

# NPC RESTAURANT HOLDINGS, LLC

## **FORM 10-Q** (Quarterly Report)

Filed 11/09/16 for the Period Ending 09/27/16

Address	7300 W. 129TH STREET OVERLAND PARK, KS 66213
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SIC Code	5812 - Eating Places
Industry	Restaurants & Bars
Sector	Consumer Cyclical
Fiscal Year	12/25

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

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**Form 10-Q**

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(Mark one)

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

For the quarterly period ended September 27, 2016

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 333-180524-04

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**NPC RESTAURANT HOLDINGS, LLC**

(Exact name of registrant as specified in its charter)

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**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**20-4509045**

(I.R.S. employer  
identification number)

**7300 W. 129<sup>th</sup> Street  
Overland Park, KS**

(Address of principal executive offices)

**66213**

(Zip Code)

**Telephone: (913) 327-5555**

(Registrant's telephone number, including area code)

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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  No

(Note: As a voluntary filer, not subject to the filing requirements, the registrant filed all reports required under Section 13 or 15(d) of the Exchange Act during the preceding 12 months.)

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  No

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

Large Accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

There is no market for the Registrant's equity. As of November 9, 2016, there were 1,000 units of membership interests outstanding.

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**PART I****PART 1. FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements (unaudited)**

**NPC RESTAURANT HOLDINGS, LLC**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)  
*(in thousands, except share data)*

	September 27, 2016	December 29, 2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 16,053	\$ 32,717
Accounts and other receivables	5,430	7,278
Inventories	10,156	10,067
Prepaid expenses and other current assets	5,483	7,133
Assets held for sale	2,615	2,904
Income taxes receivable	1,773	3,016
Total current assets	41,510	63,115
Facilities and equipment, less accumulated depreciation of \$192,086 and \$163,993, respectively	230,599	203,468
Franchise rights, less accumulated amortization of \$83,073 and \$68,307, respectively	623,192	620,518
Goodwill	296,126	294,626
Other assets, net	29,197	28,969
Total assets	\$ 1,220,624	\$ 1,210,696
<b>Liabilities and member's equity</b>		
Current liabilities:		
Accounts payable	\$ 36,300	\$ 34,926
Accrued liabilities	56,737	44,847
Accrued interest	7,134	11,436
Current portion of insurance reserves	13,215	12,829
Current portion of debt	2,950	4,158
Total current liabilities	116,336	108,196
Long-term debt	576,249	577,011
Other deferred items	42,060	40,834
Insurance reserves	22,118	21,203
Deferred income taxes	183,296	189,763
Total long-term liabilities	823,723	828,811
Commitments and contingencies		
Member's equity:		
Membership interests (1,000 units authorized, issued and outstanding as of September 27, 2016 and December 29, 2015)	—	—
Member's capital	280,565	273,689
Total member's equity	280,565	273,689
Total liabilities and member's equity	\$ 1,220,624	\$ 1,210,696

*See accompanying notes to the unaudited consolidated financial statements.*

**NPC RESTAURANT HOLDINGS, LLC**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)  
*(in thousands)*

	13 Weeks Ended		39 Weeks Ended	
	September 27, 2016	September 29, 2015	September 27, 2016	September 29, 2015
<b>Sales:</b>				
Net product sales	\$ 291,250	\$ 288,025	\$ 886,501	\$ 876,547
Fees and other income	13,830	12,627	42,098	39,549
Total sales	305,080	300,652	928,599	916,096
<b>Costs and expenses:</b>				
Cost of sales	85,512	85,541	255,748	255,871
Direct labor	87,218	87,127	263,481	264,135
Other restaurant operating expenses	101,242	99,275	297,657	292,150
General and administrative expenses	19,387	17,773	56,501	51,887
Corporate depreciation and amortization of intangibles	5,634	5,316	16,223	15,825
Net facility impairment and closure costs	1,392	1,050	3,966	5,727
Other	151	(153)	(38)	240
Total costs and expenses	300,536	295,929	893,538	885,835
Operating income	4,544	4,723	35,061	30,261
Interest expense	11,174	10,240	33,716	31,197
(Loss) income before income taxes	(6,630)	(5,517)	1,345	(936)
Income tax benefit	(2,137)	(3,401)	(3,092)	(3,867)
Net (loss) income	\$ (4,493)	\$ (2,116)	\$ 4,437	\$ 2,931

*See accompanying notes to the unaudited consolidated financial statements.*

**NPC RESTAURANT HOLDINGS, LLC**  
**CONSOLIDATED STATEMENT OF MEMBER'S EQUITY**  
(Unaudited)  
(in thousands)

	<b>Member's equity</b>
Balance at December 29, 2015	\$ 273,689
Net income	4,437
Adjustment to Parent	2,439
Balance at September 27, 2016	<u>\$ 280,565</u>

*See accompanying notes to the unaudited consolidated financial statements.*

**NPC RESTAURANT HOLDINGS, LLC**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)  
*(in thousands)*

	39 weeks ended	
	September 27, 2016	September 29, 2015
<b>Operating activities</b>		
Net income	\$ 4,437	\$ 2,931
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	51,908	47,151
Amortization of debt issuance costs	3,222	2,893
Deferred income taxes	(4,717)	(5,491)
Net facility impairment and closure costs	3,966	5,727
Other	(342)	335
Changes in assets and liabilities, excluding the effect of acquisitions:		
Accounts receivable	1,956	4,379
Inventories	284	512
Prepaid expenses and other current assets	2,213	2,388
Accounts payable	1,374	(237)
Income taxes	1,243	(798)
Accrued interest	(4,302)	(6,663)
Accrued liabilities	9,735	6,649
Insurance reserves	1,301	3,622
Other deferred items	(2,618)	20
Other assets	(309)	(148)
Net cash provided by operating activities	69,351	63,270
<b>Investing activities</b>		
Capital expenditures	(45,313)	(41,997)
Acquisitions of Wendy's business, net of cash acquired	(44,783)	—
Proceeds from sale-leaseback transactions	7,155	1,408
Proceeds from sale or disposition of assets	1,252	521
Net cash used in investing activities	(81,689)	(40,068)
<b>Financing activities</b>		
Borrowings under revolving credit facility	15,900	59,000
Payments under revolving credit facility	(15,900)	(59,000)
Payments on term bank facilities	(4,326)	(3,119)
Net cash used in financing activities	(4,326)	(3,119)
Net change in cash and cash equivalents	(16,664)	20,083
Beginning cash and cash equivalents	32,717	12,063
Ending cash and cash equivalents	\$ 16,053	\$ 32,146
Supplemental disclosures of cash flow information:		
Net cash paid for interest	\$ 34,783	\$ 34,848
Net cash paid for income taxes	\$ 781	\$ 2,808
Non-cash investing activities:		
Accrued capital expenditures	\$ 5,525	\$ 4,138

*See accompanying notes to the unaudited consolidated financial statements.*

**NPC RESTAURANT HOLDINGS, LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**Note 1 – Basis of Presentation, Interim Financial Statements and Accounting Policies**

NPC Restaurant Holdings, LLC is referred to herein as “Holdings.” Holdings and its subsidiaries are referred to herein as the “Company.” Holdings’ wholly-owned subsidiary, NPC International, Inc., is referred to herein as “NPC.” NPC’s wholly-owned subsidiary, NPC Quality Burgers, Inc., is referred to herein as “NPCQB.” On December 28, 2011, all of the outstanding membership interests of Holdings were acquired by NPC International Holdings, Inc. (“NPC Holdings” or “Parent”), an entity controlled by Olympus Growth Fund V, L.P. and certain of its affiliated entities (“Olympus” or “Sponsor”), herein referred to as the “Transactions”.

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for reporting on Form 10-Q. Accordingly, certain information and disclosures required by accounting principles generally accepted in the United States (“GAAP”) for complete consolidated financial statements are not included herein.

The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s latest Annual Report on Form 10-K.

The results of operations of any interim period are not necessarily indicative of the results of operations for the full year. The Company believes the accompanying unaudited interim consolidated financial statements include all adjustments (consisting of normal recurring adjustments and accruals) necessary to fairly present the Company’s consolidated results of operations, financial position and cash flows as of the dates and for the periods presented.

The preparation of the unaudited interim consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions about future events relating to the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited interim consolidated financial statements and the reported amount of sales and expenses during the reporting periods. Estimates are revised when facts and circumstances change. As such, actual results could differ materially from those estimates.

As further reflected in Note 4 to the unaudited interim consolidated financial statements, the Company adopted Accounting Standards Update (“ASU”) No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30)* (“ASU 2015-03”) during the first quarter of 2016, which simplifies the presentation of debt issuance costs. As shown in the table below, pursuant to the guidance in ASU 2015-03 the Company reclassified unamortized debt issuance costs associated with its term loan and senior note obligations in its previously reported consolidated balance sheet as of December 29, 2015 as follows (in thousands):

	As presented December 29, 2015	Reclassifications	As adjusted December 29, 2015
Other assets	\$ 39,063	\$ (10,094)	\$ 28,969
Long-term debt	\$ 587,105	\$ (10,094)	\$ 577,011

In August 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments (Topic 230)*. This update provides clarification regarding how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. This update is effective for annual and interim periods for fiscal years beginning after December 15, 2017. Early adoption is permitted for financial statements that have not been previously issued. The update will be applied on a retrospective basis. The Company is currently evaluating the effect of this standard on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718)*, amending the accounting for stock-based compensation and requiring excess tax benefits and deficiencies to be recognized as a component of income tax expense rather than equity. This guidance also requires excess tax benefits to be presented as an operating activity on the statement of cash flows and allows an entity to make an accounting policy election to either estimate expected forfeitures or to account for



them as they occur. The ASU is effective for reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the effect of this standard on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires lessees to recognize a lease liability and a right of use asset for all leases, including operating leases, with a term greater than 12 months on its balance sheet. The ASU also expands the required quantitative and qualitative disclosures surrounding leases. This ASU is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, with earlier application permitted. This ASU will be applied using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating the effect of this standard on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. In July 2015, the FASB approved a one-year deferral of the effective date of the new revenue recognition standard which will become effective for the Company beginning with the first quarter of fiscal 2018. The standard can be adopted either retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption. Under the proposal, early application would be permitted, but not before the original effective date. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

**Note 2 – Business Combination**

In January 2016, NPCQB acquired three Wendy’s restaurants, including fee-owned properties, from a Wendy’s franchisee for approximately \$8.0 million. During the second quarter of fiscal 2016, the Company sold one of the fee-owned properties for \$1.4 million and leased it back and plans to sell and lease back the remaining two fee-owned properties.

On July 25, 2016, NPCQB completed the acquisition of 39 Wendy’s restaurants, including four restaurants that were recently constructed, from a subsidiary of The Wendy’s Company (“Wendy’s”) for approximately \$36.8 million, plus amounts for working capital. The units are located in the Raleigh-Durham, North Carolina metropolitan area.

The asset acquisitions were funded with cash on hand. The acquisitions were accounted for using the purchase method of accounting. As a result of these acquisitions, purchase accounting adjustments were made to the underlying assets based upon the valuations. These estimates of fair value are preliminary, and are therefore subject to further refinement. The total purchase price, net of cash acquired, was allocated as follows (*in thousands*):

Facilities and equipment	\$	24,431
Franchise rights		17,385
Goodwill		1,500
Other		1,467
Total purchase price	\$	44,783

All of the goodwill recognized will be deductible for income tax purposes. The weighted average amortization period assigned to the acquired franchise rights was approximately 19 years.

The pro forma impact of these Wendy’s asset acquisitions on the results of operations is included in the table below for periods prior to the acquisition dates in which the acquisitions were not previously consolidated. The pro forma results of operations are not necessarily indicative of the results that would have occurred had the acquisitions been consummated at the beginning of the periods presented, nor are they necessarily indicative of future operating results.

	<i>unaudited, (in thousands)</i>			
	13 Weeks Ended		39 Weeks Ended	
	September 27, 2016	September 29, 2015	September 27, 2016	September 29, 2015
Total sales	\$ 309,605	\$ 316,552	\$ 965,540	\$ 963,795
Net (loss) income	(4,234)	(1,982)	5,321	3,333

The Consolidated Statements of Operations for the 39 weeks ended September 27, 2016 included total sales of \$14.6 million related to the Wendy’s units acquired during 2016. It is impracticable to disclose earnings for the post-acquisition period for these acquired units as earnings of such units are not tracked on an individual basis.

**Note 3 – Goodwill and Other Intangible Assets**

Changes in goodwill for the 39 weeks ended September 27, 2016 are summarized below (*in thousands*):

Balance at December 29, 2015	\$	294,626
Acquisitions of Wendy’s business		1,500
Balance at September 27, 2016	\$	296,126

The carrying value of the Company's goodwill is included in the Pizza Hut and Wendy's reporting units. The Company assesses goodwill, which is not subject to amortization, for impairment annually in its second quarter, and also at any other date when events or changes in circumstances indicate that the carrying value of these assets may exceed their fair value. The Company performed qualitative assessments on both of its reporting units. As a result of the Company's annual impairment testing in the second quarter, the Company determined that goodwill was not impaired.

