

ITEM 3

LITIGATION

Papa Murphy's International LLC Litigation

DTD Pizza, LLC, et al. v. Papa Murphy's International LLC, et al. (Washington Superior Court (Clark County), Case No. 14-2-00904-0) and Mitch and Kristen Brink, Brink Holdings, Inc., et al. v. Papa Murphy's International LLC, et al. (Washington Superior Court (Clark County), Case No. 14-2-01743-3)

These two related actions were commenced in April 2014 and June 2014, respectively, by separate groups of current and former franchisees against us, certain members of our board of managers and executive team, and others in Washington Superior Court (Clark County), alleging misrepresentations involving financial performance representations in ITEM 19 of our franchise disclosure document the franchisees' local marketing obligations, among other things, and brought claims for violation of the Washington Franchise Investment Protection Act ("WFIPA"), fraud, negligent misrepresentation and breach of contract. These two actions were consolidated in September 2014 under Case Number 14-2-00904-0.

Each of the plaintiff groups have entered into settlements with Papa Murphy's in which they dismissed all of their claims against defendants with prejudice and the action was dismissed in June 2020. The settlements are as follows: (1) one plaintiff group dismissed its claims against Papa Murphy's for no consideration; (2) two plaintiff groups agreed to pay amounts ranging from \$5,000 to \$8,000 to Papa Murphy's and remained in the system; (3) Papa Murphy's agreed to pay one plaintiff group's advertising costs for one year, agreed to allow the franchisee to develop an additional franchise, and agreed to return the franchisee's initial development fee of \$10,000; (4) another plaintiff group agreed to remain in the system in exchange for Papa Murphy's paying 3.8% of the franchisees' sales towards local advertising for a period of two years and extending the franchise agreement's term for an additional ten years; (5) Papa Murphy's settled with fifteen different plaintiff groups and paid amounts ranging from \$10,000 per group to \$4 million per group; (6) Papa Murphy's agreed to purchase one plaintiff group's nine Papa Murphy's stores at an agreed upon value of the stores' assets plus \$500,000; and (7) Papa Murphy's agreed to purchase seven plaintiff groups' Papa Murphy's stores at an agreed upon value of the stores' assets.

Rob & Bud's Pizza, LLC v. Papa Murphy's International, Inc., et al. (United States District Court for the Western District of Washington, Case No. 5:15-cv-05090-TLB)

In spring 2015, Papa Murphy's sent a notice of default to plaintiff for alleged defaults under the plaintiff's franchise agreements. In response, on April 17, 2015, the plaintiff brought an action seeking a declaratory judgment and injunction preventing Papa Murphy's from terminating the franchises. The plaintiff subsequently added claims in the case alleging that Papa Murphy's tortiously interfered with the plaintiff's employees and negligence in how Papa Murphy's handled the plaintiff's customer database, and sought compensatory damages, punitive damages and costs in an unspecified amount. The plaintiff was also a plaintiff in the LMP case described above. The case has been dismissed with prejudice as part of a settlement with plaintiff in this case and the LMP case under which Papa Murphy's purchased plaintiff's nine Papa Murphy's stores at an agreed upon value of the stores' assets plus \$500,000.

LITIGATION INVOLVING MTY USA, AFFILIATES AND THEIR PREDECESSORS

Purav Enterprises, LLC, Balwant Bahia, and Paramjit Samra v. The Extreme Pita Franchising USA, Inc., EP Development, Inc., and Feisal Ramjee (Superior Court of the State of Washington for King County, Case No. 15-2-15120-7)

On June 22, 2015, Purav Enterprises, LLC, Balwant Bahia, and Paramjit Samra (collectively “Plaintiffs”), filed a complaint against The Extreme Pita Franchising USA, Inc., EP Development, Inc. and Feisal Ramjee (collectively “Defendants”). Plaintiffs alleged (i) violations under the Franchise Investment Protection Act in the State of Washington (“FIPA”); (ii) misrepresentation by the Area Developer of the financial performance of the franchise, omissions of mandatory and material information and inherently misleading information that were material factors in the Plaintiff’s purchase of the franchise; and (iii) the Area Developer was not a registered broker in the State of Washington. Plaintiffs sought: (i) rescission of the franchise agreement, the corresponding personal guarantee and related agreements; (ii) treble damages under FIPA; and (iii) costs and attorney’s fees. The parties entered into a settlement agreement on March 11, 2016, in which Defendants paid Plaintiffs the sum of \$20,000. The matter was dismissed on March 16, 2016.

