

PAPA JOHNS INTERNATIONAL INC  
Form 10-K/A  
April 16, 2013

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

FORM 10-K/A  
Amendment No. 1

(Mark One)

☒ Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 25, 2011

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-21660

PAPA JOHN'S INTERNATIONAL, INC.  
(Exact name of registrant as specified in its charter)

|                                                                   |                                               |
|-------------------------------------------------------------------|-----------------------------------------------|
| Delaware                                                          | 61-1203323                                    |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S.<br>Employer<br>Identification<br>No.) |

|                                             |               |
|---------------------------------------------|---------------|
| 2002 Papa Johns Boulevard                   |               |
| Louisville, Kentucky                        | 40299-2367    |
| (Address of principal executive<br>offices) | (Zip<br>Code) |

(502) 261-7272  
(Registrant's telephone number, including area code)

|                                                             |                                             |
|-------------------------------------------------------------|---------------------------------------------|
| Securities registered pursuant to Section 12(b) of the Act: |                                             |
| (Title of Each Class)                                       | (Name of each exchange on which registered) |
| Common Stock, \$.01 par value                               | The NASDAQ Stock Market LLC                 |

Securities registered pursuant to Section 12(g) of the Act:  
None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

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 ☐

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

☒

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 ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ☐ No ☒

The aggregate market value of the common stock held by non-affiliates of the Registrant, computed by reference to the closing sale price on The NASDAQ Stock Market as of the last business day of the Registrant's most recently completed second fiscal quarter, June 26, 2011, was approximately \$633,919,944.

As of February 14, 2012, there were 24,242,254 shares of the Registrant's Common Stock outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of Part III are incorporated by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held April 26, 2012.

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## EXPLANATORY NOTE

As described in Papa John's International, Inc.'s (the "Company") Current Report on Form 8-K filed on February 26, 2013 and Form 10-K for the fiscal year ended December 30, 2012 filed on February 28, 2013, in connection with the evaluation of the accounting for newly formed joint ventures, the Company reviewed the accounting for its previously existing joint venture arrangements. As a result of the review, the Company determined an error occurred in the accounting for one joint venture agreement, which contained a mandatorily redeemable feature added through a contract amendment in the third quarter of 2009. This provision contained in the 2009 contract amendment was not previously considered in determining the classification and measurement of the noncontrolling interest. In addition, the Company determined that an additional redeemable noncontrolling interest was incorrectly classified in shareholders' equity and should be classified as temporary equity. As a result, the Company is filing this amendment to its Form 10-K for the fiscal year ended December 25, 2011, to amend and restate the financial statements and other financial information contained herein to correct the errors.

This Form 10-K/A amends the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 2011 as originally filed with the Securities and Exchange Commission (the "SEC") on February 21, 2012 (the "Original Filing"). This Form 10-K/A amends the Original Filing solely to correct the Company's accounting for noncontrolling interests related to our joint ventures as more fully described in Note 1 to the consolidated financial statements. Revisions to the Original Filing have been made to the following items solely as a result of and to reflect the restatements and no other information in the Original Filing is amended herein:

- Item 6—Selected Financial Data
- Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 8—Financial Statements and Supplementary Data
- Item 9A—Controls and Procedures
- Item 15—Exhibits, Financial Statement Schedules

The restatements resulted in decreases in diluted earnings per share of \$0.04 and \$0.13 for the fiscal years ended December 25, 2011 and December 27, 2009, respectively, and an increase in diluted earnings per share of \$0.03 for the fiscal year ended December 26, 2010. The corrections had no impact on total revenues, operating income or operating cash flows and had no impact on the Company's compliance with debt covenants in any period presented.

The Company has also determined that a control deficiency related to the process of accounting for certain redemption features of the noncontrolling interests of our joint venture agreements, which gave rise to these restatements, constituted a material weakness in its internal controls over financial reporting. As a result, the Company has reviewed all existing joint venture agreements to ensure the accounting for any such redemption features was in compliance with U.S. generally accepted accounting principles. In addition, we are in the process of developing enhanced control procedures designed to ensure proper accounting for any future non-routine contracts or contract amendments. The material weakness cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. See "Item 9A—Controls and Procedures."

Except for the amended information referred to above, no other information in the Original Filing is amended, and is therefore not included herein. This Form 10-K/A continues to describe conditions as of the date of the Original Filing and the Company has not modified or updated other disclosures presented in the Original Filing. This Form 10-K/A does not reflect events occurring after the date of the Original Filing nor does it modify or update disclosures affected by subsequent events. Accordingly, this Form 10-K/A should be read in conjunction with the Company's Form 10-K for the fiscal year ended December 30, 2012, and subsequent filings made with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934.



## PART II

## Item 6. Selected Financial Data

The selected financial data presented for each of the fiscal years in the five-year period ended December 25, 2011, was derived from our audited consolidated financial statements. The selected financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the “Consolidated Financial Statements” and Notes thereto included in Item 7 and Item 8, respectively, of this Form 10-K/A. See “Note 1” of “Notes to Consolidated Financial Statements” for information concerning the restatement of certain financial data to correct errors in our accounting for noncontrolling interests related to our joint ventures.

(In thousands, except per share data)

|                                                                | Year Ended (1)                       |                                      |                                      |                  |                  |
|----------------------------------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|------------------|------------------|
|                                                                | Dec. 25,<br>2011<br>(As<br>Restated) | Dec. 26,<br>2010<br>(As<br>Restated) | Dec. 27,<br>2009<br>(As<br>Restated) | Dec. 28,<br>2008 | Dec. 30,<br>2007 |
| <b>Income Statement Data</b>                                   |                                      |                                      |                                      |                  |                  |
| North America revenues:                                        |                                      |                                      |                                      |                  |                  |
| Domestic Company-owned restaurant sales                        | \$525,841                            | \$503,272                            | \$503,818                            | \$533,255        | \$504,330        |
| Franchise royalties (2) (3)                                    | 73,694                               | 69,631                               | 62,083                               | 60,592           | 56,278           |
| Franchise and development fees (2)                             | 722                                  | 610                                  | 912                                  | 1,722            | 4,767            |
| Domestic commissary sales                                      | 508,155                              | 454,506                              | 417,689                              | 431,650          | 401,081          |
| Other sales                                                    | 50,912                               | 51,951                               | 54,045                               | 61,415           | 61,820           |
| International revenues:                                        |                                      |                                      |                                      |                  |                  |
| Royalties and franchise and development fees (2) (4)           | 16,327                               | 13,265                               | 11,780                               | 11,858           | 9,310            |
| Restaurant and commissary sales (5)                            | 42,231                               | 33,162                               | 28,223                               | 25,849           | 20,860           |
| Total revenues                                                 | 1,217,882                            | 1,126,397                            | 1,078,550                            | 1,126,341        | 1,058,446        |
| Operating income (6)                                           | 87,017                               | 86,744                               | 95,218                               | 65,486           | 53,072           |
| Investment income                                              | 755                                  | 875                                  | 629                                  | 848              | 1,446            |
| Interest expense                                               | (2,981 )                             | (4,309 )                             | (11,660 )                            | (7,536 )         | (7,465 )         |
| Income before income taxes                                     | 84,791                               | 83,310                               | 84,187                               | 58,798           | 47,053           |
| Income tax expense                                             | 26,324                               | 27,247                               | 26,702                               | 19,980           | 13,293           |
| Net income, including redeemable noncontrolling interests      | 58,467                               | 56,063                               | 57,485                               | 38,818           | 33,760           |
| Income attributable to redeemable noncontrolling interests (7) | (3,732 )                             | (3,485 )                             | (3,756 )                             | (2,022 )         | (1,025 )         |
| Net income, net of redeemable noncontrolling interests         | \$54,735                             | \$52,578                             | \$53,729                             | \$36,796         | \$32,735         |
| Basic earnings per common share                                | \$2.19                               | \$2.00                               | \$1.94                               | \$1.31           | \$1.10           |
| Earnings per common share - assuming dilution                  | \$2.16                               | \$1.99                               | \$1.93                               | \$1.30           | \$1.09           |
| Basic weighted average shares outstanding                      | 25,043                               | 26,328                               | 27,738                               | 28,124           | 29,666           |
| Diluted weighted average shares outstanding                    | 25,310                               | 26,468                               | 27,909                               | 28,264           | 30,017           |
| <b>Balance Sheet Data</b>                                      |                                      |                                      |                                      |                  |                  |
| Total assets                                                   | \$390,382                            | \$417,492                            | \$396,009                            | \$385,464        | \$400,885        |
| Total debt                                                     | 51,489                               | 99,017                               | 99,050                               | 130,654          | 142,706          |
|                                                                | 11,065                               | 9,972                                | 10,960                               | -                | -                |

Mandatorily redeemable noncontrolling interest (8)

|                                     |         |         |         |         |         |
|-------------------------------------|---------|---------|---------|---------|---------|
| Redeemable noncontrolling interests | 3,965   | 3,512   | 3,215   | 3,414   | 2,885   |
| Total stockholders' equity          | 205,647 | 195,608 | 173,145 | 134,824 | 132,053 |

- (1) We operate on a 52-53 week fiscal year ending on the last Sunday of December of each year. All fiscal years presented consisted of 52 weeks.
- (2) Prior years' financial data has been adjusted to reclassify revenues for restaurants operating in Hawaii, Alaska and Canada from international to North America franchising in order to conform to the current year presentation.
- (3) North America franchise royalties were derived from franchised restaurant sales of \$1.71 billion in 2011, \$1.62 billion in 2010, \$1.58 billion in 2009, \$1.53 billion in 2008 and \$1.49 billion in 2007.
- (4) International royalties were derived from franchised restaurant sales of \$320.0 million in 2011, \$258.8 million in 2010, \$222.2 million in 2009, \$196.5 million in 2008 and \$152.5 million in 2007.

- (5) Restaurant sales for international Company-owned restaurants were \$12.4 million in 2011, \$11.0 million in 2010, \$10.3 million in 2009, \$8.1 million in 2008 and \$4.0 million in 2007.
- (6) The operating results include the consolidation of BIBP, which increased operating income approximately \$21.4 million in 2010 (including a reduction in BIBP's cost of sales of \$14.2 million associated with PJFS's agreement to pay to BIBP for past cheese purchases an amount equal to its accumulated deficit). BIBP increased operating income by \$23.3 million in 2009 and reduced operating income by \$8.6 million in 2008 and \$31.0 million in 2007 (breakeven results in 2011). Operating income includes domestic and international restaurant closure, impairment and disposition gains of \$86,000 in 2011 and losses of \$253,000 in 2010, \$657,000 in 2009, \$8.8 million in 2008 and \$1.8 million in 2007. See "Notes 3 and 6" of "Notes to Consolidated Financial Statements" for additional information.
- (7) Represents the redeemable noncontrolling interests' allocation of income for our joint venture arrangements.
- (8) Mandatorily redeemable noncontrolling interest is included in other long-term liabilities in the consolidated balance sheets.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Introduction

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 with the opening of the first Papa John's restaurant in Jeffersonville, Indiana. At December 25, 2011, there were 3,883 Papa John's restaurants in operation, consisting of 628 Company-owned and 3,255 franchised restaurants. 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.

New unit openings in 2011 were 321 as compared to 325 in 2010 and 216 in 2009 and unit closings in 2011 were 84 as compared to 148 in 2010 and 127 in 2009. We expect net unit growth of approximately 240 to 280 units during 2012.

We have continued to produce strong average sales from our domestic Company-owned restaurants even in a very competitive market environment. Our expansion strategy is to cluster restaurants in targeted markets, thereby increasing consumer awareness and enabling us to take advantage of operational, distribution and advertising efficiencies. Average annual Company-owned sales for our most recent comparable restaurant base were \$897,000 for 2011, compared to \$863,000 for 2010 and \$869,000 for 2009. Average sales volumes in new markets are generally lower than in those markets in which we have established a significant market position. The comparable sales for domestic Company-owned restaurants increased 4.1% in 2011, decreased 0.6% in 2010, and decreased 0.5% in 2009. The comparable sales for North America franchised units increased 3.1% in 2011, 0.3% in 2010 and 0.1% in 2009. "Comparable sales" represents sales generated by restaurants open for the entire twelve-month period reported.

We strive to obtain high-quality restaurant sites with good access and visibility, and to enhance the appearance and quality of our restaurants. We believe that these factors improve our image and brand awareness. The average cash investment for the eight domestic Company-owned restaurants opened during 2011 was approximately \$260,000, compared to the \$250,000 investment for the five units opened in 2010, exclusive of land and any tenant improvement allowances that we received in both years.