Amortizable other intangible assets consist of franchise rights and leasehold interests. These intangible assets are amortized on a straight-line basis over the lesser of their economic lives or the remaining life of the applicable agreement. Intangible assets subject to amortization are summarized below ( *in thousands* ):

	September 27, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Amortizable intangible assets:			
Franchise rights	\$ 706,265	\$ (83,073)	\$ 623,192
Favorable leasehold interests	13,172	(4,558)	8,614
Unfavorable leasehold interests	(16,873)	9,397	(7,476)
	<u>\$ 702,564</u>	<u>\$ (78,234)</u>	<u>\$ 624,330</u>

	December 29, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Amortizable intangible assets:			
Franchise rights	\$ 688,825	\$ (68,307)	\$ 620,518
Favorable leasehold interests	13,850	(4,354)	9,496
Unfavorable leasehold interests	(17,105)	8,139	(8,966)
	<u>\$ 685,570</u>	<u>\$ (64,522)</u>	<u>\$ 621,048</u>

Amortization expense on intangible assets was \$4.7 million and \$4.5 million for the 13-week periods ended September 27, 2016 and September 29, 2015 , respectively and \$13.7 million and \$13.5 million for the 39-week periods ended September 27, 2016 and September 29, 2015 , respectively.

**Note 4 – Debt**

The Company's debt consisted of the following ( *in thousands* ):

	September 27, 2016	December 29, 2015
Term Loan	\$ 396,937	\$ 401,263
Unamortized debt issuance costs	(5,686)	(7,581)
Term Loan notes less unamortized debt issuance costs	<u>391,251</u>	<u>393,682</u>
Senior Notes	190,000	190,000
Unamortized debt issuance costs	(2,052)	(2,513)
Senior Notes less unamortized debt issuance costs	<u>187,948</u>	<u>187,487</u>
Revolving Facility (\$110 million) <sup>(1)</sup>	<u>—</u>	<u>—</u>
	579,199	581,169
Less current portion	2,950	4,158
	<u>\$ 576,249</u>	<u>\$ 577,011</u>

<sup>(1)</sup> At September 27, 2016 , the Company had \$80.4 million of borrowing capacity available under its revolving credit facility ("Revolving Facility"), net of \$29.6 million of outstanding letters of credit. At December 29, 2015, the Company had \$80.9 million of borrowing capacity available under its Revolving Facility, net of \$29.1 million of outstanding letters of credit.

The Company's debt facilities contain restrictions on additional borrowings, certain asset sales, dividend payments, certain investments and related-party transactions, as well as requirements to maintain various financial ratios. At September 27, 2016, the Company was in compliance with all of its financial covenants.

Based upon the amount of excess cash flow generated during the fiscal year and the Company's leverage at fiscal year end, each of which is defined in the credit agreement governing the term loan, the Company may be required to make an excess cash flow mandatory prepayment. The excess cash flow mandatory prepayment is an annual requirement under the credit agreement and is due 95 days after the end of each fiscal year. The Company made a mandatory prepayment of \$3.3 million on March 31, 2016 based on its fiscal 2015 results. The Company currently expects that it will not be required to make a mandatory prepayment in fiscal 2017. However, because this is a preliminary estimate, it is possible that an excess cash flow mandatory prepayment could ultimately be required.

**Note 5 – Fair Value Measurements**

Fair value disclosures enable the reader of the financial statements to assess the inputs used to develop those fair value measurements using a hierarchy for ranking the quality and reliability of the information used to determine fair values. The Company classifies and discloses assets and liabilities carried at fair value in one of the following three categories:

Level 1: Unadjusted quoted prices available in active markets for identical assets or liabilities.

Level 2: Pricing inputs, other than Level 1 quoted prices, 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 by observable market data.

Level 3: Unobservable inputs that are not corroborated by market data, which requires the Company to develop its own assumptions. These inputs are frequently utilized in pricing models, discounted cash flow techniques and other widely accepted valuation methodologies.

The following tables summarize the carrying amounts and fair values of certain assets at September 27, 2016 and December 29, 2015, (*in thousands*) :

	September 27, 2016			
	Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Equities <sup>(1)</sup>	\$ 10,846	\$ 10,846	\$ —	\$ —
Fixed income <sup>(1)</sup>	5,274	—	5,274	—
Money market fund <sup>(2)</sup>	12,689	—	12,689	—

  

	December 29, 2015			
	Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Equities <sup>(1)</sup>	\$ 10,385	\$ 10,385	\$ —	\$ —
Fixed income <sup>(1)</sup>	3,748	—	3,748	—
Money market fund <sup>(2)</sup>	29,584	—	29,584	—

(1) These investments relate to the Deferred Compensation Plan and the POWR Plan and are located in the other assets line item on the Consolidated Balance Sheets. The investments categorized as Level 2 in the fair value hierarchy are valued by using available market information which includes quoted market prices for identical or similar assets in non-active markets.

(2) At September 27, 2016 and December 29, 2015, \$0.6 million and \$1.5 million, respectively, of the balances in the money market fund related to the Deferred Compensation and POWR Plans and were located in the other assets line item on the Consolidated Balance Sheets. The remaining balances in the money market fund were short-term in nature and were classified in cash and cash equivalents on the Consolidated Balance Sheets.

The estimated fair value of the Company's outstanding borrowings was as follows (*in thousands*) :

	September 27, 2016	December 29, 2015
Term Loan	\$ 392,243	\$ 389,670
Senior Notes	196,270	195,087
Revolving Facility	—	—
	\$ 588,513	\$ 584,757
Carrying value	\$ 579,199	\$ 581,169

The Company measures the fair value of its debt facilities under a Level 2 observable input which consists of quotes from non-active markets. However, the fair value estimates presented herein are not necessarily indicative of the amount that the Company's debtholders could realize in a current market exchange. Cash and cash equivalents (excluding the money market fund), accounts and other receivables and accounts payable are carried at cost which approximates fair value because of the short-term nature of these instruments.

The Company reviews long-lived assets related to each unit semi-annually in the second and fourth quarters for indicators of impairment and at any other date when events or changes in circumstances indicate that the carrying value of these assets may exceed their fair value and the carrying amount of a unit's leasehold improvements and equipment may not be recoverable. Based on the best information available, impaired leasehold improvements and certain personal property are written down to estimated fair market value, which becomes the new cost basis. Additionally, when a commitment is made to close a unit beyond the quarter, any remaining leasehold improvements and all personal property are reviewed for impairment and depreciable lives are adjusted.

The table below summarizes restaurant-level impairment (Level 3) for the periods presented (*in thousands*):

	13 Weeks Ended		39 Weeks Ended	
	September 27, 2016	September 29, 2015	September 27, 2016	September 29, 2015
Total asset impairments and closures	\$ 1,392	\$ 1,050	\$ 3,966	\$ 5,727

The remaining net book value of the above assets measured on a non-recurring basis at fair value as of September 27, 2016, subsequent to the impairments, was \$0.8 million.

#### Note 6 – Income Taxes

For the 39 weeks ended September 27, 2016, the Company recorded an income tax benefit of \$3.1 million compared to an income tax benefit of \$3.9 million for the same period of the prior year. These tax benefits for both periods were primarily due to general business tax credits in relation to projected taxable income.

The Company files a consolidated US federal tax return with its parent company, NPC Holdings. The Company allocates taxes between it and the Parent utilizing the separate return method.

During the third quarter of fiscal 2016, NPC released a tax reserve of \$2.4 million that was established during the Transactions. As this reserve was established related to an exposure for costs originally incurred by NPC Holdings and charged to equity, the release of this reserve was treated as an adjustment to equity. The liability for uncertain tax positions was \$0.1 million and \$2.6 million at September 27, 2016 and December 29, 2015, respectively.

#### Note 7 – Accrued Liabilities

Accrued liabilities consist of the following (*in thousands*):

	September 27, 2016	December 29, 2015
Payroll and vacation	\$ 22,316	\$ 19,279
Accrued real estate and property taxes	5,879	5,243
Accrued capital expenditures	5,525	3,350
Sales tax payable	5,271	5,648
Other	17,746	11,327
	\$ 56,737	\$ 44,847

## Note 8 – Commitments and Contingencies

On April 12, 2016, the Company entered into an Amended Franchise Agreement with Pizza Hut, Inc. which sets forth the terms of the Asset Partner Plan which governs the future asset upgrade requirements of the Company including remodel scope and timing of such actions, and supersedes the previous agreements relating to such upgrade requirements. The terms of the Asset Partner Plan included in the Amendment to Franchise Agreement are similar in scope to the description of the proposed plan included in Note 10, Commitments and Contingencies of the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2015.

From time to time, the Company is involved in litigation, most of which is incidental to its business. In the Company's opinion, no litigation to which the Company currently is a party is likely to have a material adverse effect on the Company's consolidated financial condition, results of operations or cash flows.

## Note 9 – Transactions with Sponsor

*Olympus Advisory Agreement.* On December 28, 2011, the Company entered into a management advisory agreement with the Sponsor pursuant to which the Sponsor or its affiliates provide financial, investment banking, management advisory and other services on the Company's behalf for an annual fee of \$1.0 million, paid in quarterly installments in arrears on the last day of each calendar quarter. The Company accrues the fee ratably to general and administrative expenses. The Sponsor also receives reimbursement for out-of-pocket expenses incurred in connection with services provided pursuant to the agreement.

## Note 10 – Condensed Consolidating Financial Statements

NPC's obligations under the 10 1/2% Senior Notes due 2020 and its senior secured credit facilities are fully guaranteed by Holdings. As of the date hereof, Holdings' only material asset is 100% of the stock of NPC. The remaining co-issuers with NPC, NPCQB and NPC Operating Company B, Inc. ("NPC Op Co B") are 100% owned by NPC. NPC Op Co B does not have any assets or operations as of September 27, 2016 and has not had any revenues, expenses or cash flows during its existence. The Holdings and subsidiary guarantees are joint and several, full and unconditional. The following summarizes the Company's condensed consolidating information as of September 27, 2016 and December 29, 2015, and for each of the 13-week and 39-week periods ended September 27, 2016 and September 29, 2015, respectively (*in thousands*):

### Condensed Consolidating Statements of Operations

	13 Weeks Ended September 27, 2016					
	Parent	Subsidiary	Subsidiary	Subsidiary	Eliminations	Consolidated
	Guarantor: Holdings	Issuer: NPC	Co-Issuer: NPCQB	Co-Issuer: NPC Op Co B		
Total sales	\$ —	\$ 241,258	\$ 63,822	\$ —	\$ —	\$ 305,080
Total costs and expenses	—	240,366	60,170	—	—	300,536
Operating income	—	892	3,652	—	—	4,544
Interest expense	—	11,174	—	—	—	11,174
Equity in net (loss) income of subsidiary	(4,493)	(614)	—	—	5,107	—
(Loss) income before income taxes	(4,493)	(10,896)	3,652	—	5,107	(6,630)
Income tax (benefit) expense	—	(6,403)	4,266	—	—	(2,137)
Net (loss) income	\$ (4,493)	\$ (4,493)	\$ (614)	\$ —	\$ 5,107	\$ (4,493)

**13 Weeks Ended September 29, 2015**

	Parent	Subsidiary	Subsidiary	Subsidiary		
	Guarantor: Holdings	Issuer: NPC	Co-Issuer: NPCQB	Co-Issuer: NPC Op Co B	Eliminations	Consolidated
Total sales	\$ —	\$ 249,891	\$ 50,761	\$ —	\$ —	\$ 300,652
Total costs and expenses	—	245,946	49,983	—	—	295,929
Operating income	—	3,945	778	—	—	4,723
Interest expense	—	10,240	—	—	—	10,240
Equity in net (loss) income of subsidiary	(2,116)	(1,440)	—	—	3,556	—
(Loss) income before income taxes	(2,116)	(7,735)	778	—	3,556	(5,517)
Income tax (benefit) expense	—	(5,619)	2,218	—	—	(3,401)
Net (loss) income	\$ (2,116)	\$ (2,116)	\$ (1,440)	\$ —	\$ 3,556	\$ (2,116)

**39 Weeks Ended September 27, 2016**

	Parent	Subsidiary	Subsidiary	Subsidiary		
	Guarantor: Holdings	Issuer: NPC	Co-Issuer: NPCQB	Co-Issuer: NPC Op Co B	Eliminations	Consolidated
Total sales	\$ —	\$ 760,240	\$ 168,359	\$ —	\$ —	\$ 928,599
Total costs and expenses	—	735,473	158,065	—	—	893,538
Operating income	—	24,767	10,294	—	—	35,061
Interest expense	—	33,716	—	—	—	33,716
Equity in net income of subsidiary	4,437	6,718	—	—	(11,155)	—
Income (loss) before income taxes	4,437	(2,231)	10,294	—	(11,155)	1,345
Income tax (benefit) expense	—	(6,668)	3,576	—	—	(3,092)
Net income	\$ 4,437	\$ 4,437	\$ 6,718	\$ —	\$ (11,155)	\$ 4,437

**39 Weeks Ended September 29, 2015**

	Parent	Subsidiary	Subsidiary	Subsidiary		
	Guarantor: Holdings	Issuer: NPC	Co-Issuer: NPCQB	Co-Issuer: NPC Op Co B	Eliminations	Consolidated
Total sales	\$ —	\$ 764,369	\$ 151,727	\$ —	\$ —	\$ 916,096
Total costs and expenses	—	739,355	146,480	—	—	885,835
Operating income	—	25,014	5,247	—	—	30,261
Interest expense	—	31,197	—	—	—	31,197
Equity in net income of subsidiary	2,931	3,483	—	—	(6,414)	—
(Loss) income before income taxes	2,931	(2,700)	5,247	—	(6,414)	(936)
Income tax (benefit) expense	—	(5,631)	1,764	—	—	(3,867)
Net income	\$ 2,931	\$ 2,931	\$ 3,483	\$ —	\$ (6,414)	\$ 2,931

