

PAPA MURPHY'S HOLDINGS, INC.

FORM 10-Q (Quarterly Report)

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Address	8000 NE PARKWAY DRIVE SUITE 350 VANCOUVER, WA 98662
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Sector	Consumer Cyclical
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 3, 2017

OR

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

For the transition period from to

Commission file number 001-36432



Papa Murphy's Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)
8000 NE Parkway Drive, Suite 350
Vancouver, WA
(Address of principal executive offices)

27-2349094
(IRS Employer
Identification No.)

98662
(Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

At May 5, 2017, there were 16,952,741 shares of the Registrant's common stock, \$0.01 par value, outstanding.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Papa Murphy's Holdings, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Operations

<i>(In thousands, except share and per share data)</i>	Three Months Ended	
	April 3, 2017	March 28, 2016
Revenues		
Franchise royalties	\$ 10,034	\$ 10,496
Franchise and development fees	601	954
Company-owned store sales	20,775	20,674
Other	584	861
Total revenues	31,994	32,985
Costs and Expenses		
Store operating costs:		
Cost of food and packaging	7,215	7,272
Compensation and benefits	6,334	5,734
Advertising	2,128	2,166
Occupancy	1,701	1,375
Other store operating costs	2,222	2,291
Selling, general, and administrative	17,213	9,055
Depreciation and amortization	3,117	2,715
Loss on disposal or impairment of property and equipment	9	54
Total costs and expenses	39,939	30,662
Operating (Loss) Income	(7,945)	2,323
Interest expense, net	1,227	1,179
Other expense, net	44	42
(Loss) Income Before Income Taxes	(9,216)	1,102
(Benefit from) provision for income taxes	(3,802)	460
Net (Loss) Income	\$ (5,414)	\$ 642
(Loss) earnings per share of common stock		
Basic	\$ (0.32)	\$ 0.04
Diluted	\$ (0.32)	\$ 0.04
Weighted average common stock outstanding		
Basic	16,839,244	16,716,610
Diluted	16,839,244	16,753,294

See accompanying notes.

Papa Murphy's Holdings, Inc. and Subsidiaries

Unaudited Condensed Consolidated Balance Sheets

(In thousands, except par value and share data)

	April 3, 2017	January 2, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 449	\$ 2,069
Accounts receivable, net	3,279	5,330
Current portion of notes receivable	95	92
Inventories	893	917
Prepaid expenses and other current assets	4,746	4,708
Total current assets	9,462	13,116
Property and equipment, net	27,673	28,516
Notes receivable, net of current portion	26	57
Goodwill	108,470	108,470
Trade name and trademarks	87,002	87,002
Definite-life intangibles, net	35,110	36,313
Other assets	397	398
Total assets	\$ 268,140	\$ 273,872
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 7,499	\$ 6,160
Accrued expenses and other current liabilities	9,291	7,503
Current portion of unearned franchise and development fees	1,390	1,358
Current portion of long-term debt	8,400	7,879
Total current liabilities	26,580	22,900
Long-term debt, net of current portion	100,449	100,965
Unearned franchise and development fees, net of current portion	460	410
Deferred tax liability	40,311	44,179
Other long-term liabilities	4,031	3,922
Total liabilities	171,831	172,376
Commitments and contingencies (Note 12)		
Stockholders' Equity		
Preferred stock (\$0.01 par value; 15,000,000 shares authorized; no shares issued)	—	—
Common stock (\$0.01 par value; 200,000,000 shares authorized; 16,952,741 and 16,955,970 shares issued, respectively)	170	170
Additional paid-in capital	120,159	119,932
Accumulated deficit	(24,020)	(18,606)
Total stockholders' equity	96,309	101,496
Total liabilities and stockholders' equity	\$ 268,140	\$ 273,872

See accompanying notes.

Papa Murphy's Holdings, Inc. and Subsidiaries**Unaudited Condensed Consolidated Statements of Cash Flows**

<i>(In thousands)</i>	Three Months Ended	
	April 3, 2017	March 28, 2016
Operating Activities		
Net (loss) income	\$ (5,414)	\$ 642
Adjustments to reconcile to cash from operating activities		
Depreciation and amortization	3,117	2,715
Loss on disposal/impairment of property and equipment	9	54
Deferred taxes	(3,868)	(343)
Non-cash employee equity compensation	230	231
Other non-cash items	83	81
Change in operating assets and liabilities		
Accounts receivable	2,051	1,539
Prepaid expenses and other assets	10	878
Unearned franchise and development fees	83	(44)
Accounts payable	1,290	(2,533)
Accrued expenses and other liabilities	1,923	(1,787)
Net cash from operating activities	(486)	1,433
Investing Activities		
Acquisition of property and equipment	(1,079)	(5,642)
Proceeds from sale of stores	—	136
Payments received on notes receivable	27	18
Net cash from investing activities	(1,052)	(5,488)
Financing Activities		
Payments on long-term debt	(3,679)	(3,321)
Advances on revolver, net	3,600	1,000
Repurchases of common stock	(3)	(10)
Net cash from financing activities	(82)	(2,331)
Net change in cash and cash equivalents	(1,620)	(6,386)
Cash and Cash Equivalents, beginning of year	2,069	6,867
Cash and Cash Equivalents, end of period	\$ 449	\$ 481
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for interest	\$ 1,137	\$ 1,084
Cash (received) paid during the period for income taxes	(330)	2
Noncash Supplemental Disclosures of Investing and Financing Activities		
Acquisition of property and equipment in accounts payable	\$ 149	\$ 705

See accompanying notes.

Papa Murphy's Holdings, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

Note 1 — Description of Business and Basis of Presentation

Description of business

Papa Murphy's Holdings, Inc. ("Papa Murphy's" or the "Company"), together with its subsidiaries, is a franchisor and operator of a Take 'N' Bake pizza chain. The Company franchises the right to operate Papa Murphy's Take 'N' Bake pizza franchises and operates Papa Murphy's Take 'N' Bake pizza stores owned by the Company. As of April 3, 2017, the Company had 1,566 stores consisting of 1,525 domestic stores (1,357 franchised stores and 168 Company-owned stores) across 38 states, plus 41 franchised stores in Canada and the United Arab Emirates.

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

Basis of presentation

The accompanying interim unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all information and footnotes required by generally accepted accounting principles in the United States ("GAAP") for complete financial statements. In the Company's opinion, all necessary adjustments, consisting of only normal recurring adjustments, have been made for the fair statement of the results of the interim periods presented. The results of operations for such interim periods are not necessarily indicative of the results to be expected for the full year. The accompanying interim unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and the related notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 2017.

Principles of consolidation

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

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

Fiscal year

The Company uses a 52- or 53-week fiscal year, ending on the Monday nearest to December 31. Fiscal year 2017 is a 52-week year and fiscal 2016 was a 53-week year. All three month periods presented herein contain 13 weeks. All references to years and quarters relate to fiscal periods rather than calendar periods. References to fiscal 2017 and 2016 are references to fiscal years ending January 1, 2018 and ended January 2, 2017, respectively.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), a new standard to achieve a consistent application of revenue recognition within the U.S., resulting in a single revenue model to be applied by reporting companies under GAAP. The new standard, as amended, requires adoption by the first quarter of fiscal 2018. In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* which is an amendment to the new revenue recognition standard on assessing whether an entity is a principal or an agent in a revenue transaction. This amendment addresses implementation issues that were discussed by the Revenue Recognition Transition Resource Group to clarify the principal versus agent assessment and lead to more consistent application. This new standard has the same effective date and transition requirements as ASU 2014-09.

The new revenue standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company anticipates adopting the standard in the first quarter of fiscal 2018 using the full retrospective method to restate each prior reporting period presented.

The Company anticipates this standard will have a material impact on its consolidated financial statements. While the Company continues to assess all potential impacts of the standard, it currently believes the most significant effects will relate to its: (i) accounting for franchise and development fees, and (ii) accounting for its advertising funds. The Company expects revenue related to its franchise royalties, which are based on a percentage of franchise sales, and revenue from Company-owned restaurants to remain substantially unchanged. Specifically, under the new standard the Company expects to recognize franchise fees ratably over the life of the contract rather than at the time the store is opened or a successive contract commences. In addition, the Company expects to account for advertising fund revenues on a gross basis, instead of net, as the Company has determined that it is the principal since it controls the funds and determines how the funds collected will be spent. The Company continues to evaluate the impact the adoption of this standard will have on the recognition of other revenue transactions such as the refranchising of Company-owned restaurants.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”). This update requires that lessees recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than twelve months. ASU 2016-02 also will require disclosures designed to give financial statement users information on the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include both qualitative and quantitative information. The effective date for ASU 2016-02 is for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with earlier adoption permitted. The Company is still evaluating the impact of ASU 2016-02 on its financial position and results of operations.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 320)* (“ASU 2016-15”). This update clarifies the presentation of certain cash receipts and cash payments in the statement of cash flows. The effective date for ASU 2016-15 is for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The Company is still evaluating the impact of ASU 2016-15 on its consolidated statements of cash flows.

