incorporated by reference. Notwithstanding the remodel deadlines set forth on **Exhibit F**, Buyer shall only be required to remodel 25 percent of their total stores in any given year as set forth in the Create Remodel Guide dated July 1, 2016 or in any subsequent policy. Anything in the Franchise Agreements for the Stores contrary to this Section 15.7 is hereby superseded; provided, however, this in no way shall limit or alter Buyer's obligation to make the "Upgrade Investment" as defined in and required by the Franchise Agreements. This Section 15.7 applies only to the Stores at their current locations, and not any relocation. Franchisor represents that there is no additional equipment that it will require Buyer to purchase in order to comply with Franchisor's "Create" store build-out requirements in effect at each Closing Date.

15.8. Seller agrees to afford Buyer and its representatives full and free access to the Premises, relevant books and records and all other relevant documents and data related to the Stores as may be reasonably requested by Buyer.

15.9. Seller agrees that the Papa Murphy's Take 'N' Bake store located on or about 50 West Littleton Boulevard, Suite 303, Littleton, Colorado 80120 ("CO033") shall be permanently closed as soon as possible but not later than May 15, 2018. Upon the store closure, Buyer shall have the right to enter the premises and remove any equipment, signage or smallwares it deems usable at no additional cost to Buyer.

15.10. The Parties agree that upon execution of this Agreement, Buyer, along with Seller's field staff, can begin to transition employees currently working at CO017, CO024 and CO033 to other locations as is mutually determined to be in the best interest of the Parties.

15.11. Seller's representations and warranties set forth herein shall survive the execution and delivery of this Agreement and each Closing Date. No representation or warranty made by Seller in this Agreement or in any other document furnished by Seller to Buyer in connection with this Agreement or any of the transactions contemplated herein contains, or will contain, any untrue statement of a material fact or omits, or will omit, to state a material fact necessary to make the statements contained herein or therein not false or misleading.

16. Buyer's Representations and Warranties. Buyer hereby represents and warrants to Seller the following matters, upon which representations and warranties Seller has relied in entering into this Agreement and performing the transactions contemplated herein and which representations and warranties shall be true and correct as of each Closing Date:

16.1. Buyer is ready, willing and able to purchase the Acquired Assets.

16.2. Buyer is a limited liability company, duly organized, validly existing and in good standing under the laws of the state of Colorado, and has full power and authority to carry on its businesses as now conducted and to own and operate its assets, properties and businesses and the assets, properties and business that are the subject of this transaction.

16.3. The execution and delivery of this Agreement by Buyer, and Buyer's performance of the transactions contemplated hereby and Buyer's obligations hereunder, have been duly and validly authorized, and this Agreement is binding and enforceable against Buyer in accordance with its terms.

16.4. Except as otherwise specifically set forth herein, Seller has not made, and Buyer has not relied on, any representation of future sales volume or profitability of any business operated at the Premises, including but not limited to the Business.

16.5. Buyer shall be responsible for entering into separate and new employment arrangements with any of the employees working at the Stores who are presently employed by Seller or any of Seller's affiliates. Notwithstanding the foregoing, Buyer shall have no obligation to offer employment to any employees of Seller following each Closing Date.

16.6. Buyer's representations and warranties set forth herein shall survive the execution and delivery of this Agreement and each Closing Date. No representation or warranty made by Buyer in this Agreement or in any other document furnished by Buyer to Seller in connection with this Agreement or any of the transactions contemplated herein contains, or will contain, any untrue statement of a material fact or omits, or will omit, to state a material fact necessary to make the statements contained herein or therein not false or misleading.

17. Survival of Representations and Warranties. The warranties and representations made by the Parties herein shall survive the execution and delivery of this Agreement and each Closing Date, and each Party shall remain liable for any deficiency arising from any breach of such Party's warranties and representations.

18. Seller’s Covenants.

18.1. Seller will promptly pay whenever due, whether prior to or after each Closing Date, all taxes, license fees or other charges levied, assessed or imposed upon the Stores and any of the Acquired Assets to the extent applicable to any period prior to each Closing Date.