**Condensed Consolidating Balance Sheet**

	September 27, 2016					
	Parent	Subsidiary	Subsidiary	Subsidiary		
	Guarantor: Holdings	Issuer: NPC	Co-Issuer: NPCQB	Co-Issuer: NPC Op Co B	Eliminations	Consolidated
<b>Assets:</b>						
Current assets	\$ —	\$ 37,277	\$ 4,233	\$ —	\$ —	\$ 41,510
Facilities and equipment, net	—	156,226	74,373	—	—	230,599
Franchise rights, net	—	565,225	57,967	—	—	623,192
Goodwill	—	290,502	5,624	—	—	296,126
Investment in subsidiary	280,565	113,546	—	—	(394,111)	—
Other assets, net	—	27,008	2,189	—	—	29,197
Total assets	<u>\$ 280,565</u>	<u>\$ 1,189,784</u>	<u>\$ 144,386</u>	<u>\$ —</u>	<u>\$ (394,111)</u>	<u>\$ 1,220,624</u>
<b>Liabilities and member's equity:</b>						
Current liabilities	\$ —	\$ 98,395	\$ 17,941	\$ —	\$ —	\$ 116,336
Long-term debt	—	576,249	—	—	—	576,249
Other liabilities and deferred items	—	54,507	9,671	—	—	64,178
Deferred income taxes	—	180,068	3,228	—	—	183,296
Member's equity	280,565	280,565	113,546	—	(394,111)	280,565
Total liabilities and member's equity	<u>\$ 280,565</u>	<u>\$ 1,189,784</u>	<u>\$ 144,386</u>	<u>\$ —</u>	<u>\$ (394,111)</u>	<u>\$ 1,220,624</u>

	December 29, 2015					
	Parent	Subsidiary	Subsidiary	Subsidiary		
	Guarantor: Holdings	Issuer: NPC	Co-Issuer: NPCQB	Co-Issuer: NPC Op Co B	Eliminations	Consolidated
<b>Assets:</b>						
Current assets	\$ —	\$ 58,620	\$ 4,495	\$ —	\$ —	\$ 63,115
Facilities and equipment, net	—	155,501	47,967	—	—	203,468
Franchise rights, net	—	577,097	43,421	—	—	620,518
Goodwill	—	290,502	4,124	—	—	294,626
Investment in subsidiary	273,689	76,784	—	—	(350,473)	—
Other assets, net	—	27,233	1,736	—	—	28,969
Total assets	<u>\$ 273,689</u>	<u>\$ 1,185,737</u>	<u>\$ 101,743</u>	<u>\$ —</u>	<u>\$ (350,473)</u>	<u>\$ 1,210,696</u>
<b>Liabilities and member's equity:</b>						
Current liabilities	\$ —	\$ 91,472	\$ 16,724	\$ —	\$ —	\$ 108,196
Long-term debt	—	577,011	—	—	—	577,011
Other liabilities and deferred items	—	55,589	6,448	—	—	62,037
Deferred income taxes	—	187,976	1,787	—	—	189,763
Member's equity	273,689	273,689	76,784	—	(350,473)	273,689
Total liabilities and member's equity	<u>\$ 273,689</u>	<u>\$ 1,185,737</u>	<u>\$ 101,743</u>	<u>\$ —</u>	<u>\$ (350,473)</u>	<u>\$ 1,210,696</u>

**Condensed Consolidating Statements of Cash Flows**

	39 Weeks Ended September 27, 2016					
	Parent	Subsidiary	Subsidiary	Subsidiary		
	Guarantor: Holdings	Issuer: NPC	Co-Issuer: NPCQB	Co-Issuer: NPC Op Co B	Eliminations	Consolidated
<b>Operating activities:</b>						
Net cash flows provided by operating activities	\$ —	\$ 47,822	\$ 21,529	\$ —	\$ —	\$ 69,351
<b>Investing activities:</b>						
Capital expenditures	—	(32,040)	(13,273)	—	—	(45,313)
Investment in subsidiary		(44,276)			44,276	—
Return of investment in subsidiary	—	14,232	—	—	(14,232)	—
Acquisition of Wendy's business, net of cash acquired	—	—	(44,783)	—	—	(44,783)
Proceeds from sale-leaseback transactions	—	828	6,327	—	—	7,155
Proceeds from sale or disposition of assets	—	897	355	—	—	1,252
Net cash flows used in investing activities	—	(60,359)	(51,374)	—	30,044	(81,689)
<b>Financing activities:</b>						
Net payments on debt	—	(4,326)	—	—	—	(4,326)
Investment from parent			44,276		(44,276)	—
Distribution to parent		—	(14,232)		14,232	—
Net cash flows (used in) provided by financing activities	—	(4,326)	30,044	—	(30,044)	(4,326)
Net change in cash and cash equivalents	—	(16,863)	199	—	—	(16,664)
Beginning cash and cash equivalents	—	31,918	799	—	—	32,717
Ending cash and cash equivalents	\$ —	\$ 15,055	\$ 998	\$ —	\$ —	\$ 16,053



**39 Weeks Ended September 29, 2015**

	<b>Parent</b>	<b>Subsidiary</b>	<b>Subsidiary</b>	<b>Subsidiary</b>		
	<b>Guarantor: Holdings</b>	<b>Issuer: NPC</b>	<b>Co-Issuer: NPCQB</b>	<b>Co-Issuer: NPC Op Co B</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Operating activities:</b>						
Net cash flows provided by operating activities	\$ —	\$ 47,405	\$ 15,865	\$ —	\$ —	\$ 63,270
<b>Investing activities:</b>						
Capital expenditures	—	(30,678)	(11,319)	—	—	(41,997)
Return of investment in subsidiary	—	4,708	—	—	(4,708)	—
Proceeds from sale-leaseback transactions	—	1,408	—	—	—	1,408
Proceeds from sale or disposition of assets	—	371	150	—	—	521
Net cash flows used in investing activities	—	(24,191)	(11,169)	—	(4,708)	(40,068)
<b>Financing activities:</b>						
Net payments on debt	—	(3,119)	—	—	—	(3,119)
Distribution to parent	—	—	(4,708)	—	4,708	—
Net cash flows used in financing activities	—	(3,119)	(4,708)	—	4,708	(3,119)
Net change in cash and cash equivalents	—	20,095	(12)	—	—	20,083
Beginning cash and cash equivalents	—	11,278	785	—	—	12,063
Ending cash and cash equivalents	\$ —	\$ 31,373	\$ 773	\$ —	\$ —	\$ 32,146

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

As used in this report, NPC Restaurant Holdings, LLC is referred to herein as “Holdings.” Holdings and its subsidiaries are referred to as the “Company,” “we” “us,” and “our.” Holdings’ wholly-owned subsidiary, NPC International, Inc., is referred to as “NPC.” NPC’s wholly-owned subsidiary, NPC Quality Burgers, Inc., is referred to herein as “NPCQB.”

### **Trademarks and Trade Names**

The trade name “Pizza Hut” and all other trade names, trademarks, service marks, symbols, slogans, emblems, logos and designs used in the Pizza Hut system and appearing in this Form 10-Q are owned by Pizza Hut, Inc. (“PHI”) and are licensed to us for use with respect to the operation and promotion of our Pizza Hut restaurants. The “WingStreet” name is a trademark of WingStreet, LLC, an entity controlled by Yum! Brands, Inc. (“Yum!”). The trade name “Wendy’s” and all other trade names, trademarks, service marks, symbols, slogans, emblems, logos and designs used in the Wendy’s system and appearing in this Form 10-Q are owned by The Wendy’s Company and its subsidiaries (“Wendy’s”) and are licensed to us for use with respect to the operation and promotion of our Wendy’s restaurants. All other trademarks or trade names appearing in this Form 10-Q are the property of their respective owners. Solely for convenience, trademarks and trade names referred to in this Form 10-Q may appear without the ® or ™ symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the right of the applicable licensor to these trademarks and trade names.

### **Market and Industry Data**

In this Form 10-Q, we refer to information regarding the U.S. restaurant industry and the quick service restaurant sector from publicly available market research reports and other publicly available information. Unless otherwise indicated, corporate information regarding PHI in this Form 10-Q has been made publicly available by Yum! and corporate information regarding Wendy’s has been made publicly available by Wendy’s. We have not independently verified such data and we make no representations as to the accuracy of such information. None of the reports referred to in this Form 10-Q were prepared for use in, or in connection with, this Form 10-Q.

### **Non-GAAP Financial Measures**

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). This Item 2 includes various financial measures that have not been calculated in accordance with GAAP, commonly referred to as “Non-GAAP Financial Measures”. These Non-GAAP Financial Measures include Adjusted EBITDA and Covenant EBITDA, which is in accordance with the credit agreement for our senior secured credit facilities (“Senior Secured Credit Facilities”).

These measures are not in accordance with, or an alternative to GAAP, and may be different from Non-GAAP Financial Measures used by other companies. These measures have important limitations as analytical tools and should not be considered in isolation, nor as a substitute for, or superior to, analysis of our results as reported under GAAP. We recommend that investors view these measures in conjunction with the GAAP measures included in this report and we have provided reconciliations of reported GAAP amounts to the Non-GAAP amounts. Also, in the applicable sections of this Item 2, we explain the ways in which management uses these Non-GAAP Financial Measures to evaluate our business and the reasons why management believes that these Non-GAAP Financial Measures provide useful information to investors.

### **Cautionary Statement Regarding Forward Looking Information**

*This report includes forward-looking statements regarding, among other things, our plans, strategies, and prospects, both business and financial. All statements contained in this document other than historical information are forward-looking statements. Forward-looking statements include, but are not limited to, statements that represent our beliefs concerning future operations, strategies, financial results or other developments, and may contain words and phrases such as “may,” “expect,” “should,” “anticipate,” “intend,” or similar expressions. Because these forward-looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond our control or are subject to change, actual results could be materially different. Although we believe that our plans, intentions and expectations reflected in or suggested by these forward-looking statements are reasonable, there can be no assurance we will achieve or realize these plans, intentions or expectations. Forward-looking statements are inherently subject to risks, uncertainties and assumptions. Important factors that could cause actual results to differ materially from our forward-looking statements, expectations and historical trends include, but are not limited to, the following:*

- *competitive conditions;*
- *general economic and market conditions;*

- effectiveness of franchisor advertising programs and the overall success of our franchisors;
- increases in commodity, labor, fuel and other costs;
- effectiveness of the hedging program for cheese prices directed by Restaurant Supply Chain Solutions, LLC (“RSCS”) for the Pizza Hut system;
- significant disruptions in service or supply by any of our suppliers or distributors;
- changes in consumer tastes, geographic concentration and demographic patterns;
- consumer concerns about health and nutrition;
- our ability to manage our growth and successfully implement our business strategy;
- the risks associated with the expansion of our business, including risks relating to the integration of the Wendy’s restaurants acquired by us;
- the effect of disruptions to our computer and information systems or cyber attacks;
- the effect of local conditions, events and natural disasters;
- general risks associated with the restaurant industry;
- the outcome of pending or yet-to-be instituted legal proceedings;
- regulatory factors, including changing laws and regulations related to healthcare coverage, employee matters (including compensation) and menu labeling, which may adversely affect our business and results of operations;
- the loss of our executive officers and certain key personnel;
- our ability to service our substantial indebtedness and to comply with the related financial covenants;
- restrictions contained in our debt agreements;
- the availability, terms and deployment of capital;
- our ability to obtain debt or equity financing on reasonable terms or at costs similar to that of our current credit facilities; and
- various other factors beyond our control.

Any forward-looking statements made in this report speak only as of the date of this report. Consequently, such forward-looking statements should be regarded solely as our current plans, estimates and beliefs. We do not intend, and do not undertake, any obligation to update any forward-looking statements to reflect future events or circumstances after the date of such statements, except as may be required by applicable law. For a more detailed discussion of the principal factors that could cause actual results to be materially different, you should read our risk factors in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 29, 2015 (“2015 Form 10-K”) and in Part II, Item 1A of this report as well as our unaudited interim consolidated financial statements, related notes, and other financial information appearing elsewhere in this report and our other filings with the Securities and Exchange Commission (“SEC”), which are available on the SEC’s website at [www.sec.gov](http://www.sec.gov).

## Overview

NPC was founded in 1962, is the largest franchisee of any restaurant concept in the United States (U.S.), based on unit count, according to the 2016 “Top 200 Restaurant Franchisees” by the *Restaurant Finance Monitor*, and is the eighth largest restaurant unit operator, based on unit count, in the U.S.

*Our Pizza Hut operations.* We are the largest Pizza Hut franchisee and as of September 27, 2016 we operated 1,228 Pizza Hut units in 27 states with significant presence in the Midwest, South and Southeast. As of September 27, 2016, our Pizza Hut operations represented approximately 19% of the domestic Pizza Hut restaurant system and 21% of the domestic Pizza Hut franchised restaurant system as measured by number of units, excluding licensed units which operate with a limited menu and no delivery in certain of our markets.