Approximately 47% of our revenues for 2011, compared to 45% of our revenues for 2010 and 40% of our revenues for 2009, were derived from the sale to our domestic and international franchisees of food and paper products, printing and promotional items, risk management services and information systems equipment and software and related services by us. We believe that, in addition to supporting both Company and franchised growth, these activities contribute to product quality and consistency and restaurant profitability throughout the Papa John's system.

#### Critical Accounting Policies and Estimates

The results of operations are based on our consolidated financial statements, which were prepared 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 as well as estimates and assumptions that affect the amounts reported in the consolidated financial statements. The Company's significant accounting policies are more fully described in "Note 2" of "Notes to 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.

#### Accounting Policies

##### Allowance for Doubtful Accounts and Notes Receivable

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 and other customers with known financial difficulties.

##### Intangible Assets - Goodwill

In September 2011, the Financial Accounting Standards Board ("FASB") approved Accounting Standards Update 2011-08, "Testing Goodwill for Impairment," ("ASU 2011-08") which is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, however, early adoption is permitted. We elected to early adopt the provisions of ASU 2011-08 in 2011.

ASU 2011-08 permits us to first assess qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step quantitative goodwill impairment test. Under the two-step quantitative goodwill impairment test, the fair value of the reporting unit is compared to its respective carrying amount including goodwill. If the fair value exceeds the carrying amount, then no impairment exists. If the carrying amount exceeds the fair value, further analysis is performed to assess impairment. Because market prices of our reporting units are not readily available, we make various estimates and assumptions in determining the estimated fair values of our reporting units. The estimated fair value is based on an income approach, with an appropriate risk adjusted discount rate, and a market approach where appropriate. Significant assumptions inherent in the methodologies are employed and include such estimates as discount rates, growth rates and certain market transaction multiples.

In accordance with ASU 2011-08, we evaluate goodwill annually in the fourth quarter or whenever we identify certain triggering events or circumstances that would more-likely-than-not reduce the fair value of a reporting unit below its carrying amount. Such tests are completed separately with respect to the goodwill of each of our reporting units. Events or circumstances that might indicate an interim evaluation is warranted include, among other factors, unexpected adverse business conditions, macro and reporting unit specific economic factors (for example, worsening results in comparison to projections, commodity inflation, or loss of key personnel), unanticipated competitive activities, and acts by governments or courts.



As defined in the authoritative guidance, a reporting unit is an operating segment, or one level below an operating segment. During 2011, in connection with a restructuring of our components in our domestic Company-owned restaurant segment, changes were made in the discrete financial information that was made available to the segment manager of our domestic Company-owned restaurant segment, which resulted in the identification of new components in 2011. Additionally, because components meet the aggregation provision of Accounting Standards Codification 280, "Segment Reporting," we now aggregate the components of our domestic Company-owned restaurant segment into one reporting unit. Prior to 2011, the components were treated as individual reporting units.

Under ASU 2011-08, companies can bypass the qualitative assessment and move directly to the quantitative assessment for any reporting unit in any period if management believes that it is more efficient or there is a risk of impairment. All companies can elect to resume performing the qualitative assessment in any subsequent period. We applied the qualitative assessment for our domestic Company-owned restaurants and China reporting units, which is included in our international reporting segment. As a result of our qualitative analysis, we determined that it was more-likely-than-not that the fair value of our domestic Company-owned restaurants and China reporting units was greater than the carrying amounts.

With respect to our PJUK reporting unit (which represents \$14.8 million of goodwill as of December 25, 2011), we bypassed the qualitative assessment and performed the two-step quantitative goodwill impairment test, which indicated the fair value exceeded the carrying amount by 7%. The fair value was calculated using an income approach that projected net cash flow over a 10-year discrete period and a terminal value, which were discounted using appropriate rates. The selected discount rate considers the risk and nature of our PJUK reporting unit's cash flow and the rates of return market participants would require to invest their capital in the PJUK reporting unit. We believe our PJUK reporting unit will continue to improve its operating results through ongoing growth initiatives, by increasing Papa John's brand awareness in the United Kingdom, improving sales and profitability for individual franchised restaurants and increasing PJUK franchised net unit openings over the next several years. Future impairment charges could be required if adverse economic events occur in the United Kingdom.

Subsequent to completing our annual qualitative and quantitative goodwill impairment tests, no indications of impairment were identified.

#### Insurance Reserves

Our insurance programs for workers' compensation, general liability, owned and non-owned automobiles and health insurance coverage provided to our employees are funded by the Company up to certain retention levels. Losses are accrued based upon undiscounted 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.

#### Deferred Income Tax Accounts and Tax Reserves

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. The provision for income taxes includes income taxes paid, currently payable or receivable and those deferred. We use an estimated annual effective rate based on expected annual income to determine our quarterly provision for income taxes. Discrete income tax items are recorded in the quarter in which they occur.

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 new tax rate is enacted. 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 December 25, 2011, we had a net deferred income tax asset of \$944,000.

Tax authorities periodically audit the Company. We record reserves for identified exposures. 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. We recognized reductions of \$1.9 million, \$550,000 and \$1.2 million in our income tax expense associated with the finalization of certain income tax issues in 2011, 2010 and 2009, respectively (see "Note 13" of "Notes to Consolidated Financial Statements").

#### Consolidation of BIBP Commodities, Inc. ("BIBP") as a Variable Interest Entity

BIBP was a franchisee-owned corporation that conducted a cheese-purchasing program on behalf of Company-owned and franchised restaurants operating in the United States through February 2011. As the primary beneficiary, we consolidated the operating results of BIBP. BIBP operated at breakeven for the first two months of 2011 and recognized income before income taxes of \$21.0 million in 2010 and \$22.5 million in 2009. Income before income taxes in 2010 included a reduction in BIBP's cost of sales of \$14.2 million associated with PJFS's agreement to pay to BIBP for past cheese purchases an amount equal to its accumulated deficit ("BIBP Settlement"). Accordingly, BIBP recorded a decrease of \$14.2 million in cost of sales and PJFS recorded a corresponding increase in cost of sales in 2010. This transaction did not have any impact on the Company's 2010 consolidated income statement results since both PJFS and BIBP are fully consolidated.

Consolidation accounting required the net impact from the consolidation of BIBP to be reflected primarily in three separate components of our statement of income. The first component was 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 was reflected as a reduction in the "Domestic Company-owned restaurant expenses - cost of sales" line item. This approach effectively reported cost of sales for Company-owned restaurants as if the purchasing agreement 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 was reflected in the caption "Loss (income) from the franchise cheese-purchasing program, net of noncontrolling interest." This line item represented 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 noncontrolling interest BIBP shareholders. The amount of income or loss attributable to the BIBP shareholders depended on its cumulative shareholders' equity balance and the change in such balance during the reporting period. The third component was reflected as interest expense, when BIBP was in a net borrowing position during the reporting period.



In February 2011, we terminated the purchasing arrangement with BIBP and BIBP no longer has operating activities. Over 99% of our domestic franchisees have entered into a cheese purchasing agreement with PJFS. The cheese purchasing agreement requires participating domestic franchisees to purchase cheese through PJFS, or to pay the franchisee's portion of any accumulated cheese liability upon ceasing to purchase cheese from PJFS when a liability exists. The cheese purchasing agreement specifies that PJFS will charge the franchisees a predetermined price for cheese on a monthly basis. Any difference between the amount charged to franchisees and the actual price paid by PJFS for cheese will be recorded as a receivable from or a payable to the franchisees, to be repaid based upon a predetermined formula outlined in the agreement.

#### Restatement of Previously Issued Financial Statements

In connection with the evaluation of the accounting for newly formed joint ventures, we reviewed our accounting for our previously existing joint venture arrangements. As a result of our review, we determined an error occurred in the accounting for one joint venture agreement, which contained a mandatorily redeemable feature added through a contract amendment in the third quarter of 2009. This provision contained in the 2009 contract amendment was not previously considered in determining the classification and measurement of the noncontrolling interest. In addition, we determined an additional redeemable noncontrolling interest was incorrectly classified in shareholders' equity and should be classified as temporary equity, which impacted the consolidated balance sheets and statements of stockholders' equity. As such, we are restating our previously issued consolidated financial statements for the fiscal years 2011, 2010, and 2009. The correction of the error related to the mandatorily redeemable noncontrolling interest had an impact on our Consolidated Statements of Income, interest expense, income tax expense, and net income. The restatements resulted in decreases in diluted earnings per share of \$0.04 and \$0.13 for the fiscal years ended December 25, 2011 and December 27, 2009, respectively, and an increase in diluted earnings per share of \$0.03 for the fiscal year ended December 26, 2010. The corrections were recorded to our "Unallocated Corporate Expenses" segment. The corrections had no impact on total revenues, operating income, or operating cash flows and had no impact on our compliance with debt covenants in any periods presented. See "Note 1" and "Note 2" of "Notes to Consolidated Financial Statements" for additional information.

#### Non-GAAP Measures

The financial measures we present in this report excluding the impact of the consolidation of BIBP are not measures defined within 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 the principal operating activities of the Company. In addition, annual cash bonuses and certain long-term incentive programs for various levels of management were 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.

In addition, we present free cash flow in this report, which is not a term defined by GAAP. Free cash flow is defined as net cash provided by operating activities (from the consolidated statements of cash flows) excluding the impact of BIBP, less the purchases of property and equipment. We view free cash flow as an important measure because it is one factor that management uses in determining the amount of cash available for discretionary investment. Free cash flow is not a term defined by GAAP and as a result our measure of free cash flow might not be comparable to similarly titled measures used by other companies. Free cash flow should not be construed as a substitute for or a better indicator of our performance than the Company's GAAP measures.

#### Segment Reporting Change

In 2011, we realigned management responsibility and financial reporting for Hawaii, Alaska and Canada from our international business segment to our domestic franchising segment in order to better leverage existing infrastructure and systems. As a result, we renamed the domestic franchising segment "North America franchising" in the first quarter of 2011. Certain prior year amounts have been reclassified in our consolidated statements of income, segment information, and restaurant unit progression to conform to the current year presentation.

#### Fiscal Year

The Company follows a fiscal year ending on the last Sunday of December, generally consisting of 52 weeks made up of four 13-week quarters. The 13-week quarters consist of two four-week periods followed by one five-week period.

## Percentage Relationships and Restaurant Data and Unit Progression

The following tables set forth the percentage relationship to total revenues, unless otherwise indicated, of certain income statement data, and certain restaurant data for the years indicated:

|                                                                                   | Year Ended (1)   |   |                  |   |                  |   |
|-----------------------------------------------------------------------------------|------------------|---|------------------|---|------------------|---|
|                                                                                   | Dec. 25,<br>2011 |   | Dec. 26,<br>2010 |   | Dec. 27,<br>2009 |   |
|                                                                                   | (As Restated)    |   | (As Restated)    |   | (As Restated)    |   |
| Income Statement Data:                                                            |                  |   |                  |   |                  |   |
| North America revenues:                                                           |                  |   |                  |   |                  |   |
| Domestic Company-owned restaurant sales                                           | 43.2             | % | 44.7             | % | 46.7             | % |
| Franchise royalties                                                               | 6.1              |   | 6.2              |   | 5.8              |   |
| Franchise and development fees                                                    | 0.1              |   | 0.0              |   | 0.1              |   |
| Domestic commissary sales                                                         | 41.7             |   | 40.4             |   | 38.7             |   |
| Other sales                                                                       | 4.2              |   | 4.6              |   | 5.0              |   |
| International revenues:                                                           |                  |   |                  |   |                  |   |
| Royalties and franchise and development fees                                      | 1.3              |   | 1.2              |   | 1.1              |   |
| Restaurant and commissary sales                                                   | 3.4              |   | 2.9              |   | 2.6              |   |
| Total revenues                                                                    | 100.0            |   | 100.0            |   | 100.0            |   |
| Costs and expenses:                                                               |                  |   |                  |   |                  |   |
| Domestic Company-owned restaurant cost of sales (2)                               | 24.1             |   | 22.1             |   | 20.0             |   |
| Domestic Company-owned restaurant operating expenses (2)                          | 56.9             |   | 57.7             |   | 58.2             |   |
| Domestic commissary and other expenses (3)                                        | 92.2             |   | 91.4             |   | 90.2             |   |
| Income from the franchise cheese purchasing program, net of minority interest (4) | 0.0              |   | (0.5 )           |   | (1.7 )           |   |
| International operating expenses (5)                                              | 84.5             |   | 88.7             |   | 86.3             |   |
| General and administrative expenses                                               | 9.2              |   | 9.8              |   | 10.3             |   |
| Other general expenses                                                            | 0.8              |   | 0.8              |   | 1.3              |   |
| Depreciation and amortization                                                     | 2.7              |   | 2.9              |   | 2.9              |   |
| Total costs and expenses                                                          | 92.9             |   | 92.3             |   | 91.2             |   |
| Operating income                                                                  | 7.1              |   | 7.7              |   | 8.8              |   |
| Net interest expense                                                              | (0.1 )           |   | (0.3 )           |   | (1.0 )           |   |
| Income before income taxes                                                        | 7.0              |   | 7.4              |   | 7.8              |   |
| Income tax expense                                                                | 2.2              |   | 2.4              |   | 2.5              |   |
| Net income, including redeemable noncontrolling interests                         | 4.8              |   | 5.0              |   | 5.3              |   |
| Income attributable to redeemable noncontrolling interests                        | (0.3 )           |   | (0.3 )           |   | (0.3 )           |   |
| Net income, net of redeemable noncontrolling interests                            | 4.5              | % | 4.7              | % | 5.0              | % |