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

Note 2 — Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

<i>(in thousands)</i>	April 3, 2017	January 2, 2017
Prepaid media production costs	\$ 635	\$ 606
Prepaid software and support	1,276	985
Prepaid rents	629	622
Prepaid insurance	421	453
Taxes receivable	150	547
Assets held for sale	1,420	1,406
Advertising cooperative assets, restricted	72	48
Other	143	41
Total prepaid expenses and other current assets	<u>\$ 4,746</u>	<u>\$ 4,708</u>

Note 3 — Property and Equipment

Property and equipment are net of accumulated depreciation of \$19.0 million and \$17.1 million at April 3, 2017, and January 2, 2017, respectively. Depreciation expense amounted to \$1.9 million and \$1.4 million during the three months ended April 3, 2017, and March 28, 2016, respectively.

Note 4 — Intangible Assets

Definite-lived intangible assets are net of accumulated amortization of \$27.8 million and \$26.6 million as of April 3, 2017, and January 2, 2017, respectively. Amortization expense amounted to \$1.2 million and \$1.3 million during the three months ended April 3, 2017, and March 28, 2016, respectively.

Note 5 — Receivables

Notes Receivable

Notes receivable consist of a note maturing in 2020 that is collateralized by store assets. Changes in the account balance represent amortization payments collected pursuant to the terms of the note.

Accounts Receivable

Allowance for doubtful accounts amounted to \$28,000 and \$37,000 as of April 3, 2017, and January 2, 2017, respectively.

Note 6 — Financing Arrangements

Long-term debt consists of the following:

<i>(in thousands)</i>	April 3, 2017	January 2, 2017
Term loan	\$ 102,200	\$ 105,879
Revolving line of credit	4,400	800
Notes payable	3,000	3,000
Total principal amount of long-term debt	109,600	109,679
Unamortized debt issuance costs	(751)	(835)
Total long-term debt	108,849	108,844
Less current portion	(8,400)	(7,879)
Total long-term debt, net of current portion	\$ 100,449	\$ 100,965

Senior secured credit facility

On August 28, 2014, PMI Holdings, Inc., a wholly-owned subsidiary of Papa Murphy's Holdings, Inc., entered into a \$132.0 million senior secured credit facility (the "Senior Credit Facility") consisting of a \$112.0 million term loan and a \$20.0 million revolving credit facility, which includes a \$2.5 million letter of credit subfacility and a \$1.0 million swing-line loan subfacility. The term loan and any loans made under the revolving credit facility mature in August 2019. As of April 3, 2017, the term loan was subject to the LIBOR rate option at 4.23%. As of April 3, 2017, \$3.9 million of the revolving credit facility was subject to the LIBOR rate option at 4.20%, and the remaining \$0.5 million was subject to the base rate option at 6.25%.

With a maturity date of over one year from April 3, 2017, balances outstanding under the Senior Credit Facility are classified as non-current on the Condensed Consolidated Balance Sheets, except for mandatory, minimum term loan amortization payments of \$2.1 million due on the last day of each fiscal quarter.

The weighted average interest rate for all borrowings under our Senior Credit Facility for the first quarter of 2017 was 4.05%.

Notes payable

Papa Murphy's Company Stores, Inc., a wholly owned subsidiary of Papa Murphy's Holdings, Inc., has a \$3.0 million note payable which bears interest at 5% and matures in December 2018. This note is subordinated to the Senior Credit Facility.

Note 7 — Fair Value Measurement

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

- Level 1 — Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

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

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

<i>(in thousands)</i>	April 3, 2017		January 2, 2017		Fair Value Measurement
	Carrying Value	Fair Value	Carrying Value	Fair Value	
Financial assets					
Notes receivable ⁽¹⁾	\$ 121	\$ 122	\$ 149	\$ 150	Level 3

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

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

Note 8 — Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

<i>(in thousands)</i>	April 3, 2017	January 2, 2017
Accrued compensation and related costs	\$ 4,857	\$ 2,192
Gift cards payable	2,461	3,033
Accrued interest and non-income taxes payable	406	524
Convention fund balance	1,194	1,025
Advertising cooperative liabilities	178	204
Other	195	525
Total accrued expenses and other current liabilities	\$ 9,291	\$ 7,503

Note 9 — Income Taxes

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

<i>(in thousands)</i>	Three Months Ended	
	April 3, 2017	March 28, 2016
(Benefit from) provision for income taxes	\$ (3,802)	\$ 460
(Loss) income before income taxes	(9,216)	1,102
Effective income tax rate	41.3%	41.7%

The effective income tax rate for the three months ended April 3, 2017, includes the effect of a discrete adjustment for the share-based compensation expense recorded for vesting restricted common shares. The effective income tax rate for the three months ended March 28, 2016, includes the effect of certain permanent adjustments arising from differences between U.S. GAAP and U.S. federal and state income tax law and the relative impact of those adjustments on a small quarterly income before income taxes.

Note 10 — Share-based Compensation

In May 2010, the Company's Board of Directors approved the 2010 Amended Management Incentive Plan (the "2010 Plan"). In May 2014, the Company's Board of Directors adopted the 2014 Equity Incentive Plan (the "2014 Plan," and together with

the 2010 Plan , the “ Incentive Plans ”). The Incentive Plans reserve 2,116,747 common shares for equity incentive awards consisting of incentive stock options, non-qualified stock options, restricted stock awards, and unrestricted stock awards. Equity incentive awards may be issued from either the 2014 Plan or the 2010 Plan .

Restricted common shares

Information with respect to restricted stock awards is as follows:

	Number of Shares of Restricted Common Stock		Weighted Average Award Date Fair Value Per Share
	Time Vesting	Market Condition	
Unvested, January 2, 2017	30,670	148,946	\$ 2.70
Granted	11,333	—	4.41
Vested	(4,826)	(94,866)	4.29
Unvested, April 3, 2017	37,177	54,080	\$ 4.58

Stock options

Information with respect to stock option activity is as follows:

	Number of Shares Subject to Options		Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (thousands)
	Time Vesting	Market Condition			
Outstanding, January 2, 2017	951,688	171,495	\$ 11.48		
Granted	299,000	—	3.98		
Forfeited	(459,602)	(80,385)	11.43		
Outstanding, April 3, 2017	791,086	91,110	\$ 8.97	8.4 years	\$ 315
Exercisable, April 3, 2017	263,125	—	\$ 11.60	7.4 years	\$ —

Compensation cost

Pre-tax compensation costs recognized in connection with the Incentive Plans for the three months ended April 3, 2017 and March 28, 2016 amounted to \$230,000 and \$231,000 , respectively.

As of April 3, 2017 , the total unrecognized stock-based compensation expense was \$1.6 million , with \$1.3 million associated with time vesting awards and \$0.3 million associated with market condition awards. The remaining weighted average contractual life for unrecognized stock-based compensation expense was 2.3 years as of April 3, 2017 .

Note 11 — Earnings per Share (EPS)

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

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

<i>(in thousands, except per share data)</i>	Three Months Ended	
	April 3, 2017	March 28, 2016
Earnings:		
Net (loss) income	\$ (5,414)	\$ 642
Shares:		
Weighted average common shares outstanding	16,839	16,717
Dilutive effect of restricted equity awards ⁽¹⁾	—	37
Diluted weighted average number of shares outstanding	16,839	16,753
(Loss) earnings per share:		
Basic (loss) earnings per share	\$ (0.32)	\$ 0.04
Diluted (loss) earnings per share	\$ (0.32)	\$ 0.04

(1) The Company's potential common stock instruments such as stock options and restricted stock were not included in the computation of diluted EPS for the three months ended April 3, 2017, as the effect of including these shares in the calculation would have been anti-dilutive.

For the three months ended April 3, 2017, and March 28, 2016, an aggregated total of 1.4 million shares and 0.4 million shares, respectively, have been excluded from the diluted EPS calculation because their effect would have been anti-dilutive.

Note 12 — Commitments and Contingencies

Operating lease commitments

The Company leases facilities and various office equipment under non-cancelable operating leases which expire through December 2025. Lease terms for its Company-owned stores are generally for five years with renewal options and generally require the Company to pay a proportionate share of real estate taxes, insurance, common area maintenance, and other operating costs.

The Company has entered into operating leases that it has subleased to two franchised stores. These operating leases have minimum base rent terms, contingent rent terms if individual franchised store sales exceed certain levels and have terms expiring on various dates from May 2020 to October 2020.

Lease guarantees

The Company is the guarantor for operating leases of 17 franchised stores that have terms expiring on various dates from September 2017 to September 2021. The obligations from these leases will generally continue to decrease over time as the leases expire. The applicable franchise owners continue to have primary liability for these operating leases. As of April 3, 2017, the Company does not believe it is probable it would be required to perform under the outstanding guarantees.

Legal proceedings

There have been no material developments in the legal proceedings described in Part I, Item 3, of the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 2017.

Note 13 — Segment Information

The Company has the following reportable segments: (i) Domestic Franchise; (ii) Domestic Company Stores; and (iii) International. The Domestic Franchise segment includes operations with respect to franchised stores in the United States and derives its revenues primarily from franchise and development fees and franchise royalties from franchised stores in the United States. The Domestic Company Stores segment includes operations with respect to Company-owned stores in the United States and derives its revenues from retail sales of pizza and side items to the general public. The International segment includes operations related to the Company's operations outside the United States and derives its revenues from franchise and development fees and franchise royalties from franchised stores outside the United States.