*Our Wendy’s operations.* As of September 27, 2016, we operated 183 Wendy’s units in 5 states. We desire to expand our Wendy’s operations through the opportunistic acquisitions of restaurants in additional markets and organic growth by developing new restaurants that meet our investment objectives. All of the Wendy’s restaurants are owned and operated by NPCQB and are primarily located in and around the Salt Lake City, Greensboro-Winston Salem, Raleigh-Durham and Kansas City metropolitan areas.

*Our Fiscal Year.* We operate on a 52- or 53-week fiscal year ending on the last Tuesday in December. Fiscal years 2016 and 2015 each contain 52 weeks. Each quarterly period in fiscal years 2016 and 2015 has 13 weeks.

## Our Sales

*Net Product Sales.* Net product sales are comprised of sales of food and beverages from our restaurants, net of discounts. For the 39 weeks ended September 27, 2016, pizza sales accounted for approximately 73% of our Pizza Hut net product sales. Hamburger and chicken sandwiches accounted for approximately 50% of our Wendy’s net product sales. Various factors influence sales at a given unit, including customer recognition of the Pizza Hut and Wendy’s brands, our level of service and operational effectiveness, pricing, marketing and promotional efforts and local competition. Several factors affect our sales in any period,

including the number of units in operation, comparable store sales and seasonality. “Comparable store sales” refer to period-over-period net product sales comparisons for units under our operation for at least 12 months .

*Fees and Other Income.* Fees and other income for our Pizza Hut operations are comprised primarily of delivery fees charged to customers, vending receipts and other fee income and are not included in our comparable store sales metric.

*Seasonality.* Our Pizza Hut business is moderately seasonal in nature with net product sales typically being higher in the first half of the fiscal year. Our Wendy’s business is also moderately seasonal in nature with net product sales typically being higher in the spring and summer months. As a result of these seasonal fluctuations, our operating results may vary between fiscal quarters. Further, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

*Restaurants and Formats .* We operate our Pizza Hut restaurants through three different formats to cater to the needs of our customers in each respective market. Delivery units, or “Delcos,” are typically located in strip centers and provide delivery and carryout, with a greater proportion being located in more densely populated areas. Red Roof units, or “RRs,” are traditional free-standing, dine-in restaurants which offer on-location dining room service as well as carryout service. Restaurant-Based Delivery units, or “RBDs,” conduct delivery, dine-in, and carryout operations from the same free-standing location.

Our Wendy’s restaurants are generally free-standing and include a pick-up window in addition to a dining room with counter service.

The following table sets forth certain information at the end of each year-to-date fiscal period:

	<b>39 Weeks Ended</b>	
	<b>September 27, 2016</b>	<b>September 29, 2015</b>
Number of restaurants open at the end of the period:		
Pizza Hut		
Delco	618	603
RR	125	155
RBD	485	505
Total Pizza Hut units	1,228	1,263
Wendy’s units	183	143
Total units	1,411	1,406

## **Our Costs**

Our operating costs and expenses are comprised of cost of sales, direct labor, other restaurant operating expenses, general and administrative expenses and facility impairment and closure costs. Our cost structure is highly variable with approximately 70% of operating costs variable to sales and volume of transactions.

*Cost of Sales.* Cost of sales includes the cost of food and beverage products sold, less rebates from suppliers, as well as paper and packaging, and is primarily influenced by fluctuation in commodity prices. Historically, our Pizza Hut cost of sales has primarily been comprised of the following: cheese: 30-35%; dough: 16-20%; meat: 16-20%; and packaging: 8-10%. These costs can fluctuate from year-to-year given the commodity nature of the cost category, but are constant across regions. We are a member of the RSCS, a cooperative designed to operate as a central procurement service for the operators of Yum! restaurants, and participate in various cheese hedging and procurement programs that are directed by the RSCS for cheese, meat and certain other commodities to help reduce the price volatility of those commodities from period-to-period. Based on information provided by the RSCS, the RSCS typically hedges approximately 30% to 50% of the Pizza Hut system’s anticipated cheese purchases through a combination of derivatives taken under the direction of the RSCS. Additionally, the RSCS has entered into contractual pricing arrangements with the supplier to restaurants in the Pizza Hut system on cheese purchases that may cause the prices paid by us to exceed or be less than the current block cheese price.

Our Wendy’s cost of sales is primarily comprised of the following: beef and chicken: 40-42%; packaging: 11-13%; potatoes: 8-10%; and dairy: 8-10%. These costs can fluctuate from year-to-year given the commodity nature of the cost category, but are constant across regions. Wendy’s and its franchisees have established Quality Supply Chain Co-op, Inc. to manage contracts for the purchase and distribution of food, proprietary paper, operating supplies and equipment under national contracts with pricing based upon total system volume for the Wendy’s system in the United States and Canada.

*Direct Labor.* Direct labor includes the salary, payroll taxes, fringe benefit costs and workers' compensation expense associated with restaurant-based personnel. Direct labor is highly dependent on federal and state minimum wage rate legislation and local minimum wage rate initiatives given that the vast majority of our workers are hourly employees. To control labor costs, we are focused on proper scheduling and adequate training of our store employees, as well as retention of existing employees.

*Other Restaurant Operating Expenses.* Other restaurant operating expenses ("OROE") include all other costs directly associated with operating a restaurant facility, which primarily represents royalties, advertising, occupancy costs (rent, utilities, repairs and other facility-related expenses), depreciation (facilities and equipment), delivery expenses (for our Pizza Hut operations), supplies, insurance (excluding workers' compensation) and other restaurant-related costs.

Our blended average Pizza Hut royalty rate as a percentage of total Pizza Hut sales was 4.9% for both of the 39 week periods ended September 27, 2016 and September 29, 2015 . Our blended average Wendy's royalty rate as a percentage of total Wendy's sales was 3.8% and 3.9% for the 39 week periods ended September 27, 2016 and September 29, 2015 , respectively.

*General and Administrative Expenses.* General and administrative expenses include field supervision and personnel costs and the corporate and administrative functions that support our restaurants, including employee wages and benefits, travel, information systems, recruiting and training costs, credit card transaction fees, professional fees, supplies and insurance.

*Facility Impairment and Closure Costs.* Facility impairment and closure costs include any impairment of long-lived assets, including franchise rights associated with units or designated marketing areas, a unit's leasehold improvements and equipment where the carrying amount of the asset is not recoverable and may exceed its fair value. When a unit is closed, the associated lease and other costs related to the unit are included in closure costs.

### **Trends and Uncertainties Affecting Our Business**

We believe that as a franchisee of such a large number of Pizza Hut and Wendy's restaurants, our financial success is driven less by variable factors that affect regional restaurants and their markets, and more by trends affecting the food purchase industry – specifically the Quick Service Restaurants or "QSR" industry. The following discussion describes certain key factors that may affect our future performance.

#### ***General Economic Conditions and Consumer Spending***

Changes in general economic conditions can have a significant impact on consumer spending. Wage stagnation, higher healthcare costs and economic uncertainty, as partially mitigated by lower fuel prices and lower unemployment, appear to have negatively impacted consumer spending in some segments of the restaurant industry, including the segment in which we compete. Specifically, we believe pressures on low and lower-middle income customers continue to be significant, and we believe that these customers are particularly interested in receiving value at a reasonable price in the current environment.

#### ***Competition***

The restaurant business is highly competitive. The QSR industry is a fragmented market, and includes well-established competitors.

Our Pizza Hut restaurants face competition from national and regional chains, as well as independent operators, which affects pricing strategies and margins. Additionally, frozen pizzas and take-and-bake pizzas are competitive alternatives in the pizza segment. In addition to more established competitors, we also face competition from new competitors and concepts such as fast casual pizza concepts. Limited product variability within our segment can make differentiation among competitors difficult. Thus, companies in the pizza segment continuously promote and market new product introductions, price discounts and bundled deals, and rely heavily on effective marketing and advertising to drive sales. The price charged for each menu item may vary from market to market (and within markets) depending on competitive pricing and the local cost structure.

Our Wendy's restaurants face competition from other food service operations within the same geographical area. Wendy's restaurants compete with other restaurant companies and food outlets, primarily through the quality, variety, convenience, price, and value perception of food products offered. The location of units, quality and speed of service, attractiveness of facilities, effectiveness of marketing and new product development by Wendy's and its competitors are also important factors. The price charged for each menu item may vary from market to market (and within markets) depending on competitive pricing and the local cost structure.

#### ***Commodity Prices***

For our Pizza Hut operations, commodity prices of packaging products (liner board) and ingredients such as cheese, dough (wheat), and meat, can vary. The prices of these commodities can fluctuate throughout the year due to changes in supply and demand. Our costs can also fluctuate as a result of changes in ingredients or packaging instituted by PHI. For the third quarter of

fiscal 2016, the block cheese price averaged \$1.69 per pound, essentially flat compared to the average price for the third quarter of fiscal 2015. Additionally, meat prices increased \$0.09 per pound or approximately 5% versus the average price for the third quarter of fiscal 2015.

Based upon current market conditions, for fiscal 2016 we currently expect overall ingredient deflation for our Pizza Hut operations of approximately 3% and deflation of approximately 5% for our Wendy's operations as compared to fiscal 2015.

For fiscal 2017, based upon current market conditions, we currently expect overall ingredient inflation for our Pizza Hut operations of approximately 2% to 3% and flat to 1% inflation for our Wendy's operations as compared to fiscal 2016.

### ***Labor Cost***

The restaurant industry is labor intensive and known for having a high level of employee turnover given low hourly wages and the part-time composition of the workforce. To the extent that our Pizza Hut delivery sales mix increases due to changes in occasion mix or the acquisition or relocation of units, our labor costs would be expected to increase due to the more labor intensive nature of the delivery transaction. Direct labor is highly dependent on federal and state minimum wage rate legislation and local minimum wage rate initiatives given the vast majority of workers are hourly employees whose compensation is either determined or influenced by the minimum wage rate. Certain states' minimum wage rates are adjusted annually for inflation. These increases in state minimum wage rates are currently expected to increase direct labor expense by approximately \$0.6 million in fiscal 2016. However, there are currently a number of federal, state and local initiatives and proposals to further increase minimum wage rates, which could be material to our operations.

On May 18, 2016, the Department of Labor ("DOL") released its final rule increasing the minimum salary that employees must be paid to qualify as exempt from the overtime requirements under the Fair Labor Standards Act ("FLSA"). The new rule increases the salary threshold for the overtime exemption from \$455 per week to \$913 per week. On an annual basis, this increases the salary threshold from \$23,660 to \$47,476 per year. These regulations become effective December 1, 2016. The DOL will automatically update the standard salary and compensation levels every three years going forward. The DOL has set the total annual compensation for exempt highly compensated employees at \$134,004, up from \$100,000. Employers will be able to count non-discretionary bonuses, incentive payments, and commissions towards as much as 10 percent of the salary threshold beginning December 1, 2016. In order to count, these payments must be made on a quarterly or more frequent basis. We are evaluating the effects on our business of this final rule. Based upon our current evaluation, without taking mitigating steps, we currently expect that the FLSA overtime exemption requirements will increase our future costs but we are currently unable to quantify the amount of the impact with a high degree of certainty.

Additionally, changes in federal labor laws and regulations and governmental agency determinations relating to union organizing rights and activities could result in portions of our workforce being subjected to greater organized labor influence, thereby potentially increasing our labor costs, and could have a material adverse effect on our business, results of operations and financial condition.

### ***Inflation and Deflation***

Inflationary factors, such as increases in food and labor costs, directly affect our operations. Because most of our employees are paid on an hourly basis, changes in rates related to federal and state minimum wage rate and tip credit laws and local minimum wage rate initiatives will affect our labor costs.

Significant increases in average gasoline prices in the regions in which we operate could increase our delivery driver reimbursement costs. We estimate that every \$0.25 per gallon change in average gas prices in our markets impacts our annual operating results by approximately \$0.8 million. However, as gas prices increase, the impact upon our operations is somewhat mitigated for price increases by a transfer of sales from the delivery occasion to the carryout access mode, which is perceived as a higher value by consumers and benefits us with lower labor costs for the carryout transaction.

If the economy experiences deflation, which is a persistent decline in the general price level of goods and services, we may suffer a decline in revenues as a result of the falling prices. In that event, given our fixed costs and minimum wage rate requirements, it is unlikely that we would be able to reduce our costs at the same pace as any declines in revenues. Consequently, a period of prolonged or significant deflation would likely have a material adverse effect on our business, results of operations and financial condition. Similarly, if we reduce the prices we charge for our products as a result of declines in comparable store sales or competitive pressures, we may suffer decreased revenues, margins, income and cash flow from operations.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our unaudited interim consolidated financial statements. The preparation of these financial statements requires estimation and judgment that affect the reported amounts of revenues, expenses, assets, and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. If these estimates differ materially from actual results, the impact on the unaudited interim consolidated financial statements may be material. Our critical accounting policies are available under Item 7 of our 2015 Form 10-K filed on March 9, 2016. There have been no significant changes with respect to these policies during the 39 weeks ended September 27, 2016 .

As referenced in Item 7 of our 2015 Form 10-K, we perform our annual assessment of goodwill, which is not subject to amortization, for impairment during the second quarter. We performed qualitative assessments for our Pizza Hut and Wendy's reporting units in the second quarter, and concluded that it was more-likely-than-not that the fair value of these reporting units were greater than their carrying value.