|                                                       | Year Ended (1)   |         |                  |         |                  |         |
|-------------------------------------------------------|------------------|---------|------------------|---------|------------------|---------|
|                                                       | Dec. 25,<br>2011 |         | Dec. 26,<br>2010 |         | Dec. 27,<br>2009 |         |
| Restaurant Data:                                      |                  |         |                  |         |                  |         |
| Percentage increase (decrease) in comparable domestic |                  |         |                  |         |                  |         |
| Company-owned restaurant sales (6)                    | 4.1              | %       | (0.6             | %)      | (0.5             | %)      |
| Number of Company-owned restaurants included in the   |                  |         |                  |         |                  |         |
| most recent full year's comparable restaurant base    | 582              |         | 578              |         | 559              |         |
| Average sales for Company-owned restaurants included  |                  |         |                  |         |                  |         |
| in the most recent comparable restaurant base         | \$               | 897,000 | \$               | 863,000 | \$               | 869,000 |

## Papa John's Restaurant Progression:

## North America Company-owned:

|                           |     |   |     |   |     |   |
|---------------------------|-----|---|-----|---|-----|---|
| Beginning of period       | 591 |   | 588 |   | 592 |   |
| Opened                    | 8   |   | 5   |   | 5   |   |
| Closed                    | (1  | ) | (2  | ) | (8  | ) |
| Acquired from franchisees | -   |   | -   |   | 11  |   |
| Sold to franchisees       | -   |   | -   |   | (12 | ) |
| End of period             | 598 |   | 591 |   | 588 |   |

## International Company-owned:

|                           |    |  |     |   |    |   |
|---------------------------|----|--|-----|---|----|---|
| Beginning of period       | 21 |  | 26  |   | 23 |   |
| Opened                    | 9  |  | 8   |   | 4  |   |
| Closed                    | -  |  | (2  | ) | (1 | ) |
| Acquired from franchisees | -  |  | 1   |   | -  |   |
| Sold to franchisees       | -  |  | (12 | ) | -  |   |
| End of period             | 30 |  | 21  |   | 26 |   |

## North America franchised (7):

|                       |       |   |       |   |       |   |
|-----------------------|-------|---|-------|---|-------|---|
| Beginning of period   | 2,346 |   | 2,246 |   | 2,243 |   |
| Opened                | 166   |   | 182   |   | 93    |   |
| Closed                | (49   | ) | (82   | ) | (91   | ) |
| Acquired from Company | -     |   | -     |   | 12    |   |
| Sold to Company       | -     |   | -     |   | (11   | ) |
| End of period         | 2,463 |   | 2,346 |   | 2,246 |   |

## International franchised (7):

|                                               |       |   |       |   |       |   |
|-----------------------------------------------|-------|---|-------|---|-------|---|
| Beginning of period                           | 688   |   | 609   |   | 522   |   |
| Opened                                        | 138   |   | 130   |   | 114   |   |
| Closed                                        | (34   | ) | (62   | ) | (27   | ) |
| Acquired from Company                         | -     |   | 12    |   | -     |   |
| Sold to Company                               | -     |   | (1    | ) | -     |   |
| End of period                                 | 792   |   | 688   |   | 609   |   |
| Total Papa John's restaurants - end of period | 3,883 |   | 3,646 |   | 3,469 |   |

- (1) We operate on a fiscal year ending on the last Sunday of December of each year.
- (2) As a percentage of domestic Company-owned restaurant sales.
- (3) As a percentage of domestic commissary sales and other sales on a combined basis.

- (4) As a percentage of total Company revenues; the income is a result of the consolidation of BIBP, a VIE. The sales reported by BIBP are eliminated in consolidation.
- (5) As a percentage of international restaurant and commissary sales.
- (6) Includes only Company-owned restaurants open throughout the periods being compared.
- (7) Restaurant unit data for 2010 and 2009 has been adjusted to reflect the reclassification of restaurants operating in Hawaii, Alaska and Canada from international franchised to North America franchised in order to conform to the current year presentation.

## Results of Operations

## 2011 Compared to 2010

## Discussion of Revenues

Consolidated revenues increased 8.1% to \$1.22 billion in 2011 compared to \$1.13 billion in 2010, primarily consisting of the following:

- Domestic Company-owned restaurant sales increased \$22.6 million, or 4.5%, in 2011 primarily due to an increase in comparable sales of 4.1%.
  - North America franchise royalty revenues increased approximately \$4.1 million, or 5.8% in 2011 due to an increase in comparable sales of 3.1%, and an increase in the number of franchised restaurants.
- Domestic commissary sales increased \$53.6 million, or 11.8% in 2011 primarily due to an increase in the prices of certain commodities, most notably cheese, and an increase in sales volumes.
- International revenues increased \$12.1 million, or 26.1% in 2011, primarily due to an increase in the number of restaurants and an increase in comparable sales of 5.1%, calculated on a constant dollar basis. In 2010, the international segment included revenues from Company-owned restaurants located in the United Kingdom, which were sold in the third quarter of 2010.

## Discussion of Operating Results

Our income before income taxes totaled \$84.8 million in 2011, as compared to \$83.3 million in 2010, an increase of approximately \$1.5 million. Excluding the impact of BIBP (income before income taxes of \$6.8 million, excluding the BIBP Settlement), our income before income taxes increased approximately \$8.3 million, or 10.8%. Income before income taxes is summarized in the following table on an operating segment basis (in thousands):

|                                            | 2011<br>(As Restated) | 2010<br>(As Restated) | Increase<br>(Decrease) |
|--------------------------------------------|-----------------------|-----------------------|------------------------|
| Domestic Company-owned restaurants         | \$ 28,980             | \$ 31,619             | \$ (2,639 )            |
| Domestic commissaries *                    | 30,532                | 14,188                | 16,344                 |
| North America franchising                  | 66,222                | 62,229                | 3,993                  |
| International                              | (165 )                | (4,771 )              | 4,606                  |
| All others                                 | (441 )                | 1,847                 | (2,288 )               |
| Unallocated corporate expenses             | (39,727 )             | (42,237 )             | 2,510                  |
| Elimination of intersegment profits        | (610 )                | (519 )                | (91 )                  |
| Income before income taxes, excluding BIBP | 84,791                | 62,356                | 22,435                 |
| BIBP, a variable interest entity *         | -                     | 20,954                | (20,954 )              |
| Total income before income taxes           | \$ 84,791             | \$ 83,310             | \$ 1,481               |

\*The full-year 2010 results for domestic commissaries were reduced by the BIBP Settlement and the full-year 2010 results for BIBP were increased by the BIBP Settlement. There was no impact on the consolidated results of operations since PJFS and BIBP are fully consolidated into the Company's results.

Changes in income before income taxes for 2011, excluding the impact of BIBP (income before income taxes of \$6.8 million, excluding the BIBP Settlement), are summarized on a segment basis as follows:

- **Domestic Company-owned Restaurant Segment.** Domestic Company-owned restaurants' income before income taxes decreased \$2.6 million from the prior comparable period. The decrease was due to increased commodity costs, primarily cheese, partially offset by incremental profits from higher comparable sales.
- **Domestic Commissary Segment.** Domestic commissaries' income before income taxes increased \$16.3 million in 2011 over the comparable 2010 period comprised of the following (in thousands):

|                                                              | Year Ended<br>December 25,<br>2011 | Year Ended<br>December 26,<br>2010 | Increase  |
|--------------------------------------------------------------|------------------------------------|------------------------------------|-----------|
| Income before income taxes, excluding the<br>BIBP Settlement | \$ 30,532                          | \$ 28,338                          | \$ 2,194  |
| BIBP Settlement                                              | -                                  | (14,150 )                          | 14,150    |
| Total segment income before income taxes                     | \$ 30,532                          | \$ 14,188                          | \$ 16,344 |

Domestic commissaries' income before income taxes, excluding the BIBP Settlement, increased \$2.2 million over the prior year. The increase was due to a higher operating income dollar margin attributable to higher sales volumes, partially offset by increased costs attributable to higher fuel prices.

- **North America Franchising Segment.** North America franchising income before income taxes increased approximately \$4.0 million in 2011 as compared to the comparable 2010 period. The increase was due to the previously mentioned royalty revenue increase.
- **International Segment.** The international segment reported operating losses of \$165,000 in 2011 and approximately \$4.8 million in 2010. The improvement in operating results of \$4.6 million was primarily due to increased royalties due to growth in the number of units and a comparable sales increase of 5.1%, and improved operating results in our Beijing and North China restaurants as well as our United Kingdom commissary. Additionally, the prior year results included start-up costs associated with our Company-owned commissary in the United Kingdom that opened in 2010.
- **All Others Segment.** The "All others" segment reported an operating loss of approximately \$400,000 in 2011, representing a decrease of approximately \$2.3 million, as compared to the corresponding 2010 period. The decrease was primarily due to a decline in the operating results of our online and mobile ordering ("eCommerce") business, partially offset by improvements in operating income at our wholly-owned print and promotions subsidiary, Preferred Marketing Solutions ("Preferred"). The decline in the operating results of our eCommerce business was primarily due to an increase in infrastructure and support costs attributable to the new online ordering system. Additionally, online revenues decreased in 2011 due to lower online and mobile fees charged.

- Unallocated Corporate Segment. Unallocated corporate expenses decreased \$2.5 million in 2011, as compared to prior year. The components of unallocated corporate expenses were as follows (in thousands):

|                                          | Year Ended<br>December 25,<br>2011<br>(As Restated) | Year Ended<br>December 26,<br>2010<br>(As Restated) | Increase<br>(Decrease) |
|------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|------------------------|
| General and administrative (a)           | \$ 24,807                                           | \$ 25,823                                           | \$ (1,016 )            |
| Net interest (b)                         | 2,300                                               | 3,091                                               | (791 )                 |
| Depreciation                             | 8,021                                               | 8,873                                               | (852 )                 |
| Franchise incentives and initiatives (c) | 3,234                                               | 6,489                                               | (3,255 )               |
| Perfect Pizza lease obligation (d)       | 832                                                 | -                                                   | 832                    |
| Other expense (income) (e)               | 533                                                 | (2,039 )                                            | 2,572                  |
| Total unallocated corporate expenses     | \$ 39,727                                           | \$ 42,237                                           | \$ (2,510 )            |

- (a)The decrease in unallocated corporate general and administrative costs for 2011 was due to lower short- and long-term incentive compensation costs, and lower sponsorship fees, partially offset by increased travel costs.
- (b)The decrease in net interest expense reflects the decrease in our average outstanding debt balance and lower interest rates. This was somewhat offset by the increased interest expense in 2011 associated with an increase in the redemption value of a mandatorily redeemable noncontrolling interest in a joint venture. See “Notes 1, 2, and 20” of the “Notes to Consolidated Financial Statements” for additional information.
- (c)In 2010, we provided discretionary contributions to the Marketing Fund and other local advertising cooperatives. In 2011, we offered incentives to domestic franchisees for meeting certain sales targets, including driving comparable sales, transactions and online sales.
- (d)The Perfect Pizza lease obligation relates to rents, taxes and insurance associated with the former Perfect Pizza operations in the United Kingdom. See the notes to the consolidated financial statements for additional information.
- (e)The increase in other expense (income) is primarily due to increases in our online customer loyalty program costs and disposition and valuation-related costs.
- Variable Interest Entities. BIBP generated income before income taxes of \$21.0 million in 2010, which primarily consisted of the BIBP Settlement and income associated with cheese sold to domestic Company-owned and franchise restaurants of \$1.7 million and \$5.6 million, respectively. BIBP reported breakeven results for the first two months of 2011, at which time we terminated the purchasing arrangement with BIBP.