18.2. Seller will timely pay all amounts due for the utilities utilized by the Store through each Closing Date.

18.3. Seller will timely pay when due all amounts owed to its employees, including, without limitation, for any wages due to such employees as of each Closing Date and under any severance, welfare, vacation, bonus or other program or benefit or plan maintained by Seller prior to each Closing Date.

18.4. Seller will terminate all employees of the Business as of each Closing Date. Buyer shall have no obligation to offer employment to such employees following each Closing Date or the consummation of the transactions contemplated herein.

19. Buyer’s Covenants.

19.1. Buyer will promptly pay all personal property taxes and other taxes arising in connection with the transfer of the Acquired Assets, except to the extent such obligations may be that of Seller by virtue of this Agreement or applicable law.

19.2. Buyer will pay all sales tax related to or arising in connection with the transfer of the Acquired Assets.

20. Remedies. Upon ten (10) days’ written notice to one Party (“**Receiving Party**”) from the other Party (“**Non-Receiving Party**”) of any default by the Receiving Party of any of the terms or conditions of this Agreement, the Non-Receiving Party shall have each and all of the rights and remedies granted to it under Colorado law.

21. General Provisions.

21.1. Entire Agreement. This Agreement, together with the Exhibits attached hereto and the Franchise Agreements, constitutes the entire agreement of the Parties hereto with respect to the matters discussed herein and cannot be altered by prior oral representations or prior negotiations, all of which are deemed to have been merged into this Agreement. This Agreement may not be amended, changed, or modified except by a writing signed by all of the Parties hereto.

In the event of a conflict between this Agreement and the Franchise Agreements, this Agreement shall control.

21.2. Binding Effect. The terms and conditions of this Agreement shall be binding upon the respective heirs, legal representatives, trustees, successors, and assigns of the Parties hereto.

21.3. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the state of Colorado. The Parties expressly agree and consent that the courts of Colorado shall be the proper venue and shall have exclusive jurisdiction over all actions arising from, out of, or with respect to this Agreement, regardless of where the Parties reside or where the Parties or the Acquired Assets are located.

21.4. Severability. If any provision of this Agreement is held to be invalid or unenforceable, this Agreement shall be considered divisible as to such provision shall thereupon be inoperative and shall not be part of the consideration moving between the Parties. The remaining provisions of this Agreement shall, however, continue to be valid and binding and of like effect as though such provisions were not included herein.

21.5. Breach; Attorney Fees. In the event of a breach by a Party hereto ("**Breaching Party**") of such Breaching Party's warranties, representations, obligations, or responsibilities herein, such Breaching Party shall pay to the other Party ("**Non-Breaching Party**") enforcement and collection costs, including reasonable attorney fees and legal expenses, regardless of whether the breach is ultimately cured, and regardless of whether formal legal proceedings are commenced. Costs and expenses shall include, but not be limited to: (i) a Non-Breaching Party's reasonable attorney fees and legal expenses, whether or not such expenses are incurred by a salaried employee of the Non-Breaching Party; (ii) reasonable attorney fees and legal expenses for bankruptcy proceedings including, but not limited to, efforts to modify or vacate any automatic stay or injunction; (iii) appeals to higher courts arising out of legal proceedings to enforce the Breaching Party's obligations hereunder; and (iv) any actually incurred post-judgment collection services.

21.6. Legal Advice. Buyer acknowledges that no counsel for Seller or Franchisor has provided advice to it with regard to the terms of this Agreement. Buyer acknowledges that it has been advised to obtain separate legal counsel.

21.7. Notices. Notices shall be sent by certified mail, return receipt requested, to the addresses set forth below. Notice shall be deemed to have been given upon mailing, or, if given by any other means, upon receipt.