The Company measures the performance of its segments based on segment adjusted EBITDA and allocates resources based primarily on this measure. "EBITDA" is calculated as net (loss) income before interest expense, income taxes, depreciation, and amortization. Segment adjusted EBITDA excludes certain unallocated and corporate expenses. Although segment adjusted EBITDA is not a measure of financial condition or performance determined in accordance with GAAP, the Company uses segment adjusted EBITDA to compare the operating performance of its segments on a consistent basis and to evaluate

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the performance and effectiveness of its operational strategies. The Company's calculation of segment adjusted EBITDA may not be comparable to that reported by other companies.

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

<i>(in thousands)</i>	Three Months Ended	
	April 3, 2017	March 28, 2016
Revenues		
Domestic Franchise	\$ 11,129	\$ 12,215
Domestic Company Stores	20,775	20,674
International	90	96
Total	\$ 31,994	\$ 32,985
Segment Adjusted EBITDA		
Domestic Franchise	\$ (2,037)	\$ 5,290
Domestic Company Stores	575	1,151
International	69	64
Total reportable segments adjusted EBITDA	(1,393)	6,505
Corporate and unallocated	(3,479)	(1,509)
Depreciation and amortization	(3,117)	(2,715)
Interest expense, net	(1,227)	(1,179)
(Loss) Income Before Income Taxes	\$ (9,216)	\$ 1,102

<i>(in thousands)</i>	April 3, 2017	January 2, 2017
	Total Assets	
Domestic Franchise	\$ 129,623	\$ 133,466
Domestic Company Stores	51,017	52,531
International	302	318
Other ⁽¹⁾	87,198	87,557
Total	\$ 268,140	\$ 273,872

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

Note 14 — Subsequent Events

Divestitures

In December 2016, the Company decided to sell seven Company-owned stores located in the Denver, Colorado area and categorized these assets as assets held for sale on the Company's Condensed Consolidated Balance Sheets in prepaid expenses and other current assets. In May 2017, the Company completed the sale and refranchise of the seven Company-owned stores for \$2.45 million in cash, inclusive of franchise fees for these seven stores and three stores to be developed in the future.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes in Item 1 and with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended January 2, 2017. To match our operating cycle, we use a 52- or 53-week fiscal year, ending on the Monday nearest to December 31. Our fiscal quarters each contain 13 operating weeks, with the exception of the fourth quarter of a 53-week fiscal year, which contains 14 operating weeks. Fiscal year 2017 is a 52-week period ending on January 1, 2018, and 2016 was a 53-week period ended on January 2, 2017.

Cautionary Note Regarding Forward-Looking Statements

In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors including, but not limited to, those discussed in the section entitled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended January 2, 2017 . All statements other than statements of historical fact or relating to present facts or current conditions included in this discussion and analysis are forward-looking statements. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. Examples of forward-looking statements include those regarding our future financial or operating results, cash flows, sufficiency of liquidity, financing resources, business strategies and priorities, effects of advertising cost increases and shift in mix of marketing efforts, decrease in the advertising fund deficit over the remainder of 2017, resolution of litigation and claims, expansion and growth opportunities, the number and mix of new store openings, our refranchising initiative and its effects on our operating results, reduction in the number of Company-owned stores, adoption of new accounting standards, our qualification as an "emerging growth company," exposure to foreign currency and interest rate risk, as well as industry trends and outlooks. These statements may include words such as "anticipate," "estimate," "expect," "project," "plan," "intend," "believe," "may," "should," "can have," "likely" and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events .

The forward-looking statements contained in this discussion and analysis are based on assumptions that we have made in light of our industry experience and our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. As you read and consider this discussion and analysis, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties (many of which are beyond our control) and assumptions. Although we believe that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect our actual operating and financial performance and cause our performance to differ materially from the performance anticipated in the forward-looking statements. We believe these factors include, but are not limited to, those described under the section entitled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended January 2, 2017 . Should one or more of these risks or uncertainties materialize, or should any of these assumptions prove incorrect, our actual operating and financial performance may vary in material respects from expectations based on these forward-looking statements.

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

2017 Highlights**Revenue**

Total revenues for the three months ended April 3, 2017 , compared to the three months ended March 28, 2016 , declined 3.0% from \$33.0 million to \$32.0 million , primarily due to a decline in comparable store sales and lower fees from lower franchise store openings. Comparable store sales in 2017 compared to 2016 for selected segments were as follows:

	Three Months Ended	
	April 3, 2017	March 28, 2016
Domestic Franchise	(4.5)%	(2.8)%
Domestic Company Stores	(9.9)%	(2.8)%
Total domestic stores	(5.0)%	(2.8)%

Comparable store sales for the three months ended April 3, 2017 were lower due to increased competition resulting in reduced numbers of sales transactions while the average amount of each sales transaction has remained mostly flat.

Store Development

Our franchise owners opened seven stores, including six in the United States, in the three months ended April 3, 2017 . While we operate a small percentage of stores as Company-owned stores, we expect the majority of our new store expansion to continue to come from new franchised store openings.

Refranchising

During the past several years, we have focused our financial resources on accelerating the build out of several markets with Company-owned stores. We see materially stronger store performance in markets with greater penetration and higher brand awareness. We are now entering the next phase of our strategic development plan which entails refranchising more than 100 of our Company-owned stores to experienced franchisees that are well-capitalized and can further grow these markets. Our target is to reduce the number of Company-owned stores to about 50 stores by 2020, which will be used to focus on operational excellence, innovation and testing.

National Media

During the quarter, we aired a national media campaign for all domestic stores. Several of our markets that historically receive no television media were provided with a few weeks of national cable advertising.

Online Ordering

We began the system-wide roll-out of our online ordering platform a year ago and have seen positive results to date as the average transaction amount continues to be about 20% higher with online orders than in-store orders. We strategically use online-only promotions communicated through text and email messaging.

Our Segments

We operate in three business segments: Domestic Franchise, Domestic Company Stores, and International. Our Domestic Franchise segment consists of our domestic franchised stores, which represent the majority of our system-wide stores. Our Domestic Company Stores segment consists of our Company-owned stores in the United States. Our International segment consists of our stores outside of the United States, all of which are franchised.

We measure the performance of our segments based on segment adjusted EBITDA and allocate resources based primarily on this measure. “ EBITDA ” is calculated as net (loss) income before interest expense, income taxes, depreciation, and amortization. Segment adjusted EBITDA excludes certain unallocated and corporate expenses, which include costs related to our board of directors, CEO, CFO and certain legal expenses. Although segment adjusted EBITDA is not a measure of financial condition or performance determined in accordance with GAAP , we use segment adjusted EBITDA to compare the operating performance of our segments on a consistent basis and to evaluate the performance and effectiveness of our operational strategies. Our calculation of segment adjusted EBITDA may not be comparable to that reported by other companies.

Our measure of segment performance has changed beginning in fiscal year 2017 . Previously, segment operating income was used as the measure of segment performance. Our Chief Operating Decision Maker (“CODM”) now uses segment adjusted EBITDA as the primary measure of segment performance to allocate resources. The CODM believes this measure provides an enhanced basis for consistently measuring segment performance against operational objectives and strategies.

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

<i>(in thousands)</i>	Three Months Ended	
	April 3, 2017	March 28, 2016
Revenues		
Domestic Franchise	\$ 11,129	\$ 12,215
Domestic Company Stores	20,775	20,674
International	90	96
Total	\$ 31,994	\$ 32,985
Segment Adjusted EBITDA		
Domestic Franchise	\$ (2,037)	\$ 5,290
Domestic Company Stores	575	1,151
International	69	64
Total reportable segments adjusted EBITDA	(1,393)	6,505
Corporate and unallocated	(3,479)	(1,509)
Depreciation and amortization	(3,117)	(2,715)
Interest expense, net	(1,227)	(1,179)
(Loss) Income Before Income Taxes	\$ (9,216)	\$ 1,102

Key Operating Metrics

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

	Three Months Ended	
	April 3, 2017	March 28, 2016
Domestic store average weekly sales	\$ 11,140	\$ 11,928
Domestic comparable store sales	(5.0)%	(2.8)%
Domestic comparable stores	1,436	1,407
System-wide sales (in thousands)	\$ 225,610	\$ 236,851
System-wide stores	1,566	1,555
EBITDA (in thousands)	\$ (4,872)	\$ 4,996

Average Weekly Sales

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

Comparable Store Sales

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

System-Wide Sales

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

Store Openings, Closures, Acquisitions, and Divestitures

We review the number of new stores, the number of closed stores, and the number of acquired and divested stores to assess growth in system-wide sales, royalty revenues, and Company-owned store sales. We operate through a footprint of 1,566 stores as of April 3, 2017, of which 89.3% are franchised, located in 38 states plus Canada and the Middle East. The following table presents the changes in the number of stores in our system for the three months ended April 3, 2017.