The following table summarizes the impact of BIBP prior to the required consolidating eliminations on our consolidated statements of income for the years ended December 25, 2011 and December 26, 2010 (in thousands):

|                                     | Year Ended           |                      |
|-------------------------------------|----------------------|----------------------|
|                                     | December 25,<br>2011 | December 26,<br>2010 |
| BIBP sales                          | \$ 25,117            | \$ 153,014           |
| Cost of sales                       | 25,100               | 131,549              |
| General and administrative expenses | 17                   | 91                   |
| Total costs and expenses            | 25,117               | 131,640              |
| Operating income                    | -                    | 21,374               |
| Interest expense                    | -                    | (420 )               |
| Income before income taxes (a)      | \$ -                 | \$ 20,954            |

(a) BIBP's income before income taxes for the year ended December 26, 2010, was \$6.8 million, excluding the BIBP Settlement.

Diluted earnings per share were \$2.16 in 2011, compared to \$1.99 per diluted share in 2010 (including a \$0.16 per share gain from the consolidation of BIBP). Excluding the impact of BIBP in 2010, diluted earnings per share increased \$0.33, or 18.0% (\$2.16 in 2011 compared to \$1.83 in 2010). Diluted weighted average shares outstanding decreased 4.4% in 2011 from the prior year period. Diluted earnings per share increased \$0.09 due to the reduction in shares outstanding.

#### Review of Consolidated Operating Results

**Revenues.** Domestic Company-owned restaurant sales were \$525.8 million for 2011 compared to \$503.3 million for 2010. The 4.5% increase was primarily due to a 4.1% increase in comparable sales.

North America franchise sales increased 6.1% to \$1.71 billion, from \$1.62 billion in 2010, as domestic franchise comparable sales increased 3.1% and equivalent units increased 4.5%. "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. North America franchise sales are not included in our consolidated statements of income; however, our North America franchise royalty revenue is derived from these sales. North America franchise royalties were \$73.7 million, representing an increase of 5.8% from the comparable period. The increase in royalties was primarily due to the previously noted increase in franchise sales. The impact of the royalty rate increase to 5.0% (0.25% increase over 2010) was substantially offset by the franchisees' ability to earn up to a 0.25% royalty rebate by meeting certain sales growth targets and an additional 0.20% royalty rebate by making specified re-imaging restaurant lobby investments.

Average weekly sales for comparable units include restaurants that were open throughout the periods presented below. The comparable sales base for domestic Company-owned and North America franchised restaurants, respectively, includes restaurants acquired by the Company or divested to franchisees during the previous twelve months. Average weekly sales for non-comparable units include restaurants that were not open throughout the periods presented below and include non-traditional sites. Average weekly sales for non-traditional units not subject to continuous operation are calculated based upon actual days open.



The comparable sales base and average weekly sales for 2011 and 2010 for domestic Company-owned and North America franchised restaurants consisted of the following:

|                                                   | Year Ended<br>December 25, 2011 |                             | Year Ended<br>December 26, 2010 |                             |
|---------------------------------------------------|---------------------------------|-----------------------------|---------------------------------|-----------------------------|
|                                                   | Domestic<br>Company-owned       | North America<br>Franchised | Domestic<br>Company-owned       | North America<br>Franchised |
| Total domestic units (end of period)              | 598                             | 2,463                       | 591                             | 2,346                       |
| Equivalent units                                  | 589                             | 2,332                       | 586                             | 2,231                       |
| Comparable sales base units                       | 581                             | 2,135                       | 577                             | 2,074                       |
| Comparable sales base percentage                  | 98.6 %                          | 91.6 %                      | 98.5 %                          | 93.0 %                      |
| Average weekly sales - comparable units           | \$ 17,248                       | \$ 14,459                   | \$ 16,599                       | \$ 14,057                   |
| Average weekly sales - total non-comparable units | \$ 11,218                       | \$ 10,708                   | \$ 11,562                       | \$ 12,177                   |
| Average weekly sales - all units                  | \$ 17,164                       | \$ 14,142                   | \$ 16,521                       | \$ 13,924                   |

North America franchise and development fees were approximately \$700,000 in 2011 or an increase of approximately \$100,000 from 2010. The increase was due to an increase in transfer and cancellation fees, partially offset by a decrease in opening fees as there were a greater number of restaurants opening with no fee in 2011 in accordance with our development incentive programs.

Domestic commissary sales increased 11.8% to \$508.2 million in 2011 from \$454.5 million in the prior comparable period. The increase was primarily due to an increase in the prices of certain commodities, most notably cheese, and an increase in sales volumes. Our commissaries charge a fixed dollar mark-up on the cost of cheese. Cheese prices are based upon the block price, which increased to an average price of \$1.80 per pound in 2011 from the \$1.59 BIBP block price in 2010.

Other sales decreased \$1.0 million to \$50.9 million in 2011. The decrease primarily resulted from a decline in sales at Preferred, and a reduction in the online fee charged to our domestic franchisees.

International franchise sales were \$320.0 million in 2011, compared to \$258.8 million in 2010. International franchise sales are not included in our consolidated statements of income; however, our international royalty revenue is derived from these sales. Total international revenues were \$58.6 million for 2011 compared to \$46.4 million in 2010, reflecting an increase in the number of restaurants in addition to the 5.1% increase in comparable sales, calculated on a constant dollar basis. These increases were partially offset by the prior year's inclusion of revenues from Company-owned restaurants located in the United Kingdom, which were sold in the third quarter of 2010. Our PJUK operations represented 51% of international revenues in both 2011 and 2010.

**Costs and Expenses.** The restaurant operating margin at domestic Company-owned units was 19.0% in 2011 compared to 20.2% (19.9% excluding BIBP) in 2010. Excluding the impact of consolidating BIBP, restaurant operating margin decreased 0.9% in 2011 as compared to the corresponding period in 2010, consisting of the following differences:

- Cost of sales were 1.7% higher as a percentage of sales in 2011 as compared to 2010 due to the impact of higher commodities costs, principally cheese, wheat and meats.
-

Salaries and benefits were 0.4% lower as a percentage of sales in 2011 compared to 2010, reflecting the benefit of increased sales.

- Advertising and related costs as a percentage of sales were relatively flat year-over-year.
- Occupancy costs and other operating costs, on a combined basis, as a percentage of sales, were 0.4% lower in 2011 reflecting the benefit of increased sales.

Domestic commissary and other operating margin was 7.8% in 2011, compared to 8.6% in 2010. Domestic commissary and other operating margin decreased 0.8% in 2011, consisting of the following differences:

- Cost of sales was 0.9% higher as a percentage of revenues in 2011, as compared to 2010. Cost of sales increased primarily due to the impact of higher commodities costs, primarily cheese, wheat and meats. In addition, a reduction in online fee revenue from franchisees and an increase in eCommerce support costs contributed to the increases in cost of sales.
- Salaries and benefits were 0.4% lower as a percentage of revenues in 2011, as compared to the same period of 2010, reflecting the benefit of increased sales.
- Other operating expenses were 0.3% higher as a percentage of revenues in 2011, as compared to 2010, primarily due to an increase in distribution costs from increased fuel prices.

We recorded income before income taxes from the franchise cheese-purchasing program, net of noncontrolling interest, of \$5.6 million in 2010 (no impact in 2011 through February, at which time the purchasing agreement with BIBP was terminated). The results in 2010 only represented 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 income before income taxes was \$21.0 million in 2010 (including the BIBP Settlement). See the summary of BIBP's operating results in the Variable Interest Entities caption for additional information on BIBP's 2011 and 2010 results.

International operating expenses in 2011 were 84.5% of international restaurant and commissary sales as compared to 88.7% in 2010. The improvement in operating expenses, as a percentage of sales, was due to both improvements in operating results in our Beijing and North China restaurants and our PJUK commissary. Our 2010 results also included start-up costs associated with our PJUK commissary.

General and administrative expenses were \$111.6 million, or 9.2% of revenues for 2011, as compared to \$110.0 million, or 9.8% of revenues for 2010. The increase in general and administrative expenses is due to an increase in travel costs, payroll and other taxes, and employee incentives, partially offset by lower short- and long-term incentive compensation costs and lower sponsorship fees.

Other general expenses reflected net expense of \$9.8 million in 2011, as compared to \$9.0 million in 2010 as detailed below (in thousands):

|                                                                    | 2011     | 2010     | Increase<br>(Decrease) |
|--------------------------------------------------------------------|----------|----------|------------------------|
| Impairment and disposition losses (a)                              | \$ 1,745 | \$ 894   | \$ 851                 |
| Provision (credit) for uncollectible accounts and notes receivable | 379      | (27 )    | 406                    |
| Pre-opening restaurant costs                                       | 273      | 149      | 124                    |
| Franchise and development incentives and initiatives (b)           | 4,921    | 7,533    | (2,612 )               |
| Perfect Pizza lease obligation (c)                                 | 832      | -        | 832                    |
| Other expense (d)                                                  | 1,617    | 481      | 1,136                  |
| Total other general expenses                                       | \$ 9,767 | \$ 9,030 | \$ 737                 |

(a) Disposition and impairment losses include costs associated with the disposition of certain systems and other equipment.



- (b) The 2010 amounts include discretionary contributions to the Marketing Fund and other local advertising cooperatives of \$6.5 million and incentives to franchisees for opening new restaurants of \$1.0 million. The 2011 amounts include approximately \$3.2 million in incentives offered to domestic franchisees for meeting certain sales targets, including driving comparable sales, transactions and online sales in 2011 and \$1.7 million in incentives to franchisees for opening new restaurants.
- (c) The Perfect Pizza lease obligation relates to rents, taxes and insurance associated with the former Perfect Pizza operations in the United Kingdom.
- (d) Other expense increased primarily due to costs associated with our online customer loyalty program.

Depreciation and amortization was \$32.7 million, or 2.7% of revenues, for 2011 as compared to \$32.4 million, or 2.9% of revenues, for 2010.

Net interest. Net interest expense was approximately \$2.2 million in 2011, compared to \$3.4 million in 2010. The decrease in net interest costs reflects a lower average outstanding debt balance and lower effective interest rates. This was somewhat offset by the increased interest expense in 2011 associated with an increase in the redemption value of a mandatorily redeemable noncontrolling interest in a joint venture. See “Notes 1, 2, and 20” of the “Notes to Consolidated Financial Statements” for additional information.

Income Tax Expense. Our effective income tax rate was 31.0% in 2011 compared to 32.7% in 2010 (32.4% in 2010, excluding BIBP). Our effective income tax rate may fluctuate for various reasons, including the settlement or resolution of specific federal and state issues. We recognized reductions of \$1.9 million and \$550,000 in our income tax expense associated with the finalization of certain income tax issues in 2011 and 2010, respectively.

## 2010 Compared to 2009

### Discussion of Revenues

Total revenues, which increased 4.4% to \$1.13 billion in 2010 compared to \$1.08 billion in 2009, primarily consisted of the following:

- Franchise royalties revenue increased \$7.5 million primarily due to an increase in the royalty rate (the standard royalty rate for the majority of domestic franchise restaurants increased from 4.25% at the beginning of 2009 to 4.50% in September 2009 and increased to 4.75% in the first quarter of 2010).
  - Domestic commissary sales increased \$36.8 million primarily due to an increase in sales volumes.
- International revenues increased \$6.4 million primarily due to an increase in the number of our franchised international restaurants.

The increases noted above were partially offset by a \$2.1 million decline in domestic other sales primarily due to a decline in sales at Preferred. Additionally, domestic Company-owned restaurant sales decreased approximately \$550,000 primarily due to a decrease of 0.6% in comparable sales for domestic Company-owned restaurants for the year.