## Results of Operations

The table below presents (i) comparable store sales indices, (ii) selected restaurant operating results as a percentage of net product sales and (iii) sales by occasion for the 13-week and 39-week periods ended September 27, 2016 and September 29, 2015 :

<u>Consolidated</u>	<u>13 Weeks Ended</u>		<u>39 Weeks Ended</u>	
	<u>September 27, 2016</u>	<u>September 29, 2015</u>	<u>September 27, 2016</u>	<u>September 29, 2015</u>
Net product sales, <i>(in thousands)</i>	\$ 291,250	\$ 288,025	\$ 886,501	\$ 876,547
Fees and other income, <i>(in thousands)</i>	\$ 13,830	\$ 12,627	\$ 42,098	\$ 39,549
Net product sales	100 %	100 %	100%	100 %
Direct restaurant costs and expenses <sup>(2)</sup> :				
Cost of sales	29.4 %	29.7 %	28.8%	29.2 %
Direct labor	29.9 %	30.2 %	29.7%	30.1 %
Other restaurant operating expenses	34.8 %	34.5 %	33.6%	33.3 %
<u>Pizza Hut</u>				
Comparable store sales <sup>(1)</sup>	(2.7)%	(0.9)%	0.3%	(1.3)%
Net product sales, <i>(in thousands)</i>	\$ 227,428	\$ 237,264	\$ 718,142	\$ 724,820
Fees and other income, <i>(in thousands)</i>	\$ 13,830	\$ 12,627	\$ 42,098	\$ 39,549
Net product sales	100 %	100 %	100%	100 %
Direct restaurant costs and expenses <sup>(2)</sup> :				
Cost of sales	28.9 %	29.1 %	28.3%	28.6 %
Direct labor	30.8 %	30.8 %	30.4%	30.6 %
Other restaurant operating expenses	36.0 %	35.3 %	34.5%	34.1 %
<u>Wendy's</u>				
Comparable store sales <sup>(1)</sup>	1.7 %	3.1 %	1.2%	1.4 %
Net product sales, <i>(in thousands)</i>	\$ 63,822	\$ 50,761	\$ 168,359	\$ 151,727
Net product sales	100 %	100 %	100%	100 %
Direct restaurant costs and expenses <sup>(2)</sup> :				
Cost of sales	31.1 %	32.5 %	31.1%	32.1 %
Direct labor	26.8 %	27.8 %	26.9%	27.8 %
Other restaurant operating expenses	30.2 %	30.5 %	29.7%	29.8 %

<sup>(1)</sup> Comparable store sales are only reported for locations that have been operated by the Company for at least 12 months.

<sup>(2)</sup> Stated as a percentage of net product sales.

	<u>13 Weeks Ended</u>		<u>39 Weeks Ended</u>	
	<u>September 27, 2016</u>	<u>September 29, 2015</u>	<u>September 27, 2016</u>	<u>September 29, 2015</u>
Pizza Hut Sales by occasion:				
Delivery	42%	41%	43%	42%
Carryout	47%	46%	46%	45%
Dine-in	11%	13%	11%	13%
Wendy's sales by occasion:				
Pick-up window	69%	69%	69%	69%
Counter service	31%	31%	31%	31%



Activity with respect to unit count is set forth in the table below:

	39 Weeks Ended					
	September 27, 2016			September 29, 2015		
	Consolidated	Wendy's	Pizza Hut	Consolidated	Wendy's	Pizza Hut
Beginning of period	1,395	144	1,251	1,420	143	1,277
Acquired	42	42	—	—	—	—
Developed <sup>(1)</sup>	22	—	22	10	—	10
Closed <sup>(1)</sup>	(48)	(3)	(45)	(24)	—	(24)
End of period	1,411	183	1,228	1,406	143	1,263
Equivalent units <sup>(2)</sup>	1,391	154	1,237	1,407	142	1,265

<sup>(1)</sup> Relocated Pizza Hut units are included in both the developed and closed totals above. The 39 week periods ended September 27, 2016 and September 29, 2015 include 21 relocated units and six relocated units, respectively. The closed units for the 39 week periods ended September 27, 2016 and September 29, 2015 also include one unit and three units, respectively, which were in the process of relocating and will re-open upon completion.

<sup>(2)</sup> Equivalent units represent the number of units open at the beginning of a given period, adjusted for units opened, closed, temporarily closed, acquired or sold during the period on a weighted average basis.

### 13 Weeks Ended September 27, 2016 Compared to the 13 Weeks Ended September 29, 2015

#### Our Pizza Hut Operations

**Net Product Sales.** Our Pizza Hut net product sales for the third quarter of fiscal 2016 compared to the same period of the prior year were \$ 227.4 million and \$237.3 million, respectively, a decrease of \$9.9 million or 4.1%, largely due to a comparable store sales decrease of 2.7% and a 2.5% decrease in equivalent units.

**Fees and Other Income.** Fees and other income for the third quarter of fiscal 2016, as compared to the same period of the prior year, were \$ 13.8 million and \$12.6 million, respectively, an increase of \$1.2 million or 9.5%, largely due to increased customer delivery fees.

**Cost of Sales.** Pizza Hut cost of sales for the third quarter of fiscal 2016, as compared to the same period of the prior year, was \$ 65.6 million and \$69.0 million, respectively, a decrease of \$3.4 million or 4.9%. Cost of sales decreased 0.2% as a percentage of net product sales, to 28.9%, compared to 29.1% in the prior year largely due to lower ingredient costs, primarily dough and cheese.

**Direct Labor.** Pizza Hut direct labor costs for the third quarter of fiscal 2016, as compared to the same period of the prior year were \$ 70.1 million and \$73.0 million, respectively, a decrease of \$2.9 million, or 4.0%. Direct labor costs were 30.8% of net product sales for the third quarter of fiscal 2016 and fiscal 2015 as a result of improved labor efficiency which was offset by sales deleveraging on labor costs.

**Other Restaurant Operating Expenses.** OROE for our Pizza Hut units for the third quarter of fiscal 2016 were \$ 82.0 million compared to \$83.8 million for the same quarter of the prior year, a decrease of \$1.8 million, or 2.2%. OROE were 36.0% of net product sales for the third quarter of fiscal 2016 compared to 35.3% of net product sales for the prior year, an increase of 0.7%.

Significant changes in OROE as a percentage of net product sales were as follows:

OROE as a percentage of net product sales for the 13 weeks ended September 29, 2015	35.3 %
Depreciation and amortization	0.5
Deleveraging on occupancy costs	0.2
Insurance expense	(0.2)
Other	0.2
OROE as a percentage of net product sales for the 13 weeks ended September 27, 2016	36.0 %

Depreciation and amortization included in OROE for our Pizza Hut operations was \$9.6 million or 4.2% of net product sales for the third quarter of fiscal 2016 compared to \$8.8 million or 3.7% of net product sales for the same period of the prior year.

#### Our Wendy's Operations

*Net Product Sales.* Wendy's net product sales for the third quarter of fiscal 2016 compared to the same period of fiscal 2015 were \$ 63.8 million and \$50.8 million , respectively, an increase of \$13.1 million primarily due to the acquisition of 42 Wendy's restaurants in two transactions during fiscal 2016 (the "Wendy's acquisitions") and an increase in comparable store sales of 1.7%.

*Cost of Sales.* Wendy's cost of sales for the third quarter of fiscal 2016 as compared to the same period of the prior year, was \$ 19.9 million and \$16.5 million , respectively, an increase of \$3.4 million due to the Wendy's acquisitions. Cost of sales decreased 1.4% as a percentage of net product sales, to 31.1% , compared to 32.5% in the prior year largely due to lower ingredient costs, primarily beef.

*Direct Labor.* Wendy's direct labor costs for the third quarter of fiscal 2016 , as compared to the same period of the prior year, were \$ 17.1 million and \$14.1 million , respectively, an increase of \$3.0 million primarily due to the Wendy's acquisitions. Direct labor costs were 26.8% of net product sales for the third quarter of fiscal 2016 , a 1.0% decrease compared to the prior year largely due to improved labor efficiency and the leveraging effect of positive comparable store sales on labor costs.

*Other Restaurant Operating Expenses.* Wendy's OROE for the third quarter of fiscal 2016 were \$ 19.3 million compared to \$15.5 million for the same period of the prior year, an increase of \$3.8 million primarily due to the Wendy's acquisitions. OROE were 30.2% of net product sales for the third quarter of fiscal 2016 , a decrease of 0.3% compared to the prior year.

Significant changes in OROE as a percentage of net product sales were as follows:

OROE as a percentage of net product sales for the 13 weeks ended September 29, 2015	30.5 %
Depreciation and amortization	0.7
Occupancy costs	0.1
Real estate taxes	(0.5)
Kids meal prizes	(0.2)
Royalties	(0.1)
Training	(0.1)
Other	(0.2)
OROE as a percentage of net product sales for the 13 weeks ended September 27, 2016	<u>30.2 %</u>

Depreciation and amortization included in OROE for our Wendy's operations was \$3.5 million or 5.5% of net product sales for the third quarter of fiscal 2016 compared to \$2.4 million or 4.8% of net product sales for the same period of the prior year. The increase in depreciation and amortization was largely due to the Wendy's acquisitions.

### **Consolidated**

*General and Administrative Expenses.* General and administrative expenses for the third quarter of fiscal 2016 were \$ 19.4 million compared to \$17.8 million for the same period of the prior year, an increase of \$1.6 million or 9.1% . This increase was largely due to the timing of the accrual for incentive compensation, increased field personnel and support costs and higher credit card processing fees largely due to the Wendy's acquisitions.

*Corporate Depreciation and Amortization.* Corporate depreciation and amortization expense was \$ 5.6 million for the third quarter of fiscal 2016 compared \$5.3 million for the same period of the prior year, an increase of \$0.3 million .

*Net Facility Impairment and Closure Costs.* During the third quarter of fiscal 2016 we recorded approximately \$ 1.4 million of expense for Pizza Hut closure charges. We recorded \$1.1 million of expense during the same period of the prior year including asset impairment charges of \$0.8 million for an underperforming unit and \$0.3 million for closure charges.

*Interest Expense.* Interest expense was \$ 11.2 million for the third quarter of fiscal 2016 compared to \$10.2 million for the same period of the prior year. Our cash borrowing rate increased 0.6% to 6.8% for the third quarter of fiscal 2016 as compared to the prior year, as a result of the amendment to the credit agreement for the term loan completed in the fourth quarter of fiscal 2015. Our average outstanding debt balance (excluding unamortized debt issuance costs) decreased \$3.1 million to \$579.6 million for the third quarter of fiscal 2016 as compared to the same period of the prior year. Interest expense included \$1.0 million and \$0.9 million for amortization of deferred debt issuance costs in the third quarter of fiscal 2016 and fiscal 2015, respectively.

*Income Taxes.* For the third quarter of fiscal 2016 , we recorded an income tax benefit of \$2.1 million compared to an income tax benefit of \$3.4 million for the same period of the prior year. The tax benefit for both periods was primarily due to general business tax credits in relation to projected taxable income.

*Net Loss.* Our net loss for the third quarter of fiscal 2016 was \$4.5 million compared to a net loss of \$2.1 million for the same period of the prior year, a \$2.4 million increase. This increase in our net loss was largely due to higher general and administrative expenses, increased interest expense and higher income taxes which were partially offset by improved restaurant profitability largely due to decreases in ingredient costs as compared to the prior year.

### **39 Weeks Ended September 27, 2016 Compared to the 39 Weeks Ended September 29, 2015**

#### **Our Pizza Hut Operations**

*Net Product Sales.* Pizza Hut net product sales for the 39 weeks ended September 27, 2016 compared to the same period of the prior year were \$718.1 million and \$724.8 million, respectively, a decrease of \$6.7 million or 0.9%, resulting largely from a 2.2% decrease in equivalent units which was partially offset by a 0.3% increase in comparable store sales for the 39 weeks ended September 27, 2016.

*Fees and Other Income.* Fees and other income for the 39 weeks ended September 27, 2016, as compared to the same period of the prior year, were \$42.1 million and \$39.5 million, respectively, an increase of \$2.6 million or 6.4%. The increase was largely due to increased customer delivery fees and increased delivery transactions.

*Cost of Sales.* Pizza Hut cost of sales for the 39 weeks ended September 27, 2016, as compared to the same period of the prior year, was \$203.4 million and \$207.1 million, respectively, a decrease of \$3.7 million or 1.8%. Cost of sales decreased 0.3% as a percentage of net product sales, to 28.3%, compared to 28.6% in the prior year. This decrease as a percent of net product sales was largely due to lower ingredient costs, primarily dough.

*Direct Labor.* Pizza Hut direct labor costs for the 39 weeks ended September 27, 2016, as compared to the same period of the prior year, were \$218.2 million and \$222.0 million, respectively, a decrease of \$3.8 million, or 1.7%. Direct labor costs were 30.4% of net product sales for the 39 weeks ended September 27, 2016, a 0.2% decrease compared to the prior year. The decrease in direct labor costs as a percentage of net product sales was primarily a result of improved labor efficiency.

*Other Restaurant Operating Expenses.* OROE for our Pizza Hut units for the 39 weeks ended September 27, 2016 were \$247.6 million compared to \$246.9 million for the same period of the prior year, an increase of \$0.7 million, or 0.3%. OROE were 34.5% of net product sales for the 39 weeks ended September 27, 2016 compared to 34.1% of net product sales for the prior year, an increase of 0.4%.