PUBLIC AGENCY ACTIONS AGAINST MTY USA, AFFILIATES AND THEIR PREDECESSORS

State of Maryland Determination (Case No. 2012-0073)

In February 2012, the State of Maryland alleged that during the period January 1, 2009 to November 26, 2009 Triune, LLC (“Triune”) (i) did not retain signed acknowledgements of receipt reflecting the dates that its Franchise Disclosure Document was delivered to certain Maryland residents and non-residents; (ii) sold franchises to certain Maryland residents and non-residents without providing them with a copy of a 2009 Franchise Disclosure Document; (iii) sold franchises to certain Maryland residents and non-residents without providing them with a copy of a 2009 Franchise Disclosure Document that contained its 2008 financial statements with a going concern note from its auditors resulting from the unfavorable financial condition of its parent company; and (iv) sold franchises to certain Maryland residents and non-residents without including, or abiding with, a deferral condition in their franchise agreements that was imposed upon it by the State of Maryland, all as required by the Maryland Franchise Registration and Disclosure Law (the “Maryland Law”) and in violation of the Maryland Law. Without admitting or denying the allegations, in September 2012, Triune voluntarily entered into a Consent Order with the Office of the Attorney General of Maryland and agreed to: (i) not violate the Maryland Law in the future, (ii) pay the Office of the Attorney General the sum of \$50,000 as a civil penalty, (iii) retain copies of all acknowledgments of receipt confirming dates that prospective Maryland franchisees received any Maryland Franchise Disclosure Documents, (iv) comply with the disclosure and antifraud provisions of the Maryland Franchise Law and the record keeping and escrow requirements of the Code of Maryland Regulations; and (v) send a copy of the Consent Order to certain Maryland franchisees.

State of Virginia Determination; Case No. SEC-2012-00027

In February 2012, the Division of Securities and Retail Franchising of the State Corporation Commission (the "Commission") alleged that during 2009 Triune, LLC ("Triune") (i) offered or sold franchises in Virginia in 2009 that were not registered under the Virginia Retail Franchising Act (the "Virginia Act"); (ii) offered or sold franchises in Virginia without disclosing that it was not registered to do so; (iii) failed to provide material information regarding the parent company's unfavorable financial condition and the potential impact that it could have on Triune as stated in a going concern note in its 2008 financial statements from its auditors; and (iv) failed to provide a prospective franchisee with a copy of its Franchise Disclosure Document as required by rule or order of the Commission at least 14 calendar days before the prospective franchisee signed a binding agreement or made any payment to it in connection with the sale or offer to sell a franchise in Virginia. Without admitting or denying the allegations, on November 26, 2012, Triune voluntarily entered into a Settlement Order with the Commission and agreed to (i) not violate the Virginia Act in the future; (ii) pay Virginia the sum of \$25,000 as a penalty and the sum of \$5,000 to defray the Commission's costs of investigation; (iii) offer certain Virginia franchisees a refund of their initial franchise fees; and (iv) send a copy of the Settlement Order to certain Virginia franchisees.

New York Department of Law

In May 1992, Blimpie Associates, Ltd. and Joseph Dornbush (formerly the President of Blimpie) (collectively "Respondents"), responded to a claim by the New York Department of Law that it had sold franchises during a period of time when Blimpie's prospectus had not been updated by amendment. Without the admission of any wrongdoing, Respondents consented to the entry of an order in which Respondents agreed to (i) entry of a judgment enjoining them from further violations of the New York Franchise Sales Act, and (ii) pay the sum of \$18,000 to the State of New York as an additional allowance. Respondents paid the \$18,000 in May 1992 and executed the consent judgment on August 25, 1992.