## Discussion of Operating Results

Our income before income taxes totaled \$83.3 million in 2010, as compared to \$84.2 million in 2009 as summarized in the following table on an operating segment basis (in thousands):

|                                            | 2010<br>(As Restated) | 2009<br>(As Restated) | Increase<br>(Decrease) |
|--------------------------------------------|-----------------------|-----------------------|------------------------|
| Domestic Company-owned restaurants         | \$ 31,619             | \$ 34,894             | \$ (3,275 )            |
| Domestic commissaries *                    | 14,188                | 29,393                | (15,205 )              |
| North America franchising                  | 62,229                | 55,008                | 7,221                  |
| International                              | (4,771 )              | (4,368 )              | (403 )                 |
| All others                                 | 1,847                 | 2,697                 | (850 )                 |
| Unallocated corporate expenses             | (42,237 )             | (55,762 )             | 13,525                 |
| Elimination of intersegment profits        | (519 )                | (218 )                | (301 )                 |
| Income before income taxes, excluding BIBP | 62,356                | 61,644                | 712                    |
| BIBP, a variable interest entity *         | 20,954                | 22,543                | (1,589 )               |
| Total income before income taxes           | \$ 83,310             | \$ 84,187             | \$ (877 )              |

\*The full-year 2010 results for domestic commissaries were reduced by the BIBP Settlement and the full-year 2010 results for BIBP were increased by the BIBP Settlement. There was no impact on the consolidated results of operations since PJFS and BIBP are fully consolidated into the Company's results.

Excluding the impact of the consolidation of BIBP (income before income taxes of \$6.8 million, excluding the BIBP Settlement, or \$0.16 per diluted share in 2010, and income before income taxes of \$22.5 million or \$0.52 per diluted share in 2009), 2010 income before income taxes was \$76.5 million (6.8% of total revenues), compared to \$61.6 million (5.7% of total revenues) in 2009. The \$14.9 million increase in income before income taxes, excluding the consolidation of BIBP, was principally due to the following:

- Domestic Company-owned Restaurant Segment. Domestic Company-owned restaurants' income before income taxes decreased \$3.3 million from the prior comparable period. The decrease was primarily due to a decline in operating margin from lower average ticket prices due to increased levels of discounting, partially offset by increased customer traffic and reductions in labor costs as a result of labor efficiencies from implemented initiatives. The 2009 period included restaurant closure costs of approximately \$700,000. There were no significant closure costs in 2010.

- Domestic Commissary Segment. Domestic commissaries' income before income taxes decreased \$15.2 million in 2010 over the prior year, comprised of the following (in thousands):

|                                           | Year Ended<br>December 26,<br>2010 | Year Ended<br>December 27,<br>2009 | Decrease     |
|-------------------------------------------|------------------------------------|------------------------------------|--------------|
| Income before income taxes, excluding the |                                    |                                    |              |
| BIBP Settlement                           | \$ 28,338                          | \$ 29,393                          | \$ (1,055 )  |
| BIBP Settlement                           | (14,150 )                          | -                                  | (14,150 )    |
| Total segment income before income taxes  | \$ 14,188                          | \$ 29,393                          | \$ (15,205 ) |

Domestic commissaries' income before income taxes, excluding the BIBP Settlement, was \$28.3 million in 2010, as compared to \$29.4 million in 2009. The decrease of \$1.1 million in income before income taxes was primarily due to increased fuel costs, partially offset by an increase in sales volumes, although at a lower gross margin percentage. The full-year 2010 gross margin percentage included the impact of commodities cost increases we absorbed for certain vegetable products resulting from harsh Florida winter weather and various rebate programs available to restaurants for achieving certain sales improvement targets. Full-year 2009 included approximately \$800,000 of management transition costs and \$400,000 of costs associated with the closure of one of our commissaries.

- North America Franchising Segment. North America franchising income before income taxes increased approximately \$7.2 million to \$62.2 million in 2010, from \$55.0 million in 2009. The increase was primarily due to an increase in franchise royalties (the standard royalty rate increased from 4.25% to 4.50% in September 2009, and increased to 4.75% in the first quarter of 2010). The impact of the royalty rate increase was partially offset by the impact of development incentive programs offered by the Company in 2009 and 2010. Franchise and development fees were approximately \$200,000 lower in 2010 than in the corresponding period, despite an increase of 90 domestic unit openings during 2010 due to development incentive programs in place. Additionally, we incurred incentive costs of \$1.0 million in 2010, compared to \$440,000 in 2009.
- International Segment. The international segment reported operating losses of approximately \$4.8 million in 2010 and \$4.4 million in 2009. The increase in operating losses was due to increased personnel and franchise support costs as well as from costs associated with the opening of our new commissary in the United Kingdom, partially offset by increased revenues due to growth in the number of international units.
- All Others Segment. Income before income taxes for the "All others" reporting segment decreased approximately \$850,000 in 2010 as compared to 2009. The decrease was primarily due to increased costs in our online ordering business due to increased infrastructure and support attributable to the new online ordering system introduced in October 2010. This decline was partially offset by an improvement in operating results at Preferred, primarily due to cost reductions implemented in 2009 and 2010.

- Unallocated Corporate Segment. Unallocated corporate expenses decreased approximately \$6.5 million in 2010 as compared to 2009. The components of unallocated corporate expenses were as follows (in thousands):

|                                                                           | Year Ended<br>December 26,<br>2010<br>(As Restated) | Year Ended<br>December 27,<br>2009<br>(As Restated) | Increase<br>(Decrease) |
|---------------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|------------------------|
| General and administrative (a)                                            | \$ 25,823                                           | \$ 26,893                                           | \$ (1,070 )            |
| Net interest (b)                                                          | 3,091                                               | 10,258                                              | (7,167 )               |
| Depreciation                                                              | 8,873                                               | 8,684                                               | 189                    |
| Franchise support initiatives (c)                                         | 6,489                                               | 9,556                                               | (3,067 )               |
| Provision (credit) for uncollectible<br>accounts and notes receivable (d) | (340 )                                              | 1,172                                               | (1,512 )               |
| Other income (e)                                                          | (1,699 )                                            | (801 )                                              | (898 )                 |
| Total unallocated corporate expenses                                      | \$ 42,237                                           | \$ 55,762                                           | \$ (13,525 )           |

- (a) Unallocated general and administrative costs decreased in 2010 due to lower salaries and benefits, resulting from fewer employees and the fact that the prior year included \$800,000 in litigation settlement costs. Severance costs, net of forfeitures of unvested stock awards, were also approximately \$400,000 lower in 2010. These reductions were partially offset by an increase in short-term incentive compensation expense.
- (b) The decrease in net interest expense in 2010 was primarily due to a decrease of approximately \$1.0 million in the redemption value of a mandatorily redeemable noncontrolling interest in a joint venture. In addition, net interest expense in 2009 reflects the impact of the addition of a mandatory redemption feature through a contract amendment in the third quarter of 2009 for one of our noncontrolling interests and the associated remeasurement to its redemption value, which was \$6.0 million of additional interest expense in 2009. See “Notes 1, 2 and 20” of the “Notes to Consolidated Financial Statements” for additional information.
- (c) Franchise support initiatives primarily consist of discretionary contributions to the Marketing Fund and other local advertising cooperatives.
- (d) The reduction in the provision for uncollectible accounts and notes receivable was primarily due to the collection of certain accounts that were previously reserved.
- (e) The increase in other income was primarily due to sales of point-of-sale systems associated with additional domestic openings.

- Variable Interest Entities. BIBP generated income before income taxes of \$21.0 million in 2010, compared to \$22.5 million in 2009. The following table summarizes the impact of BIBP prior to the required consolidating eliminations on our consolidated statements of income for the years ended December 26, 2010 and December 27, 2009 (in thousands):

|                                     | Year Ended           |                      |
|-------------------------------------|----------------------|----------------------|
|                                     | December 26,<br>2010 | December 27,<br>2009 |
| BIBP sales                          | \$ 153,014           | \$ 142,407           |
| Cost of sales                       | 131,549              | 118,825              |
| General and administrative expenses | 91                   | 233                  |
| Total costs and expenses            | 131,640              | 119,058              |
| Operating income                    | 21,374               | 23,349               |
| Interest expense                    | (420 )               | (806 )               |
| Income before income taxes (a)      | \$ 20,954            | \$ 22,543            |

(a) Income before income taxes for the year ended December 26, 2010, was \$6.8 million, excluding the BIBP Settlement.

Diluted earnings per share were \$1.99 in 2010 (including a \$0.16 per share gain from the consolidation of BIBP, excluding the BIBP Settlement), compared to \$1.93 per diluted share in 2009 (including a \$0.52 gain from the consolidation of BIBP and a \$0.04 gain from the finalization of certain income tax issues). Diluted weighted average shares outstanding decreased 5.2% in 2010 from the prior year period. Diluted earnings per share, excluding BIBP, increased \$0.10 due to the reduction in shares outstanding.

#### Review of Consolidated Operating Results

Revenues. Domestic Company-owned restaurant sales were \$503.3 million for 2010 compared to \$503.8 million for 2009. The 0.1% decrease was primarily due to a 0.6% decrease in comparable sales.

North America franchise sales increased 2.1% to \$1.62 billion, from \$1.58 billion in 2009, as comparable sales increased 0.3% and equivalent units increased 4.3%. North America franchise royalties were \$69.6 million, representing an increase of 12.2% from the comparable period. The increase in royalties was primarily due to the previously mentioned increase in the standard royalty rate.

The comparable sales base and average weekly sales for 2010 and 2009 for domestic Company-owned and North America franchised restaurants consisted of the following:

|                                                   | Year Ended<br>December 26, 2010 |                             | Year Ended<br>December 27, 2009 |                             |
|---------------------------------------------------|---------------------------------|-----------------------------|---------------------------------|-----------------------------|
|                                                   | Domestic<br>Company-owned       | North America<br>Franchised | Domestic<br>Company-owned       | North America<br>Franchised |
| Total domestic units (end of period)              | 591                             | 2,346                       | 588                             | 2,193                       |
| Equivalent units                                  | 586                             | 2,231                       | 585                             | 2,140                       |
| Comparable sales base units                       | 577                             | 2,074                       | 569                             | 2,026                       |
| Comparable sales base percentage                  | 98.5 %                          | 93.0 %                      | 97.3 %                          | 94.7 %                      |
| Average weekly sales - comparable units           | \$ 16,599                       | \$ 14,057                   | \$ 16,628                       | \$ 13,948                   |
| Average weekly sales - total non-comparable units | \$ 11,562                       | \$ 12,177                   | \$ 13,902                       | \$ 14,234                   |
| Average weekly sales - all units                  | \$ 16,521                       | \$ 13,924                   | \$ 16,551                       | \$ 13,963                   |

Domestic franchise and development fees were approximately \$600,000 in 2010, or a decrease of approximately \$300,000 from 2009. The decrease was primarily due to a greater number of restaurants opening with no opening fees in accordance with our development incentive programs.

Domestic commissary sales increased 8.8% to \$454.5 million in 2010 from \$417.7 million in the prior comparable period. The increase was primarily due to an increase in sales volumes. Our commissaries charge a fixed dollar mark-up on the cost of cheese. Cheese cost based upon the BIBP block price increased from \$1.55 per pound in 2009 to \$1.59 per pound in 2010, or a 2.6% increase.

Other sales decreased \$2.1 million to \$52.0 million. The decrease was primarily due to a decline in sales at Preferred.

International revenues increased 16.1% to \$46.4 million in 2010, from \$40.0 million in 2009, reflecting the increase in the number of franchised restaurants over the past year.

**Costs and Expenses.** The restaurant operating margin at domestic Company-owned units was 20.2% in 2010 compared to 21.8% in 2009. Excluding the impact of consolidating BIBP, restaurant operating margin decreased 0.8% to 19.9% for the year ended December 26, 2010 as compared to the corresponding period in 2009, consisting of the following differences:

- Cost of sales were 1.3% higher (excluding the consolidation of BIBP) in 2010 as compared to 2009 due to increased discounting of prices to customers.
- Salaries and benefits were 1.6% lower as a percentage of sales in 2010 compared to 2009, primarily due to labor efficiencies from implemented initiatives, and a change in pay practices for certain team members.
- Advertising and related costs as a percentage of sales were 0.3% higher in 2010 due to an increase in local marketing initiatives.
- Occupancy costs and other operating costs, on a combined basis, as a percentage of sales, were 0.8% higher in 2010 primarily due to increased reimbursement rates for certain team members, in connection with previously noted labor initiatives.