	Domestic Company Stores	Domestic Franchise	Total Domestic	International	Total
Store count at January 2, 2017	168	1,369	1,537	40	1,577
Openings	—	6	6	1	7
Closings	—	(18)	(18)	—	(18)
Store count at April 3, 2017	168	1,357	1,525	41	1,566

EBITDA

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

“EBITDA” is calculated as net (loss) income before interest expense, income taxes, depreciation, and amortization. EBITDA is a supplemental measure of operating performance that does not represent and should not be considered as an alternative to net (loss) income, as determined by GAAP. Our calculation of EBITDA may not be comparable to that reported by other companies.

EBITDA is a non-GAAP financial measure. Management believes that EBITDA, when viewed with our results of operations in accordance with GAAP and our reconciliation of EBITDA to net (loss) income, provides additional information to investors. We provide this non-GAAP financial measure to enhance investors’ understanding of our business and our results of operations and to assist investors in evaluating how well we are executing strategic initiatives. We believe EBITDA is used by investors as a supplemental measure to evaluate the overall operating performance of companies in our industry.

Management uses EBITDA and other similar measures:

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

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

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

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

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

<i>(in thousands)</i>	Three Months Ended	
	April 3, 2017	March 28, 2016
Net (Loss) Income	\$ (5,414)	\$ 642
Depreciation and amortization	3,117	2,715
(Benefit from) provision for income taxes	(3,802)	460
Interest expense, net	1,227	1,179
EBITDA	\$ (4,872)	\$ 4,996

Results of Operations

The following table sets forth our results of operations in dollars and as a percentage of total revenues for the three months ended April 3, 2017 , and March 28, 2016 .

	Three Months Ended			
	April 3, 2017		March 28, 2016	
(in thousands)	\$	Total % of Revenues	\$	Total % of Revenues
Revenues				
Franchise royalties	\$ 10,034	31.4 %	\$ 10,496	31.8%
Franchise and development fees	601	1.9 %	954	2.9%
Company-owned store sales	20,775	64.9 %	20,674	62.7%
Other	584	1.8 %	861	2.6%
Total revenues	31,994	100.0 %	32,985	100.0%
Costs and Expenses				
Store operating costs:				
Cost of food and packaging ⁽¹⁾	7,215	22.6 %	7,272	22.0%
Compensation and benefits ⁽¹⁾	6,334	19.8 %	5,734	17.4%
Advertising ⁽¹⁾	2,128	6.7 %	2,166	6.6%
Occupancy ⁽¹⁾	1,701	5.3 %	1,375	4.2%
Other store operating costs ⁽¹⁾	2,222	6.9 %	2,291	6.9%
Selling, general, and administrative	17,213	53.8 %	9,055	27.5%
Depreciation and amortization	3,117	9.7 %	2,715	8.2%
Loss on disposal or impairment of property and equipment	9	0.0 %	54	0.2%
Total costs and expenses	39,939	124.8 %	30,662	93.0%
Operating (Loss) Income	(7,945)	(24.8)%	2,323	7.0%
Interest expense, net	1,227	3.9 %	1,179	3.6%
Other expense, net	44	0.1 %	42	0.1%
(Loss) Income Before Income Taxes	(9,216)	(28.8)%	1,102	3.3%
(Benefit from) provision for income taxes	(3,802)	(11.9)%	460	1.4%
Net (Loss) Income	(5,414)	(16.9)%	642	1.9%

(1) Please see the table presented in *Costs and Expenses* below, which presents Company-owned store expenses as a percentage of Company-owned store sales for the three months ended April 3, 2017 , and March 28, 2016 .

Revenues

Total revenues. In the three months ended April 3, 2017 , total revenues decreased compared to the three months ended March 28, 2016 , primarily due to a decline in domestic comparable store sales of 5.0% .

Franchise royalties. Franchise royalties decreased in the three months ended April 3, 2017 , compared to the three months ended March 28, 2016 , primarily due to a decline in Domestic Franchise comparable store sales of 4.5% and a reduction in the number of franchised stores year-over-year.

The decrease in franchise royalties as a percentage of total revenues for the three months ended April 3, 2017 , compared to the three months ended March 28, 2016 , was the result of the relative increase in the number of Company-owned stores year-over-year as the number of Company-owned stores increased while the number of franchised stores decreased.

Franchise and development fees. Franchise and development fees decreased in the three months ended April 3, 2017 , compared to the three months ended March 28, 2016 , primarily due to the opening of fewer franchised stores.

Company-owned store sales. Company-owned store sales increased in the three months ended April 3, 2017 , compared to the three months ended March 28, 2016 , due to an increase in the number of Company-owned stores year-over-year, partially offset by a decline in comparable store sales of 9.9% in the three months ended April 3, 2017 , compared to the three months ended March 28, 2016 .

Costs and Expenses

Total costs and expenses. Total costs and expenses increased in the three months ended April 3, 2017, compared to the three months ended March 28, 2016, primarily as a result of an increase in advertising costs associated with our national media campaign.

Store operating costs. Store operating costs as a percentage of total revenues increased in the three months ended April 3, 2017, compared to the three months ended March 28, 2016. The following table presents the components of store operating costs as a percentage of Company-owned store sales for the periods reported:

	Three Months Ended	
	April 3, 2017	March 28, 2016
Store operating costs as a % of Company-owned store sales:		
Cost of food and packaging	34.7%	35.2%
Compensation and benefits	30.5%	27.7%
Advertising	10.2%	10.5%
Occupancy	8.2%	6.7%
Other store operating costs	10.7%	11.0%
Total store operating costs	94.3%	91.1%

Total store operating costs as a percentage of Company-owned store sales increased 320 basis points overall in the three months ended April 3, 2017, compared to the three months ended March 28, 2016, due primarily to the effect of Company-owned store portfolio changes as we increased our store ownership in less developed markets. Since December 28, 2015, we acquired 10 stores from franchise owners, opened 35 new stores, closed one store, and refranchised three stores. Most of the stores acquired and all of the new stores opened have sales volumes lower than the average store sales for the rest of our portfolio.

- **Occupancy.** As a result of the portfolio changes mentioned above, costs that are primarily fixed at the individual store level, such as Occupancy, increased overall on an absolute dollar basis and as a percentage of Company-owned store sales.
- **Compensation and benefits.** Compensation and benefits increased due to inefficiencies in labor utilization associated with the rapid increase of Company-owned stores in markets with lower than average store sales, coupled with increases in the minimum wage in many of our established markets.
- **Cost of food and packaging.** Fluctuations in cheese prices did not have a material affect on the cost of food and packaging during the quarter and efficiencies in established markets outweighed the impacts of adding the new lower volume stores.

Selling, general, and administrative. Selling, general, and administrative costs increased in the three months ended April 3, 2017, compared to the three months ended March 28, 2016, primarily due to advertising fund expenses associated with our first national media program. Advertising fund expenses exceeded fund contributions by \$8.3 million and \$1.1 million in the three months ended April 3, 2017 and March 28, 2016, respectively. We expect the advertising fund deficit to largely reverse throughout the remainder of 2017. Since our national media test did not provide the desired results, advertising funds will be redirected back to regional advertising, enhanced with increasing digital media advertising. Additionally, one-time severance and restructuring costs of \$2.2 million were recorded in the three months ended April 3, 2017.

Depreciation and amortization. Depreciation and amortization increased in the three months ended April 3, 2017, compared to the three months ended March 28, 2016, due primarily to the depreciation associated with an increased number of Company-owned stores and increased capital expenditures for business technology projects.

Interest expense, net. Interest expense, net increased in the three months ended April 3, 2017, compared to the three months ended March 28, 2016, due to increased average borrowing rates and draws on our revolving credit facility.

Income Taxes. Income taxes decreased in the three months ended April 3, 2017, compared to the three months ended March 28, 2016, due primarily to a decrease in income before income taxes. The effective tax rate for the three months ended April 3, 2017, was 41.3% compared to 41.7% for the three months ended March 28, 2016. The effective income tax rate decreased primarily due to a discrete adjustment for share-based compensation expense related to the vesting of restricted common shares in the current year. Our income taxes have varied from what would be expected from the application of prevailing statutory rates, primarily due to the impact of meal and entertainment expenses and share-based compensation expenses.

Segment Results

Domestic Franchise. Total revenues for the Domestic Franchise segment decreased \$1.1 million in the three months ended April 3, 2017, compared to the three months ended March 28, 2016, primarily due to a decline in Domestic Franchise comparable store sales of 4.5% and a reduction in the number of franchised stores year-over-year.

Adjusted EBITDA for the Domestic Franchise segment decreased \$7.3 million in the three months ended April 3, 2017, compared to the three months ended March 28, 2016, primarily due to advertising fund expenses associated with our first national media program. Advertising fund expenses exceeded fund contributions by \$8.3 million and \$1.1 million in the three months ended April 3, 2017 and March 28, 2016, respectively. We expect the advertising fund deficit to largely reverse throughout the remainder of 2017. Additionally, one-time severance and restructuring costs of \$2.2 million were recorded in the three months ended April 3, 2017.

Domestic Company Stores. Total revenues for the Domestic Company Stores segment increased \$0.1 million in the three months ended April 3, 2017 compared to the three months ended March 28, 2016, primarily due to an increase in the number of Company-owned stores year-over-year, partially offset by a decline in comparable store sales of 9.9%.