In the Matter of Maui Wowi Franchising, Inc., Before the Securities Commissioner of Maryland (Case No. 2005-0651)

On November 11, 2005, Maui Wowi Franchising, Inc. ("MWF"), the predecessor franchisor of the Maui Wowi brand entered into a Consent Order with the Securities Commissioner of Maryland ("Commissioner") resulting from MWF inadvertently entering into four franchise agreements with Maryland residents ("Maryland Franchisees") after its registration in Maryland expired on June 9, 2004. The Consent Order required MWF to (i) cease and desist from the offer and sale of unregistered franchises in Maryland; (ii) diligently pursue the completion of its then pending application to register its Offering Circular in Maryland; (iii) develop and implement new franchise law compliance procedures to ensure future compliance with the registration and disclosure provisions of Maryland Franchise Law; and (iv) enroll an officer and a franchise compliance person in a franchise law compliance training program. Upon notification by the Commissioner, MWF sent to the Maryland Franchisees the registered Offering Circular, a copy of the Consent Order, and a letter notifying the Maryland Franchisees that they could rescind their franchise agreements. At this time, MWF is in full compliance with the Consent Order.

In the Matter of Maui Wowi Franchising, Inc., Before the Securities Commissioner of Maryland (Case No. 2007-0194).

On September 12, 2007, Maui Wowi Franchising, Inc. (“MWF”) the predecessor franchisor of the Maui Wowi brand, entered into a Consent Order with the Maryland Commissioner resulting from MWF inadvertently entering into two franchise agreements with two Maryland residents (“Second Maryland Franchisees”) without delivering to them the appropriate Offering Circular. MWF was registered in the State of Maryland at the time of the offer and sale with an Offering Circular containing certain specific information required only by Maryland law. At the same time, MWF used a second form of Offering Circular in other states that did not contain all of the information required by Maryland law. Prior to the execution of the franchise agreements with the Second Maryland Franchisees, MWF accidentally delivered to them the Offering Circular that did not contain the Maryland-specific information. MWF subsequently reported these mistakes to the Commissioner. The Consent Order required MWF to (i) cease and desist from the offer and sale of franchises in Maryland in violation of the Maryland Franchise Law; (ii) diligently pursue the completion of its then pending application to register its Offering Circular in Maryland; (iii) implement additional compliance measures to ensure future compliance with the Maryland Franchise Law; (iv) employ an approved franchise law compliance training program or trainer to monitor MWF’s franchise activities in Maryland for two years; and (v) reimburse the Maryland Attorney General for its investigation and resolution costs in the total amount of \$2,500. Additionally, MWF was required to provide to the Second Maryland Franchisees the registered Offering Circular, a copy of the Consent Order, and a letter notifying the Second Maryland Franchisees that they have a right to rescind their franchise agreements. The Commissioner and MWF subsequently entered into an Amended Consent Order in which MWF elected to withdraw from the State of Maryland instead of employing a compliance monitor, with the agreement to employ a monitor if MWF was to re-register in the State of Maryland. MWF fully complied with the Amended Consent Order, and subsequently employed a compliance monitor and was granted registration in the State of Maryland.

In the Matter of SweetFrog Enterprises, LLC, fka Imagination Enterprises, Inc., dba Sweet Frog, Before the Securities Commissioner of Maryland (Case No. 2012-0055).

As a result of an inquiry into the franchise related activities of SweetFrog Enterprises, LLC, (“SFE”) the Maryland Securities Commissioner (“Commissioner”) concluded that grounds existed to allege that SFE violated the registration and disclosure provisions of the Maryland Franchise Law in relation to the offer and sale of certain license agreements. SFE acknowledged that those license agreements constituted franchises as defined under the Maryland Franchise Law. SFE represented that it entered into license agreements with eight Maryland licensees during the time it was not registered to offer and sell franchises in Maryland. On August 29, 2012, the Commissioner and SFE agreed to enter into a consent order whereby SFE, without admitting or denying any violations of the law, agreed to: (i) immediately and permanently cease from the offer and sale of franchises in violation of the Maryland Franchise Law; (ii) file and diligently pursue an application for an initial franchise registration in Maryland relating to the license agreements it offered and sold to Maryland licensees; and (iii) offer to rescind the license agreements of all Maryland licensees to whom it sold unregistered franchises. We are not aware of any licensees that accepted the rescission and have made a good faith effort to obtain that information.