Domestic commissary and other margin was 8.6% in 2010, compared to 9.8% in 2009. Cost of sales was 75.5% of revenues in 2010, compared to 73.8% in 2009. Cost of sales increased primarily due to our commissaries' absorbing an increase in prices of certain commodities, including increases in vegetable products due to the impact from harsh Florida winter weather during 2010. Salaries and benefits were relatively consistent for both periods at \$34.1 million and \$33.9 million for 2010 and 2009, respectively. Other operating expenses increased approximately \$3.3 million in 2010 as compared to 2009, primarily due to higher distribution costs, reflecting increased volumes and an increase in fuel costs.

We recorded income before income taxes from the franchise cheese-purchasing program, net of noncontrolling interest, of \$5.6 million and \$18.1 million in 2010 and 2009, respectively. These results only represent the portion of BIBP's operating income or loss related to the proportion of BIBP cheese sales to franchisees. The total impact of the consolidation of BIBP on Papa John's income before income taxes was income of \$21.0 million in 2010 (including the BIBP Settlement) and \$22.5 million in 2009.

International operating expenses in 2010 were 88.7% of international restaurant and commissary sales as compared to 86.3% in 2009. The increase in operating expenses as a percentage of sales is primarily due to the start-up costs associated with our PJUK commissary.

General and administrative expenses were \$110.0 million, or 9.8% of revenues for 2010, as compared to \$111.4 million, or 10.3% of revenues for 2009. The decrease is primarily due to the items noted as comprising the decreases in unallocated general and administrative expenses for the Unallocated Corporate Segment in the Discussion of Operating Results section, as well as 2009 including certain management transition costs recorded by our domestic commissaries segment.

Other general expenses reflected net expense of \$9.0 million in 2010, as compared to \$14.3 million in 2009 as detailed below (in thousands):

|                                                                        | 2010     | 2009      | Increase<br>(Decrease) |
|------------------------------------------------------------------------|----------|-----------|------------------------|
| Impairment and disposition losses                                      | \$ 894   | \$ 1,829  | \$ (935 )              |
| Provision (credit) for uncollectible accounts and notes receivable (a) | (27 )    | 1,378     | (1,405 )               |
| Pre-opening restaurant costs                                           | 149      | 75        | 74                     |
| Franchise support initiatives (b)                                      | 6,489    | 9,556     | (3,067 )               |
| Franchise incentives (c)                                               | 1,044    | 440       | 604                    |
| Commissary closing costs                                               | -        | 369       | (369 )                 |
| Other                                                                  | 481      | 699       | (218 )                 |
| Total other general expenses                                           | \$ 9,030 | \$ 14,346 | \$ (5,316 )            |

(a) The reduction in provision (credit) for uncollectible accounts and notes receivable was primarily due to the collection of certain accounts that were previously reserved.

(b) Franchise support initiatives primarily consist of discretionary contributions to the Marketing Fund and other local advertising cooperatives.

(c) Franchise incentives include incentives to franchisees for opening new restaurants.

Depreciation and amortization was \$32.4 million, or 2.9% of revenues, for 2010 as compared to \$31.4 million, or 2.9% of revenues, for 2009.

Net interest. Net interest expense was \$3.4 million in 2010, compared to \$11.0 million in 2009. The interest expense for 2009 includes approximately \$169,000 related to BIBP's debt with a third-party bank (none in 2010). The decrease in net interest expense in 2010 was primarily due to a decrease of approximately \$1.0 million in the redemption value of a mandatorily redeemable noncontrolling interest in a joint venture. In addition, net interest expense in 2009 reflects the impact of the addition of a mandatory redemption feature through a contract amendment in the third quarter of 2009 for one of our noncontrolling interests and the associated remeasurement to its redemption value, which was \$6.0 million of additional interest expense in 2009. See "Notes 1, 2 and 20" of the "Notes to Consolidated Financial Statements" for additional information.



Income Tax Expense. We recognized reductions of \$550,000 and \$1.2 million in our income tax expense associated with the finalization of certain income tax issues in 2010 and 2009, respectively. Our effective income tax rates were 32.7% in 2010 compared to 31.7% in 2009 (32.4% in 2010 and 30.4% in 2009, excluding BIBP).

### Liquidity and Capital Resources

Debt and credit arrangements consist of the following (in thousands):

|                          | 2011      | 2010      |
|--------------------------|-----------|-----------|
| Revolving line of credit | \$ 51,489 | \$ 99,000 |
| Other                    | -         | 17        |
| Total long-term debt     | \$ 51,489 | \$ 99,017 |

In September 2010, we entered into a five-year, \$175.0 million unsecured Revolving Credit Facility (“New Credit Facility”) that replaced a \$175.0 million unsecured Revolving Credit Facility (“Old Credit Facility”). The New Credit Facility was amended in November 2011 (the “Amended Credit Facility”), which extended the maturity date of the New Credit Facility to November 30, 2016. Under the Amended Credit Facility, outstanding balances are charged interest at 75 basis points to 150 basis points over LIBOR or other bank developed rates at our option (previously charged 100 basis points to 175 basis points above LIBOR). Outstanding balances under the Old Credit Facility were charged interest at 50 to 100 basis points over LIBOR or other bank developed rates, at our option.

We have used interest rate swaps to hedge against the effects of potential interest rate increases on borrowings under our revolving credit facility. We currently have a swap with a fixed rate of 0.53%, as compared to LIBOR, with a notional amount of \$50.0 million. See “Note 7” of “Notes to Consolidated Financial Statements” for additional information.

The New Credit Facility, as amended, contains customary affirmative and negative covenants, including the following financial covenants, as defined by the New Credit Facility (the covenants exclude the impact of consolidating BIBP’s operations):

|                         | Permitted Ratio          | Actual Ratio for the Year Ended December 25, 2011 |
|-------------------------|--------------------------|---------------------------------------------------|
| Leverage Ratio          | Not to exceed 2.5 to 1.0 | 0.5 to 1.0                                        |
| Interest Coverage Ratio | Not less than 3.5 to 1.0 | 5.4 to 1.0                                        |

Our leverage ratio is defined as outstanding debt divided by consolidated EBITDA for the most recent four fiscal quarters. Our interest coverage ratio is defined as the sum of consolidated EBITDA and consolidated rental expense for the most recent four fiscal quarters divided by the sum of consolidated interest expense and consolidated rental expense for the most recent four fiscal quarters. We were in compliance with all covenants at December 25, 2011.

Cash flow provided by operating activities was \$101.0 million for the full-year 2011 as compared to \$92.6 million in 2010. The consolidation of BIBP increased cash flow from operations by approximately \$6.8 million in 2010. Excluding the impact of the consolidation of BIBP, cash flow from operations was \$101.0 million in 2011, as compared to \$85.8 million in 2010, primarily due to higher net income and favorable working capital changes, including deferred income taxes.

Cash flow provided by operating activities decreased to \$92.6 million in 2010 from \$103.8 million in 2009. The consolidation of BIBP increased cash flow from operations by approximately \$6.8 million in 2010 and \$22.5 million in 2009. Excluding the impact of the consolidation of BIBP, cash flow was \$85.8 million in 2010 as compared to \$81.3 million in 2009, primarily due to higher net income.

The Company's free cash flow for the last three years was as follows (in thousands):

|                                           | Dec. 25,<br>2011 | Year Ended<br>Dec. 26,<br>2010 | Dec. 27,<br>2009 |
|-------------------------------------------|------------------|--------------------------------|------------------|
| Net cash provided by operating activities | \$ 101,008       | \$ 92,581                      | \$ 103,826       |
| Gain from BIBP cheese purchasing entity   | -                | (6,804 )                       | (22,543 )        |
| Purchase of property and equipment        | (29,319 )        | (31,125 )                      | (33,538 )        |
| Free cash flow (a)                        | \$ 71,689        | \$ 54,652                      | \$ 47,745        |

(a) We define free cash flow as net cash provided by operating activities (from the consolidated statements of cash flows) excluding the impact of BIBP, less the purchases of property and equipment. See "Non-GAAP Measures" above for more information about this non-GAAP measure, its limitations and why we present free cash flow alongside the most directly comparable GAAP measure.

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. Purchases of property and equipment amounted to \$29.3 million, \$31.1 million, and \$33.5 million in 2011, 2010, and 2009, respectively, and are summarized by operating segment in "Note 19" of "Notes to Consolidated Financial Statements."

Our Board of Directors has authorized the repurchase of our common stock through December 31, 2012. The following is a summary of our common share repurchases for the last three years (in thousands, except average price per share):

| Fiscal Year | Number of<br>Shares<br>Repurchased | Total Cash<br>Paid | Average Price<br>Per Share |
|-------------|------------------------------------|--------------------|----------------------------|
| 2009        | 1,319                              | \$28,477           | \$21.59                    |
| 2010        | 1,881                              | \$46,936           | \$24.95                    |
| 2011        | 2,084                              | \$65,323           | \$31.35                    |

Subsequent to year-end (through February 14, 2012), we acquired an additional 60,000 shares at an aggregate cost of \$2.2 million. As of February 14, 2012, approximately \$69.3 million remained available for repurchase of common stock under this authorization.

The outstanding principal balance under our revolving line of credit was \$99.0 million in 2009 and 2010 and decreased to \$51.5 million in 2011, as we used cash on hand and cash from operations to reduce the outstanding debt.

Contractual obligations and payments as of December 25, 2011 due by year are as follows (in thousands):

|                               | Payments Due by Period |           |           |               |           |
|-------------------------------|------------------------|-----------|-----------|---------------|-----------|
|                               | Less than 1<br>Year    | 1-3 Years | 3-5 Years | After 5 Years | Total     |
| Contractual Obligations:      |                        |           |           |               |           |
| Revolving line of credit (1)  | \$-                    | \$-       | \$51,489  | \$-           | \$51,489  |
| Interest payments (2)         | 667                    | 1,149     | 1,029     | -             | 2,845     |
| Total debt                    | 667                    | 1,149     | 52,518    | -             | 54,334    |
| Operating leases              | 29,760                 | 48,824    | 30,556    | 29,703        | 138,843   |
| Total contractual obligations | \$30,427               | \$49,973  | \$83,074  | \$29,703      | \$193,177 |

(1) We utilize an interest rate swap to hedge against rising interest rates. The value of our interest rate swap was \$11,000 at December 25, 2011 and was recorded in other long-term assets in the consolidated balance sheet.

(2) Represents estimated interest payments on our revolving line of credit balance outstanding as of December 25, 2011. The interest payments assume the outstanding balance on our \$175.0 million unsecured revolving line of credit will remain at \$51.5 million until the maturity date of November, 2016. Interest payments are calculated based on LIBOR plus the applicable margin in effect at December 25, 2011, after considering the interest rate swap agreement in effect until August, 2013. The actual interest rates on the variable indebtedness incurred and the amount of our indebtedness could vary from those used to compute the above interest payments. See "Note 7" of "Notes to Consolidated Financial Statements" for additional information concerning our debt and credit arrangements.

The above table does not include \$3.0 million of unrecognized tax benefits since we are not able to make reasonable estimates of the period of cash settlement with respect to the taxing authority. Additionally, the above table does not include \$15.0 million of redeemable and mandatorily redeemable noncontrolling interests as we are not able to predict the timing of the redemptions.

#### Off-Balance Sheet Arrangements

The off-balance sheet arrangements that are reasonably likely to have a current or future effect on the Company's financial condition are leases of Company-owned restaurant sites, QC Centers, office space and transportation equipment.

In connection with the 2006 sale of our former Perfect Pizza operations in the United Kingdom, we remain contingently liable for payment under approximately 40 lease arrangements, primarily associated with Perfect Pizza restaurant sites for which the Perfect Pizza franchisor is primarily liable. The leases have varying terms, the latest of which expires in 2017, with most expiring by the end of 2014. As of December 25, 2011, the estimated maximum amount of undiscounted rental payments we would be required to make in the event of non-payment under all such leases was approximately \$2.5 million, excluding the \$832,000 charge discussed below.

On August 1, 2011 the High Court of Justice Chancery Division, Birmingham District Registry entered an order placing Perfect Pizza in administration, thereby providing Perfect Pizza with protection from its creditors in accordance with UK insolvency law. On the same date, the administrators entered into an agreement to sell substantially all of the business and assets of Perfect Pizza. In accordance with the terms of the agreement, the buyer has an option period up to nine months to determine which Perfect Pizza leases they will assume.

