

PAPA JOHNS INTERNATIONAL INC

Form 10-Q

August 04, 2009

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**x            Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the quarterly period ended June 28, 2009**

**OR**

**o            Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number: 0-21660

## PAPA JOHN S INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**61-1203323**

(I.R.S. Employer Identification  
number)

**2002 Papa Johns Boulevard**

**Louisville, Kentucky 40299-2367**

(Address of principal executive offices)

**(502) 261-7272**

(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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

Large accelerated filer ☒

Non-accelerated filer ☐

Accelerated filer ☐

Smaller reporting company ☐

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

At July 29, 2009, there were outstanding 28,065,439 shares of the registrant's common stock, par value \$0.01 per share.



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| (In thousands)                                              | June 28, 2009<br>(Unaudited) | December 28, 2008<br>(Note) |
|-------------------------------------------------------------|------------------------------|-----------------------------|
| <b>Assets</b>                                               |                              |                             |
| <b>Current assets:</b>                                      |                              |                             |
| Cash and cash equivalents                                   | \$ 24,328                    | \$ 10,987                   |
| Accounts receivable                                         | 22,091                       | 23,775                      |
| Inventories                                                 | 16,167                       | 16,872                      |
| Prepaid expenses                                            | 9,635                        | 9,797                       |
| Other current assets                                        | 3,986                        | 5,275                       |
| Assets held for sale                                        | 1,019                        | 1,540                       |
| Deferred income taxes                                       | 8,716                        | 7,102                       |
| <b>Total current assets</b>                                 | <b>85,942</b>                | <b>75,348</b>               |
| Investments                                                 | 1,717                        | 530                         |
| Net property and equipment                                  | 192,910                      | 189,992                     |
| Notes receivable                                            | 13,464                       | 7,594                       |
| Deferred income taxes                                       | 12,852                       | 17,518                      |
| Goodwill                                                    | 76,705                       | 76,914                      |
| Other assets                                                | 20,194                       | 18,572                      |
| <b>Total assets</b>                                         | <b>\$ 403,784</b>            | <b>\$ 386,468</b>           |
| <b>Liabilities and stockholders' equity</b>                 |                              |                             |
| <b>Current liabilities:</b>                                 |                              |                             |
| Accounts payable                                            | \$ 25,957                    | \$ 29,148                   |
| Income and other taxes                                      | 13,525                       | 9,685                       |
| Accrued expenses                                            | 51,096                       | 54,220                      |
| Current portion of debt                                     | 4,475                        | 7,075                       |
| <b>Total current liabilities</b>                            | <b>95,053</b>                | <b>100,128</b>              |
| Unearned franchise and development fees                     | 5,559                        | 5,916                       |
| Long-term debt, net of current portion                      | 103,067                      | 123,579                     |
| Other long-term liabilities                                 | 19,923                       | 18,607                      |
| <b>Stockholders' equity:</b>                                |                              |                             |
| Preferred stock                                             |                              |                             |
| Common stock                                                | 357                          | 352                         |
| Additional paid-in capital                                  | 227,439                      | 216,553                     |
| Accumulated other comprehensive income (loss)               | (985)                        | (3,818)                     |
| Retained earnings                                           | 165,775                      | 133,759                     |
| Treasury stock                                              | (221,818)                    | (216,860)                   |
| Total stockholders' equity, net of noncontrolling interests | 170,768                      | 129,986                     |
| Noncontrolling interests in subsidiaries                    | 9,414                        | 8,252                       |
| <b>Total stockholders' equity</b>                           | <b>180,182</b>               | <b>138,238</b>              |
| <b>Total liabilities and stockholders' equity</b>           | <b>\$ 403,784</b>            | <b>\$ 386,468</b>           |

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Note: The balance sheet at December 28, 2008 has been derived from the audited consolidated financial statements at that date, but does not include all information and footnotes required by accounting principles generally accepted in the United States for a complete set of financial statements. See Note 2 for modifications made as a result of adopting recent accounting pronouncements.

*See accompanying notes.*

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**Papa John's International, Inc. and Subsidiaries**

**Consolidated Statements of Income**

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(Unaudited)

| (In thousands, except per share amounts)                                             | Three Months Ended |                 | Six Months Ended |                  |
|--------------------------------------------------------------------------------------|--------------------|-----------------|------------------|------------------|
|                                                                                      | June 28, 2009      | June 29, 2008   | June 28, 2009    | June 29, 2008    |
| <b>Domestic revenues:</b>                                                            |                    |                 |                  |                  |
| Company-owned restaurant sales                                                       | \$ 124,966         | \$ 133,815      | \$ 256,671       | \$ 272,670       |
| Variable interest entities restaurant sales                                          | 11,223             | 2,239           | 16,894           | 4,279            |
| Franchise royalties                                                                  | 14,664             | 14,759          | 30,025           | 30,204           |
| Franchise and development fees                                                       | 78                 | 247             | 306              | 1,167            |
| Commissary sales                                                                     | 101,444            | 106,321         | 209,360          | 212,368          |
| Other sales                                                                          | 13,981             | 16,434          | 28,750           | 33,279           |
| <b>International revenues:</b>                                                       |                    |                 |                  |                  |
| Royalties and franchise and development fees                                         | 3,388              | 3,108           | 6,623            | 6,128            |
| Restaurant and commissary sales                                                      | 6,893              | 6,485           | 12,980           | 12,318           |
| <b>Total revenues</b>                                                                | <b>276,637</b>     | <b>283,408</b>  | <b>561,609</b>   | <b>572,413</b>   |
| <b>Costs and expenses:</b>                                                           |                    |                 |                  |                  |
| <b>Domestic Company-owned restaurant expenses:</b>                                   |                    |                 |                  |                  |
| Cost of sales                                                                        | 23,893             | 30,803          | 49,794           | 62,375           |
| Salaries and benefits                                                                | 36,157             | 40,050          | 74,360           | 81,610           |
| Advertising and related costs                                                        | 11,376             | 11,913          | 22,649           | 24,610           |
| Occupancy costs                                                                      | 7,722              | 8,540           | 15,638           | 17,011           |
| Other operating expenses                                                             | 17,181             | 18,072          | 34,809           | 36,379           |
| Total domestic Company-owned restaurant expenses                                     | 96,329             | 109,378         | 197,250          | 221,985          |
| Variable interest entities restaurant expenses                                       | 9,326              | 1,987           | 14,135           | 3,780            |
| <b>Domestic commissary and other expenses:</b>                                       |                    |                 |                  |                  |
| Cost of sales                                                                        | 84,586             | 89,976          | 175,536          | 179,982          |
| Salaries and benefits                                                                | 8,638              | 9,127           | 17,469           | 18,092           |
| Other operating expenses                                                             | 10,945             | 12,112          | 21,617           | 23,644           |
| Total domestic commissary and other expenses                                         | 104,169            | 111,215         | 214,622          | 221,718          |
| (Income) loss from the franchise cheese-purchasing program, net of minority interest | (5,462)            | 4,364           | (12,565)         | 9,922            |
| International operating expenses                                                     | 5,907              | 5,818           | 11,264           | 11,158           |
| General and administrative expenses                                                  | 30,002             | 27,237          | 57,765           | 54,451           |
| Other general expenses                                                               | 3,583              | 539             | 8,050            | 2,752            |
| Depreciation and amortization                                                        | 8,181              | 8,404           | 16,136           | 16,410           |
| <b>Total costs and expenses</b>                                                      | <b>252,035</b>     | <b>268,942</b>  | <b>506,657</b>   | <b>542,176</b>   |
| <b>Operating income</b>                                                              | <b>24,602</b>      | <b>14,466</b>   | <b>54,952</b>    | <b>30,237</b>    |
| Investment income                                                                    | 144                | 181             | 276              | 447              |
| Interest expense                                                                     | (1,440)            | (1,802)         | (2,856)          | (3,694)          |
| <b>Income before income taxes</b>                                                    | <b>23,306</b>      | <b>12,845</b>   | <b>52,372</b>    | <b>26,990</b>    |
| Income tax expense                                                                   | 8,037              | 4,538           | 18,339           | 9,514            |
| <b>Net income, including noncontrolling interests</b>                                | <b>15,269</b>      | <b>8,307</b>    | <b>34,033</b>    | <b>17,476</b>    |
| Less: income attributable to noncontrolling interests                                | (1,092)            | (659)           | (2,017)          | (1,203)          |
| <b>Net income, net of noncontrolling interests</b>                                   | <b>\$ 14,177</b>   | <b>\$ 7,648</b> | <b>\$ 32,016</b> | <b>\$ 16,273</b> |
|                                                                                      |                    |                 |                  |                  |
| Basic earnings per common share                                                      | \$ 0.51            | \$ 0.27         | \$ 1.16          | \$ 0.57          |
| Earnings per common share - assuming dilution                                        | \$ 0.51            | \$ 0.27         | \$ 1.15          | \$ 0.57          |
|                                                                                      |                    |                 |                  |                  |
| Basic weighted average shares outstanding                                            | 27,789             | 28,372          | 27,715           | 28,536           |
| Diluted weighted average shares outstanding                                          | 27,989             | 28,705          | 27,860           | 28,754           |

See accompanying notes.

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**Papa John's International, Inc. and Subsidiaries**

**Consolidated Statements of Stockholders' Equity**

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(Unaudited)

| (In thousands)                                                                     | Papa John's International, Inc.       |                 |                                  |                                                        |                      |                   |                                                |                                 |
|------------------------------------------------------------------------------------|---------------------------------------|-----------------|----------------------------------|--------------------------------------------------------|----------------------|-------------------|------------------------------------------------|---------------------------------|
|                                                                                    | Common<br>Stock Shares<br>Outstanding | Common<br>Stock | Additional<br>Paid-In<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Retained<br>Earnings | Treasury<br>Stock | Noncontrolling<br>Interests in<br>Subsidiaries | Total<br>Stockholders<br>Equity |
| <b>Balance at<br/>December 30, 2007</b>                                            | 28,777                                | \$ 349          | \$ 208,598                       | \$ 156                                                 | \$ 96,963            | \$ (179,163)      | \$ 8,035                                       | \$ 134,938                      |
| Comprehensive income:                                                              |                                       |                 |                                  |                                                        |                      |                   |                                                |                                 |
| Net income                                                                         |                                       |                 |                                  |                                                        | 16,273               |                   | 1,203                                          | 17,476                          |
| Change in valuation of<br>interest rate swap<br>agreements, net of tax of<br>\$113 |                                       |                 |                                  | (229)                                                  |                      |                   |                                                | (229)                           |
| Foreign currency<br>translation                                                    |                                       |                 |                                  | 133                                                    |                      |                   |                                                | 133                             |
| Comprehensive income                                                               |                                       |                 |                                  |                                                        |                      |                   |                                                | 17,380                          |
| Exercise of stock<br>options                                                       | 50                                    | 1               | 964                              |                                                        |                      |                   |                                                | 965                             |
| Tax effect related to<br>exercise of non-qualified<br>stock options                |                                       |                 | 117                              |                                                        |                      |                   |                                                | 117                             |
| Acquisition of treasury<br>stock                                                   | (768)                                 |                 |                                  |                                                        |                      | (20,287)          |                                                | (20,287)                        |
| Distributions to<br>noncontrolling interests                                       |                                       |                 |                                  |                                                        |                      |                   | (840)                                          | (840)                           |
| Other                                                                              |                                       |                 | 2,567                            |                                                        |                      |                   |                                                | 2,567                           |
| <b>Balance at June 29,<br/>2008</b>                                                | 28,059                                | \$ 350          | \$ 212,246                       | \$ 60                                                  | \$ 113,236           | \$ (199,450)      | \$ 8,398                                       | \$ 134,840                      |
| <b>Balance at<br/>December 28, 2008</b>                                            | 27,637                                | \$ 352          | \$ 216,553                       | \$ (3,818)                                             | \$ 133,759           | \$ (216,860)      | \$ 8,252                                       | \$ 138,238                      |
| Comprehensive income:                                                              |                                       |                 |                                  |                                                        |                      |                   |                                                |                                 |
| Net income                                                                         |                                       |                 |                                  |                                                        | 32,016               |                   | 2,017                                          | 34,033                          |
| Change in valuation of<br>interest rate swap<br>agreements, net of tax of<br>\$322 |                                       |                 |                                  | 573                                                    |                      |                   |                                                | 573                             |
| Foreign currency<br>translation                                                    |                                       |                 |                                  | 2,260                                                  |                      |                   |                                                | 2,260                           |
| Comprehensive income                                                               |                                       |                 |                                  |                                                        |                      |                   |                                                | 36,866                          |
| Exercise of stock<br>options                                                       | 477                                   | 5               | 8,052                            |                                                        |                      |                   |                                                | 8,057                           |
| Tax effect related to<br>exercise of non-qualified<br>stock options                |                                       |                 | 227                              |                                                        |                      |                   |                                                | 227                             |
| Acquisition of treasury<br>stock                                                   | (275)                                 |                 |                                  |                                                        |                      | (4,958)           |                                                | (4,958)                         |
| Distributions to<br>noncontrolling interests                                       |                                       |                 |                                  |                                                        |                      |                   | (855)                                          | (855)                           |
| Other                                                                              |                                       |                 | 2,607                            |                                                        |                      |                   |                                                | 2,607                           |
| <b>Balance at June 28,<br/>2009</b>                                                | 27,839                                | \$ 357          | \$ 227,439                       | \$ (985)                                               | \$ 165,775           | \$ (221,818)      | \$ 9,414                                       | \$ 180,182                      |

At June 29, 2008, the accumulated other comprehensive gain of \$60 was comprised of unrealized foreign currency translation gains of \$1,588, offset by a net unrealized loss on the interest rate swap agreements of \$1,528.