Adjusted EBITDA for the Domestic Company Stores segment decreased \$0.6 million in the three months ended April 3, 2017, compared to the three months ended March 28, 2016, as a result of increased costs for labor and occupancy, partially offset by a slight increase in revenue.

International. Total revenues for the International segment decreased for the three months ended April 3, 2017, compared to the three months ended March 28, 2016, primarily due to a decrease in franchise and development fees as a result of fewer new stores opening in the three months ended April 3, 2017, compared to the three months ended March 28, 2016.

Adjusted EBITDA for the International segment increased for the three months ended April 3, 2017, compared to the three months ended March 28, 2016, primarily due to reductions in selling, general and administrative costs and a decrease in franchise and development fees as indicated previously.

Liquidity and Capital Resources

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

As of April 3, 2017, we had Cash and cash equivalents of \$0.4 million and \$20.0 million of available borrowings under a revolving credit facility, of which \$4.4 million was drawn. As of April 3, 2017, we had \$109.6 million of outstanding indebtedness. Principal payments under our Senior Credit Facility are due on the last day of each fiscal quarter through the life of the Senior Credit Facility. We believe that our cash flows from operations, available cash and cash equivalents, and available borrowings under our revolving credit facility will be sufficient to meet our liquidity needs for at least the next 12 months.

As of April 3, 2017, we were in compliance with all of our covenants and other obligations under our Senior Credit Facility.

Cash Flows

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

<i>(in thousands)</i>	Three Months Ended	
	April 3, 2017	March 28, 2016
Cash flows from operating activities	\$ (486)	\$ 1,433
Cash flows from investing activities	(1,052)	(5,488)
Cash flows from financing activities	(82)	(2,331)
Total cash flows	\$ (1,620)	\$ (6,386)

Cash Flows from Operating Activities

Net cash used by operating activities of \$0.5 million for the three months ended April 3, 2017, resulted primarily from a net loss of \$5.4 million, adjusted for items such as depreciation and amortization and changes in operating assets and liabilities.

Cash Flows from Investing Activities

Net cash used by investing activities was \$1.1 million for the three months ended April 3, 2017 , compared to net cash used of \$5.5 million for the three months ended March 28, 2016 . The \$4.4 million decrease in cash used by investing activities was due primarily to a year-over-year decrease of \$4.6 million in capital expenditures for property, plant, and equipment, primarily relating to the opening of Company-owned stores and development of our new e-commerce and online ordering platform during the three months ended March 28, 2016 .

Cash Flows from Financing Activities

Net cash used by financing activities was \$0.1 million for the three months ended April 3, 2017 , compared to net cash used of \$2.3 million for the three months ended March 28, 2016 . The \$2.2 million decrease in net cash used by financing activities was primarily due to an increase in borrowings under our revolving credit facility during the three months ended April 3, 2017 .

Critical Accounting Policies

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

The accounting policies we believe to be most critical to understanding our financial results and condition and that require complex and subjective management judgments and estimates are identified and described in our annual consolidated financial statements and the notes included in our Annual Report on Form 10-K for the fiscal year ended January 2, 2017 .

JOBS Act

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

In addition, an emerging growth company can delay its adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we are choosing to “opt out” of this extended transition period, and as a result, we plan to comply with any new or revised accounting standards on the relevant dates on which non-emerging growth companies must adopt the standards. Section 107 of the JOBS Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

As of April 3, 2017 , there have been no material changes in our market risk exposure from that disclosed in our Annual Report on Form 10-K for the fiscal year ended January 2, 2017 . For a discussion of our market risk exposure, please see “Item 7A. Quantitative and Qualitative Disclosure About Market Risk” contained in our Annual Report on Form 10-K for the fiscal year ended January 2, 2017 .

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, pursuant to Rule

13a-15 under the Securities Exchange Act of 1934 (the “ Exchange Act ”). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

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

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material developments in the legal proceedings described in Part I, Item 3, of our Annual Report on Form 10-K for the fiscal year ended January 2, 2017 .

Item 1A. Risk Factors

An investment in our common stock involves a high degree of risk. A detailed discussion of our risk factors is included under the section title “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended January 2, 2017. There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended January 2, 2017. If any of these risks, as well as other risks and uncertainties that are not yet identified or that we currently think are immaterial, actually occur, our business, results of operations or financial condition could be materially and adversely affected. In such an event, the trading price of our common stock could decline and you could lose part or all of your investment. The risk factors and other information included in our Annual Report on Form 10-K for the fiscal year ended January 2, 2017, should be carefully considered before making an investment decision relating to our common stock.

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

Repurchases of Common Stock

During the three months ended April 3, 2017 , the Company repurchased the following shares of Common Stock:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 3 to January 31, 2017	—	\$ —	—	N/A
February 1 to February 28, 2017	—	—	—	N/A
March 1, 2017 to April 3, 2017	14,562 ⁽¹⁾	0.19	—	N/A
Total	14,562	\$ 0.19	—	N/A

(1) The Company repurchased unvested restricted shares from a former employee whose employment with the Company had terminated. The unvested shares were repurchased by the Company at the historical price paid by the former employee for the unvested shares.

Item 6. Exhibits.

Exhibit Number	Description of Exhibits
10.1*‡	Executive Separation Agreement and Release dated as of March 31, 2017 between Papa Murphy's Holdings, Inc. and Brandon Solano.
10.2*‡	Executive Separation Agreement and Release dated as of March 29, 2017 between Papa Murphy's Holdings, Inc. and Jayson Tipp.
31.1*	Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certificate of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certificate of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

‡ A management contract or compensatory plan or arrangement

SIGNATURES

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

PAPA MURPHY'S HOLDINGS, INC.

By: /s/ Mark Hutchens

Name: Mark Hutchens

Title: Chief Financial Officer

Date: May 10, 2017

EXECUTIVE SEPARATION AGREEMENT AND RELEASE

This Executive Separation Agreement and Release (“Agreement”) is made and entered into by and between Brandon Solano (“Executive”) on the one hand, and Papa Murphy’s Holdings, Inc. (together with its affiliates or successors, the “Company”) on the other, hereinafter collectively referred to as the “Parties.”

RECITALS

A. WHEREAS, on October 19, 2015, the Company’s predecessor and Executive entered into an Executive Employment Agreement and Non-competition Agreement, pursuant to which the Company engaged Executive in the capacity of Chief Marketing Officer of the Company, and thereafter amended said Executive Employment Agreement and Non-competition Agreement on July 27, 2016 (the “Employment Agreement”);

B. WHEREAS, the Parties have agreed upon the terms of Executive’s departure from the Company and mutually desire to settle and compromise any and all claims and differences between them, including, but not limited to, those arising from Executive’s employment with and departure from the Company;

C. WHEREAS, the Parties wish to end the employment relationship amicably and to enter into certain covenants below, to provide assurances and peace of mind to each party; and

NOW, THEREFORE, in consideration of the Recitals and the mutual promises, covenants, and agreements set forth herein, the receipt and sufficiency of which are hereby acknowledged, the Parties covenant and agree as follows:

1. TERMINATION OF EMPLOYMENT

1.1 Termination of Employment. Executive’s employment with the Company will terminate by Executive’s voluntary resignation effective May 16, 2017, (the “Separation Date”) at 11:59 p.m. Pacific Time. Executive acknowledges and agrees that this voluntary resignation shall be automatically effective as of such date and time without any further action of the Parties. Notwithstanding anything in the Employment Agreement to the contrary, Executive’s resignation shall be treated under the Employment Agreement as if Executive had been terminated by the Company without Cause and Executive shall be entitled to all of the rights and benefits that would be afforded to Executive under Section 5.2 of the Employment Agreement as if he had been terminated without Cause (as defined in the Employment Agreement) (such rights and benefits, the “Severance Compensation”), subject to Executive’s satisfaction of the conditions set forth in Section 5.7 of the Employment Agreement. Sections 5 and Sections 7 through 11 of the Employment Agreement shall survive the Executive’s termination and the execution and delivery of this Agreement.

Pursuant to the provisions of paragraph 4.2 of the Employment Agreement, Executive must give the Company at least 60 days’ prior written notice of his resignation. Executive has provided the Company with written notice of his resignation on February 15, 2017 (“Resignation Notice Date”).

1.2 Interim Employment of Executive. The Parties agree that Executive's day-to-day responsibilities as Chief Development Officer with the Company will cease effective as of 11:59 p.m. Pacific Time on the Resignation Notice Date. Subject to Executive's compliance with the terms of this Agreement, the Company will continue to employ Executive through the close of business on May 16, 2017 (the "Interim Period of Employment"). Pursuant to the terms of paragraph 4.2 of the Employment Agreement, at any time during the Interim Period of Employment the Company may excuse Executive from any and all duties during such period and request that Executive immediately resign as an officer of the Company, whereupon, if requested to so resign, Executive shall immediately resign. Executive acknowledges and agrees that the Company may terminate his employment at any time during the Interim Period of Employment if he materially fails to comply with the terms of this Agreement.

1.3 Non-Solicitation. Nothing contained in Section 7 of the Employment Agreement shall prevent or prohibit Executive from working or consulting with Ken Calwell.