The buyer is continuing to assess most restaurant leases but has identified certain leases that will likely not be assumed. Accordingly, for the year ended December 25, 2011, we recorded an expense of approximately \$832,000 in other general expenses in the accompanying consolidated statements of income, representing the remaining rentals, taxes and insurance related to these specific leases. Given the uncertainty of the remaining restaurant locations, we are unable to reasonably estimate any potential additional liability for those locations and therefore, no amount has been recorded in the consolidated financial statements as of December 25, 2011 with respect to the remaining restaurant locations.

We have certain other commercial commitments where payment is contingent upon the occurrence of certain events. Such commitments include the following by year (in thousands):

|                                  | Amount of Commitment Expiration Per Period |              |              |                  | Total     |
|----------------------------------|--------------------------------------------|--------------|--------------|------------------|-----------|
|                                  | Less than<br>1 Year                        | 1-3<br>Years | 3-5<br>Years | After<br>5 Years |           |
| Other Commercial<br>Commitments: |                                            |              |              |                  |           |
| Standby letters of credit        | \$ 1,078                                   | \$ 13,439    | \$ 0         | \$ 0             | \$ 14,517 |

See “Notes 7, 10 and 15” of “Notes to Consolidated Financial Statements” for additional information related to contractual and other commitments.

#### 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 business performance, revenue, earnings, contingent liabilities, resolution of litigation, commodity costs, margins, unit growth, 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:



- aggressive changes in pricing or other marketing or promotional strategies by competitors which may adversely affect sales; and new product and concept developments by food industry competitors;
- changes in consumer preferences and adverse general economic and political conditions, including increasing tax rates, and their resulting impact on consumer buying habits;
- the impact that product recalls, food quality or safety issues, and general public health concerns could have on our restaurants;
- failure to maintain our brand strength and quality reputation;
- the ability of the company and its franchisees to meet planned growth targets and operate new and existing restaurants profitably, which could be impacted by challenges securing financing, finding suitable store locations or securing required domestic or foreign government permits and approvals;
- increases in or sustained high costs of food ingredients and other commodities;
- disruption of our supply chain due to sole or limited source of suppliers or weather, drought, disease or other disruption beyond our control;
- increased risks associated with our international operations, including economic and political conditions in our international markets and difficulty in meeting planned sales targets and new store growth for our international operations;
- increased employee compensation, benefits, insurance, regulatory compliance and similar costs, including increased costs resulting from federal health care legislation;
- the credit performance of our franchise loan program;
- the impact of the resolution of current or future claims and litigation, and current or proposed legislation impacting our business;
- currency exchange and interest rates;
- failure to effectively execute succession planning, and our reliance on the services of our Founder and CEO, who also serves as our brand spokesperson;
- credit risk associated with parties to leases of restaurants and commissaries, including those Perfect Pizza locations formerly operated by us, for which we remain contractually liable; and
- disruption of critical business or information technology systems, and risks associated with security breaches, including theft of company and customer information.

For a discussion of these and other risks that may cause actual results to differ from expectations, refer to “Part I. Item 1A. – Risk Factors” in our Annual Report on Form 10-K for the year ended December 30, 2012, our Report on Form 8-K filed on February 26, 2013 concerning our restated financial statements, and all subsequent filings. 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 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Papa John's International, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Papa John's International, Inc. and Subsidiaries as of December 25, 2011 and December 26, 2010, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 25, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Papa John's International, Inc. and Subsidiaries at December 25, 2011 and December 26, 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 25, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the 2009, 2010 and 2011 consolidated financial statements have been restated to correct for errors in the accounting for certain redemption features of the noncontrolling interests of joint venture agreements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Papa John's International, Inc. and Subsidiaries' internal control over financial reporting as of December 25, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 21, 2012, except for the effects of the material weakness identified in the sixth paragraph of our report as to which the date is April 16, 2013, expressed an adverse opinion thereon.

/s/ Ernst & Young LLP

Louisville, Kentucky

February 21, 2012, except for the error corrections discussed in Note 1 and the retrospective presentation of the statement of comprehensive income discussed in Note 2, as to which the date is April 16, 2013



Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Papa John's International, Inc. and Subsidiaries

We have audited Papa John's International, Inc. and Subsidiaries' internal control over financial reporting as of December 25, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Papa John's International, Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Management's Report on our Internal Control over Financial Reporting." Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our report dated February 21, 2012, we expressed an unqualified opinion that Papa John's International, Inc. and Subsidiaries' maintained, in all material respects, effective internal control over financial reporting as of December 25, 2011, based on the COSO criteria. Management has subsequently determined that a deficiency existed in review controls over non-routine contractual changes or amendments to noncontrolling interests of joint venture agreements and has further concluded that such deficiency represented a material weakness as of December 25, 2011. As a result, management has revised its assessment, as presented in the accompanying Management's Report on Internal Control Over Financial Reporting, to conclude that Papa John's International, Inc. and Subsidiaries' internal control over financial reporting was not effective as of December 25, 2011. Accordingly, our present opinion on the effectiveness of Papa John's International, Inc. and Subsidiaries' internal control over financial reporting as of December 25, 2011 as expressed herein, is different from that expressed in our previous report.



A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Management has identified a material weakness in internal controls over the accounting for noncontrolling interests of joint venture agreements. Specifically, the review controls in place with respect to non-routine contractual changes or amendments related to these agreements were not effective. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Papa John's International, Inc. and Subsidiaries as of December 25, 2011 and December 26, 2010, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 25, 2011. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of those financial statements, and this report does not affect our report dated February 21, 2012, except for the error corrections discussed in Note 1 and the retrospective presentation of the statement of comprehensive income discussed in Note 2, as to which the date is April 16, 2013, which expressed an unqualified opinion on those financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Papa John's International, Inc. and Subsidiaries has not maintained effective internal control over financial reporting as of December 25, 2011, based on the COSO criteria.

/s/ Ernst & Young LLP

Louisville, Kentucky

February 21, 2012, except for the effects of the material weakness described in the sixth paragraph above as to which the date is April 16, 2013

Papa John's International, Inc. and Subsidiaries  
Consolidated Statements of Income

(In thousands, except per share amounts)

|                                                                                        | December 25,<br>2011<br>(As Restated) | Years Ended<br>December 26,<br>2010<br>(As Restated) | December 27,<br>2009<br>(As Restated) |
|----------------------------------------------------------------------------------------|---------------------------------------|------------------------------------------------------|---------------------------------------|
| North America revenues:                                                                |                                       |                                                      |                                       |
| Domestic Company-owned restaurant sales                                                | \$525,841                             | \$503,272                                            | \$503,818                             |
| Franchise royalties                                                                    | 73,694                                | 69,631                                               | 62,083                                |
| Franchise and development fees                                                         | 722                                   | 610                                                  | 912                                   |
| Domestic commissary sales                                                              | 508,155                               | 454,506                                              | 417,689                               |
| Other sales                                                                            | 50,912                                | 51,951                                               | 54,045                                |
| International revenues:                                                                |                                       |                                                      |                                       |
| Royalties and franchise and development fees                                           | 16,327                                | 13,265                                               | 11,780                                |
| Restaurant and commissary sales                                                        | 42,231                                | 33,162                                               | 28,223                                |
| Total revenues                                                                         | 1,217,882                             | 1,126,397                                            | 1,078,550                             |
| Costs and expenses:                                                                    |                                       |                                                      |                                       |
| Domestic Company-owned restaurant expenses:                                            |                                       |                                                      |                                       |
| Cost of sales                                                                          | 126,887                               | 111,010                                              | 100,863                               |
| Salaries and benefits                                                                  | 142,093                               | 137,840                                              | 146,116                               |
| Advertising and related costs                                                          | 49,035                                | 47,174                                               | 45,593                                |
| Occupancy costs                                                                        | 32,278                                | 32,343                                               | 31,685                                |
| Other operating expenses                                                               | 75,558                                | 72,997                                               | 69,946                                |
| Total domestic Company-owned restaurant expenses                                       | 425,851                               | 401,364                                              | 394,203                               |
| Domestic commissary and other expenses:                                                |                                       |                                                      |                                       |
| Cost of sales                                                                          | 426,955                               | 382,150                                              | 348,265                               |
| Salaries and benefits                                                                  | 35,141                                | 34,063                                               | 33,839                                |
| Other operating expenses                                                               | 53,188                                | 46,890                                               | 43,595                                |
| Total domestic commissary and other expenses                                           | 515,284                               | 463,103                                              | 425,699                               |
| Income from the franchise cheese-purchasing program,<br>net of noncontrolling interest | -                                     | (5,634 )                                             | (18,079 )                             |
| International operating expenses                                                       | 35,674                                | 29,429                                               | 24,356                                |
| General and administrative expenses                                                    | 111,608                               | 109,954                                              | 111,361                               |
| Other general expenses                                                                 | 9,767                                 | 9,030                                                | 14,346                                |
| Depreciation and amortization                                                          | 32,681                                | 32,407                                               | 31,446                                |
| Total costs and expenses                                                               | 1,130,865                             | 1,039,653                                            | 983,332                               |
| Operating income                                                                       | 87,017                                | 86,744                                               | 95,218                                |
| Investment income                                                                      | 755                                   | 875                                                  | 629                                   |
| Interest expense                                                                       | (2,981 )                              | (4,309 )                                             | (11,660 )                             |
| Income before income taxes                                                             | 84,791                                | 83,310                                               | 84,187                                |
| Income tax expense                                                                     | 26,324                                | 27,247                                               | 26,702                                |
| Net income, including redeemable noncontrolling interests                              | 58,467                                | 56,063                                               | 57,485                                |
| Income attributable to redeemable noncontrolling interests                             | (3,732 )                              | (3,485 )                                             | (3,756 )                              |
| Net income, net of redeemable noncontrolling interests                                 | \$54,735                              | \$52,578                                             | \$53,729                              |
| Basic earnings per common share                                                        | \$2.19                                | \$2.00                                               | \$1.94                                |
| Earnings per common share - assuming dilution                                          | \$2.16                                | \$1.99                                               | \$1.93                                |

|                                             |        |        |        |
|---------------------------------------------|--------|--------|--------|
| Basic weighted average shares outstanding   | 25,043 | 26,328 | 27,738 |
| Diluted weighted average shares outstanding | 25,310 | 26,468 | 27,909 |

Supplemental data (see Note 14):

|                           |          |          |          |
|---------------------------|----------|----------|----------|
| Revenues - affiliates     | \$28,078 | \$24,290 | \$22,473 |
| Other income - affiliates | -        | -        | 57       |

See accompanying notes.

Papa John's International, Inc. and Subsidiaries  
Consolidated Statements of Comprehensive Income

(In thousands)

|                                                                     | December 25,<br>2011<br>(As Restated) | Years Ended<br>December 26,<br>2010<br>(As Restated) | December 27,<br>2009<br>(As Restated) |
|---------------------------------------------------------------------|---------------------------------------|------------------------------------------------------|---------------------------------------|
| Net income, including redeemable noncontrolling interests           | \$58,467                              | \$56,063                                             | \$57,485                              |
| Other comprehensive income (loss), before tax:                      |                                       |                                                      |                                       |
| Foreign currency translation adjustments                            | 864                                   | (523 )                                               | 1,310                                 |
| Interest rate swaps                                                 | 258                                   | 3,756                                                | 2,169                                 |
| Defined benefit pension plan                                        | (45 )                                 | 83                                                   | 58                                    |
| Other comprehensive income, before tax                              | 1,077                                 | 3,316                                                | 3,537                                 |
| Income tax effect:                                                  |                                       |                                                      |                                       |
| Interest rate swaps                                                 | (93 )                                 | (1,352 )                                             | (781 )                                |
| Defined benefit pension plan                                        | 16                                    | (31 )                                                | (22 )                                 |
| Income tax effect                                                   | (77 )                                 | (1,383 )                                             | (803 )                                |
| Other comprehensive income, net of tax                              | 1,000                                 | 1,933                                                | 2,734                                 |
| Comprehensive income, including redeemable noncontrolling interests | 59,467                                | 57,996                                               | 60,219                                |
| Comprehensive income, redeemable noncontrolling interests           | (3,732 )                              | (3,485 )                                             | (3,756 )                              |
| Comprehensive income, net of redeemable noncontrolling interests    | \$55,735                              | \$54,511                                             | \$56,463                              |

See accompanying notes.