At June 28, 2009, the accumulated other comprehensive loss of \$985 was comprised of a net unrealized loss on the interest rate swap agreements of \$3,378 and an \$88 pension plan liability for PJUK, offset by unrealized foreign currency translation gains of \$2,481.

*See accompanying notes.*

Table of Contents**Papa John's International, Inc. and Subsidiaries****Consolidated Statements of Cash Flows****(Unaudited)**

| (In thousands)                                                                    | Six Months Ended |               |
|-----------------------------------------------------------------------------------|------------------|---------------|
|                                                                                   | June 28, 2009    | June 29, 2008 |
| <b>Operating activities</b>                                                       |                  |               |
| Net income, net of noncontrolling interests                                       | \$ 32,016        | \$ 16,273     |
| Adjustments to reconcile net income to net cash provided by operating activities: |                  |               |
| Restaurant impairment and disposition losses                                      |                  | 1,143         |
| Provision for uncollectible accounts and notes receivable                         | 2,181            | 1,264         |
| Depreciation and amortization                                                     | 16,136           | 16,410        |
| Deferred income taxes                                                             | 2,731            | (7,178)       |
| Stock-based compensation expense                                                  | 2,607            | 2,567         |
| Excess tax benefit related to exercise of non-qualified stock options             | (443)            | (117)         |
| Other                                                                             | 692              | 161           |
| Changes in operating assets and liabilities, net of acquisitions:                 |                  |               |
| Accounts receivable                                                               | 718              | (2,251)       |
| Inventories                                                                       | 876              | 1,825         |
| Prepaid expenses                                                                  | 184              | 1,026         |
| Other current assets                                                              | 1,880            | (256)         |
| Other assets and liabilities                                                      | (559)            | (1,233)       |
| Accounts payable                                                                  | (4,597)          | 293           |
| Income and other taxes                                                            | 3,840            | 1,704         |
| Accrued expenses                                                                  | (3,326)          | (1,885)       |
| Unearned franchise and development fees                                           | (357)            | (494)         |
| Net cash provided by operating activities                                         | 54,579           | 29,252        |
| <b>Investing activities</b>                                                       |                  |               |
| Purchase of property and equipment                                                | (15,193)         | (16,010)      |
| Purchase of investments                                                           | (1,187)          | (437)         |
| Proceeds from sale or maturity of investments                                     |                  | 407           |
| Loans issued                                                                      | (9,739)          | (681)         |
| Loan repayments                                                                   | 1,439            | 1,078         |
| Acquisitions                                                                      | (464)            | (100)         |
| Proceeds from divestitures of restaurants                                         | 830              |               |
| Other                                                                             | 18               | 156           |
| Net cash used in investing activities                                             | (24,296)         | (15,587)      |
| <b>Financing activities</b>                                                       |                  |               |
| Net (repayments) proceeds from line of credit facility                            | (20,500)         | 1,102         |
| Net (repayments) proceeds from short-term debt - variable interest entities       | (2,600)          | 3,525         |
| Excess tax benefit related to exercise of non-qualified stock options             | 443              | 117           |
| Proceeds from exercise of stock options                                           | 8,057            | 965           |
| Acquisition of Company common stock                                               | (4,958)          | (20,287)      |
| Noncontrolling interests, net of distributions                                    | 1,162            | 363           |
| Other                                                                             | 378              | (24)          |
| Net cash used in financing activities                                             | (18,018)         | (14,239)      |
| Effect of exchange rate changes on cash and cash equivalents                      | (11)             | 53            |
| Change in cash and cash equivalents                                               | 12,254           | (521)         |
| Cash recorded from consolidation of VIEs                                          | 1,087            |               |
| Cash and cash equivalents at beginning of period                                  | 10,987           | 8,877         |
| Cash and cash equivalents at end of period                                        | \$ 24,328        | \$ 8,356      |

*See accompanying notes.*

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**Papa John's International, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

(Unaudited)

June 28, 2009

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the six months ended June 28, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ended December 27, 2009. For further information, refer to the consolidated financial statements and footnotes thereto included in the Annual Report on Form 10-K for Papa John's International, Inc. (referred to as the Company, Papa John's or in the first person notations of we, us and our) for the year ended December 28, 2008.

**2. Recent Accounting Pronouncements**

*Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements*

SFAS No. 157 *Fair Value Measurements* requires companies to determine fair value based on the price that would be received to sell the asset or paid to transfer the liability to a market participant. SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. We adopted the provisions of SFAS No. 157 in two phases: (1) phase one was effective for financial assets and liabilities in our first quarter of 2008 and (2) phase two was effective for our first quarter of fiscal 2009. The adoption of SFAS No. 157 in 2008 and 2009 did not have a significant impact on our financial statements.

*SFAS No. 141R, Business Combinations*

Papa John's adopted the provisions of SFAS No. 141 - revised 2007 (SFAS No. 141R), *Business Combinations*, in the first quarter of 2009. SFAS No. 141R establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest; recognizes and measures the goodwill

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acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable financial statement users to evaluate the nature and financial effects of the business combination. SFAS No. 141R applies to business combinations for which the acquisition date is on or after December 15, 2008. The adoption of this statement has had no impact on our 2009 consolidated financial statements.

### *SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements*

Papa John's adopted the provisions of SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* — an amendment to ARB No. 51, in the first quarter of 2009. SFAS No. 160 requires all entities to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements, but separate from the equity of the parent company. The statement further requires that consolidated net income be reported at amounts attributable to the parent and the noncontrolling interest, rather than expensing the income attributable to the minority interest holder. This statement also requires sufficient disclosures to clearly identify and distinguish between the interests of the parent company and the interests of the noncontrolling owners, including a disclosure on the face of the consolidated statements for income attributable to the noncontrolling interest holder. The presentation and disclosure requirements of this statement was applied retrospectively for

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all periods presented, and thus, the prior year financial statements have been modified to incorporate the new requirements.

Papa John's had two joint venture arrangements as of June 28, 2009 and June 29, 2008, which were as follows:

|                        | <b>Restaurants<br/>as of<br/>June 28, 2009</b> | <b>Restaurant<br/>Locations</b> | <b>Papa John's<br/>Ownership *</b> | <b>Noncontrolling<br/>Interest<br/>Ownership *</b> |
|------------------------|------------------------------------------------|---------------------------------|------------------------------------|----------------------------------------------------|
| Star Papa, LP          | 75                                             | Texas                           | 51%                                | 49%                                                |
| Colonel's Limited, LLC | 51                                             | Maryland and Virginia           | 70%                                | 30%                                                |

\*The ownership percentages were the same for both the 2009 and 2008 periods presented in the accompanying consolidated financial statements.

The pre-tax income of the joint ventures totaled \$2.8 million and \$5.3 million for the three and six months ended June 28, 2009, respectively, compared to \$1.8 million and \$3.3 million for the three months and six months ended June 29, 2008, respectively. The portion of pre-tax income attributable to the noncontrolling interest holders was \$1.1 million and \$2.0 million for the three and six months ended June 28, 2009, respectively, compared to \$659,000 and \$1.2 million for the three and six months ended June 29, 2008, respectively. The noncontrolling interest holders' equity in the joint venture arrangements totaled \$9.4 million as of June 28, 2009 and \$8.3 million as of December 28, 2008.

*SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities*

Papa John's adopted the provisions of SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – An Amendment of FASB Statement No. 133*, in the first quarter of 2009. SFAS No. 161 enhances the required disclosures regarding derivatives and hedging activities, including disclosures regarding how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. See Note 5 for additional information.

*SFAS No. 165, Subsequent Events*

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The provisions of SFAS No. 165 require public companies to evaluate subsequent events through the date the financial statements are issued. We were required to adopt SFAS No. 165 for our second quarter ended June 28, 2009. In accordance with our adoption of this standard, we evaluated for subsequent events occurring after June 28, 2009 (our financial statement date) through August 4, 2009 (the date this report was filed). We determined no disclosures were required.

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*SFAS No. 167, Amendments to FASB Interpretation No. 46(R)*

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*. The objective of SFAS No. 167 is to improve the financial reporting of companies involved with variable interest entities (VIEs). As required by this statement, the provisions required by FIN 46(R) are now applicable for entities previously considered qualifying special-purpose entities, as the concept of these entities was eliminated from SFAS No. 140 with the issuance of SFAS No. 166, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140*. This Statement amends FIN 46(R) to replace the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in the VIE with a

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qualitative approach focused on identifying which company has the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. Additionally, this statement requires a company to perform ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. Prior to this statement, a company was only required to reassess the status when specific events occurred. We are required to adopt the provisions of SFAS No. 167 for our first quarter of 2010. We have not yet assessed the impact, if any, of the adoption of this statement on our financial statements.

*SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 168 replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, to become the single official source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification did not change GAAP but reorganizes the literature. SFAS No. 168 is effective for interim and annual periods ending after September 15, 2009. The Company will begin to use the new Codification when referring to GAAP in its annual report on Form 10-K for the fiscal year ending December 27, 2009. SFAS No. 168 will not have an impact on the consolidated results of the Company.

**3. Acquisitions and Dispositions**

During the second quarter of 2009, we completed the acquisition of 11 restaurants in Florida. The purchase price for those restaurants totaled \$2.8 million, which was comprised of cash and the cancellation of a \$2.3 million note due to us, of which approximately \$1.5 million was recorded as goodwill. The acquisition was accounted for by the purchase method of accounting, whereby operating results subsequent to the acquisition date are included in our consolidated financial results.

During the second quarter of 2009, we completed the sale of 10 Company-owned restaurants located in New Mexico. The sales price of \$1.1 million consisted of a cash payment of \$600,000 and notes financed by Papa John's to the purchasers, who are current Papa John's franchisees, for \$500,000. We recorded a pre-tax gain of approximately \$350,000 associated with the sale of those restaurants.

**4. Accounting for Variable Interest Entities**

FASB Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* (FIN 46), provides a framework for identifying variable interest entities (VIEs) and determining when a company should include the assets, liabilities, non-controlling interests and results of activities of a VIE in its consolidated financial statements.

In general, a VIE is a corporation, partnership, limited-liability company, trust, or any other legal structure used to conduct activities or hold assets that either (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that are unable to make significant decisions about its activities, or (3) has a group of equity owners that do not

have the obligation to absorb losses or the right to receive returns generated by its operations.

FIN 46 requires a VIE to be consolidated if a party with an ownership, contractual or other financial interest in the VIE (a variable interest holder ) is obligated to absorb a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns (if no party absorbs a majority of the VIE's losses), or both. A variable interest holder that consolidates the VIE is called the primary beneficiary. Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities and non-controlling interests at fair value and subsequently account for the VIE as if it were consolidated based on majority voting interest. FIN 46 also requires disclosures about VIEs that the variable interest holder is not required to consolidate but in which it has a significant variable interest.

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We have a purchasing arrangement with BIBP Commodities, Inc. ( BIBP ), a special-purpose entity formed at the direction of our Franchise Advisory Council for the sole purpose of reducing cheese price volatility to domestic system-wide restaurants. BIBP is an independent, franchisee-owned corporation. BIBP purchases cheese at the market price and sells it to our distribution subsidiary, PJ Food Service, Inc. ( PJFS ), at a fixed price. PJFS in turn sells cheese to Papa John's restaurants (both Company-owned and franchised) at a set price. Effective March 2009, we modified the BIBP formula to establish the price of cheese on a more frequent basis based on the projected spot market prices. At the current rate of repayment, BIBP's cumulative deficit would be substantially repaid at the end of 2011. PJFS purchased \$35.0 million and \$71.0 million of cheese from BIBP for the three and six months ended June 28, 2009, respectively, compared to \$40.6 million and \$80.2 million in the 2008 comparable periods, respectively.

As defined by FIN 46, we are the primary beneficiary of BIBP, a VIE. We recognize the operating losses generated by BIBP if BIBP's shareholders' equity is in a net deficit position. Further, we will recognize the subsequent operating income generated by BIBP up to the amount of any losses previously recognized. We recognized pre-tax gains of \$6.9 million (\$4.2 million net of tax, or \$0.15 per share) and \$15.9 million (\$10.0 million net of tax, or \$0.36 per share) for the three and six months ended June 28, 2009, respectively, and pre-tax losses of \$6.3 million (\$4.1 million net of tax, or \$0.14 per share) and \$14.3 million (\$9.3 million net of tax, or \$0.32 per share) for the three months and six months ended June 29, 2008, respectively, from the consolidation of BIBP. The impact on future operating income from the consolidation of BIBP is expected to continue to be significant for any given reporting period due to the volatility of the cheese market.