If to Buyer: Fresh Take, LLC
Attention: Ryan McCallister
4711 Opus Drive, Suite 210
Colorado Springs, CO 80906

If to Seller: Papa Murphy's Company Stores, Inc.
Attention: Legal Department
8000 NE Parkway Drive, Suite 350
Vancouver, WA 98662

21.8. Cooperation of Parties. The Parties agree to perform all further actions and to execute all further agreements, certificates, and other documents reasonably necessary or desirable to carry out the purposes of this Agreement and the transactions contemplated hereunder.

21.9. Counterparts. This Agreement may be executed in one or more counterparts, electronically or by facsimile, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.

21.10. Time of the Essence. Except as otherwise provided herein, time is of the essence in connection with each provision of this Agreement.

21.11. Construction. Any masculine pronoun shall be deemed to mean the corresponding feminine or neuter personal pronoun as the context may require.

21.12. Captions. The captions and heading used in this Agreement are inserted for reference purposes only and shall not be deemed to define, limit, extend, describe, or affect in any way the meaning, scope, or interpretation of any of the terms or provisions of this Agreement or the intent hereof.

21.13. Confidentiality. The Parties agree that the terms of this Agreement are confidential and that neither Party will disclose these terms to any person or entity except our respective affiliates, attorneys, accountants, lenders and consultants, unless otherwise required by law, governmental agencies or auditors.

21.14. Waiver of Breach. Any waiver by either Party of any breach of any kind or character whatsoever by the other Party, whether such be direct or implied, shall not be construed as a continuing waiver of, or consent to, any subsequent breach of this Agreement.

21.15. Role of Unbridled Capital LLC. Buyer understands and acknowledges that Unbridled Capital LLC ("UC") is presenting certain of Seller's markets for review but is not offering any markets for sale. The offer of a franchise for sale can only be made after the delivery of a Franchise Disclosure Document by Franchisor, of which UC is not involved and disclaims any liabilities herein or hereto. Buyer further acknowledges that any materials received from UC were provided by Seller for informational purposes and UC expressly disclaims all liabilities that may be based on such information, errors therein or omissions therefrom. Buyer is encouraged to seek the professional advice of their attorney and accountant and acknowledges that Buyer is solely responsible for understanding, negotiating and accepting all terms and requirements associated with the transaction contemplated herein. Buyer further acknowledges that UC has not audited the materials provided by Seller and therefore makes no representations or warranties as to the completeness or accuracy of any information provided. Buyer agrees to hold UC harmless and not liable for any future complaints or legal action that might be taken of any kind as it relates to the Papa Murphy's brand, Seller or the Acquired Assets, individually or collectively.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first above written.

**BUYER:** **SELLER:**

Fresh Take, LLC Papa Murphy's Company Stores, Inc.

By: /s/ Ryan McCallister By: /s/ Weldon Spangler
Ryan McCallister Weldon Spangler
Title: Managing Member Chief Executive Officer

By: /s/ Tyler Ross **FRANCHISOR:**
Tyler Ross Papa Murphy's International LLC
Title: member

By: /s/ Weldon Spangler
By: /s/ Bradley Seymore Weldon Spangler
Brad Seymore Chief Executive Officer
Title: Member

**Exhibit 31.1**

**CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a) AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Weldon Spangler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Papa Murphy's Holdings, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
    c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 9, 2018

/s/ Weldon Spangler

Weldon Spangler
Chief Executive Officer
(Principal Executive Officer)

**Exhibit 31.2**

**CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a) AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Nik Rupp, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Papa Murphy's Holdings, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
    c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 9, 2018

/s/ Nik Rupp

Nik Rupp
Chief Financial Officer
(Principal Financial Officer)

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350**
**AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Papa Murphy's Holdings, Inc. (the “Company”) on Form 10-Q for the period ended April 2, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Weldon Spangler, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2018

/s/ Weldon Spangler

Weldon Spangler
Chief Executive Officer

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350**
**AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Papa Murphy's Holdings, Inc. (the "Company") on Form 10-Q for the period ended April 2, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nik Rupp, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2018

/s/ Nik Rupp
Nik Rupp
Chief Financial Officer