Significant changes in OROE as a percentage of net product sales were as follows:

OROE as a percentage of net product sales for the 39 weeks ended September 29, 2015	34.1 %
Depreciation and amortization	0.3
Restaurant manager bonuses	0.2
Utilities expense	(0.2)
Other	0.1
OROE as a percentage of net product sales for the 39 weeks ended September 27, 2016	34.5 %

Depreciation and amortization included in OROE for our Pizza Hut operations was \$28.3 million or 3.9% of net product sales for the 39 weeks ended September 27, 2016 compared to \$26.0 million or 3.6% of net product sales for the same period of the prior year.

#### **Our Wendy's Operations**

*Net Product Sales.* Wendy's net product sales for the 39 weeks ended September 27, 2016 compared to the same period of the prior year were \$168.4 million and \$151.7 million, respectively, an increase of \$16.7 million or 11.0%, primarily due to the Wendy's acquisitions and an increase in comparable store sales of 1.2%.

*Cost of Sales.* Wendy's cost of sales for the 39 weeks ended September 27, 2016 as compared to the same period of the prior year, was \$52.4 million and \$48.7 million, respectively, an increase of \$3.7 million. Cost of sales decreased 1.0% as a percentage of net product sales, to 31.1%, compared to 32.1% in the prior year largely due to lower ingredient costs, primarily beef.

*Direct Labor.* Wendy's direct labor costs for the 39 weeks ended September 27, 2016 as compared to the same period of the prior year, were \$45.3 million and \$42.1 million, respectively, an increase of \$3.2 million or 7.6%. Direct labor costs were 26.9% of net product sales for the 39 weeks ended September 27, 2016, a 0.9% decrease compared to the prior year largely due to improved labor efficiency and the leveraging effect of positive comparable store sales on labor costs.

*Other Restaurant Operating Expenses.* Wendy's OROE for the 39 weeks ended September 27, 2016 were \$50.0 million compared to \$45.3 million for the prior year, an increase of \$4.7 million or 10.5% . OROE decreased 0.1% as a percentage of net product sales, to 29.7% of net product sales for the 39 weeks ended September 27, 2016 , compared to 29.8% for the prior year.

Significant changes in OROE as a percentage of net product sales were as follows:

OROE as a percentage of net product sales for the 39 weeks ended September 29, 2015	29.8 %
Depreciation and amortization	0.7
Real estate taxes	(0.2)
Kids meal prizes	(0.2)
Royalties	(0.1)
Training	(0.1)
Other	(0.2)
OROE as a percentage of net product sales for the 39 weeks ended September 27, 2016	29.7 %

Depreciation and amortization included in OROE for our Wendy's operations was \$8.6 million or 5.1% of net product sales for the 39 weeks ended September 27, 2016 compared to \$6.7 million or 4.4% of net product sales for the same period of the prior year. The increase in depreciation and amortization is largely due to the Wendy's acquisitions.

### **Consolidated**

*General and Administrative Expenses.* General and administrative expenses for the 39 weeks ended September 27, 2016 were \$56.5 million compared to \$51.9 million for the same period of the prior year, an increase of \$4.6 million or 8.9% . This increase was largely due to the timing of the accrual for incentive compensation, increased field personnel and support costs and higher credit card processing fees.

*Corporate Depreciation and Amortization.* Corporate depreciation and amortization expense for the 39 weeks ended September 27, 2016 was \$16.2 million compared to \$15.8 million for the same period of the prior year, an increase of \$0.4 million .

*Net Facility Impairment and Closure Costs.* During the 39 weeks ended September 27, 2016 we recorded \$4.0 million of expense compared to \$5.7 million of expense for the same period of the prior year. The 39 weeks ended September 27, 2016 included Pizza Hut closure charges of approximately \$2.7 million and asset impairment charges of \$1.3 million for underperforming units (\$0.8 million for our Pizza Hut operations and \$0.5 million for our Wendy's operations). The 39 weeks ended September 29, 2015 included asset impairment charges of \$4.9 million for underperforming units (\$3.7 million for our Pizza Hut operations and \$1.2 million for our Wendy's operations) and \$0.8 million for Pizza Hut closure charges.

*Interest Expense.* Interest expense was \$33.7 million for the 39 weeks ended September 27, 2016 compared to \$31.2 million for the same period of the prior year, an increase of \$2.5 million . Our cash borrowing rate increased 0.5% to 6.8% for the 39 weeks ended September 27, 2016 as compared to the prior year as a result of the amendment to the credit agreement for the term loan completed in the fourth quarter of fiscal 2015. Our average outstanding debt balance (excluding unamortized debt issuance costs) decreased \$6.0 million to \$579.4 million for the 39 weeks ended September 27, 2016 as compared to the prior year. Interest expense included \$3.2 million and \$2.9 million for amortization of deferred debt issuance costs for 39 weeks ended September 27, 2016 and September 29, 2015, respectively.

*Income Taxes.* For the 39 weeks ended September 27, 2016 , we recorded an income tax benefit of \$3.1 million compared to an income tax benefit of \$3.9 million for the same period of the prior year. The tax benefit for both periods was primarily due to higher general business tax credits in relation to projected taxable income.

*Net Income.* Net income for the 39 weeks ended September 27, 2016 was \$4.4 million compared to \$2.9 million for the same period of the prior year, an increase of \$1.5 million . The increase in net income is attributable to improved restaurant profitability and lower facility impairment and closure costs which more than offset the impact of increased general and administrative expenses and higher interest expense as compared to the same period of the prior year.

### **Liquidity and Sources of Capital**

Our short-term and long-term liquidity needs will arise primarily from: (1) interest and principal payments related to our senior secured credit facilities ("Senior Secured Credit Facilities") and 10 1/2% Senior Notes due 2020; (2) capital expenditures, including new unit development, asset refurbishment and maintenance capital expenditures; (3) opportunistic acquisitions of Pizza

Hut and Wendy's restaurants or other acquisition opportunities; and (4) working capital requirements as may be needed to support our business. We intend to fund our operations, interest expense, capital expenditures, acquisitions and working capital requirements principally from cash from operations, cash reserves and borrowings on our revolving credit facility ("Revolving Facility"). Future acquisitions, depending on the size, or new capital expenditure requirements may require borrowings beyond those available on our existing Revolving Facility and therefore may require further utilization of the additional remaining term loan borrowing capacity under our Senior Secured Credit Facilities described below as well as other sources of debt or additional equity capital. Under our franchise agreements with PHI and Wendy's, our franchisors have the right to institute asset standards which may be material to our business and could require significant capital outlay.

Our working capital position was a deficit of \$74.8 million at September 27, 2016. Like many other restaurant companies, we are able to operate and generally do operate with a working capital deficit because (i) restaurant revenues are received primarily in cash or by credit card with a low level of accounts receivable; (ii) rapid turnover results in a limited investment in inventories; and (iii) cash from sales is usually received before related liabilities for food, supplies and payroll become due. Because we are able to operate with minimal working capital or a deficit, we have historically utilized excess cash flow from operations and our Revolving Facility for debt reduction, capital expenditures and acquisitions, and to provide liquidity for our working capital needs. At September 27, 2016, we had \$80.4 million of borrowing capacity available under our Revolving Facility net of \$29.6 million of outstanding letters of credit.

#### *Cash flows from operating activities*

Cash from operations is our primary source of funds. Changes in earnings and working capital levels are the two key factors that generally have the greatest impact on cash from operations. Cash provided by operating activities for the 39 weeks ended September 27, 2016 was \$69.4 million compared to \$63.3 million for the same period of the prior year or a \$6.1 million increase. This increase was primarily due to (i) a \$1.5 million increase in our net income, (ii) a \$3.4 million increase in our non-cash items, primarily depreciation and amortization expense and (iii) a \$1.2 million positive net change in our assets and liabilities, including increases in accrued liabilities, accrued interest and income taxes which were partially offset by changes in deferred liabilities, accounts receivable and insurance reserves.

#### *Cash flows from investing activities*

Cash flows used in investing activities were \$81.7 million for the 39 weeks ended September 27, 2016 comprised of \$45.3 million for capital expenditures and \$44.8 million for the acquisition of Wendy's units in two transactions, which was partially offset by \$7.2 million of proceeds from sale-leaseback transactions and \$1.3 million of proceeds from the disposition of assets. The January 2016 Wendy's acquisition included three fee-owned properties. During the second quarter of fiscal 2016, we sold one of these properties for \$1.4 million and leased it back, and we plan to sell and lease back the remaining two fee-owned properties.

Cash flows used in investing activities were \$40.1 million for the 39 weeks ended September 29, 2015 due to \$42.0 million of investments in capital expenditures partially offset by \$1.4 million of proceeds from sale-leaseback transactions and approximately \$0.5 million of proceeds from the disposition of assets.

We currently expect our capital expenditure investment to be approximately \$64.0 million for fiscal 2016, consisting of approximately \$47.0 million in our Pizza Hut operations and approximately \$17.0 million in our Wendy's operations.

#### *Cash flows from financing activities*

Net financing outflows were \$4.3 million for the 39 weeks ended September 27, 2016 and \$3.1 million for the 39 weeks ended September 29, 2015 due to principal payments on the term loan.

Based upon the amount of excess cash flow generated during the fiscal year and our leverage at fiscal year end, each of which is defined in the credit agreement governing the term loan, we may be required to make an excess cash flow mandatory prepayment. The excess cash flow mandatory prepayment is an annual requirement under the credit agreement and is due 95 days after the end of each fiscal year. We made a mandatory prepayment of \$3.3 million on March 31, 2016 based on our fiscal 2015 results. We currently anticipate that we will not be required to make a mandatory prepayment in fiscal 2017. However, because this is a preliminary estimate, it is possible that an excess cash flow mandatory prepayment could ultimately be required.

## Adjusted EBITDA

Adjusted EBITDA is a Non-GAAP Financial Measure. We define Adjusted EBITDA as consolidated net (loss) income plus interest, income taxes, depreciation and amortization, facility impairment and closure costs, pre-opening expenses and certain other items of a non-operational nature. Adjusted EBITDA may not be similar to EBITDA measures of other companies. We have included Adjusted EBITDA as a supplemental disclosure because we believe that Adjusted EBITDA provides investors a helpful measure for comparing our operating performance with the performance of other companies that have different financing and capital structures or tax rates. We believe the elimination of interest expense, depreciation and amortization, as well as income taxes and certain other items of a non-operational nature as noted in the table below, give investors and management useful information to compare the performance of our core operations over different periods.

The following is a reconciliation of net (loss) income to Adjusted EBITDA (*in thousand s*):

	13 Weeks Ended		39 Weeks Ended		Four Most Recent Fiscal Quarters Ended
	September 27, 2016	September 29, 2015	September 27, 2016	September 29, 2015	September 27, 2016
Net (loss) income (GAAP)	\$ (4,493)	\$ (2,116)	\$ 4,437	\$ 2,931	\$ 8,218
Adjustments:					
Interest expense	11,174	10,240	33,716	31,197	44,303
Income tax benefit	(2,137)	(3,401)	(3,092)	(3,867)	(4,993)
Depreciation and amortization	18,155	16,072	51,908	47,151	68,925
Net facility impairment and closure costs	1,392	1,050	3,966	5,727	5,708
Pre-opening expenses and other	624	143	926	621	1,272
Adjusted EBITDA (Non-GAAP)	<u>\$ 24,715</u>	<u>\$ 21,988</u>	<u>\$ 91,861</u>	<u>\$ 83,760</u>	<u>\$ 123,433</u>

## Senior Secured Credit Facility Covenant Compliance

Amendment No. 5 to the Credit Agreement for our Senior Secured Credit Facilities (the "Credit Agreement") defines "Leverage Ratio" as the ratio of Consolidated Debt for Borrowed Money to Consolidated EBITDA, as defined below, (for the most recent four fiscal quarters). "Consolidated Interest Coverage Ratio" is defined as the ratio of (x) Consolidated EBITDA plus Rent Expense to (y) Consolidated Interest Expense plus Rent Expense. All of the foregoing capitalized terms are defined in the Credit Agreement, which was filed by the Company with the SEC on March 9, 2016 as Exhibit 10.31 to the Company's Form 10-K for the fiscal year ended December 29, 2015. The calculation of Consolidated Debt for Borrowed Money includes a reduction for cash on hand in excess of \$3.0 million, with such reduction not to exceed \$50.0 million. "Consolidated EBITDA" is defined as Adjusted EBITDA (as defined above) further adjusted to exclude non-cash items, extraordinary, unusual or non-recurring items, Sponsor advisory fees and other adjustment items permitted in calculating Consolidated EBITDA under the Credit Agreement, including the pro forma effect of acquisitions and divestitures on a full year basis among other pro forma adjustments ("Covenant EBITDA"). We believe that the inclusion of supplementary adjustments to Adjusted EBITDA applied in presenting Covenant EBITDA is appropriate to provide additional information to investors regarding our compliance with the financial covenants in the Credit Agreement, which could affect our liquidity. Management considers Covenant EBITDA in evaluating our business operations and financial results and their potential effects on covenant compliance and future liquidity.