BIBP has a \$10.0 million line of credit with a commercial bank, which is guaranteed by Papa John's. In addition, Papa John's has agreed to provide additional funding in the form of a loan to BIBP. As of June 28, 2009, BIBP had outstanding borrowings of \$4.5 million and a letter of credit of \$3.0 million outstanding under the commercial line of credit facility and outstanding borrowings of \$28.2 million with Papa John's.

In addition, Papa John's has extended loans to certain franchisees. Under FIN 46, Papa John's was deemed the primary beneficiary of five franchise entities as of June 28, 2009 and three franchise entities as of June 29, 2008, even though we had no ownership in the franchise entities. The five franchise entities at June 28, 2009 operate a total of 65 restaurants with annual revenues approximating \$44.0 million. Our net loan balance receivable from those entities was \$7.8 million at June 28, 2009, with no further funding commitments. The consolidation of those franchise entities had no significant impact on Papa John's operating results and is not expected to have a significant impact in future periods.

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The following table summarizes the balance sheets for our consolidated VIEs as of June 28, 2009 and December 28, 2008:

| (In thousands)                                         | BIBP      | June 28, 2009<br>Franchisees | Total     | BIBP      | December 28, 2008<br>Franchisees | Total     |
|--------------------------------------------------------|-----------|------------------------------|-----------|-----------|----------------------------------|-----------|
| <b>Assets:</b>                                         |           |                              |           |           |                                  |           |
| Cash and cash equivalents                              | \$ 5,259  | \$ 1,590                     | \$ 6,849  | \$ 70     | \$ 70                            |           |
| Accounts receivable - Papa John's                      | 1,042     |                              | 1,042     | 4,687     |                                  | 4,687     |
| Other current assets                                   | 1,555     | 692                          | 2,247     | 1,089     | 55                               | 1,144     |
| Net property and equipment                             |           | 6,975                        | 6,975     |           | 4,314                            | 4,314     |
| Goodwill                                               |           | 1,409                        | 1,409     |           | 4,556                            | 4,556     |
| Deferred income taxes                                  | 9,416     |                              | 9,416     | 15,057    |                                  | 15,057    |
| Other noncurrent assets                                |           | 9                            | 9         |           |                                  |           |
| Total assets                                           | \$ 17,272 | \$ 10,675                    | \$ 27,947 | \$ 20,833 | \$ 8,995                         | \$ 29,828 |
| <b>Liabilities and stockholders' equity (deficit):</b> |           |                              |           |           |                                  |           |
| Accounts payable and accrued expenses                  | \$ 1,946  | \$ 1,554                     | \$ 3,500  | \$ 5,391  | \$ 381                           | \$ 5,772  |
| Short-term debt - third party                          | 4,475     |                              | 4,475     | 7,075     |                                  | 7,075     |
| Short-term debt - Papa John's                          | 28,182    | 7,808                        | 35,990    | 35,743    | 7,991                            | 43,734    |
| Total liabilities                                      | 34,603    | 9,362                        | 43,965    | 48,209    | 8,372                            | 56,581    |
| Stockholders' equity (deficit)                         | (17,331)  | 1,313                        | (16,018)  | (27,376)  | 623                              | (26,753)  |
| Total liabilities and stockholders' equity (deficit)   | \$ 17,272 | \$ 10,675                    | \$ 27,947 | \$ 20,833 | \$ 8,995                         | \$ 29,828 |

## 5. Debt

Our debt is comprised of the following (in thousands):

|                               | June 28,<br>2009 | December 28,<br>2008 |
|-------------------------------|------------------|----------------------|
| Revolving line of credit      | \$ 103,000       | \$ 123,500           |
| Debt associated with VIEs *   | 4,475            | 7,075                |
| Other                         | 67               | 79                   |
| Total debt                    | 107,542          | 130,654              |
| Less: current portion of debt | (4,475)          | (7,075)              |
| Long-term debt                | \$ 103,067       | \$ 123,579           |

\*Papa John's is the guarantor of BIBP's outstanding debt.

In January 2006, we executed a five-year, unsecured revolving credit facility (Credit Facility) totaling \$175.0 million. Under the Credit Facility, outstanding balances accrue interest at 50.0 to 100.0 basis points over the London Interbank Offered Rate (LIBOR) or other bank-developed

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rates, at our option. The commitment fee on the unused balance ranges from 12.5 to 20.0 basis points. The increment over LIBOR and the commitment fee are determined quarterly based upon the ratio of total indebtedness to earnings before interest, taxes, depreciation and amortization (EBITDA), as defined. The remaining availability under our line of credit, reduced for certain outstanding letters of credit, approximated \$54.0 million and \$31.1 million as of June 28, 2009 and December 28, 2008, respectively. The fair value of our outstanding debt approximates the carrying value since our debt agreements are variable-rate instruments.

The Credit Facility contains customary affirmative and negative covenants, including financial covenants requiring the maintenance of specified fixed charges and leverage ratios. At June 28, 2009 and December 28, 2008, we were in compliance with these covenants.

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We presently have two interest rate swap agreements ( swaps ) that provide fixed interest rates, as compared to LIBOR, as follows:

|                                                 | Floating<br>Rate Debt | Fixed<br>Rates |
|-------------------------------------------------|-----------------------|----------------|
| <i>The first interest rate swap agreement:</i>  |                       |                |
| January 16, 2007 to January 15, 2009            | \$ 60 million         | 4.98%          |
| January 15, 2009 to January 15, 2011            | \$ 50 million         | 4.98%          |
| <i>The second interest rate swap agreement:</i> |                       |                |
| January 31, 2009 to January 31, 2011            | \$ 50 million         | 3.74%          |

Our swaps are derivative instruments that are designated as cash flow hedges because the swaps provide a hedge against the effects of rising interest rates on present and/or forecasted future borrowings. The effective portion of the gain or loss on the swaps is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the swaps affect earnings. Gains or losses on the swaps representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. Amounts payable or receivable under the swaps are accounted for as adjustments to interest expense.

The following tables provide information on the location and amounts of our swaps in the accompanying consolidated financial statements (in thousands):

**Fair Values of Derivative Instruments**

|                                                                    | Balance Sheet Location      | Liability Derivatives<br>Fair Value<br>Jun-09 | Fair Value<br>Dec-08 |
|--------------------------------------------------------------------|-----------------------------|-----------------------------------------------|----------------------|
| Derivatives designated as hedging instruments under Statement 133: |                             |                                               |                      |
| Interest rate swaps                                                | Other long-term liabilities | \$ 5,278                                      | \$ 6,173             |

There were no derivatives that were not designated as hedging instruments under SFAS No. 133.

**Effect of Derivative Instruments on the Consolidated Financial Statements**

| Derivatives in<br>Statement 133 Cash<br>Flow Hedging<br>Relationships | Amount of Gain or<br>(Loss) Recognized in<br>OCI on Derivative<br>(Effective Portion) | Location of<br>Gain or (Loss)<br>Reclassified<br>from | Amount of Gain<br>or (Loss)<br>Reclassified from<br>Accumulated OCI | Location of Gain or<br>(Loss) Recognized in<br>Income on<br>Derivative | Amount of Gain<br>or (Loss)<br>Recognized in<br>Income on |
|-----------------------------------------------------------------------|---------------------------------------------------------------------------------------|-------------------------------------------------------|---------------------------------------------------------------------|------------------------------------------------------------------------|-----------------------------------------------------------|
|-----------------------------------------------------------------------|---------------------------------------------------------------------------------------|-------------------------------------------------------|---------------------------------------------------------------------|------------------------------------------------------------------------|-----------------------------------------------------------|

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|                      |    | Accumulated<br>OCI into<br>Income<br>(Effective<br>Portion) |          | into Income<br>(Effective Portion) |    | (Ineffective Portion<br>and Amount<br>Excluded from<br>Effectiveness<br>Testing) |        | Derivative<br>(Ineffective<br>Portion and<br>Amount Excluded<br>from<br>Effectiveness<br>Testing) |        |
|----------------------|----|-------------------------------------------------------------|----------|------------------------------------|----|----------------------------------------------------------------------------------|--------|---------------------------------------------------------------------------------------------------|--------|
|                      |    | Jun-09                                                      | Jun-08   |                                    |    | Jun-09                                                                           | Jun-08 | Jun-09                                                                                            | Jun-08 |
| Interest rate swaps: |    | Interest expense:                                           |          | Not applicable:                    |    |                                                                                  |        |                                                                                                   |        |
| Quarter to date      | \$ | 447                                                         | \$ 1,116 | Quarter to date                    | \$ | 997                                                                              | \$ 550 | Quarter to date                                                                                   | \$ \$  |
| Year to date         | \$ | 573                                                         | \$ (229) | Year to date                       | \$ | 1,968                                                                            | \$ 841 | Year to date                                                                                      | \$ \$  |

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The weighted average interest rates for our Credit Facility, including the impact of the previously mentioned swap agreements, were 4.83% and 5.05% for the three months ended June 28, 2009 and June 29, 2008, respectively, and 4.65% and 5.21% for the six months ended June 28, 2009 and June 29, 2008, respectively. Interest paid, including payments made or received under the swaps, was \$1.4 million and \$2.8 million for the three and six months ended June 28, 2009, respectively, compared to \$1.8 million and \$3.6 million for the three and six months ended June 29, 2008, respectively.

**6. Calculation of Earnings Per Share**

The calculations of basic earnings per common share and earnings per common share assuming dilution are as follows (in thousands, except per share data):

|                                                          | <b>Three Months Ended</b> |                          | <b>Six Months Ended</b>  |                          |
|----------------------------------------------------------|---------------------------|--------------------------|--------------------------|--------------------------|
|                                                          | <b>June 28,<br/>2009</b>  | <b>June 29,<br/>2008</b> | <b>June 28,<br/>2009</b> | <b>June 29,<br/>2008</b> |
| Basic earnings per common share:                         |                           |                          |                          |                          |
| Net income, net of noncontrolling interests              | \$ 14,177                 | \$ 7,648                 | \$ 32,016                | \$ 16,273                |
| Weighted average shares outstanding                      | 27,789                    | 28,372                   | 27,715                   | 28,536                   |
| Basic earnings per common share                          | \$ 0.51                   | \$ 0.27                  | \$ 1.16                  | \$ 0.57                  |
| Earnings per common share - assuming dilution:           |                           |                          |                          |                          |
| Net income, net of noncontrolling interests              | \$ 14,177                 | \$ 7,648                 | \$ 32,016                | \$ 16,273                |
| Weighted average shares outstanding                      | 27,789                    | 28,372                   | 27,715                   | 28,536                   |
| Dilutive effect of outstanding stock compensation awards | 200                       | 333                      | 145                      | 218                      |
| Diluted weighted average shares outstanding              | 27,989                    | 28,705                   | 27,860                   | 28,754                   |
| Earnings per common share - assuming dilution            | \$ 0.51                   | \$ 0.27                  | \$ 1.15                  | \$ 0.57                  |

Shares subject to options to purchase common stock with an exercise price greater than the average market price for the three and six months ended June 28, 2009 were not included in the computation of the dilutive effect of common stock options because the effect would have been antidilutive. The weighted average number of shares subject to the antidilutive options were 1.4 million and 1.0 million for the three-month periods ending June 28, 2009 and June 29, 2008, respectively. The six-month period weighted averages ending June 28, 2009 and June 29, 2008 were 1.4 million and 1.2 million, respectively.

**7. Comprehensive Income**

Comprehensive income is comprised of the following:

|                | <b>Three Months Ended</b> |                      | <b>Six Months Ended</b> |                      |
|----------------|---------------------------|----------------------|-------------------------|----------------------|
| (In thousands) | <b>June 28, 2009</b>      | <b>June 29, 2008</b> | <b>June 28, 2009</b>    | <b>June 29, 2008</b> |

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|                                                                  |    |        |    |       |    |        |    |        |
|------------------------------------------------------------------|----|--------|----|-------|----|--------|----|--------|
| Net income, including noncontrolling interests                   | \$ | 15,269 | \$ | 8,307 | \$ | 34,033 | \$ | 17,476 |
| Change in valuation of interest rate swap agreements, net of tax |    | 447    |    | 1,116 |    | 573    |    | (229)  |
| Foreign currency translation                                     |    | 3,275  |    | 9     |    | 2,260  |    | 133    |
| Comprehensive income                                             | \$ | 18,991 | \$ | 9,432 | \$ | 36,866 | \$ | 17,380 |

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**8. Notes Receivable**

Selected franchisees have borrowed funds from our subsidiary, Capital Delivery, Ltd., principally for use in the acquisition, construction and development of their restaurants. We have also entered into loan agreements with certain franchisees that purchased restaurants from us or from other franchisees. In addition, as part of the 2006 sale of our former Perfect Pizza operations, we have a loan outstanding from the purchaser. Loans outstanding, net of allowance for doubtful accounts, were approximately \$13.5 million as of June 28, 2009 and \$7.6 million as of December 28, 2008.