Other than these actions, no litigation is required to be disclosed in this Disclosure Document.

ITEM 4 BANKRUPTCY

JND Tropics LLC

Vice President of Operations, Dan Rudolph, is a member of JND Tropics LLC, an Arizona limited liability company and a multi-unit operator of Tropical Smoothie Cafes in Arizona. On June 12, 2025, JND Tropics LLC filed a voluntary petition for bankruptcy under Subchapter V of Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the District of Arizona under Case No. 2:25-bk-05356.

No other bankruptcy is required to be disclosed in this Disclosure Document.

ITEM 5 INITIAL FEES PAID TO THE FRANCHISOR

Franchise Agreement

You must pay us an Initial Franchise Fee of \$25,000 when you sign the Franchise Agreement for the purchase of your first Franchised Store. You will pay a reduced subsequent franchise fee of \$15,000 for the purchase of additional Franchised Stores (“**Subsequent Franchise Fee**”). Except where otherwise noted, the Initial and Subsequent Franchise Fees are not refundable. In the past, we have waived franchise fees in limited circumstances. We reserve the right to increase or decrease the Initial or Subsequent Franchise Fees at any time. The Initial Franchise Fee and the Transfer Fee are otherwise nonrefundable and are deemed fully earned.

In our latest fiscal year ended December 2, 2024, our actual range of Franchise Fees payable was \$0 to \$25,000.

Multiple Store Commitment

For qualified candidates, we may grant a franchisee the right to develop multiple stores pursuant to a Multiple Store Commitment Letter and Amendment to Franchise Agreements. The nonrefundable multiple store fee (“**Multiple Store Fee**”) for a Multiple Store Commitment is one Initial Franchise Fee of \$25,000 for the first store and a Subsequent Franchise Fee of \$15,000 for each additional store and is due upon signing. If you sign a Multiple Store Commitment Letter and Amendment to Franchise Agreement, you will also sign a Franchise Agreement for each Franchised Store under the Multiple Store Commitment.

The Multiple Store Fee is deemed fully earned upon receipt and not refundable in whole or in part under any circumstances, even if you fail or are unable to open any of the Franchised Stores provided for under the Multiple Store Commitment Letter and Amendment to Franchise Agreements.

Extension Fee

If you cannot develop and open the Franchised Store within one year after signing the Franchise Agreement, you may request in writing that we approve an extension of up to six months within which you must open the Franchised Store. You must pay us a non-refundable extension fee of Two Thousand Five Hundred Dollars (\$2,500) when you request the extension regarding the Franchised Business.

Development Billing Agreement

Separately, we may require you to enter into a “**Development Billing Agreement**” in substantially the form set forth in Exhibit L attached to this Disclosure Document. Under the Development Billing Agreement, we will pay on your behalf various third party vendors for the development of the Franchised Store. You will place funds in a specified bank account and authorize us to access such account electronically to pay third party vendors for various costs related to the build-out and new store marketing/grand opening spend of the Franchised Store. We will not be liable for any vendor-related costs associated with Franchised Store development and you must indemnify us from all damages, claims and expenses in providing this service to you. The amount you may be required to reimburse us for payments we make under the Development Billing Agreement will range from \$144,764 to \$283,450. Such amounts you pay to us are non-refundable.

Military Discount

We currently are offering an incentive program to active military personnel and veterans who were honorably discharged from the United States Armed Forces who meet our other qualifications. If you qualify for the military program, you will pay a reduced Franchise Fee. We reserve the right to modify or cancel this program at any time.

Heroes Program

We currently are offering an incentive program to law enforcement officers, medical doctors, nurses, emergency medical technicians and fire fighters who meet our other qualifications. If you qualify for the Heroes Program, you will pay a reduced Franchise Fee. We reserve the right to modify or cancel this program at any time.

Store Manager to Ownership Transfer Program

We currently are offering a program for Papa Murphy’s store managers with a minimum of 24 months of experience as a Papa Murphy’s store manager. If you qualify for this program, we may waive the Transfer Fee and provide other additional incentives.