The following table reconciles our Adjusted EBITDA to Covenant EBITDA for the four most recent fiscal quarters ended September 27, 2016 (*in thousand s*):

	<b>Four Most Recent Fiscal Quarters Ended</b>
	<b>September 27, 2016</b>
Adjusted EBITDA (Non-GAAP)	\$ 123,433
Adjustments:	
Pro forma cost savings <sup>(1)</sup>	2,921
Sponsor fee <sup>(2)</sup>	1,004
Non-recurring charges <sup>(3)</sup>	429
Other <sup>(4)</sup>	6,313
Covenant EBITDA (Non-GAAP)	<u>\$ 134,100</u>

- (1) Reflects prospective savings calculated in accordance with the Credit Agreement; specifically, the amount of cost savings expected to be realized from operating expense reductions and other operating improvements as a result of specified actions taken or initiated during the four most recent quarters ended September 27, 2016.
- (2) Reflects the exclusion of the management fees and expenses incurred by the Company under the Olympus Advisory Agreement.
- (3) Reflects non-recurring charges, severance and integration costs, costs related to closure/consolidation of Restaurants and other facilities, and Pizza Hut development incentives.
- (4) Reflects pro forma adjustments related to "Acquired EBITDA", sale-leaseback rent obligations, losses from discontinued operations, and gains or losses recorded in the ordinary course of business. Pro forma Acquired EBITDA includes adjustments to seller annual EBITDA for tangible operational changes achievable within one year of the acquisition as well as other operational or contractual differences post acquisition including royalties, rent obligations, and field and administrative support costs among others for periods prior to the acquisition date.

As of September 27, 2016, we were in compliance with all of the financial covenants under our Senior Secured Credit Facilities as defined above. Our ratios under the foregoing financial covenants in our Credit Agreement as of September 27, 2016 were as follows:

			<b>Covenant requirement</b>		
			<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>Actual</b>				
Maximum leverage ratio	4.33x	Not more than	6.00x	5.75x	5.25x
Minimum consolidated interest coverage ratio	1.84x	Not less than	1.40x	1.40x	1.40x

Based upon current operations and our internal financial forecasts, we believe that our cash flows from operations, together with borrowings that are available under our Revolving Facility, will be adequate to meet our anticipated requirements for working capital, capital expenditures, and scheduled principal and interest payments through the next 12 months. At September 27, 2016, we had \$80.4 million of borrowing capacity available under our Revolving Facility net of \$29.6 million of outstanding letters of credit. We will consider additional sources of financing to fund our long-term growth if necessary, including the \$75.0 million of incremental term loan capacity that is potentially available under our Senior Secured Credit Facilities, subject to the terms of our Credit Agreement. If we need to obtain additional financing in the future, the availability of such financing may be impacted by economic and financial market conditions, as well as our financial condition and results of operations at the time we seek additional financing. Any additional debt incurred, beyond the parameters established in our Credit Agreement, or refinancing of any of our existing indebtedness may result in increased borrowing costs that are in excess of our current borrowing costs based on current credit market conditions. A further discussion of the terms of the Credit Agreement is set forth under "Liquidity and Capital Resources" in Item 7 of our 2015 Form 10-K.

#### Letters of Credit

As of September 27, 2016, we had letters of credit of \$29.6 million issued under our existing credit facility largely in support of self-insured risks.

#### Contractual Obligations and Off Balance Sheet Arrangements

As of September 27, 2016, there have been no material changes outside the ordinary course of business from the disclosures relating to contractual obligations contained under "Contractual Obligations and Off-Balance Sheet Arrangements" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in our 2015 Form 10-K.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to various market risks. Market risk is the potential loss arising from adverse changes in market prices and rates. We do not enter into derivative or other financial instruments for trading or speculative purposes.

*Interest Rate Risk.* Our primary market risk exposure is interest rate risk. All of our borrowings under our Senior Secured Credit Facilities bear interest at a floating rate. As of September 27, 2016, we had \$396.9 million in funded floating rate debt outstanding under our Senior Secured Credit Facilities. A 100 basis point increase in the floating rate would increase annual interest expense by approximately \$4.0 million. Under our Senior Secured Credit Facilities, we have a LIBOR floor of 1.0% as of September 27, 2016 on our LIBOR Term Loan borrowings. Therefore, current market rates would have to exceed 1.0% before we would realize variability on our interest expense.

*Commodity Prices.* Commodity prices can vary significantly. The price of commodities can change throughout the year due to changes in supply and demand. Cheese has historically represented approximately 30-35% of our Pizza Hut cost of sales. We are a member of RSCS, and participate in cheese hedging programs for our Pizza Hut operations that are directed by RSCS to help reduce the volatility of this commodity from period-to-period. Based on information provided by RSCS, RSCS expects to hedge approximately 30% to 50% of the Pizza Hut system's anticipated cheese purchases through a combination of derivatives taken under the direction of RSCS. Additionally, the RSCS has entered into contractual pricing arrangements with the supplier to restaurants in the Pizza Hut system on certain volumes of cheese purchases that may cause the prices paid by us to exceed or be less than the current block cheese price.

The estimated increase in our consolidated food costs from a hypothetical 10% adverse change in the average cheese block price per pound would have been approximately \$3.2 million for the 39 weeks ended September 27, 2016 without giving effect to the RSCS directed hedging programs.

Proteins, which primarily include beef, chicken and pork, represent approximately 18-22% of our consolidated cost of sales. The estimated increase in our consolidated food costs from a hypothetical 10% adverse change in the average price per pound for proteins would have been approximately \$4.4 million for the 39 weeks ended September 27, 2016.



**Item 4. Controls and Procedures.**

*Evaluation of Disclosure Controls and Procedures.*

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as such term is defined in Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended (“Exchange Act”). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of such date to provide reasonable assurance that the information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

*Changes in internal control over financial reporting.*

There has been no change in our internal control over financial reporting that occurred during our third quarter of fiscal 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

From time to time, the Company is involved in litigation which is incidental to its business. In the Company's opinion, no litigation to which the Company is currently a party is likely to have a material adverse effect on the Company's consolidated financial condition, results of operations, or cash flows.

### **Item 1A. Risk Factors.**

Except as otherwise described herein, there have been no material changes in our risk factors from those disclosed in our 2015 Form 10-K.

#### **Potential increases in our costs as a result of a rule change adopted by the Department of Labor could adversely affect our business, results of operations and financial condition.**

On May 18, 2016, the Department of Labor (DOL) released its final rule increasing the minimum salary that employees must be paid to qualify as exempt from the overtime requirements under the Fair Labor Standards Act (FLSA). The new rule increases the salary threshold for the overtime exemption from \$455 per week to \$913 per week. On an annual basis, this increases the salary threshold from \$23,660 to \$47,476 per year. These regulations become effective December 1, 2016. The DOL will automatically update the standard salary and compensation levels every three years going forward. The DOL has set the total annual compensation for exempt highly compensated employees at \$134,004, up from \$100,000. Employers will be able to count non-discretionary bonuses, incentive payments, and commissions towards as much as 10 percent of the salary threshold beginning December 1, 2016. In order to count, these payments must be made on a quarterly or more frequent basis. We are evaluating the effects on our business of this final rule. Based upon our current evaluation, without taking mitigating steps, we currently expect that the FLSA overtime exemption requirements will increase our future costs but we are currently unable to quantify the amount of the impact with a high degree of certainty.

**Item 6. Exhibits**

Pursuant to the rules and regulations of the SEC, we have filed, furnished or incorporated herein by reference the documents referenced below as exhibits to this Form 10-Q. The documents include certain agreements to which the Company is a party or has a beneficial interest. The agreements have been filed to provide investors with information regarding their respective terms. The agreements are not intended to provide any other factual information about the Company or its business or operations. In particular, the assertions embodied in any representations, warranties and covenants contained in the agreements may be subject to qualifications with respect to knowledge and materiality different from those applicable to investors and may be qualified by information in confidential disclosure schedules not included with the exhibits. These disclosure schedules may contain information that modifies, qualifies and creates exceptions to the representations, warranties and covenants set forth in the agreements. Moreover, certain representations, warranties and covenants in the agreements may have been used for the purpose of allocating risk between the parties, rather than establishing matters as facts. In addition, information concerning the subject matter of the representations, warranties and covenants may have changed after the date of the respective agreement, which subsequent information may or may not be fully reflected in the Company's public disclosures. Accordingly, investors should not rely on the representations, warranties and covenants in the agreements as characterizations of the actual state of facts about the Company or its business or operations on the date hereof.

The exhibits that are required to be filed, furnished or incorporated by reference herein are listed in the Exhibit Index below (following the signatures page of this report).

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, on November 9, 2016 .

**NPC RESTAURANT HOLDINGS, LLC**

By: /s/ Troy D. Cook  
Name: **Troy D. Cook**  
Title: **Executive Vice President—Finance,  
Chief Financial Officer and Secretary (Principal  
Financial Officer)**

By: /s/ Jason P. Poenitske  
Name: **Jason P. Poenitske**  
Title: **Chief Accounting Officer (Principal Accounting  
Officer)**

**Exhibit Index**

<b><u>Exhibit No.</u></b>	<b><u>Description</u></b>
2.01*	Purchase and Sale Agreement, dated as of November 6, 2011, by and between NPC Acquisition Holdings, LLC (n/k/a NPC Restaurant Holdings, LLC), NPC International Holdings, Inc., and Merrill Lynch Global Private Equity, Inc. and the other sellers listed therein.
2.02*	Amendment to Purchase and Sale Agreement, dated as of December 28, 2011, by and between Merrill Lynch Global Private Equity, Inc. and NPC International Holdings, Inc.
2.03	Asset Purchase Agreement dated as of November 19, 2013 among NPC International, Inc., NPC Quality Burgers, Inc. and Wendy's Old Fashioned Hamburgers of New York, Inc. (incorporated herein by reference to Exhibit 2.1 to Holdings' Current Report on Form 8-K (File No. 333-180524-04) filed with the SEC on December 9, 2013).
2.04	First Amendment to Asset Purchase Agreement dated as of November 20, 2013 among NPC International, Inc., NPC Quality Burgers, Inc. and Wendy's Old Fashioned Hamburgers of New York, Inc. (incorporated herein by reference to Exhibit 2.2 to Holdings' Current Report on Form 8-K (File No. 333-180524-04) filed with the SEC on December 9, 2013).
2.05	Asset Purchase Agreement dated as of June 11, 2014, by and among Wendelta, Inc., Wendelta Property Holdings, LLC, Carlisle VANC, LLC, Realty VANC, LLC, Carlisle Corporation and NPC Quality Burgers, Inc. incorporated herein by reference to Exhibit 2.05 to Holdings' Quarterly Report on Form 10-Q (File No. 333-180524-04) filed with the SEC on August 14, 2014).
2.06	Asset Purchase Agreement dated as of June 24, 2016 among NPC International, Inc., NPC Quality Burgers, Inc. and Wendy's International, LLC (incorporated herein by reference to Exhibit 2.1 to Holdings' Current Report on Form 8-K (File No. 333-180524-04) filed with the SEC on July 25, 2016).
2.07	First Amendment to Asset Purchase Agreement dated as of July 22, 2016 among NPC International, Inc., NPC Quality Burgers, Inc. and Wendy's International, LLC (incorporated herein by reference to Exhibit 2.2 to Holdings' Current Report on Form 8-K (File No. 333-180524-04) filed with the SEC on July 25, 2016).
3.01	Certificate of Formation, as amended, of NPC Restaurant Holdings, LLC (incorporated herein by reference to Exhibit 3.1 to Holdings' Current Report on Form 8-K (File No. 333-180524-04) filed with the SEC on September 12, 2012).
3.02	Restated Limited Liability Company Agreement of NPC Restaurant Holdings, LLC (incorporated herein by reference to Exhibit 3.2 to Holdings' Current Report on Form 8-K (File No. 333-180524-04) filed on September 12, 2012).
4.01*	Indenture, dated as of December 28, 2011, by and between NPC International, Inc., NPC Operating Company A, Inc. and NPC Operating Company B, Inc., as issuers, NPC Acquisition Holdings, LLC (n/k/a NPC Restaurant Holdings, LLC), as guarantor, and Wells Fargo Bank, National Association, as trustee.
4.02*	Form of 10 1/2% Senior Note due 2020 (included in Exhibit 4.01).
4.03*	Registration Rights Agreement, dated as of December 28, 2011, by and between NPC International, Inc., NPC Operating Company A, Inc. and NPC Operating Company B, Inc., as issuers, NPC Acquisition Holdings, LLC (n/k/a NPC Restaurant Holdings, LLC), as guarantor, and Goldman, Sachs & Co. and Barclays Capital Inc., as initial purchasers.
10.01	NPC International, Inc. Deferred Compensation and Retirement Plan as amended and restated effective July 1, 2013 (incorporated herein by reference to Exhibit 10.01 to Holdings' Quarterly Report on Form 10-Q (File No. 333-180524-04) filed with the SEC on August 2, 2013).
10.02	NPC International, Inc. POWR Plan for Key Employees as amended and restated effective July 1, 2013 (incorporated herein by reference to Exhibit 10.02 to Holdings' Quarterly Report on Form 10-Q (File No. 333-180524-04) filed with the SEC on August 2, 2013).
10.03	Form of Location Franchise Agreement, dated as of January 1, 2003, by and between Pizza Hut, Inc. and NPC Management, Inc. (incorporated herein by reference to Exhibit 10.9 to NPC's Registration Statement on Form S-4 (File No. 333-138338) filed on October 31, 2006).
10.04	Form of Territory Franchise Agreement, dated as of January 1, 2003, by and between Pizza Hut, Inc. and NPC Management, Inc. (incorporated herein by reference to Exhibit 10.10 to NPC's Registration Statement on Form S-4 (File No. 333-138338) filed on October 31, 2006).
10.05	Pizza Hut National Purchasing Coop, Inc. Membership Subscription and Commitment Agreement, dated as of February 9, 1999, by and between NPC Management, Inc. and Pizza Hut National Purchasing Coop (incorporated herein by reference to Exhibit 10.32 to NPC's Annual Report on Form 10-K (File No. 0-13007) filed with the SEC on May 28, 1999).
10.06	Amendment to Franchise Agreement dated as of December 25, 2007, by and between Pizza Hut, Inc. and NPC International, Inc. (incorporated herein by reference to Exhibit 10.16 to NPC's Annual Report on Form 10-K (File No. 333-138338) filed March 14, 2008).
10.07	Master Distribution Agreement between Unified Foodservice Purchasing Co-op, LLC, for and on behalf of itself as well as the Participants, as defined therein (including certain subsidiaries of Yum! Brands, Inc.) and McLane Foodservice, Inc., effective as of January 1, 2011 and Participant Distribution Joinder Agreement with McLane Foodservice, Inc. dated August 11, 2010** (incorporated herein by reference to Exhibit 10.23 to NPC's Quarterly Report on Form 10-Q (File No. 333-138338) filed with the SEC on November 8, 2010).