We have recorded reserves of \$7.2 million and \$5.4 million as of June 28, 2009 and December 28, 2008, respectively, for potentially uncollectible notes receivable from franchisees and the purchaser of the Perfect Pizza operations. We concluded the reserves were necessary due to certain franchisees' economic performance and underlying collateral value and credit risk related to the Perfect Pizza operations.

In connection with the 2006 sale of our former Perfect Pizza operations, we remain contingently liable for payment under approximately 70 lease arrangements, primarily associated with Perfect Pizza restaurants sites. The leases have varying terms, the latest of which expires in 2017. As of June 28, 2009, the potential amount of undiscounted payments we could be required to make in the event of non-payment by Perfect Pizza and associated franchisees was approximately \$6.2 million. We have not recorded a liability with respect to such leases as of June 28, 2009 as our cross-default provisions with the Perfect Pizza franchisor substantially reduce the risk that we will be required to make payments under these leases at the present time.

**9. Segment Information**

We have defined five reportable segments: domestic restaurants, domestic commissaries, domestic franchising, international operations and variable interest entities ( VIEs ).

The domestic restaurant segment consists of the operations of all domestic ( domestic is defined as contiguous United States) Company-owned restaurants and derives its revenues principally from retail sales of pizza and side items, such as breadsticks, cheesesticks, chicken strips, chicken wings, dessert pizza, and soft drinks to the general public. The domestic commissary segment consists of the operations of our regional dough production and product distribution centers and derives its revenues principally from the sale and distribution of food and paper products to domestic Company-owned and franchised restaurants. The domestic franchising segment consists of our franchise sales and support activities and derives its revenues from sales of franchise and development rights and collection of royalties from our domestic franchisees. The international operations segment principally consists of our Company-owned restaurants and distribution sales to franchised Papa John's restaurants located in the United Kingdom, China and Mexico and our franchise sales and support activities, which derive revenues from sales of franchise and development rights and the collection of royalties from our international franchisees. VIEs consist of entities in which we are deemed the primary beneficiary, as defined in Note 4, and include BIBP and certain franchisees to which we have extended loans. All other business units that do not meet the quantitative thresholds for determining reportable segments consist of operations that derive revenues from the sale, principally to Company-owned and franchised restaurants, of printing and promotional items, risk management services, and information systems and related services used in restaurant operations and certain partnership development activities.

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Generally, we evaluate performance and allocate resources based on profit or loss from operations before income taxes and eliminations. Certain administrative and capital costs are allocated to segments based upon predetermined rates or actual estimated resource usage. We account for intercompany sales and transfers as if the sales or transfers were to third parties and eliminate the related profit in consolidation.

Our reportable segments are business units that provide different products or services. Separate management of each segment is required because each business unit is subject to different operational issues and strategies. No single external customer accounted for 10% or more of our consolidated revenues.

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Our segment information is as follows:

| (In thousands)                                                           | Three Months Ended |                   | Six Months Ended  |                   |
|--------------------------------------------------------------------------|--------------------|-------------------|-------------------|-------------------|
|                                                                          | June 28, 2009      | June 29, 2008     | June 28, 2009     | June 29, 2008     |
| <b>Revenues from external customers:</b>                                 |                    |                   |                   |                   |
| Domestic Company-owned restaurants                                       | \$ 124,966         | \$ 133,815        | \$ 256,671        | \$ 272,670        |
| Domestic commissaries                                                    | 101,444            | 106,321           | 209,360           | 212,368           |
| Domestic franchising                                                     | 14,742             | 15,006            | 30,331            | 31,371            |
| International                                                            | 10,281             | 9,593             | 19,603            | 18,446            |
| Variable interest entities (1)                                           | 11,223             | 2,239             | 16,894            | 4,279             |
| All others                                                               | 13,981             | 16,434            | 28,750            | 33,279            |
| <b>Total revenues from external customers</b>                            | <b>\$ 276,637</b>  | <b>\$ 283,408</b> | <b>\$ 561,609</b> | <b>\$ 572,413</b> |
| <b>Intersegment revenues:</b>                                            |                    |                   |                   |                   |
| Domestic commissaries                                                    | \$ 34,529          | \$ 35,851         | \$ 70,227         | \$ 72,076         |
| Domestic franchising                                                     | 508                | 478               | 1,014             | 944               |
| International                                                            | 266                | 307               | 510               | 608               |
| Variable interest entities (1)                                           | 35,028             | 40,572            | 71,000            | 80,233            |
| All others                                                               | 2,881              | 4,027             | 5,783             | 8,136             |
| <b>Total intersegment revenues</b>                                       | <b>\$ 73,212</b>   | <b>\$ 81,235</b>  | <b>\$ 148,534</b> | <b>\$ 161,997</b> |
| <b>Income (loss) before income taxes:</b>                                |                    |                   |                   |                   |
| Domestic Company-owned restaurants                                       | \$ 10,152          | \$ 7,157          | \$ 20,543         | \$ 14,955         |
| Domestic commissaries                                                    | 7,484              | 7,624             | 16,868            | 16,057            |
| Domestic franchising                                                     | 12,824             | 13,095            | 26,506            | 27,567            |
| International                                                            | (847)              | (1,520)           | (1,624)           | (3,259)           |
| Variable interest entities (2)                                           | 6,854              | (6,302)           | 15,879            | (14,253)          |
| All others                                                               | 613                | 1,993             | 1,014             | 4,518             |
| Unallocated corporate expenses                                           | (13,673)           | (9,144)           | (26,698)          | (18,363)          |
| Elimination of intersegment profits                                      | (101)              | (58)              | (116)             | (232)             |
| <b>Total income before income taxes</b>                                  | <b>\$ 23,306</b>   | <b>\$ 12,845</b>  | <b>\$ 52,372</b>  | <b>\$ 26,990</b>  |
| Income attributable to noncontrolling interests                          | (1,092)            | (659)             | (2,017)           | (1,203)           |
| <b>Total income before income taxes, net of noncontrolling interests</b> | <b>\$ 22,214</b>   | <b>\$ 12,186</b>  | <b>\$ 50,355</b>  | <b>\$ 25,787</b>  |
| <b>Property and equipment:</b>                                           |                    |                   |                   |                   |
| Domestic Company-owned restaurants                                       | \$ 156,293         |                   |                   |                   |
| Domestic commissaries                                                    | 80,700             |                   |                   |                   |
| International                                                            | 13,823             |                   |                   |                   |
| Variable interest entities                                               | 10,115             |                   |                   |                   |
| All others                                                               | 23,060             |                   |                   |                   |
| Unallocated corporate assets                                             | 120,201            |                   |                   |                   |
| Accumulated depreciation and amortization                                | (211,282)          |                   |                   |                   |
| <b>Net property and equipment</b>                                        | <b>\$ 192,910</b>  |                   |                   |                   |

- (1) The revenues from external customers for variable interest entities are attributable to the franchise entities to which we have extended loans that qualify as consolidated VIEs. The intersegment revenues for variable interest entities are attributable to BIBP.
- (2) Represents BIBP's operating income (loss), net of minority interest income for each year.

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

**Results of Operations and Critical Accounting Policies and Estimates**

Papa John's International, Inc. (referred to as the Company, Papa John's or in the first person notations of we, us and our) began operations in 1985. At June 28, 2009, there were 3,418 Papa John's restaurants (612 Company-owned and 2,806 franchised) operating in all 50 states and 29 countries. Our revenues are principally derived from retail sales of pizza and other food and beverage products to the general public by Company-owned restaurants, franchise royalties, sales of franchise and development rights, sales to franchisees of food and paper products, printing and promotional items, risk management services, and information systems and related services used in their operations.

The results of operations are based on the preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States. The preparation of consolidated financial statements requires management to select accounting policies for critical accounting areas and make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Significant changes in assumptions and/or conditions in our critical accounting policies could materially impact the operating results. We have identified the following accounting policies and related judgments as critical to understanding the results of our operations:

*Allowance for Doubtful Accounts and Notes Receivable*



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We establish reserves for uncollectible accounts and notes receivable based on overall receivable aging levels and a specific evaluation of accounts and notes for franchisees with known financial difficulties. These reserves and corresponding write-offs could significantly increase if the identified franchisees begin to or continue to experience deteriorating financial results. We have also established a reserve for notes receivable from the purchaser of our former Perfect Pizza operations.

### *Long-Lived and Intangible Assets*



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The recoverability of long-lived assets is evaluated if impairment indicators exist. Indicators of impairment include historical financial performance, operating trends and our future operating plans. If impairment indicators exist, we evaluate the recoverability of long-lived assets on an operating unit basis (e.g., an individual restaurant) based on undiscounted expected future cash flows before interest for the expected remaining useful life of the operating unit. Recorded values for long-lived assets that are not expected to be recovered through undiscounted future cash flows are written down to current fair value, which is generally determined from estimated discounted future net cash flows for assets held for use or estimated net realizable value for assets held for sale.

The recoverability of indefinite-lived intangible assets (i.e., goodwill) is evaluated annually or more frequently if impairment indicators exist, on a reporting unit basis by comparing the estimated fair value to its carrying value. Our estimated fair value for Company-owned restaurants is comprised of two components. The first component is the estimated cash sales price that would be received at the time of the sale and the second component is an investment in the continuing franchise agreement, representing the discounted value of future royalties less any incremental direct operating costs, that would be collected under the ten-year franchise agreement.

At June 28, 2009, we had a net investment of approximately \$20.8 million associated with our United Kingdom subsidiary (PJUK). During the fourth quarter of 2008, we recorded a goodwill impairment charge of \$2.3 million associated with our PJUK operations. We have developed plans for PJUK to continue to improve its operating results. The plans include efforts to increase Papa John's brand awareness in the United Kingdom, improve sales and profitability for individual restaurants and increase net PJUK franchised unit openings over the next several years. We will continue to periodically evaluate our progress in achieving these plans. If our initiatives with PJUK and certain domestic markets are not successful, future impairment charges could occur.

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*Insurance Reserves*



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Our insurance programs for workers' compensation, general liability, owned and non-owned automobiles and health insurance coverage provided to our employees are self-insured up to certain individual and aggregate reinsurance levels. Losses are accrued based upon estimates of the aggregate retained liability for claims incurred using certain third-party actuarial projections and our claims loss experience. The estimated insurance claims losses could be significantly affected should the frequency or ultimate cost of claims significantly differ from historical trends used to estimate the insurance reserves recorded by the Company.

From October 2000 through September 2004, our captive insurance company, which provided insurance to our franchisees, was self-insured. In October 2004, a third-party commercial insurance company began providing fully-insured coverage to franchisees participating in the franchise insurance program. Accordingly, this arrangement eliminates our risk of loss for franchise insurance coverage written after September 2004. Our operating income is still subject to potential adjustments for changes in estimated insurance reserves for policies written from the inception of the captive insurance company in October 2000 to September 2004. Such adjustments, if any, will be determined in part based upon periodic actuarial valuations.

### *Deferred Income Tax Assets and Tax Reserves*



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Papa John's is subject to income taxes in the United States and several foreign jurisdictions. Significant judgment is required in determining Papa John's provision for income taxes and the related assets and liabilities. Income taxes are accounted for under Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. The provision for income taxes includes income taxes paid, currently payable or receivable and those deferred. Under SFAS No. 109, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities, and are measured using enacted tax rates and laws that are expected to be in effect when the differences reverse. Deferred tax assets are also recognized for the estimated future effects of tax loss carryforwards. The effect on deferred taxes of changes in tax rates is recognized in the period in which the enactment date changes. As a result, our effective tax rate may fluctuate. Valuation allowances are established when necessary on a jurisdictional basis to reduce deferred tax assets to the amounts we expect to realize.

As of June 28, 2009, we had a net deferred income tax asset balance of \$21.6 million, of which approximately \$9.4 million relates to the net operating loss carryforward of BIBP Commodities, Inc. (BIBP). We have not provided a valuation allowance for the deferred income tax assets associated with our domestic operations, including BIBP, since we believe it is more likely than not that future earnings will be sufficient to ensure the realization of the net deferred income tax assets for federal and state purposes.

Certain tax authorities periodically audit the Company. We provide reserves for potential exposures based on Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) requirements. We evaluate these issues on a quarterly basis to adjust for events, such as court rulings or audit settlements, which may impact our ultimate payment for such exposures.

*Consolidation of BIBP Commodities, Inc. as a Variable Interest Entity*



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BIBP is a franchisee-owned corporation that conducts a cheese-purchasing program on behalf of domestic Company-owned and franchised restaurants. As required by FASB Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* (FIN 46), we consolidate the financial results of BIBP since we qualify as the primary beneficiary, as defined by FIN 46, of BIBP. We recognized pre-tax income of \$6.9 million and \$15.9 million for the three and six months ended June 28, 2009 and pre-tax losses of \$6.3 million and \$14.3 million for the three and six months ended June 29, 2008 from the consolidation of BIBP. We expect the consolidation of BIBP to continue to have a significant impact on Papa John's operating income in future periods due to the volatility of cheese prices. Papa John's will recognize the operating losses generated by BIBP if the shareholders' equity of BIBP is in a net deficit position. Further, Papa

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John s will recognize subsequent operating income generated by BIBP up to the amount of BIBP losses previously recognized by Papa John s.