ITEM 6
OTHER FEES

OTHER FEES			
Type of Fee¹	Amount	Due Date	Remarks
Royalty Fee ^{2, 20}	5% of your weekly Net Sales ³	Each week for the prior week	We require an Automated Clearinghouse (“ACH”) authorization that allows us to automatically deduct the fee from your Franchised Store bank account each week based upon your reports of Net Sales. (<u>See</u> Exhibit I.)
Brand Marketing Fee ⁴	2% of your weekly Net Sales ³	Each week for the prior week	We require an ACH authorization that allows us to automatically deduct the fee from your Franchised Store bank account each week based upon your reports of Net Sales. (<u>See</u> Exhibit I.)
Local Marketing and Promotion and Regional Cooperative Advertising ⁵	Minimum of the greater of 5% of your Net Sales ³ or \$2,000 during each month	You must spend this amount each month	<u>See</u> Note 5. Company-owned stores have the same voting rights as Franchised Stores in these cooperatives.
Online Ordering Fee	\$0.35 per online transaction	Each week for the prior week	We require an ACH authorization that allows us to automatically deduct the Online Ordering Fee from your Franchised Store bank account each week based upon the number of online ordering transactions completed. We may increase this fee not to exceed 5% in any 12-month period, upon reasonable notice. (<u>See</u> Exhibit I.)
Marketing Kits ⁶	\$45 to \$500	As incurred	We require an ACH authorization that allows us to automatically deduct the fee from your Franchised Store bank account. (<u>See</u> Exhibit I.)
Customer Relations Management ⁷	\$10 per month	Monthly	We require an ACH authorization that allows us to automatically deduct the fee from your Franchised Store bank account. (<u>See</u> Exhibit I.)
Loyalty Program ⁸	\$53 per month	Monthly	We require an ACH authorization that allows us to automatically deduct the fee from your Franchised Store bank account. (<u>See</u> Exhibit I.)
Gift Card Redemption Fee ⁹	6.06% to 13.63% of the total amount of the gift card redemption	Monthly	Fee is charged by us and collected by a third party on our behalf.
Food Service Incident Management ¹⁰	\$3 per month	Monthly	We require an ACH authorization that allows us to automatically deduct the fee from your Franchised Store bank account. (<u>See</u> Exhibit I.)

OTHER FEES			
Type of Fee ¹	Amount	Due Date	Remarks
Audit ¹¹	The costs of conducting an audit, plus related expenses	As incurred	Payable only if audit shows an understatement of Net Sales reported. You must bear the cost of providing copies of books, records and documents to us or our representatives.
Insurance	Your insurance must include at a minimum comprehensive general liability coverage, including products liability coverage, in amount of at least \$2,000,000 per occurrence and business automobile liability insurance in an amount of at least \$1,000,000 per occurrence. You must name us as an additional insured.	As incurred	Payable to us only if you fail to purchase the required insurance and we purchase it for you.
Transfer Fee	If it is the transferee's first Franchised Store, the Transfer Fee will be \$25,000 less \$2,500 times the number of full years remaining on the initial term of the Franchise Agreement; or if the transfer occurs during a successive term, \$25,000 less \$2,500 times the number of full years remaining on the Successive Franchise Agreement, but in no event less than \$12,500. If the transferee is an existing franchisee, the Transfer Fee will be \$15,000 less \$1,500 times the number of full years remaining on the initial term of the Franchise Agreement; or if the transfer occurs during a successive term, \$15,000, less \$1,500 times the number of full years remaining on the renewal term of the Franchise Agreement, but in no event less than \$7,500.	Upon execution of the Franchise Agreement	Transfer is contingent upon satisfaction of other requirements. (See ITEM 17 below.)
Indemnification	Varies	Within a reasonable time after request	You must reimburse us for all of our costs and expenses if we are held liable for claims arising from your acts or omissions to act.