- 10.08\* Amended and Restated Employment Agreement, dated as of November 4, 2011, by and between NPC International, Inc., NPC Acquisition Holdings, LLC (n/k/a NPC Restaurant Holdings, LLC), NPC International Holdings, Inc. and James K. Schwartz.
- 10.09\* Amended and Restated Employment Agreement, dated as of November 4, 2011, by and between NPC International, Inc., NPC Acquisition Holdings, LLC (n/k/a NPC Restaurant Holdings, LLC), NPC International Holdings, Inc. and Troy D. Cook
- 10.10\* Stockholders Agreement, dated as of November 6, 2011, by and between NPC International Holdings, Inc., Olympus Growth Fund V, L.P., Olympus Executive Fund II, L.P., Olympus-1133 West Co-Investment Fund, L.P., and the other persons party thereto.
- 10.11\* Amended and Restated Credit Agreement, dated as of March 28, 2012, by and between NPC International, Inc., NPC Operating Company A, Inc., NPC Operating Company B, Inc., NPC Acquisition Holdings, LLC (n/k/a NPC Restaurant Holdings, LLC), Barclays Bank plc and the other lenders party thereto.
- 10.12\* Amendment No. 1 to Credit Agreement, dated as of March 28, 2012, by and between NPC International, Inc., NPC Operating Company A, Inc., NPC Operating Company B, Inc., NPC Acquisition Holdings, LLC (n/k/a NPC Restaurant Holdings, LLC) and Barclays Bank plc.
- 10.13\* Security Agreement, dated as of December 28, 2011, by and between NPC International, Inc., the other pledgors party thereto and Barclays Bank plc.
- 10.14\* Investment Agreement, dated as of December 28, 2011, by and between NPC International Holdings, Inc., Olympus Growth Fund V, L.P., Olympus Executive Fund II, L.P., Olympus-1133 West Co-Investment Fund, L.P., and the other persons party thereto.
- 10.15\* Advisory Services Agreement, dated as of December 28, 2011, by and between NPC International Holdings, Inc., NPC International, Inc. and Olympus Advisors V, LLC.
- 10.16\* Escrow Agreement, dated as of December 28, 2011, by and between NPC International Holdings, Inc., Merrill Lynch Global Private Equity, Inc. and Wells Fargo Bank, N.A.
- 10.17\* NPC International Holdings, Inc. 2011 Stock Option Plan.
- 10.18\* Form of NPC International Holdings, Inc. Stock Option Agreement.
- 10.19\* ISDA Master Agreement, dated as of February 23, 2012, between Coöperative Centrale Raiffeisen-Boerenleenbank B.A. and NPC International, Inc.
- 10.20 Amendment No. 2 to Credit Agreement, dated as of May 16, 2012, by and between NPC International, Inc., NPC Operating Company A, Inc., NPC Operating Company B, Inc., NPC Acquisition Holdings, LLC (n/k/a NPC Restaurant Holdings, LLC) and Barclays Bank plc. (incorporated herein by reference to Exhibit 10.20 to Holdings' Annual Report on Form 10-K (File No. 333-180524-04) filed March 8, 2013).
- 10.21 Amendment No. 3 to Credit Agreement, dated as of November 21, 2012, by and between NPC International, Inc., NPC Operating Company A, Inc., NPC Operating Company B, Inc., NPC Restaurant Holdings, LLC and Barclays Bank plc. (incorporated herein by reference to Exhibit 10.21 to Holdings' Annual Report on Form 10-K (File No. 333-180524-04) filed March 8, 2013).
- 10.22 Quality Is Our Recipe, LLC (f/k/a Wendy's International, Inc.) unit franchise agreement dated as of July 22, 2013 (incorporated herein by reference to Exhibit 10.22 to Holdings' Quarterly Report on Form 10-Q (File No. 333-180524-04) filed with the SEC on November 7, 2013).
- 10.23 Amendment to Employment Agreement, dated as of July 22, 2013 by and among NPC International, Inc., NPC Restaurant Holdings, LLC, NPC International Holdings, Inc. and James K. Schwartz (incorporated herein by reference to Exhibit 10.8 to Holdings' Quarterly Report on Form 10-Q (File No. 333-180524-04) filed with the SEC on August 2, 2013).
- 10.24 Amendment to Employment Agreement, dated as of July 22, 2013, by and among NPC International, Inc., NPC Restaurant Holdings, LLC, NPC International Holdings, Inc. and Troy D. Cook (incorporated herein by reference to Exhibit 10.9 to Holdings' Quarterly Report on Form 10-Q (File No. 333-180524-04) filed with the SEC on August 2, 2013).
- 10.25 Amendment No. 4 to Credit Agreement, dated as of December 16, 2013, by and between NPC International, Inc., NPC Quality Burgers, Inc., NPC Operating Company B, Inc., NPC Restaurant Holdings, LLC and Barclays Bank plc. (incorporated herein by reference to Exhibit 10.26 to Holdings' Annual Report on Form 10-K (File No. 333-180524-04) filed with the SEC on March 7, 2014).
- 10.26 Employment Agreement, dated as of June 16, 2014, by and between NPC International, Inc., NPC International Holdings, Inc. and John Hedrick (incorporated herein by reference to Exhibit 10.26 to Holdings' Quarterly Report on Form 10-Q (File No. 333-180524-04) filed with the SEC on August 15, 2014).
- 10.27 Incremental Term Loan Amendment, dated as of June 19, 2014, by and between NPC International, Inc., NPC Quality Burgers, Inc., NPC Operating Company B, Inc., NPC Restaurant Holdings, LLC and Barclays Bank plc. (incorporated herein by reference to Exhibit 10.27 to Holdings' Quarterly Report on Form 10-Q (File No. 333-180524-04) filed with the SEC on August 15, 2014).

10.28	Amendment to Employment Agreement, dated as of October 20, 2015, by and among NPC International, Inc., NPC International Holdings, Inc. and John Hedrick (incorporated herein by reference to Exhibit 10.28 to NPC's Quarterly Report on Form 10-Q (File No. 333-180524-04) filed with the SEC on November 13, 2015).
10.29	Letter Agreement re: Bonus and Options, dated as of October 20, 2015, by and among NPC International, Inc., NPC International Holdings, Inc. and John Hedrick (incorporated herein by reference to Exhibit 10.29 to NPC's Quarterly Report on Form 10-Q (File No. 333-180524-04) filed with the SEC on November 13, 2015).
10.30	Amendment No. 5 to Credit Agreement, dated as of December 10, 2015, by and between NPC International, Inc., NPC Quality Burgers, Inc., NPC Operating Company B, Inc., NPC Restaurant Holdings, LLC and Barclays Bank plc. (incorporated herein by reference to Exhibit 10.31 to NPC's Annual Report on Form 10-K (File No. 333-180524-04) filed with the SEC on March 9, 2016).
10.31	Letter Agreement re: Bonus Eligibility; Position and Duties, dated as of February 17, 2016, by and among NPC International, Inc., NPC International Holdings, Inc. and James K. Schwartz (incorporated herein by reference to Exhibit 10.32 to Holdings' Annual Report on Form 10-K (File No. 333-180524-04) filed with the SEC on March 9, 2016).
10.32	Letter Agreement re: Bonus Eligibility; Position and Duties, dated as of February 17, 2016, by and among NPC International, Inc., NPC International Holdings, Inc. and Troy D. Cook (incorporated herein by reference to Exhibit 10.33 to Holdings' Annual Report on Form 10-K (File No. 333-180524-04) filed with the SEC on March 9, 2016).
10.33	Letter Agreement re: Bonus Eligibility; Position and Duties, dated as of February 17, 2016, by and among NPC International, Inc., NPC International Holdings, Inc. and John Hedrick (incorporated herein by reference to Exhibit 10.34 to Holdings' Annual Report on Form 10-K (File No. 333-180524-04) filed with the SEC on March 9, 2016).
10.34	Separation Agreement and Release dated as of November 18, 2015, by and among NPC International, Inc. and Blayne Vaughn (incorporated herein by reference to Exhibit 10.35 to Holdings' Annual Report on Form 10-K (File No. 333-180524-04) filed with the SEC on March 9, 2016).
10.35	Pizza Hut, Inc. Amended Franchise Agreement dated as of April 12, 2016. (incorporated herein by reference to Exhibit 10.35 to Holdings' Quarterly Report on Form 10-Q (File No. 333-180524-04) filed with the SEC on August 12, 2016).
14.1	NPC Restaurant Holdings, LLC Code of Business Conduct and Ethics, dated August 22, 2014 (incorporated herein by reference to Exhibit 14.1 to Holdings' Current Report on Form 8-K (File No. 333-180524-04) filed with the SEC on August 25, 2014)
21.01	Subsidiaries of NPC Restaurant Holdings, LLC (incorporated herein by reference to Exhibit 21.01 to Holdings' Annual Report on Form 10-K (File No. 333-180524-04) filed with the SEC on March 27, 2015).
31.1***	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2***	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1***	Certification of 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***	Certification of 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	Financial statements from the quarterly report on Form 10-Q of NPC Restaurant Holdings, LLC for the 13 and 39 week periods ended September 27, 2016, filed on November 9, 2016, formatted in XBRL: (i) the Consolidated Statements of Operations (unaudited) for the 13 and 39 week periods ended September 27, 2016 and September 29, 2015, (ii) the Consolidated Balance Sheets (unaudited) at September 27, 2016 and December 29, 2015, (iii) the Consolidated Statement of Member's Equity (unaudited) for the 39 weeks ended September 27, 2016, (iv) the Consolidated Statements of Cash Flows (unaudited) for the 39 weeks ended September 27, 2016 and September 29, 2015, and (v) the Notes to the Unaudited Consolidated Financial Statements.

\* Filed as an exhibit with corresponding number to the registration statement on Form S-4 (File No 333-180524) of Holdings and NPC and incorporated herein by reference.

\*\* Portions of these documents have been omitted and are subject to an order granting confidential treatment under the Securities Exchange Act of 1934, as amended (File No. 0-13007 - CF#25955). Omitted portions of these documents are indicated with an asterisk.

\*\*\* Filed or furnished herewith

## CERTIFICATIONS

I, James K. Schwartz, certify that:

1. I have reviewed the quarterly report on Form 10-Q of NPC Restaurant Holdings, LLC (the “registrant”) for the period ended September 27, 2016 ;
2. Based on my knowledge, this 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 principles;
  - 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 an 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: November 9, 2016

/s/ James K. Schwartz

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**James K. Schwartz**

**Chairman, President and Chief Executive Officer**

## CERTIFICATIONS

I, Troy D. Cook, certify that:

1. I have reviewed the quarterly report on Form 10-Q of NPC Restaurant Holdings, LLC (the “registrant”) for the period ended September 27, 2016 ;
2. Based on my knowledge, this 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 principles;
  - 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 an 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: November 9, 2016

/s/ Troy D. Cook

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**Troy D. Cook**

**Executive Vice President—Finance,  
Chief Financial Officer and Secretary**



**Certification 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**

In connection with the Quarterly Report of NPC Restaurant Holdings, LLC (the "Company") on Form 10-Q for the period ended September 27, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James K. Schwartz, Chairman, President and Chief Executive Officer of NPC Restaurant Holdings, LLC, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 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; 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: November 9, 2016

/s/ James K. Schwartz

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**James K. Schwartz**

**Chairman, President and Chief Executive Officer**

**Certification 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**

In connection with the Quarterly Report of NPC Restaurant Holdings, LLC (the "Company") on Form 10-Q for the period ended September 27, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Troy D. Cook, Executive Vice-President - Finance, Chief Financial Officer and Secretary of NPC Restaurant Holdings, LLC, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 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; 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: November 9, 2016

/s/ Troy D. Cook

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**Troy D. Cook**

**Executive Vice President—Finance,  
Chief Financial Officer and Secretary**