*Recent Accounting Pronouncements*

SFAS No. 157

SFAS No. 157, *Fair Value Measurements*, requires companies to determine fair value based on the price that would be received to sell the asset or paid to transfer the liability to a market participant. SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. We adopted the provisions of SFAS No. 157 in two phases: (1) phase one was effective for financial assets and liabilities in our first quarter of 2008 and (2) phase two was effective for our first quarter of fiscal 2009. The adoption of SFAS No. 157 in 2008 and 2009 did not have a significant impact on our financial statements.

SFAS No. 141 revised 2007

Papa John s adopted the provisions of SFAS No. 141 - revised 2007 (SFAS No. 141R), *Business Combinations*, in the first quarter of 2009. SFAS No. 141R establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable financial statement users to evaluate the nature and financial effects of the business combination. SFAS No. 141R applies to business combinations for which the acquisition date is on or after December 15, 2008. The adoption of this statement has had no impact on Papa John s consolidated 2009 financial statements.

SFAS No. 160

Papa John s adopted the provisions of SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment to ARB No. 51*, in the first quarter of 2009. SFAS No. 160 requires all entities to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements, but separate from the equity of the parent company. The statement further requires that consolidated net income be reported at amounts attributable to the parent and the noncontrolling interest, rather than expensing the income attributable to the minority interest holder. This statement also requires that companies provide sufficient disclosures to clearly identify and distinguish between the interests of the parent company and the interests of the noncontrolling owners, including a disclosure on the face of the consolidated statements for income attributable to the noncontrolling interest holder. The presentation and disclosure requirements of this statement shall be applied retrospectively for all periods presented, and thus, the prior year financial statements have been modified to incorporate the new requirements.

The provisions of SFAS No. 160 apply to our joint venture arrangements with Colonel s Limited, LLC (51 restaurants) and Star Papa, LP (75 restaurants). The minority interest holders own 30% and 49% of Colonel s Limited and Star Papa, respectively.

SFAS No. 161

Papa John s adopted the provisions of SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133*, in the first quarter of 2009. SFAS No. 161 enhances the required disclosures regarding derivatives and hedging

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activities, including disclosures regarding how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. The disclosures required by SFAS No. 133 are included in Note 5 to the accompanying financial statements.

### SFAS No. 165

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The provisions of SFAS No. 165 require public companies to evaluate subsequent events through the date the financial statements are issued. We were required to adopt SFAS No.

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165 for our second quarter ended June 28, 2009. In accordance with our adoption of this standard, we evaluated for subsequent events occurring after June 28, 2009 (our financial statement date) through August 4, 2009 (the date this report was filed). We determined no disclosures were required.

SFAS No. 167

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*. The objective of SFAS No. 167 is to improve the financial reporting of companies involved with variable interest entities (VIEs). As required by this statement, the provisions required by FIN 46(R) are now applicable for entities previously considered qualifying special-purpose entities, as the concept of these entities was eliminated from SFAS No. 140 with the issuance of SFAS No. 166, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140*. This Statement amends FIN 46(R) to replace the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in the VIE with a qualitative approach focused on identifying which company has the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. Additionally, this statement requires a company to perform ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. Prior to this statement, a company was only required to reassess the status when specific events occurred. We are required to adopt the provisions of SFAS No. 167 for our first quarter of 2010. We have not yet assessed the impact, if any, of the adoption of this statement on our financial statements.

SFAS No. 168

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 168 replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, to become the single official source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification did not change GAAP but reorganizes the literature. SFAS No. 168 is effective for interim and annual periods ending after September 15, 2009. The Company will begin to use the new Codification when referring to GAAP in its annual report on Form 10-K for the fiscal year ending December 27, 2009. SFAS No. 168 will not have an impact on the consolidated results of the Company.

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|                                            | Three Months Ended |               | Six Months Ended |               |
|--------------------------------------------|--------------------|---------------|------------------|---------------|
|                                            | June 28, 2009      | June 29, 2008 | June 28, 2009    | June 29, 2008 |
| <b>Papa John's Restaurant Progression:</b> |                    |               |                  |               |
| U.S. Company-owned:                        |                    |               |                  |               |
| Beginning of period                        | 590                | 648           | 592              | 648           |
| Opened                                     |                    | 5             | 3                | 9             |
| Closed                                     | (1)                | (1)           | (5)              | (6)           |
| Acquired from franchisees                  | 11                 |               | 11               | 1             |
| Sold to franchisees                        | (11)               |               | (12)             |               |
| End of period                              | 589                | 652           | 589              | 652           |
| International Company-owned:               |                    |               |                  |               |
| Beginning of period                        | 22                 | 17            | 23               | 14            |
| Opened                                     | 1                  | 2             | 1                | 5             |
| Closed                                     |                    | (1)           | (1)              | (1)           |
| End of period                              | 23                 | 18            | 23               | 18            |
| U.S. franchised:                           |                    |               |                  |               |
| Beginning of period                        | 2,198              | 2,122         | 2,200            | 2,112         |
| Opened                                     | 11                 | 24            | 25               | 46            |
| Closed                                     | (17)               | (29)          | (34)             | (40)          |
| Acquired from Company                      | 11                 |               | 12               |               |
| Sold to Company                            | (11)               |               | (11)             | (1)           |
| End of period                              | 2,192              | 2,117         | 2,192            | 2,117         |
| International franchised:                  |                    |               |                  |               |
| Beginning of period                        | 594                | 451           | 565              | 434           |
| Opened                                     | 28                 | 36            | 62               | 55            |
| Closed                                     | (8)                | (4)           | (13)             | (6)           |
| End of period                              | 614                | 483           | 614              | 483           |
| Total restaurants - end of period          | 3,418              | 3,270         | 3,418            | 3,270         |

**Results of Operations***Variable Interest Entities*



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As required by FIN 46, our operating results include BIBP's operating results. The consolidation of BIBP had a significant impact on our operating results for the first six months of 2009 and for the full year of 2008, and is expected to have a significant impact on our future operating results, including the full year of 2009, and income statement presentation as described below.

Consolidation accounting requires the net impact from the consolidation of BIBP to be reflected primarily in three separate components of our statement of income. The first component is the portion of BIBP operating income or loss attributable to the amount of cheese purchased by Company-owned restaurants during the period. This portion of BIBP operating income (loss) is reflected as a reduction (increase) in the

Domestic Company-owned restaurant expenses - cost of sales line item. This approach effectively reports cost of sales for Company-owned restaurants as if the purchasing arrangement with BIBP did not exist and such restaurants were purchasing cheese at the spot market prices (*i.e.*, the impact of BIBP is eliminated in consolidation).

The second component of the net impact from the consolidation of BIBP is reflected in the caption Loss (income) from the franchise cheese-purchasing program, net of minority interest. This line item represents

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BIBP's income or loss from purchasing cheese at the spot market price and selling to franchised restaurants at a fixed monthly price, net of any income or loss attributable to the minority interest BIBP shareholders. The amount of income or loss attributable to the BIBP shareholders depends on its cumulative shareholders' equity balance and the change in such balance during the reporting period. The third component is reflected as investment income or interest expense, depending upon whether BIBP is in a net investment or net borrowing position during the reporting period.

In addition, Papa John's has extended loans to certain franchisees. Under the FIN 46 rules, Papa John's is deemed to be the primary beneficiary of certain franchisees even though we have no ownership interest in them. We consolidated the financial results of five franchise entities operating a total of 65 restaurants with annual sales approximating \$44.0 million for the three and six months ended June 28, 2009 and three franchise entities operating a total of thirteen restaurants with annual sales approximating \$9.0 million for the three and six months ended June 29, 2008.

The following table summarizes the impact of VIEs, prior to required consolidating eliminations, on our consolidated statements of income for the three and six months ended June 28, 2009 and June 29, 2008 (in thousands):

|                                     | Three Months Ended<br>June 28, 2009 |             |           | Three Months Ended<br>June 29, 2008 |             |            |
|-------------------------------------|-------------------------------------|-------------|-----------|-------------------------------------|-------------|------------|
|                                     | BIBP                                | Franchisees | Total     | BIBP                                | Franchisees | Total      |
| Variable interest entities          |                                     |             |           |                                     |             |            |
| restaurant sales                    | \$                                  | \$ 11,223   | \$ 11,223 | \$                                  | \$ 2,239    | \$ 2,239   |
| BIBP sales                          | 35,028                              |             | 35,028    | 40,572                              |             | 40,572     |
| Total revenues                      | 35,028                              | 11,223      | 46,251    | 40,572                              | 2,239       | 42,811     |
| Operating expenses                  | 27,923                              | 10,083      | 38,006    | 46,370                              | 2,153       | 48,523     |
| General and administrative expenses | 26                                  | 214         | 240       | 23                                  | 82          | 105        |
| Other general expenses (income)     |                                     | 540         | 540       |                                     | (12)        | (12)       |
| Depreciation and amortization       |                                     | 386         | 386       |                                     | 16          | 16         |
| Total costs and expenses            | 27,949                              | 11,223      | 39,172    | 46,393                              | 2,239       | 48,632     |
| Operating income (loss)             | 7,079                               |             | 7,079     | (5,821)                             |             | (5,821)    |
| Interest expense                    | (225)                               |             | (225)     | (481)                               |             | (481)      |
| Income (loss) before income taxes   | \$ 6,854                            | \$          | \$ 6,854  | \$ (6,302)                          | \$          | \$ (6,302) |
|                                     | Six Months Ended<br>June 28, 2009   |             |           | Six Months Ended<br>June 29, 2008   |             |            |
|                                     | BIBP                                | Franchisees | Total     | BIBP                                | Franchisees | Total      |
| Variable interest entities          |                                     |             |           |                                     |             |            |
| restaurant sales                    | \$                                  | \$ 16,894   | \$ 16,894 | \$                                  | \$ 4,279    | \$ 4,279   |
| BIBP sales                          | 71,000                              |             | 71,000    | 80,233                              |             | 80,233     |
| Total revenues                      | 71,000                              | 16,894      | 87,894    | 80,233                              | 4,279       | 84,512     |
| Operating expenses                  | 54,582                              | 15,281      | 69,863    | 93,445                              | 4,094       | 97,539     |
| General and administrative expenses | 51                                  | 440         | 491       | 46                                  | 164         | 210        |
| Other general expenses (income)     |                                     | 635         | 635       |                                     | (9)         | (9)        |
| Depreciation and amortization       |                                     | 538         | 538       |                                     | 30          | 30         |

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|                                   |           |        |           |             |       |          |
|-----------------------------------|-----------|--------|-----------|-------------|-------|----------|
| Total costs and expenses          | 54,633    | 16,894 | 71,527    | 93,491      | 4,279 | 97,770   |
| Operating income (loss)           | 16,367    |        | 16,367    | (13,258)    |       | (13,258) |
| Interest expense                  | (488)     |        | (488)     | (995)       |       | (995)    |
| Income (loss) before income taxes | \$ 15,879 | \$     | \$ 15,879 | \$ (14,253) | \$    | (14,253) |

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*Non-GAAP Measures*

Certain components of the financial information we present in this report that exclude the impact of the consolidation of BIBP, are not measures that are defined in accordance with accounting principles generally accepted in the United States ( GAAP ). These non-GAAP measures should not be construed as a substitute for or a better indicator of the Company's performance than the Company's GAAP measures. We believe the financial information excluding the impact of the consolidation of BIBP is important for purposes of comparison to prior periods and development of future projections and earnings growth prospects. We analyze our business performance and trends excluding the impact of the consolidation of BIBP because the results of BIBP are not indicative of our principal operating activities. In addition, annual cash bonuses, and certain long-term incentive programs for various levels of management, are based on financial measures that exclude BIBP. The presentation of the non-GAAP measures in this report is made alongside the most directly comparable GAAP measures.

*Summary of Operating Results*

Total revenues were \$276.6 million for the second quarter of 2009, representing a decrease of \$6.8 million, or 2.4%, from revenues of \$283.4 million for the comparable period in 2008. For the six-month period ended June 28, 2009, total revenues were \$561.6 million, representing a decrease of \$10.8 million, or 1.9%, from revenues of \$572.4 million for the comparable period in 2008. The decreases of \$6.8 million and \$10.8 million in revenues for the three and six months ended June 28, 2009, respectively, were primarily due to the following:

- Domestic Company-owned restaurant revenues decreased \$8.8 million or 6.6% and \$16.0 million or 5.9% for the three and six months ended June 28, 2009, respectively, reflecting the sale of 62 Company-owned restaurants to franchisees during the fourth quarter of 2008.
- Domestic commissary sales decreased \$4.9 million and \$3.0 million for the three and six months ended June 28, 2009, respectively, due to decreases in the prices of certain commodities, primarily cheese.
- Other sales decreased \$2.5 million and \$4.5 million for the three and six months ended June 28, 2009, respectively, primarily due to a decline in sales at our print and promotions subsidiary, Preferred Marketing Solutions.
- Variable interest entities restaurant sales increased \$9.0 million and \$12.6 million for the three and six months ended June 28, 2009, respectively, due to the consolidation of two additional franchise entities in the second quarter and first six months of 2009. We extended loans to these two entities in the fourth quarter of 2008 in conjunction with our sale of the Company-owned restaurants.