2. GENERAL RELEASE AND WAIVER OF CLAIMS BY EXECUTIVE

2.1 In consideration of the mutual agreements and covenants set forth in the Agreement and the Employment Agreement, including those set forth in Section 1 above, Executive, on behalf of himself, his marital community, heirs, executors, administrators, successors and assigns, agrees to the following:

a. Executive expressly waives any claims against the Company and releases the Company and its predecessors, successors, parents, subsidiaries, and related or affiliated entities (including, without limitation, their present, former, and future officers, directors, stockholders, managers, agents, employees, attorneys, and representatives) (the "Released Parties") from any claims that Executive may have in any way connected with Executive's employment with the Company and the termination thereof, whether or not such claims are presently known or unknown to Executive. It is understood that the release includes, but is not limited to, any claims for damages of any kind whatsoever, including any claims for employment benefits, arising out of any contracts, express or implied, any covenant of good faith and fair dealing, express or implied, any theory of unlawful discharge or other tort theory, any legal restriction on the Company's right to terminate Executives, or any federal, state or other governmental statute or ordinance, including, without limitation, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act (the "ADEA"), the Older Workers Benefit Protection Act, the Americans with Disabilities Act, the Executive Retirement Income Security Act of 1974, the Washington Law Against Discrimination ("WLAD"), any other state laws concerning discrimination or harassment, or any other legal limitation on the employment relationship to the maximum extent such claims are allowed by law to be released. The waiver and release shall not waive or release claims where the events in dispute first arise after execution of the Agreement, nor shall it preclude Executive or the Company from filing a lawsuit for the exclusive purpose of enforcing the Agreement.

b. Executive represents and warrants that he has not filed any lawsuits, complaints, or charges against the Released Parties with any governmental agency or any court.

c. Executive understands that nothing in this Agreement is intended to interfere with or deter Executive's right to challenge the waiver of an ADEA claim or state law age discrimination claim or the filing of an ADEA charge or ADEA complaint or state law age discrimination complaint or charge with the U.S. Equal Employment Opportunity Commission or any state discrimination agency or commission or to participate in any investigation or proceeding conducted by those agencies. Further, Executive understands that nothing in this Agreement would require Executive to tender back the money received under this Agreement if Executive seeks to challenge the validity of the ADEA or state law age discrimination waiver, nor does the Executive agree to ratify any ADEA or state law age discrimination waiver that fails to comply with the Older Workers' Benefit Protection Act by retaining the money received under the Agreement. Further, nothing in this Agreement is intended to require the payment of damages, attorneys' fees or costs to the Company should Executive challenge the waiver of an ADEA or state law age discrimination claim or file an ADEA or state law age discrimination suit except as authorized by federal or state law.

d. This release excludes any claim which cannot be released by private agreement, such as workers' compensation claims, claims after the Effective Date of this Agreement (as defined below), and the right to file administrative charges with certain government agencies. Nothing in this Agreement shall be construed to prohibit Executive from filing a charge with or participating in any investigation or proceeding conducted by the Equal Employment Opportunity Commission, National Labor Relations Board, or a comparable state or local agency. Notwithstanding this or the immediately preceding paragraph, Executive agrees to waive any right to recover monetary damages in any charge, complaint, or lawsuit against the Company filed by Executive or by anyone else on Executive's behalf with respect to any Released Claim.

2.2 This general release covers both claims that Executive knows about and those that Executive may not know about, except that it does not waive any rights or claims, including claims under the ADEA that may arise after the Effective Date of this Agreement. Executive further represents and warrants that: (i) Executive has been fully and properly paid for all hours worked, (ii) Executive has received all leave to which Executive is entitled in accordance with applicable law; and (iii) Executive has not suffered any on the job injury for which Executive has not already filed a claim. Executive further acknowledges, agrees and hereby stipulates that: (i) during Executive's employment with the Company, Executive was allowed to take all leave and afforded all other rights to which Executive was entitled under the Family and Medical Leave Act ("FMLA"); and (ii) the Company has not in any way interfered with, restrained or denied the exercise of (or attempt to exercise) any FMLA rights, nor terminated or otherwise discriminated against Executive for exercising (or attempting to exercise) any such rights.

3. RETURN OF COMPANY PROPERTY

On or before February 20, 2017 Executive shall turn over to the Company all property of the Company, including without limitation all files, memoranda, keys, manuals, equipment, data, records, and other documents, including electronically recorded documents and data that Executive received from the Company or its directors or employees or that Executive generated in the course of his employment with the Company. No later than his last day in the offices of the Company Executive shall also provide the Company with access to all Company-related computer files and any and all passwords needed to access those files.

4. NOTICES

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

If to the Company:

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

If to the Executive:

Brandon Solano
1214 NE 245th Ct.
Brush Prairie, WA 98606

or to such other address as a party may notify the other pursuant to a notice given in accordance with this Section 4.

5. GENERAL PROVISIONS

5.1 No Admissions. The Agreement should not be construed as an admission or a statement of any party hereto that such party has acted wrongfully or unlawfully. Each party expressly denies any wrongful or unlawful action.

5.2 Opportunity to Review and Revocation Period. Executive hereby warrants and represents that (a) he has carefully read this Separation Agreement and General Release, and finds that it is written in a manner that he understands; (b) Executive knows the contents hereof; (c) Executive has been advised to consult and has discussed this Agreement and its effects with his personal attorney or has knowingly and voluntarily waived the right to do so; (d) Executive understands that he is giving up all claims, damages, and disputes that have arisen before the date of this Agreement, except as provided herein; (e) Executive has had the opportunity to review and analyze this Agreement for forty-five (45) days (the "Review Period"), but agrees that if he signs this Agreement before expiration of the Review Period, he knowingly and voluntarily agrees to waive the remainder of the Review Period; (f) Executive has seven (7) days to revoke this Agreement by notifying Victoria Blackwell via written communication at the address below before midnight on the seventh day after you sign this Agreement (the "Revocation Period"); (g) Executive did not rely upon any representation or statement concerning the subject matter of this Agreement, except as expressly stated in this Agreement; (h) Executive understands this Agreement's final and binding effect; and (i) Executive has signed this Agreement as his free and voluntary act.

5.3 Entire Agreement: Amendment. This Agreement, together with Section 5 and Sections 7 through 11 of the Employment Agreement, constitutes the entire Agreement between the parties hereto with regard to the subject matter hereof, superseding all prior understandings and

agreements, whether written or oral. This Agreement may not be amended or revised except by a writing signed by the parties.

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

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

5.6 The "Effective Date" of this Agreement is the date that is eight (8) days following the date on which Executive signs this Agreement, so long as Executive has not revoked acceptance of this Agreement before such date.

5.7 By executing this Agreement, Executive also acknowledges that Executive: (a) is not relying upon any statements, understandings, representations, expectations, or agreements other than those expressly set forth in this Agreement; (b) has made Executive's own investigation of the facts and is relying solely upon Executive's own knowledge and the advice of Executive's own legal counsel; and (c) knowingly waives any claim that this Agreement was induced by any misrepresentation or nondisclosure and any right to rescind or avoid this Agreement based upon presently existing facts, known or unknown. The Parties stipulate that each Party is relying upon these representations and warranties in entering into this Agreement. These representations and warranties shall survive the execution of this Agreement.

5.8 All terms and provisions of this Agreement, and the drafting of this Agreement, have been negotiated by the Parties at arm's length and to mutual agreement, with consideration by and participation of each, and no party shall be deemed the scrivener of this Agreement.

5.9 Construction. Section 2 of the Agreement is integral to its purpose and may not be severed from it. Should any other provision of the Agreement be deemed invalid or unenforceable, that provision shall be narrowed to the extent required to make it lawful and enforceable, and the remaining provisions shall not be affected but instead remain valid and enforceable to the maximum extent consistent with current law.

5.10 Knowing and Voluntary Agreement. Executive understands this Agreement is a release of claims against the Released Parties arising before or on the Effective Date of this Agreement. Executive understands that Executive is not waiving claims that the law does not permit Executive to waive, nor is Executive waiving any claims arising after the Effective Date of this Agreement, including, but not limited to, claims for enforcement of this Agreement. Executive acknowledges that he is knowingly and voluntarily waiving and releasing any rights that he may have under the ADEA. In exchange for Executive's waiver and release of claims, the Company is offering the Severance Compensation. Exhibit A to this Agreement is being provided to meet the legal requirements of the Older Workers Benefit Protection Act. Exhibit A contains the eligibility criteria for receiving the Severance Compensation, the time limits for the program, the job titles and ages of all employees eligible or selected for the severance program, and the ages of all employees in the same job classification or organizational unit who are not eligible or selected for the severance program.

If Executive wishes to enter into this Agreement, he must sign the enclosed copy where indicated and return it to Victoria Blackwell, 8000 NE Parkway Drive, Suite 350, Vancouver, Washington 98662. To be effective, the signed Agreement must be deposited by U.S. mail and postmarked no later than April 1,2017, however, Executive is free to sign the Agreement earlier if he so chooses.

Notwithstanding any other provision in this Agreement, if Executive does not sign and deliver this Agreement to Victoria Blackwell on or before 45 days following Executive's receipt of this Agreement, then this Agreement will be and void, and Executive will not be entitled to the Severance Compensation.