OTHER FEES			
Type of Fee ¹	Amount	Due Date	Remarks
Additional Assistance or Training	\$100 to \$300 per day	As incurred	<u>See Section 2.4 of Franchise Agreement.</u> Except for Operations In-Store Training, Foundations Class and Enterprise Solution Training, there is no fee to attend a training class. You must pay all of your travel, accommodations, meal and other expenses.
Franchise Conventions	\$1,000 to \$3,500	As scheduled	You must pay all of your travel, accommodations, meal and other expenses. We may charge you a fee to attend.
Convention Materials	Up to \$500	As required	Payable to us only if you fail to attend a Franchise Convention.
Successive Franchise Fee	One-half of the then-current Franchise Fee	60 days prior to expiration of Franchise Agreement	A condition of continued operations.
Relocation Fee	\$5,000	Prior to relocation	Payable to us if you relocate your Franchised Store.
Non-Participation Fee	\$100 per day if you fail or refuse to participate in any required national, local, regional, seasonal, promotional or other program, initiative and campaign or in any new or modified product or service test or offering.	Upon failing or refusing to participate	Payable to us.
Document Administration Fee	\$500	As incurred	Payable to us. Applicable if an amendment to your franchise documents must be prepared, including an assignment
Interest	Interest of 1.5% per month unless otherwise limited by law (18% per annum) (“Default Rate”)	Due while amounts owed remain unpaid	You will not be compelled to pay interest at a rate greater than the maximum allowed by applicable law.
Bookkeeping/ Payroll Service ¹¹	\$0 to \$630	Monthly	Payable to a third party vendor.
Non-sufficient Funds Fees	\$35, plus reimbursement of fees we incur	As incurred	Payable to us only if you have insufficient funds available in your bank account from which we automatically deduct fees.
POS Change of Ownership Fee ¹²	\$500	As incurred	Payable to us if you purchase a Store from an existing franchise owner.
Software License Transfer Fee ¹²	\$300	As incurred	Payable to a third party vendor or us if you purchase a Store from an existing franchise owner.
Online Ordering ¹² Transfer Fee	\$100	As incurred	Payable to a third party vendor or us if you purchase a Store from an existing franchise owner.

OTHER FEES			
Type of Fee ¹	Amount	Due Date	Remarks
Store Solutions Team Support ¹⁴	\$51.25	Monthly	Payable to us. <u>See</u> Note 14. Subject to an annual increase.
Core Software Support and Maintenance ^{13, 15, 16}	\$114 per month	Monthly	Payable either to a third party vendor or to us. <u>See</u> Note 13. Subject to an annual increase.
Late Payment Fee	\$75	As incurred	Payable to us.
Managed Firewall Service ¹⁷	\$30 to \$90 per month	Monthly	Payable either to a third party vendor or to us.
Business Class High Speed Internet Access	\$50 to \$200 per month	Monthly	Payable to a third party vendor.
Secure Payment Gateway ¹⁸	\$11 per month	Quarterly	Payable either to a third party vendor or to us.
Upgrade, Refurbish and Replace	\$4,000 to \$50,000	Within a reasonable time after request	If we require any changes in or additions to premises, fixtures, furnishings or equipment, you must do so at your sole expense, within the time that we reasonably require.
Expenses in Evaluating a Supplier Proposed by You	Our reasonable expenses	Within a reasonable time after request	If you ask us to approve a supplier, you must pay us our reasonable expenses incurred in evaluating your proposed supplier.
Step-In Costs	Personnel and administrative costs, plus 15%	Within a reasonable time after request	If we step in to operate your Franchised Store, you must pay our personnel and administrative costs plus 15% to cover our direct and indirect expenses.
Early Termination Damages ¹⁹	The average monthly Royalty Fee and Brand Marketing Fee paid for any consecutive 12-month period within the preceding 48-month period, multiplied by the number of months remaining in the term of the Franchise Agreement, and the product is divided by 2	30 days prior to the early closing of the Franchised Store	You must provide us with six months prior written notice of the termination of your Franchise Agreement. <u>See</u> Note 19.
Extension Fee	\$2,500	As incurred	Payable to us only if you request and we approve an extension of up to six months within which to open the Franchised Store.

Explanatory Notes:

(1) Except where otherwise noted, all fees are payable to us, are non-refundable, and are uniformly imposed. We may, however, in our discretion, reduce or waive a one-time fee (i.e., Transfer Fee, Successive Franchise Fee, etc.) or may waive or reduce an ongoing fee (i.e., Royalty Fee or Brand Marketing Fees) for a defined period of time.