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Our income before income taxes, net of noncontrolling interests, totaled \$22.2 million and \$50.4 million for the three and six months ended June 28, 2009, respectively, compared to \$12.2 million and \$25.8 million for the same periods in 2008, respectively, as summarized in the following table on an operating segment basis (in thousands):

|                                                                          | June 28,<br>2009 | Three Months Ended<br>June 29,<br>2008 | Increase<br>(Decrease) | June 28,<br>2009 | Six Months Ended<br>June 29,<br>2008 | Increase<br>(Decrease) |
|--------------------------------------------------------------------------|------------------|----------------------------------------|------------------------|------------------|--------------------------------------|------------------------|
| Domestic Company-owned restaurants                                       | \$ 10,152        | \$ 7,157                               | \$ 2,995               | \$ 20,543        | \$ 14,955                            | \$ 5,588               |
| Domestic commissaries                                                    | 7,484            | 7,624                                  | (140)                  | 16,868           | 16,057                               | 811                    |
| Domestic franchising                                                     | 12,824           | 13,095                                 | (271)                  | 26,506           | 27,567                               | (1,061)                |
| International                                                            | (847)            | (1,520)                                | 673                    | (1,624)          | (3,259)                              | 1,635                  |
| All others                                                               | 613              | 1,993                                  | (1,380)                | 1,014            | 4,518                                | (3,504)                |
| Unallocated corporate expenses                                           | (13,673)         | (9,144)                                | (4,529)                | (26,698)         | (18,363)                             | (8,335)                |
| Elimination of intersegment profits                                      | (101)            | (58)                                   | (43)                   | (116)            | (232)                                | 116                    |
| Income before income taxes, excluding variable interest entities         | 16,452           | 19,147                                 | (2,695)                | 36,493           | 41,243                               | (4,750)                |
| Variable interest entities                                               | 6,854            | (6,302)                                | 13,156                 | 15,879           | (14,253)                             | 30,132                 |
| <b>Total income before income taxes</b>                                  | <b>23,306</b>    | <b>12,845</b>                          | <b>10,461</b>          | <b>52,372</b>    | <b>26,990</b>                        | <b>25,382</b>          |
| Income attributable to noncontrolling interests                          | (1,092)          | (659)                                  | (433)                  | (2,017)          | (1,203)                              | (814)                  |
| <b>Total income before income taxes, net of noncontrolling interests</b> | <b>\$ 22,214</b> | <b>\$ 12,186</b>                       | <b>\$ 10,028</b>       | <b>\$ 50,355</b> | <b>\$ 25,787</b>                     | <b>\$ 24,568</b>       |

Excluding the impact of the consolidation of BIBP, second quarter 2009 income before income taxes, net of noncontrolling interests was \$15.4 million, or a decrease of approximately \$3.1 million from 2008 comparable results, and income before income taxes for the six months ended June 28, 2009 was \$34.5 million, or a decrease of approximately \$5.6 million from 2008 comparable results. The decreases of \$3.1 million and \$5.6 million, respectively, for the three and six months ended June 28, 2009 (excluding the consolidation of BIBP) were principally due to the following:

- **Domestic Company-owned Restaurant Segment.** Domestic Company-owned restaurants operating income increased \$3.0 million and \$5.6 million for the three and six months ended June 28, 2009, respectively, comprised of the following:

|                                       | June 28,<br>2009 | Three Months Ended<br>June 29,<br>2008 | Increase<br>(decrease) | June 28,<br>2009 | Six Months Ended<br>June 29,<br>2008 | Increase<br>(decrease) |
|---------------------------------------|------------------|----------------------------------------|------------------------|------------------|--------------------------------------|------------------------|
| Recurring operations                  | \$ 10,152        | \$ 7,157                               | \$ 2,995               | \$ 20,543        | \$ 16,098                            | \$ 4,445               |
| Impairment and disposition losses     |                  |                                        |                        |                  | (1,143)                              | 1,143                  |
| <b>Total segment operating income</b> | <b>\$ 10,152</b> | <b>\$ 7,157</b>                        | <b>\$ 2,995</b>        | <b>\$ 20,543</b> | <b>\$ 14,955</b>                     | <b>\$ 5,588</b>        |

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The increases of \$3.0 million and \$4.4 million for the three and six months ended June 28, 2009, respectively, in domestic Company-owned restaurants' income from recurring operations were primarily due to an improvement in operating margin as a result of pricing and product mix profitability, lower commodity costs and the sale of 62 restaurants in late 2008, which had a higher labor cost as a percentage of sales.

Restaurant operating margins on an external basis were 22.9% and 23.2% for the three and six months ended June 28, 2009, respectively, compared to 18.3% and 18.6% for the comparable 2008 periods. Excluding the impact of the consolidation of BIBP, restaurant operating margins were 21.6% and 21.7%

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for the three and six months ended June 28, 2009, respectively, compared to 19.3% and 19.8% in the prior comparable periods.

The restaurant impairment and disposition losses recorded in the first six months of 2008 primarily relate to the loss on the sale of 17 restaurants in one market (the sale was completed during the fourth quarter of 2008).

- **Domestic Commissary Segment.** Domestic commissaries' operating income decreased approximately \$100,000 for the three-month period ended June 28, 2009 and increased approximately \$800,000 for the six-month period ended June 28, 2009, as compared to the corresponding 2008 periods. The decrease in operating income for the three-month period was due to management transition costs of approximately \$700,000, partially offset by an improvement in operating margin primarily resulting from lower fuel costs. The operating margin improvement for the six-month period was primarily due to lower fuel costs, partially offset by the above mentioned management transition costs. Our commissary operations have passed along to domestic restaurants the benefit of lower commodity costs during the first six months of 2009, which is expected to continue for the remainder of 2009.

- **Domestic Franchising Segment.** Domestic franchising operating income decreased approximately \$300,000 to \$12.8 million for the three months ended June 28, 2009, from \$13.1 million in the prior comparable period and decreased \$1.1 million to \$26.5 million for the six-month period ending June 28, 2009, from \$27.6 million in the prior comparable period. The decreases in operating income were primarily due to lower franchise and development fees as there were 13 and 21 fewer domestic franchise unit openings in the second quarter and first six months of 2009, respectively, as compared to the prior year periods. Additionally, the average fee per unit opening was lower in 2009 due to various incentive programs in place this year. Finally, the first half of 2008 included the collection of approximately \$500,000 in franchise renewal fees associated with the domestic franchise renewal program.

During the first quarter of 2009, the Company announced a comprehensive 25th Anniversary development incentive program that provides for no franchise fee, no royalty for 12 months and the opportunity for a \$10,000 early opening award payment, if certain conditions are met related to new domestic unit openings.

- **International Segment.** The international segment reported operating losses of \$800,000 and \$1.6 million for the three and six months ended June 28, 2009, respectively, compared to losses of \$1.5 million and \$3.3 million, respectively, in the same periods in 2008. The improvement in the operating results reflects leverage on the international organizational structure from increased revenues due to growth in number of units and unit volumes.

- **All Others Segment.** Operating income for the All others reporting segment decreased approximately \$1.4 million and \$3.5 million for the three and six months ended June 28, 2009, respectively, as compared to the corresponding 2008 periods. The decreases occurred primarily in our online ordering system business (\$500,000 and \$1.9 million decline from 2008 in operating income for the three- and six-month periods, respectively), and our print and promotions subsidiary, Preferred Marketing Solutions (\$500,000 and \$1.2 million decline from 2008 in operating income for the three- and six-month periods, respectively). The decline in the online ordering system business reflected a reduction in the online fee percentage in accordance with our previously disclosed agreement with the domestic franchise system to operate the business at a break-even level beginning in 2009. The decline in profitability in the print and promotions business was due to lower sales in 2009, as compared to 2008, reflecting the deterioration of the U.S. economic environment.



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- **Unallocated Corporate Segment.** Unallocated corporate expenses increased approximately \$4.5 million and \$8.3 million for the three and six months ended June 28, 2009, respectively, as compared to the same periods in 2008. The components of the unallocated corporate expenses were as follows (in thousands):

|                                                                   | Three Months Ended |                  |                        | Six Months Ended |                  |                        |
|-------------------------------------------------------------------|--------------------|------------------|------------------------|------------------|------------------|------------------------|
|                                                                   | June 28,<br>2009   | June 29,<br>2008 | Increase<br>(decrease) | June 28,<br>2009 | June 29,<br>2008 | Increase<br>(decrease) |
| General and administrative (a)                                    | \$ 7,896           | \$ 6,048         | \$ 1,848               | \$ 14,692        | \$ 12,196        | \$ 2,496               |
| Net interest                                                      | 1,080              | 1,186            | (106)                  | 2,116            | 2,358            | (242)                  |
| Depreciation                                                      | 2,118              | 1,940            | 178                    | 4,245            | 3,737            | 508                    |
| Franchise support initiatives (b)                                 | 2,168              | 75               | 2,093                  | 4,415            | 150              | 4,265                  |
| Provisions for uncollectible<br>accounts and notes receivable (c) | 449                | 106              | 343                    | 1,512            | 365              | 1,147                  |
| Other income                                                      | (38)               | (211)            | 173                    | (282)            | (443)            | 161                    |
| Total unallocated corporate<br>expenses                           | \$ 13,673          | \$ 9,144         | \$ 4,529               | \$ 26,698        | \$ 18,363        | \$ 8,335               |

(a) The increase in general and administrative expenses for the three months ended June 28, 2009, was primarily due to the settlement of a litigation issue (approximately \$800,000 in the second quarter of 2009), management transition costs (including recruiting fees) and increased employee benefit costs. The increase for the six-month period ended June 28, 2009 was principally due to the same reasons.

(b) Franchise support initiatives primarily consist of discretionary contributions to the national marketing fund and other local advertising cooperatives.

(c) The increases in provisions for uncollectible accounts and notes receivable were due to our evaluation of the collectibility of certain specific receivables, primarily non-franchise third parties.

Diluted earnings per share were \$0.51 (including a \$0.15 per share gain from the consolidation of BIBP) in the second quarter of 2009, compared to \$0.27 (including a \$0.14 per share loss from the consolidation of BIBP) in the second quarter of 2008. For the six months ended June 28, 2009, diluted earnings per share were \$1.15 (including a \$0.36 per share gain from the consolidation of BIBP), compared to \$0.57 per share (including a \$0.32 per share loss from the consolidation of BIBP) for the comparable period in 2008. Share repurchase activity had a \$0.01 and \$0.02 impact on earnings per diluted share for the three and six months ended June 28, 2009, respectively (\$0.01 impact excluding BIBP for both the three- and six-month periods.)

*Review of Operating Results*

**Revenues.** Domestic Company-owned restaurant sales were \$125.0 million for the three months ended June 28, 2009, compared to \$133.8 million for the same period in 2008, and \$256.7 million for the six months ended June 28, 2009, compared to \$272.7 million for the same period in 2008. The decreases for the three- and six-month periods were due to the divestiture of 62 Company-owned restaurants to franchisees during the fourth quarter of 2008. Comparable sales decreased 0.4% for the three months ended June 28, 2009 and were flat for the six-month period ended June 28, 2009. Comparable sales represents sales generated by restaurants open for the entire twelve-month period reported.

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Variable interest entities restaurant sales include restaurant sales for franchise entities to which we have extended loans. Revenues from these restaurants totaled \$11.2 million and \$16.9 million for the three and six months ended June 28, 2009, as compared to \$2.2 million and \$4.3 million for the corresponding periods in 2008. During the first quarter of 2009, we began consolidating the financial results of two additional franchise

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entities. We extended loans to these two entities in the fourth quarter of 2008 in connection with our sale of Company-owned restaurants.

Domestic franchise sales for the three and six months ended June 28, 2009 increased 4.3% to \$388.8 million and increased 4.3% to \$786.5 million, from \$372.6 million and \$754.4 million for the same periods in 2008, respectively, primarily resulting from increases of 3.8% and 3.7% in equivalent units due to franchise entities' purchase of 62 restaurants from the Company during the fourth quarter of 2008 and increases in comparable sales of 0.2% for both the three and six months ended June 28, 2009, respectively. Equivalent units represents the number of restaurants open at the beginning of a given period, adjusted for restaurants opened, closed, acquired or sold during the period on a weighted average basis. Domestic franchise royalties were \$14.7 million and \$30.0 million for the three and six months ended June 28, 2009, respectively, representing a decrease of 0.6% from both prior comparable periods. Although equivalent units and comparable sales increased, the effective royalty rate decreased due to the Company providing increased royalty waivers to certain franchisees during 2009.