[*Signature Page Follows*]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the dates indicated below.

“ *COMPANY* ”

PAPA MURPHY’S HOLDINGS, INC.

Name: /s/ Victoria J Tullett

Title: CLO

Dated: March 28, 2017

“ *EXECUTIVE* ”

/s/ Brandon Solano

Brandon Solano

Dated: March 23, 2017

EXHIBIT A

OWBPA DISCLOSURE

Pursuant to the Older Workers Benefit Protection Act, you are provided with the following information:

- a. **Decisional Unit**. The decisional unit covered by this termination program includes all employees of Papa Murphy’s International LLC on the Executive Leadership Team.

- b. **Eligibility for Optional Severance Payment**. Employees eligible for optional severance payments as detailed in their respective Separation Agreements are those employees in the above described Decisional Unit (1) whose positions are eliminated effective February 15, 2017, as a result of workforce restructuring, (2) who elect not to remain in Papa Murphy’s employ as a result of their position elimination, and (3) who sign the Separation Agreement by the deadline in the Agreement, and do not exercise their revocation right, if applicable. Position elimination decisions were based on the following criteria: business need for the position and comparative qualifications for remaining positions within the same work unit, if applicable.

- c. **Applicable Time Frames**. Employees who are 40 years old and over have up to 45 days after receipt of the Separation Agreement to sign the Agreement (“Review Period”), and seven days after they have signed the Separation Agreement to revoke it. Employees who are under 40 years old and therefore not covered by the OWBPA have one week to review and sign the Separation Agreement, and no revocation right.

- d. **Ages and Job Titles**. The following is a current listing of the ages and job titles of the employees in the Decisional Unit whose positions have been eliminated on February 15, 2017, as a result of the workforce restructuring:

<u>JOB TITLE</u>	<u>AGE</u>
Chief Development Officer	51
Chief Marketing Officer	46

The following is a current listing of the ages and job titles of employees in the Decisional Unit whose positions were not eliminated as a result of the above restructuring:

<u>JOB TITLE</u>	<u>AGE</u>
Chief Executive Officer	57
Chief Financial Officer	51
Chief Legal Officer	49
Sr VP, Operations	51
VP, Human Resources	41

EXECUTIVE SEPARATION AGREEMENT AND RELEASE

This Executive Separation Agreement and Release (“Agreement”) is made and entered into by and between Jayson Tipp (“Executive”) on the one hand, and Papa Murphy’s Holdings, Inc. (together with its affiliates or successors, the “Company”) on the other, hereinafter collectively referred to as the “Parties.”

RECITALS

A. WHEREAS, on January 7, 2013, the Company’s predecessor and Executive entered into an Executive Employment Agreement and Non-competition Agreement, pursuant to which the Company engaged Executive in the capacity of Chief Development Officer of the Company, and thereafter amended said Executive Employment Agreement and Non-competition Agreement on July 27, 2016 (the “Employment Agreement”);

B. WHEREAS, the Parties have agreed upon the terms of Executive’s departure from the Company and mutually desire to settle and compromise any and all claims and differences between them, including, but not limited to, those arising from Executive’s employment with and departure from the Company;

C. WHEREAS, the Parties wish to end the employment relationship amicably and to enter into certain covenants below, to provide assurances and peace of mind to each party; and

NOW, THEREFORE, in consideration of the Recitals and the mutual promises, covenants, and agreements set forth herein, the receipt and sufficiency of which are hereby acknowledged, the Parties covenant and agree as follows:

1. TERMINATION OF EMPLOYMENT

1.1 Termination of Employment. Executive’s employment with the Company will terminate by Executive’s voluntary resignation effective May 16, 2017, (the “Separation Date”) at 11 :59 p.m. Pacific Time. Executive acknowledges and agrees that this voluntary resignation shall be automatically effective as of such date and time without any further action of the Parties. Notwithstanding anything in the Employment Agreement to the contrary, Executive’s resignation shall be treated under the Employment Agreement as if Executive had been terminated by the Company without Cause and Executive shall be entitled to all of the rights and benefits that would be afforded to Executive under Section 5.2 of the Employment Agreement as if he had been terminated without Cause (as defined in the Employment Agreement) (such rights and benefits, the “Severance Compensation”), subject to Executive’s satisfaction of the conditions set forth in Section 5.7 of the Employment Agreement. Sections 5 and Sections 7 through 11 of the Employment Agreement shall survive the Executive’s termination and the execution and delivery of this Agreement.

Pursuant to the provisions of paragraph 4.2 of the Employment Agreement, Executive must give the Company at least 60 days’ prior written notice of his resignation. Executive has provided the Company with written notice of his resignation on February 15, 2017 (“Resignation Notice Date”).

1.2 Interim Employment of Executive. The Parties agree that Executive's day-to-day responsibilities as Chief Development Officer with the Company will cease effective as of 11:59 p.m. Pacific Time on the Resignation Notice Date. Subject to Executive's compliance with the terms of this Agreement, the Company will continue to employ Executive through the close of business on May 16, 2017 (the "Interim Period of Employment"). Pursuant to the terms of paragraph 4.2 of the Employment Agreement, at any time during the Interim Period of Employment the Company may excuse Executive from any and all duties during such period and request that Executive immediately resign as an officer of the Company, whereupon, if requested to so resign, Executive shall immediately resign. Executive acknowledges and agrees that the Company may terminate his employment at any time during the Interim Period of Employment if he materially fails to comply with the terms of this Agreement.

1.3 Equity Compensation. Effective on the Effective Date of this Agreement, all outstanding stock options, vested and unvested, held by Executive shall immediately terminate and be forfeited by Executive and the Company will waive its repurchase right with respect to all outstanding restricted stock awards held by Executive with performance-based vesting and all such outstanding restricted stock awards will be vested in full on the Effective Date.

1.4 Non-Solicitation. Nothing contained in Section 7 of the Employment Agreement shall prevent or prohibit Executive from hiring or engaging any former employee of Company that was part of the reduction in force that occurred on February 15, 2017.

2. GENERAL RELEASE AND WAIVER OF CLAIMS BY EXECUTIVE

2.1 In consideration of the mutual agreements and covenants set forth in the Agreement and the Employment Agreement, including those set forth in Section 1 above, Executive, on behalf of himself, his marital community, heirs, executors, administrators, successors and assigns, agrees to the following:

a. Executive expressly waives any claims against the Company and releases the Company and its predecessors, successors, parents, subsidiaries, and related or affiliated entities (including, without limitation, their present, former, and future officers, directors, stockholders, managers, agents, employees, attorneys, and representatives) (the "Released Parties") from any claims that Executive may have in any way connected with Executive's employment with the Company and the termination thereof, whether or not such claims are presently known or unknown to Executive. It is understood that the release includes, but is not limited to, any claims for damages of any kind whatsoever, including any claims for employment benefits, arising out of any contracts, express or implied, any covenant of good faith and fair dealing, express or implied, any theory of unlawful discharge or other tort theory, any legal restriction on the Company's right to terminate Executives, or any federal, state or other governmental statute or ordinance, including, without limitation, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act (the "ADEA"), the Older Workers Benefit Protection Act, the Americans with Disabilities Act, the Executive Retirement Income Security Act of 1974, the Washington Law Against Discrimination ("WLAD"), any other state laws concerning discrimination or harassment, or any other legal limitation on the employment relationship to the maximum extent such claims are allowed by law to be released. The waiver and release shall not waive or release claims where the events in dispute first arise after execution of the Agreement,

nor shall it preclude Executive or the Company from filing a lawsuit for the exclusive purpose of enforcing the Agreement.

b. Executive represents and warrants that he has not filed any lawsuits, complaints, or charges against the Released Parties with any governmental agency or any court.

c. Executive understands that nothing in this Agreement is intended to interfere with or deter Executive's right to challenge the waiver of an ADEA claim or state law age discrimination claim or the filing of an ADEA charge or ADEA complaint or state law age discrimination complaint or charge with the U.S. Equal Employment Opportunity Commission or any state discrimination agency or commission or to participate in any investigation or proceeding conducted by those agencies. Further, Executive understands that nothing in this Agreement would require Executive to tender back the money received under this Agreement if Executive seeks to challenge the validity of the ADEA or state law age discrimination waiver, nor does the Executive agree to ratify any ADEA or state law age discrimination waiver that fails to comply with the Older Workers' Benefit Protection Act by retaining the money received under the Agreement. Further, nothing in this Agreement is intended to require the payment of damages, attorneys' fees or costs to the Company should Executive challenge the waiver of an ADEA or state law age discrimination claim or file an ADEA or state law age discrimination suit except as authorized by federal or state law.

d. This release excludes any claim which cannot be released by private agreement, such as workers' compensation claims, claims after the Effective Date of this Agreement (as defined below), and the right to file administrative charges with certain government agencies. Nothing in this Agreement shall be construed to prohibit Executive from filing a charge with or participating in any investigation or proceeding conducted by the Equal Employment Opportunity Commission, National Labor Relations Board, or a comparable state or local agency. Notwithstanding this or the immediately preceding paragraph, Executive agrees to waive any right to recover monetary damages in any charge, complaint, or lawsuit against the Company filed by Executive or by anyone else on Executive's behalf with respect to any Released Claim.