Average weekly sales for comparable units include restaurants that were open throughout the periods presented below. The comparable sales base for Company-owned and franchised restaurants, respectively, includes restaurants acquired by the Company or divested to franchisees, as the case may be, during the previous twelve months. Average weekly sales for other units include restaurants that were not open throughout the periods presented below and include non-traditional sites such as Six Flags theme parks and Live Nation concert amphitheaters.

The comparable sales base and average weekly sales for 2009 and 2008 for domestic Company-owned and domestic franchised restaurants consisted of the following:

|                                                             | Three Months Ended |           |               |           |
|-------------------------------------------------------------|--------------------|-----------|---------------|-----------|
|                                                             | June 28, 2009      |           | June 29, 2008 |           |
|                                                             | Company            | Franchise | Company       | Franchise |
| Total domestic units (end of period)                        | 589                | 2,192     | 652           | 2,117     |
| Equivalent units                                            | 583                | 2,139     | 647           | 2,061     |
| Comparable sales base units                                 | 565                | 2,026     | 618           | 1,912     |
| Comparable sales base percentage                            | 96.9%              | 94.7%     | 95.5%         | 92.8%     |
| Average weekly sales - comparable units                     | \$ 16,563          | \$ 13,944 | \$ 16,126     | \$ 13,987 |
| Average weekly sales - traditional non-comparable units     | \$ 16,505          | \$ 10,958 | \$ 12,283     | \$ 10,319 |
| Average weekly sales - non-traditional non-comparable units | \$ 6,840           | \$ 23,938 | \$ 6,456      | \$ 27,918 |
| Average weekly sales - total non-comparable units           | \$ 14,522          | \$ 14,715 | \$ 11,409     | \$ 12,902 |
| Average weekly sales - all units                            | \$ 16,502          | \$ 13,985 | \$ 15,916     | \$ 13,909 |

|                                                             | Six Months Ended |           |               |           |
|-------------------------------------------------------------|------------------|-----------|---------------|-----------|
|                                                             | June 28, 2009    |           | June 29, 2008 |           |
|                                                             | Company          | Franchise | Company       | Franchise |
| Total domestic units (end of period)                        | 589              | 2,192     | 652           | 2,117     |
| Equivalent units                                            | 585              | 2,134     | 645           | 2,057     |
| Comparable sales base units                                 | 566              | 2,022     | 617           | 1,915     |
| Comparable sales base percentage                            | 96.8%            | 94.8%     | 95.7%         | 93.1%     |
| Average weekly sales - comparable units                     | \$ 16,956        | \$ 14,213 | \$ 16,464     | \$ 14,222 |
| Average weekly sales - traditional non-comparable units     | \$ 16,275        | \$ 11,290 | \$ 12,410     | \$ 10,920 |
| Average weekly sales - non-traditional non-comparable units | \$ 6,476         | \$ 20,646 | \$ 6,930      | \$ 24,009 |

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|                                                   |    |        |    |        |    |        |    |        |
|---------------------------------------------------|----|--------|----|--------|----|--------|----|--------|
| Average weekly sales - total non-comparable units | \$ | 14,353 | \$ | 13,487 | \$ | 11,646 | \$ | 12,545 |
| Average weekly sales - all units                  | \$ | 16,870 | \$ | 14,175 | \$ | 16,250 | \$ | 14,107 |

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Domestic franchise and development fees were approximately \$100,000 and \$300,000 for the three and six months ended June 28, 2009, or decreases of \$100,000 and \$900,000, respectively, from fees of approximately \$200,000 and \$1.2 million for the comparable periods in 2008. The first quarter of 2008 included approximately \$500,000 in fees associated with the completion of the franchise renewal program. The remaining decreases were due to fewer domestic franchise unit openings during 2009 and lower average opening fees due to various incentive programs in place during the current year.

Domestic commissary sales decreased 4.6% to \$101.4 million for the three months ended June 28, 2009 from \$106.3 million in the comparable 2008 period and decreased 1.4% to \$209.4 million for the six months ended June 28, 2009, from \$212.4 million for the comparable 2008 period, reflecting decreases in the prices of certain commodities, primarily cheese. Our commissaries charge a fixed dollar mark-up on the cost of cheese, and cheese cost is based upon the 40 lb. cheddar block price, which decreased from \$1.75 per pound in the second quarter of 2008 to \$1.48 per pound in the second quarter of 2009, or a 15.4% decrease, and decreased from \$1.68 per pound for the first six months of 2008 to \$1.55 per pound for the first six months of 2009, or a 7.7% decrease.

Other sales decreased to \$14.0 million for the three months ended June 28, 2009, from \$16.4 million in the prior comparable period and decreased to \$28.8 million for the six months ended June 28, 2009, from \$33.3 million in the prior comparable period. These declines were due to decreases in revenues from our online ordering system business unit, reflecting a reduction in the online fee percentage in accordance with our previously disclosed agreement with the domestic franchise system to operate the business at a break-even level beginning in 2009 and decreases in sales at our print and promotions business reflecting the deterioration of the U.S. economic environment.

Our PJUK operations, denominated in British Pounds Sterling and converted to U.S. dollars, represent approximately 49% of international revenues during the six-month period in 2009, compared to 58% during the six-month period in 2008. International revenues were \$10.3 million and \$19.6 million for the three and six months ended June 28, 2009, respectively, compared to \$9.6 million and \$18.4 million for the comparable periods in 2008, reflecting the increase in both the number and average unit volumes of our Company-owned and franchised restaurants over the past year.

*Costs and Expenses.* The restaurant operating margin for domestic Company-owned units was 22.9% and 23.2% for the three and six months ended June 28, 2009, respectively, compared to 18.3% and 18.6% for the same periods in 2008. Excluding the impact of consolidating BIBP, restaurant operating margin increased 2.3% to 21.6% in the second quarter of 2009 from 19.3% in the same quarter of the prior year, and increased 1.9% to 21.7% for the six months ended June 28, 2009 from 19.8% in the corresponding period of 2008, consisting of the following differences:

- Cost of sales were 1.5% and 0.8% lower (excluding the consolidation of BIBP) for the three and six months ended June 28, 2009, as compared to the same periods of 2008, primarily due to lower commodity costs and the benefit from pricing and product mix.
- Salaries and benefits were 1.0% lower as a percentage of sales for both the three and six months ended June 28, 2009, compared to the 2008 corresponding periods, primarily due to the divestiture of 62 restaurants in late 2008 which had a higher labor cost as a percentage of sales.
- Advertising and related costs as a percentage of sales were 0.2% higher for the three months ended June 28, 2009 and were 0.2% lower for the six months ended June 28, 2009 as compared to the corresponding periods in 2008 due to the timing of discretionary local advertising spending.

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- Occupancy costs and other operating costs, on a combined basis, as a percentage of sales, were relatively consistent with the 2008 periods.

Domestic commissary and other margin was 9.8% and 9.9% for the three and six months ended June 28, 2009, respectively, compared to 9.4% and 9.7% for the same periods in 2008. Cost of sales was 73.3% and 73.7% of

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revenues for the three and six months ended June 28, 2009, respectively, compared to 73.3% for both the three- and six-month periods in 2008. Salaries and benefits were 7.5% and 7.3% of revenues for the three and six months ended June 28, 2009, which, as a percentage of sales was relatively consistent with the prior comparable periods. The fact that cost of sales and labor costs are relatively flat as a percentage of sales in a period of lower commodity costs represents both reduced pricing to the system and increased operational efficiency. Other operating expenses decreased approximately \$1.2 million and \$2.0 million for the three and six months ended June 28, 2009, as compared to the prior comparable periods, reflecting decreases in distribution costs from lower fuel prices.

We recorded pre-tax income from the franchise cheese-purchasing program, net of minority interest, of \$5.5 million and \$12.6 million for the three and six months ended June 28, 2009, compared to pre-tax losses of \$4.4 million and \$9.9 million for the corresponding periods in 2008. These results only represent the portion of BIBP's operating income related to the proportion of BIBP cheese sales to franchisees. The total impact of the consolidation of BIBP on Papa John's pre-tax income was income of approximately \$6.9 million and \$15.9 million for the three and six months ended June 28, 2009, compared to losses of approximately \$6.3 million and \$14.3 million in the same periods of 2008.

General and administrative expenses were \$30.0 million or 10.8% of revenues for the three months ended June 28, 2009 compared to \$27.2 million or 9.6% of revenues in the same period of 2008, and \$57.8 million, or 10.3% of revenues, for the six months ended June 28, 2009, compared to \$54.5 million, or 9.5% of revenues, for the same period in 2008. The increases of \$2.8 million and \$3.3 million for the three- and six-month periods ended June 28, 2009 were primarily due to the settlement of a litigation issue, management transition costs (including recruiting fees) and increased employee benefit costs.

Other general expenses reflected net expense of \$3.6 million and \$8.1 million for the three and six months ended June 28, 2009, respectively, compared to \$500,000 and \$2.8 million, respectively, for the comparable periods in 2008 as detailed below (in thousands):

|                                                           | June 28,<br>2009 | Three Months Ended<br>June 29,<br>2008 | Increase<br>(Decrease) | June 28,<br>2009 | Six Months Ended<br>June 29,<br>2008 | Increase<br>(Decrease) |
|-----------------------------------------------------------|------------------|----------------------------------------|------------------------|------------------|--------------------------------------|------------------------|
| Restaurant impairment and disposition losses              | \$               | \$                                     | \$                     | \$               | \$ 1,143                             | \$ (1,143)             |
| Disposition and valuation-related costs                   | 109              | 230                                    | (121)                  | 808              | 643                                  | 165                    |
| Provision for uncollectible accounts and notes receivable | 430              | 163                                    | 267                    | 1,628            | 489                                  | 1,139                  |
| Pre-opening costs                                         | (31)             | 26                                     | (57)                   | 33               | 69                                   | (36)                   |
| Franchise support initiatives (a)                         | 2,398            | 244                                    | 2,154                  | 4,645            | 488                                  | 4,157                  |
| Other (b)                                                 | 677              | (124)                                  | 801                    | 936              | (80)                                 | 1,016                  |
| <b>Total other general expenses</b>                       | <b>\$ 3,583</b>  | <b>\$ 539</b>                          | <b>\$ 3,044</b>        | <b>\$ 8,050</b>  | <b>\$ 2,752</b>                      | <b>\$ 5,298</b>        |

(a) Primarily consists of discretionary contributions to the national marketing fund and other local advertising cooperatives.

(b) The increase is primarily due to the consolidation of two additional VIE franchise entities in 2009.

Depreciation and amortization was \$8.2 million (3.0% of revenues) and \$16.1 million (2.9% of revenues) for the three and six months ended June 28, 2009, respectively, compared to \$8.4 million (3.0% of revenues) and \$16.4 million (2.9% of revenues) for comparable periods in 2008, respectively.

*Net interest.* Net interest expense was \$1.3 million for the three months ended June 28, 2009 as compared to \$1.6 million in 2008 and \$2.6 million for the six months ended June 28, 2009, compared to \$3.2 million for the comparable period in 2008. The decrease in net interest expense reflects the decrease in our average outstanding debt balance and lower interest rates.

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*Income Tax Expense.* Our effective income tax rates were 34.5% and 35.0%, respectively, for the three and six months ended June 28, 2009 (32.6% and 34.3%, respectively, for the three- and six-month periods, excluding BIBP) compared to 35.3% for both the corresponding 2008 periods (35.2% for both the three- and six-month periods, excluding BIBP).

**Liquidity and Capital Resources**

Our debt is comprised of the following (in thousands):

|                               | June 28,<br>2009 | December 28,<br>2008 |
|-------------------------------|------------------|----------------------|
| Revolving line of credit      | \$ 103,000       | \$ 123,500           |
| Debt associated with VIEs *   | 4,475            | 7,075                |
| Other                         | 67               | 79                   |
| Total debt                    | 107,542          | 130,654              |
| Less: current portion of debt | (4,475)          | (7,075)              |
| Long-term debt                | \$ 103,067       | \$ 123,579           |

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\*Papa John's is the guarantor of BIBP's outstanding debt.

Our revolving line of credit allows us to borrow up to \$175.0 million until its expiration date in January 2011. Outstanding balances accrue interest at 50.0 to 100.0 basis points over the London Interbank Offered Rate (LIBOR) or other bank developed rates at our option. The commitment fee on the unused balance ranges from 12.5 to 20.0 basis points. The increment over LIBOR and the commitment fee are determined quarterly based upon the ratio of total indebtedness to earnings before interest, taxes, depreciation and amortization (EBITDA), as defined in the line of credit.

Cash flow from operating activities was \$54.6 million in the first six months of 2009 compared to \$29.3 million for the same period in 2008. The consolidation of BIBP increased cash flow from operations by approximately \$15.9 million in the first six months of 2009 and decreased cash flow from operations by approximately \$14.3 million in the first six months of 2008 (as reflected in the income from operations and deferred income taxes captions in the accompanying Consolidated Statements of Cash Flows). Excluding the impact of the consolidation of BIBP, cash flow from operating activities was \$38.7 million for the first six months of 2009 and \$43.5 million for the first six months of 2008. The \$4.8 million decrease, excluding the consolidation of BIBP, was primarily due to a decrease in net income.