2.2 This general release covers both claims that Executive knows about and those that Executive may not know about, except that it does not waive any rights or claims, including claims under the ADEA that may arise after the Effective Date of this Agreement. Executive further represents and warrants that: (i) Executive has been fully and properly paid for all hours worked, (ii) Executive has received all leave to which Executive is entitled in accordance with applicable law; and (iii) Executive has not suffered any on the job injury for which Executive has not already filed a claim. Executive further acknowledges, agrees and hereby stipulates that: (i) during Executive's employment with the Company, Executive was allowed to take all leave and afforded all other rights to which Executive was entitled under the Family and Medical Leave Act ("FMLA"); and (ii) the Company has not in any way interfered with, restrained or denied the exercise of (or attempt to exercise) any FMLA rights, nor terminated or otherwise discriminated against Executive for exercising (or attempting to exercise) any such rights.

3. RETURN OF COMPANY PROPERTY

On or before February 20, 2017 Executive shall turn over to the Company all property of the Company, including without limitation all files, memoranda, keys, manuals, equipment, data, records, and other documents, including electronically recorded documents and data that Executive received from the Company or its directors or employees or that Executive generated in the course of his employment with the Company. No later than his last day in the offices of the Company Executive shall also provide the Company with access to all Company-related computer files and any and all passwords needed to access those files.

4. NOTICES

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

If to the Company:

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

If to the Executive:

Jayson Tipp
3224 NE Knott Street
Portland, OR 97212

or to such other address as a party may notify the other pursuant to a notice given in accordance with this Section 4.

5. GENERAL PROVISIONS

5.1 No Admissions. The Agreement should not be construed as an admission or a statement of any party hereto that such party has acted wrongfully or unlawfully. Each party expressly denies any wrongful or unlawful action.

5.2 Opportunity to Review and Revocation Period. Executive hereby warrants and represents that (a) he has carefully read this Separation Agreement and General Release, and finds that it is written in a manner that he understands; (b) Executive knows the contents hereof; (c) Executive has been advised to consult and has discussed this Agreement and its effects with his personal attorney or has knowingly and voluntarily waived the right to do so; (d) Executive understands that he is giving up all claims, damages, and disputes that have arisen before the date of this Agreement, except as provided herein; (e) Executive has had the opportunity to review and analyze this Agreement for forty-five (45) days (the "Review Period"), but agrees that if he signs this Agreement before expiration of the Review Period, he knowingly and voluntarily agrees to waive the remainder of the Review Period; (f) Executive has seven (7) days to revoke this Agreement by notifying Victoria Blackwell via written communication at the address below before midnight on the seventh day after you sign this Agreement (the "Revocation Period"); (g)

Executive did not rely upon any representation or statement concerning the subject matter of this Agreement, except as expressly stated in this Agreement; (h) Executive understands this Agreement's final and binding effect; and (i) Executive has signed this Agreement as his free and voluntary act.

5.3 Entire Agreement: Amendment. This Agreement, together with Section 5 and Sections 7 through 11 of the Employment Agreement, constitutes the entire Agreement between the parties hereto with regard to the subject matter hereof, superseding all prior understandings and agreements, whether written or oral. This Agreement may not be amended or revised except by a writing signed by the parties.

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

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

5.6 The "Effective Date" of this Agreement is the date that is eight (8) days following the date on which Executive signs this Agreement, so long as Executive has not revoked acceptance of this Agreement before such date.

5.7 By executing this Agreement, Executive also acknowledges that Executive: (a) is not relying upon any statements, understandings, representations, expectations, or agreements other than those expressly set forth in this Agreement; (b) has made Executive's own investigation of the facts and is relying solely upon Executive's own knowledge and the advice of Executive's own legal counsel; and (c) knowingly waives any claim that this Agreement was induced by any misrepresentation or nondisclosure and any right to rescind or avoid this Agreement based upon presently existing facts, known or unknown. The Parties stipulate that each Party is relying upon these representations and warranties in entering into this Agreement. These representations and warranties shall survive the execution of this Agreement.

5.8 All terms and provisions of this Agreement, and the drafting of this Agreement, have been negotiated by the Parties at arm's length and to mutual agreement, with consideration by and participation of each, and no party shall be deemed the scrivener of this Agreement.

5.9 Construction. Section 2 of the Agreement is integral to its purpose and may not be severed from it. Should any other provision of the Agreement be deemed invalid or unenforceable, that provision shall be narrowed to the extent required to make it lawful and enforceable, and the remaining provisions shall not be affected but instead remain valid and enforceable to the maximum extent consistent with current law.

5.10 Knowing and Voluntary Agreement. Executive understands this Agreement is a release of claims against the Released Parties arising before or on the Effective Date of this Agreement. Executive understands that Executive is not waiving claims that the law does not permit Executive to waive, nor is Executive waiving any claims arising after the Effective Date of this Agreement, including, but not limited to, claims for enforcement of this Agreement. Executive acknowledges that he is knowingly and voluntarily waiving and releasing any rights that he may have under the

ADEA. In exchange for Executive's waiver and release of claims, the Company is offering the Severance Compensation. Exhibit A to this Agreement is being provided to meet the legal requirements of the Older Workers Benefit Protection Act. Exhibit A contains the eligibility criteria for receiving the Severance Compensation, the time limits for the program, the job titles and ages of all employees eligible or selected for the severance program, and the ages of all employees in the same job classification or organizational unit who are not eligible or selected for the severance program.

If Executive wishes to enter into this Agreement, he must sign the enclosed copy where indicated and return it to Victoria Blackwell, 8000 NE Parkway Drive, Suite 350, Vancouver, Washington 98662. To be effective, the signed Agreement must be deposited by U.S. mail and postmarked no later than April 1, 2017, however, Executive is free to sign the Agreement earlier if he so chooses.

Notwithstanding any other provision in this Agreement, if Executive does not sign and deliver this Agreement to Victoria Blackwell on or before 45 days following Executive's receipt of this Agreement, then this Agreement will be null and void, and Executive will not be entitled to the Severance Compensation.

[*Signature Page Follows*]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the dates indicated below.

“ *COMPANY* ”

PAPA MURPHY’S HOLDINGS, INC.

Name: /s/ Victoria J Tullett

Title: Chief Legal Officer and Secretary

Dated: March 22, 2017

“ *EXECUTIVE* ”

/s/ Jayson Tipp

Jayson Tipp

Dated: March 21, 2017

EXHIBIT A

OWBPA DISCLOSURE

Pursuant to the Older Workers Benefit Protection Act, you are provided with the following information:

- a. **Decisional Unit**. The decisional unit covered by this termination program includes all employees of Papa Murphy's International LLC on the Executive Leadership Team.

- b. **Eligibility for Optional Severance Payment**. Employees eligible for optional severance payments as detailed in their respective Separation Agreements are those employees in the above described Decisional Unit (1) whose positions are eliminated effective February 15, 2017, as a result of workforce restructuring, (2) who elect not to remain in Papa Murphy's employ as a result of their position elimination, and (3) who sign the Separation Agreement by the deadline in the Agreement, and do not exercise their revocation right, if applicable. Position elimination decisions were based on the following criteria: business need for the position and comparative qualifications for remaining positions within the same work unit, if applicable.

- c. **Applicable Time Frames**. Employees who are 40 years old and over have up to 45 days after receipt of the Separation Agreement to sign the Agreement ("Review Period"), and seven days after they have signed the Separation Agreement to revoke it. Employees who are under 40 years old and therefore not covered by the OWBPA have one week to review and sign the Separation Agreement, and no revocation right.

- d. **Ages and Job Titles**. The following is a current listing of the ages and job titles of the employees in the Decisional Unit whose positions have been eliminated on February 15, 2017, as a result of the workforce restructuring:

<u>JOB TITLE</u>	<u>AGE</u>
Chief Development Officer	51
Chief Marketing Officer	46

The following is a current listing of the ages and job titles of employees in the Decisional Unit whose positions were not eliminated as a result of the above restructuring:

<u>JOB TITLE</u>	<u>AGE</u>
Chief Executive Officer	57
Chief Financial Officer	51
Chief Legal Officer	49
Sr VP, Operations	51
VP, Human Resources	41

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

I, Jean Birch, certify that:

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

Date: May 10, 2017

/s/ Jean Birch

Jean Birch

Chair of the Board and Interim Chief Executive Officer

(Principal Executive Officer)

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

I, Mark Hutchens, certify that:

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

Date: May 10, 2017

/s/ Mark Hutchens

Mark Hutchens

Chief Financial Officer

(Principal Financial Officer)

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

In connection with the Quarterly Report of Papa Murphy's Holdings, Inc. (the "Company") on Form 10-Q for the period ended April 3, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jean Birch, interim Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2017

/s/ Jean Birch

Jean Birch

Interim Chief Executive Officer

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

In connection with the Quarterly Report of Papa Murphy's Holdings, Inc. (the "Company") on Form 10-Q for the period ended April 3, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark Hutchens, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2017

/s/ Mark Hutchens

Mark Hutchens

Chief Financial Officer