We require capital primarily for the development, acquisition, renovation and maintenance of restaurants, the development, renovation and maintenance of commissary and print and promotions facilities and equipment and the enhancement of corporate systems and facilities. In addition, we have a common stock repurchase program. During the six months ended June 28, 2009, common stock repurchases of \$5.0 million and capital expenditures of \$15.2 million were funded primarily by cash flow from operations and from available cash and cash equivalents.

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In 2008, our Board of Directors authorized the repurchase of an additional \$100.0 million of our common stock through the end of 2009. We repurchased approximately 275,000 shares of our common stock at an average price of \$18.05 per share, or a total of \$5.0 million, during the three months ended March 29, 2009. We did not repurchase any shares of our common stock in the three months ended June 28, 2009. As of July 29, 2009, approximately \$57.3 million remains available for repurchase of common stock under this authorization.

We expect to fund planned capital expenditures and any additional share repurchases of our common stock for the remainder of 2009 from operating cash flows and the \$54.0 million remaining availability under our line of credit, reduced for certain outstanding letters of credit.

Table of Contents**Forward-Looking Statements**

Certain matters discussed in this report, including information within Management's Discussion and Analysis of Financial Condition and Results of Operations, and other Company communications constitute forward-looking statements within the meaning of the federal securities laws. Generally, the use of words such as expect, estimate, believe, anticipate, will, forecast, plan, project, or similar words identify forward-looking statements that we intend to be included within the safe harbor protections provided by the federal securities laws. Such statements may relate to projections concerning revenue, earnings and other financial and operational measures. Such statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict and many of which are beyond our control. Therefore, actual outcomes and results may differ materially from those matters expressed or implied in such forward-looking statements.

The risks, uncertainties and assumptions that are involved in our forward-looking statements include, but are not limited to: changes in pricing or other marketing or promotional strategies by competitors which may adversely affect sales; new product and concept developments by food industry competitors; the ability of the Company and its franchisees to meet planned growth targets and operate new and existing restaurants profitably; general economic conditions and resulting impact on consumer buying habits; changes in consumer preferences; increases in or sustained high costs of food ingredients and other commodities, paper, utilities, fuel, employee compensation and benefits, insurance and similar costs; the ability of the Company to pass along such increases in or sustained high costs to franchisees or consumers; the Company is contingently liable for the payment of certain lease arrangements, approximating \$6.2 million involving our former Perfect Pizza operations that were sold in March 2006; the impact of legal claims and current proposed legislation impacting our business; and increased risks associated with our international operations. These and other risk factors as discussed in detail in Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K for our 2008 fiscal year and Part II, Item 1A, Risk Factors of the Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2009, could materially affect the Company's business, financial condition or operating results. We undertake no obligation to update publicly any forward-looking statements, whether as a result of future events, new information or otherwise, except as required by law.

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

Our debt at June 28, 2009 was principally comprised of a \$103.0 million outstanding principal balance on the \$175.0 million unsecured revolving line of credit. The interest rate on the revolving line of credit is variable and is based on LIBOR plus a 50.0 to 100.0 basis point spread, tiered based upon debt and cash flow levels.

We have two interest rate swap agreements that provide for fixed rates of 4.98% and 3.74%, as compared to LIBOR, on the following amount of floating rate debt:

|                                                 | <b>Floating<br/>Rate Debt</b> | <b>Fixed<br/>Rates</b> |
|-------------------------------------------------|-------------------------------|------------------------|
| <i>The first interest rate swap agreement:</i>  |                               |                        |
| January 16, 2007 to January 15, 2009            | \$ 60 million                 | 4.98%                  |
| January 15, 2009 to January 15, 2011            | \$ 50 million                 | 4.98%                  |
| <i>The second interest rate swap agreement:</i> |                               |                        |
| March 1, 2007 to January 31, 2009               | \$ 50 million                 | 3.74%                  |

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The effective interest rate on the line of credit, including the impact of the two interest rate swap agreements, was 4.87% as of June 28, 2009. An increase in the present interest rate of 100 basis points on the line of credit balance outstanding as of June 28, 2009, as mitigated by the interest rate swap agreements based on present

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interest rates, would increase interest expense approximately \$30,000. The annual impact of a 100 basis point increase in interest rates on the debt associated with BIBP would be \$44,750.

We do not enter into financial instruments to manage foreign currency exchange rates since less than 4% of our total revenues are derived from sales to customers and royalties outside the contiguous United States.

Cheese costs, historically representing 35% to 40% of our total food cost, are subject to seasonal fluctuations, weather, availability, demand and other factors that are beyond our control. As previously discussed in Results of Operations and Critical Accounting Policies and Estimates, we have a purchasing arrangement with a third-party entity, BIBP, formed at the direction of our Franchise Advisory Council for the sole purpose of reducing cheese price volatility to domestic system-wide restaurants. The BIBP formula used to establish the price of cheese charged to restaurants was modified effective March 2009. Under the modified formula, the BIBP price is adjusted monthly and the amount of mark-up depends on projected spot market prices. Under the modified price formula, we anticipate BIBP will substantially repay its cumulative deficit by the end of 2011.

As required by FIN 46, Papa John's consolidates the operating results of BIBP. Consolidation accounting requires the portion of BIBP operating income (loss) related to domestic Company-owned restaurants to be reflected as a reduction (increase) in the Domestic Company-owned restaurant expenses cost of sales line item, thus reflecting the actual market price of cheese had the purchasing arrangement not existed. The consolidation of BIBP had a significant impact on our operating results for the first six months of 2009 as well as the first six months of 2008 and is expected to have a significant impact on future operating results depending on the prevailing spot block market price of cheese as compared to the price charged to domestic restaurants.

The following table presents the actual average block price for cheese and the BIBP block price by quarter as projected through the second quarter of 2010 (based on the July 29, 2009 Chicago Mercantile Exchange (CME) milk futures market prices) and the actual prices in 2009 and 2008 to date:

|           | 2010                |                       | 2009                |                       | 2008                |                       |
|-----------|---------------------|-----------------------|---------------------|-----------------------|---------------------|-----------------------|
|           | BIBP<br>Block Price | Actual<br>Block Price | BIBP<br>Block Price | Actual<br>Block Price | BIBP<br>Block Price | Actual<br>Block Price |
| Quarter 1 | \$ 1.717*           | \$ 1.617*             | \$ 1.621            | \$ 1.184              | \$ 1.608            | \$ 1.904              |
| Quarter 2 | 1.793*              | 1.693*                | 1.479               | 1.178                 | 1.754               | 1.996                 |
| Quarter 3 | N/A                 | N/A                   | 1.457*              | 1.198*                | 2.042               | 1.859                 |
| Quarter 4 | N/A                 | N/A                   | 1.629*              | 1.498*                | 1.831               | 1.748                 |
| Full Year | N/A                 | N/A                   | \$ 1.547*           | \$ 1.265*             | \$ 1.809            | \$ 1.877              |

\*Amounts are estimates based on futures prices

N/A - not available

The following table presents the 2008 impact by quarter on our pre-tax income due to consolidating BIBP (in thousands):

|           |    | Actual<br>2008 |
|-----------|----|----------------|
| Quarter 1 | \$ | (7,951)        |
| Quarter 2 |    | (6,302)        |
| Quarter 3 |    | 2,826          |
| Quarter 4 |    | 887            |
| Full Year | \$ | (10,540)       |

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Additionally, based on the CME milk futures market prices as of July 29, 2009, and the projected cheese costs to restaurants as determined by the BIBP pricing formula for the next four quarters, the consolidation of BIBP is projected to increase our pre-tax income as follows (in thousands):

|                  |    |         |
|------------------|----|---------|
| Quarter 1 - 2009 | \$ | 9,025   |
| Quarter 2 - 2009 |    | 6,854   |
| Quarter 3 - 2009 |    | 5,478*  |
| Quarter 4 - 2009 |    | 2,901*  |
| Full Year - 2009 | \$ | 24,258* |
|                  |    |         |
| Quarter 1 - 2010 | \$ | 2,258*  |
| Quarter 2 - 2010 | \$ | 2,233*  |

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\*The projections above are based upon current futures market prices. Historically, actual results have been subject to large fluctuations and have differed significantly from previous projections using the futures market prices.

Over the long-term, we expect to purchase cheese at a price approximating the actual average market price and therefore we do not generally make use of financial instruments to hedge commodity prices.

**Item 4. Controls and Procedures**

Our Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ) evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended ( 1934 Act )), as of the end of the period covered by this report. Based upon their evaluation, the CEO and CFO concluded that the disclosure controls and procedures are effective.

We also maintain a system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the 1934 Act) designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. During our most recent fiscal quarter, there have been no changes in our internal control over financial reporting that occurred 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**

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We are subject to claims and legal actions in the ordinary course of our business. We believe that all such claims and actions currently pending against us are either adequately covered by insurance or would not have a material adverse effect on us if decided in a manner unfavorable to us.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The Papa John's Board of Directors authorized the repurchase of up to \$775.0 million of common stock under a share repurchase program that began December 9, 1999, and runs through December 31, 2009. Through June 28, 2009, a total of 42.5 million shares with an aggregate cost of \$717.7 million and an average price of \$16.90 per share have been repurchased under this program. The following table summarizes our repurchases by fiscal period during the first six months of 2009 (in thousands, except per-share amounts):

| <b>Fiscal Period</b>    | <b>Total<br/>Number<br/>of Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid per<br/>Share</b> | <b>Total Number<br/>of Shares Purchased<br/>as Part of<br/>Publicly Announced<br/>Plans or Programs</b> | <b>Maximum Dollar<br/>Value of Shares<br/>that May Yet Be<br/>Purchased Under the<br/>Plans or Programs</b> |
|-------------------------|-----------------------------------------------------|-------------------------------------------------|---------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| 12/29/2008 - 01/25/2009 | 138                                                 | \$ 17.63                                        | 42,327                                                                                                  | \$ 59,842                                                                                                   |
| 01/26/2009 - 02/22/2009 | 127                                                 | \$ 18.37                                        | 42,454                                                                                                  | \$ 57,515                                                                                                   |
| 02/23/2009 - 03/29/2009 | 10                                                  | \$ 19.71                                        | 42,464                                                                                                  | \$ 57,316                                                                                                   |
| 03/30/2009 - 04/26/2009 | *                                                   |                                                 | 42,464                                                                                                  | \$ 57,316                                                                                                   |
| 04/27/2009 - 05/24/2009 | *                                                   |                                                 | 42,464                                                                                                  | \$ 57,316                                                                                                   |
| 05/25/2009 - 06/28/2009 | *                                                   |                                                 | 42,464                                                                                                  | \$ 57,316                                                                                                   |

\*There were no share repurchases during this period.

In December 2008, we adopted a written trading plan under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, to facilitate the repurchase of shares of our common stock under this share repurchase program. There can be no assurance that we will repurchase shares of our common stock either through our Rule 10b5-1 trading plan or otherwise. We may terminate the Rule 10b5-1 trading plan at any time.

**Item 4. Submission of Matters to a Vote of Security Holders**

Our annual meeting of stockholders was held on April 30, 2009 at our corporate office in Louisville, Kentucky.

At the meeting, our stockholders elected three directors to serve until the 2011 annual meeting of stockholders. The vote counts were as follows:

|                   | <b>Votes Cast For</b> | <b>Votes Cast Against</b> | <b>Abstentions</b> |
|-------------------|-----------------------|---------------------------|--------------------|
| Philip Guarascio  | 25,536,884            | 166,978                   | 5,844              |
| Olivia F. Kirtley | 25,427,417            | 277,551                   | 4,738              |
| J. Jude Thompson  | 25,152,276            | 553,029                   | 4,401              |

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Norborne P. Cole, Jr., William M. Street, Wade S. Oney, John H. Schnatter and Alexander W. Smith continue to serve as directors.

At the meeting, our stockholders ratified the selection of Ernst & Young LLP as our independent auditors for the fiscal year ending December 27, 2009, by a vote of 25,262,982 affirmative to 444,295 negative, with 2,429 abstentions.

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**Item 6. Exhibits**

| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|---------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1                      | Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-15(e), As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                                                         |
| 31.2                      | Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-15(e), As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                                                         |
| 32.1                      | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                                                              |
| 32.2                      | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                                                              |
| 101                       | Financial statements from the quarterly report on Form 10-Q of Papa John's International, Inc. for the quarter ended June 28, 2009, filed on August 4, 2009, formatted in XBRL: (i) the Consolidated Statements of Income, (ii) the Condensed Consolidated Balance Sheets, (iii) the Consolidated Statements of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Condensed Consolidated Financial Statements tagged as blocks of text. |

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## 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 thereunto duly authorized.

**PAPA JOHN S INTERNATIONAL, INC.**  
(Registrant)

Date: August 4, 2009

/s/ J. David Flanery  
J. David Flanery  
Senior Vice President and  
Chief Financial Officer