Papa John's International, Inc. and Subsidiaries  
Consolidated Balance Sheets

| (In thousands, except per share amounts)                                                                             | Years Ended                           |                                       |
|----------------------------------------------------------------------------------------------------------------------|---------------------------------------|---------------------------------------|
|                                                                                                                      | December 25,<br>2011<br>(As Restated) | December 26,<br>2010<br>(As Restated) |
| <b>Assets</b>                                                                                                        |                                       |                                       |
| <b>Current assets:</b>                                                                                               |                                       |                                       |
| Cash and cash equivalents                                                                                            | \$18,942                              | \$47,829                              |
| Accounts receivable (less allowance for doubtful accounts of \$3,034 in 2011 and \$2,795 in 2010)                    | 27,487                                | 24,733                                |
| Accounts receivable - affiliates (no allowance for doubtful accounts in 2011 and 2010)                               | 682                                   | 624                                   |
| Notes receivable (no allowance for doubtful accounts in 2011 and 2010)                                               | 4,221                                 | 4,735                                 |
| Inventories                                                                                                          | 20,091                                | 17,402                                |
| Deferred income taxes                                                                                                | 7,636                                 | 9,647                                 |
| Prepaid expenses                                                                                                     | 10,210                                | 10,009                                |
| Other current assets                                                                                                 | 5,555                                 | 4,489                                 |
| <b>Total current assets</b>                                                                                          | <b>94,824</b>                         | <b>119,468</b>                        |
| Net property and equipment                                                                                           | 181,910                               | 185,371                               |
| Notes receivable, less current portion (less allowance for doubtful accounts of \$5,905 in 2011 and \$9,951 in 2010) | 11,502                                | 12,619                                |
| Deferred income taxes                                                                                                | -                                     | 1,551                                 |
| Goodwill                                                                                                             | 75,085                                | 74,697                                |
| Other assets                                                                                                         | 27,061                                | 23,786                                |
| <b>Total assets</b>                                                                                                  | <b>\$390,382</b>                      | <b>\$417,492</b>                      |
| <b>Liabilities and stockholders' equity</b>                                                                          |                                       |                                       |
| <b>Current liabilities:</b>                                                                                          |                                       |                                       |
| Accounts payable                                                                                                     | \$32,966                              | \$31,569                              |
| Income and other taxes payable                                                                                       | 3,969                                 | 1,789                                 |
| Accrued expenses and other current liabilities                                                                       | 44,198                                | 42,825                                |
| <b>Total current liabilities</b>                                                                                     | <b>81,133</b>                         | <b>76,183</b>                         |
| Unearned franchise and development fees                                                                              | 4,780                                 | 6,596                                 |
| Long-term debt                                                                                                       | 51,489                                | 99,017                                |
| Deferred income taxes                                                                                                | 6,692                                 | -                                     |
| Other long-term liabilities                                                                                          | 36,676                                | 36,576                                |
| <b>Total liabilities</b>                                                                                             | <b>180,770</b>                        | <b>218,372</b>                        |
| Redeemable noncontrolling interests                                                                                  | 3,965                                 | 3,512                                 |
| <b>Stockholders' equity:</b>                                                                                         |                                       |                                       |
| Preferred stock (\$.01 par value per share; authorized 5,000 shares, no shares issued)                               | -                                     | -                                     |
| Common stock (\$.01 par value per share; authorized 50,000 shares, issued 36,656 in 2011 and 36,084 in 2010)         | 367                                   | 361                                   |
| Additional paid-in capital                                                                                           | 262,456                               | 245,380                               |
| Accumulated other comprehensive income                                                                               | 1,849                                 | 849                                   |

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|                                                                                 |            |            |
|---------------------------------------------------------------------------------|------------|------------|
| Retained earnings                                                               | 294,801    | 240,066    |
| Treasury stock (12,637 shares in 2011 and 10,645 shares in 2010, at cost)       | (353,826 ) | (291,048 ) |
| Total stockholders' equity                                                      | 205,647    | 195,608    |
| Total liabilities, redeemable noncontrolling interests and stockholders' equity | \$390,382  | \$417,492  |

See accompanying notes.

Papa John's International, Inc. and Subsidiaries  
Consolidated Statements of Stockholders' Equity

|                                                                           | Common Stock       |              | Papa John's International, Inc. |                                               |                                 | Treasury Stock | Noncontrolling Interest     | Total                              |
|---------------------------------------------------------------------------|--------------------|--------------|---------------------------------|-----------------------------------------------|---------------------------------|----------------|-----------------------------|------------------------------------|
|                                                                           | Shares Outstanding | Common Stock | Additional Paid-In Capital      | Accumulated Other Comprehensive Income (Loss) | Retained Earnings (As Restated) |                | in Subsidiary (As Restated) | Stockholders' Equity (As Restated) |
| (In thousands)                                                            | Outstanding        | Stock        | Capital                         | (Loss)                                        | Earnings (As Restated)          | Stock          | Subsidiary (As Restated)    | Equity (As Restated)               |
| Balance at December 28, 2008                                              | 27,637             | \$ 352       | \$ 216,553                      | \$ (3,818 )                                   | \$ 133,759                      | \$ (216,860)   | \$ 4,838                    | \$ 134,824                         |
| Comprehensive income:                                                     |                    |              |                                 |                                               |                                 |                |                             |                                    |
| Net income                                                                | -                  | -            | -                               | -                                             | 53,729                          | -              | -                           | 53,729                             |
| Change in valuation of interest rate swap agreements, net of tax of \$781 | -                  | -            | -                               | 1,388                                         | -                               | -              | -                           | 1,388                              |
| Foreign currency translation                                              | -                  | -            | -                               | 1,310                                         | -                               | -              | -                           | 1,310                              |
| Other                                                                     | -                  | -            | -                               | 36                                            | -                               | -              | -                           | 36                                 |
| Comprehensive income                                                      |                    |              |                                 |                                               |                                 |                |                             | 56,463                             |
| Exercise of stock options                                                 | 612                | 6            | 9,824                           | -                                             | -                               | -              | -                           | 9,830                              |
| Tax effect of equity awards                                               | -                  | -            | (342 )                          | -                                             | -                               | -              | -                           | (342 )                             |
| Acquisition of Company common stock                                       | (1,319 )           | -            | -                               | -                                             | -                               | (28,477 )      | -                           | (28,477 )                          |
| Stock-based compensation expense                                          | -                  | -            | 5,817                           | -                                             | -                               | -              | -                           | 5,817                              |
| Reclassification for mandatorily redeemable feature                       | -                  | -            | -                               | -                                             | -                               | -              | (4,838 )                    | (4,838 )                           |
| Other                                                                     | -                  | -            | (132 )                          | -                                             | -                               | -              | -                           | (132 )                             |
| Balance at December 27, 2009                                              | 26,930             | 358          | 231,720                         | (1,084 )                                      | 187,488                         | (245,337)      | -                           | 173,145                            |

|                                                                             |          |     |          |        |         |            |   |           |
|-----------------------------------------------------------------------------|----------|-----|----------|--------|---------|------------|---|-----------|
| Comprehensive income:                                                       |          |     |          |        |         |            |   |           |
| Net income                                                                  | -        | -   | -        | -      | 52,578  | -          | - | 52,578    |
| Change in valuation of interest rate swap agreements, net of tax of \$1,352 | -        | -   | -        | 2,404  | -       | -          | - | 2,404     |
| Foreign currency translation                                                | -        | -   | -        | (523 ) | -       | -          | - | (523 )    |
| Other                                                                       | -        | -   | -        | 52     | -       | -          | - | 52        |
| Comprehensive income                                                        |          |     |          |        |         |            |   | 54,511    |
| Exercise of stock options                                                   | 356      | 3   | 6,122    | -      | -       | 285        | - | 6,410     |
| Tax effect of equity awards                                                 | -        | -   | 62       | -      | -       | -          | - | 62        |
| Acquisition of Company common stock                                         | (1,881 ) | -   | -        | -      | -       | (46,936 )  | - | (46,936 ) |
| Stock-based compensation expense                                            | -        | -   | 6,066    | -      | -       | -          | - | 6,066     |
| Issuance of restricted stock                                                | 34       | -   | (881 )   | -      | -       | 881        | - | -         |
| Other                                                                       | -        | -   | 2,291    | -      | -       | 59         | - | 2,350     |
| Balance at December 26, 2010                                                | 25,439   | 361 | 245,380  | 849    | 240,066 | (291,048 ) | - | 195,608   |
| Comprehensive income:                                                       |          |     |          |        |         |            |   |           |
| Net income                                                                  | -        | -   | -        | -      | 54,735  | -          | - | 54,735    |
| Change in valuation of interest rate swap agreements, net of tax of \$93    | -        | -   | -        | 165    | -       | -          | - | 165       |
| Foreign currency translation                                                | -        | -   | -        | 864    | -       | -          | - | 864       |
| Other                                                                       | -        | -   | -        | (29 )  | -       | -          | - | (29 )     |
| Comprehensive income                                                        |          |     |          |        |         |            |   | 55,735    |
| Exercise of stock options                                                   | 572      | 6   | 14,036   | -      | -       | -          | - | 14,042    |
| Tax effect of equity awards                                                 | -        | -   | (1,400 ) | -      | -       | -          | - | (1,400 )  |
|                                                                             | (2,084 ) | -   | -        | -      | -       | (65,323 )  | - | (65,323 ) |

Acquisition of  
Company  
common stock

|                                        |        |        |            |          |            |              |      |            |
|----------------------------------------|--------|--------|------------|----------|------------|--------------|------|------------|
| Stock-based<br>compensation<br>expense | -      | -      | 6,704      | -        | -          | -            | -    | 6,704      |
| Issuance of<br>restricted stock        | 92     | -      | (2,253 )   | -        | -          | 2,253        | -    | -          |
| Other                                  | -      | -      | (11 )      | -        | -          | 292          | -    | 281        |
| Balance at<br>December 25,<br>2011     | 24,019 | \$ 367 | \$ 262,456 | \$ 1,849 | \$ 294,801 | \$ (353,826) | \$ - | \$ 205,647 |

At December 27, 2009, the accumulated other comprehensive loss of \$1,084 was comprised of a net unrealized loss on the interest rate swap agreements of \$2,563 and a \$52 pension plan liability, offset by unrealized foreign currency translation gains of \$1,531.

At December 26, 2010, the accumulated other comprehensive income of \$849 was comprised of unrealized foreign currency translation gains of \$1,008, offset by a net unrealized loss on the interest rate swap agreements of \$159.

At December 25, 2011, the accumulated other comprehensive income of \$1,849 was comprised of unrealized foreign currency translation gains of \$1,872, a net unrealized gain on the interest rate swap agreement of \$6, offset by a \$29 pension plan liability.

See accompanying notes.

Papa John's International, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
(In thousands)

|                                                                                   | Years Ended                           |                                       |                                       |
|-----------------------------------------------------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
|                                                                                   | December 25,<br>2011<br>(As Restated) | December 26,<br>2010<br>(As Restated) | December 27,<br>2009<br>(As Restated) |
| Operating activities                                                              |                                       |                                       |                                       |
| Net income, including redeemable noncontrolling interests                         | \$58,467                              | \$56,063                              | \$57,485                              |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                       |                                       |                                       |
| Disposition and impairment losses                                                 | 1,200                                 | 479                                   | 1,258                                 |
| Provision for uncollectible accounts and notes receivable                         | 1,037                                 | 917                                   | 2,242                                 |
| Depreciation and amortization                                                     | 32,681                                | 32,407                                | 31,446                                |
| Deferred income taxes                                                             | 9,345                                 | 4,944                                 | 5,186                                 |
| Stock-based compensation expense                                                  | 6,704                                 | 6,066                                 | 5,817                                 |
| Excess tax benefit on equity awards                                               | (741)                                 | (359)                                 | (1,035)                               |
| Other                                                                             | 4,556                                 | (743)                                 | 7,078                                 |
| Changes in operating assets and liabilities, net of acquisitions:                 |                                       |                                       |                                       |
| Accounts receivable                                                               | (4,298)                               | (5,022)                               | 155                                   |
| Inventories                                                                       | (2,689)                               | (1,848)                               | 1,096                                 |
| Prepaid expenses                                                                  | (2,514)                               | (1,303)                               | 595                                   |
| Other current assets                                                              | 1,486                                 | 773                                   | 2,009                                 |
| Other assets and liabilities                                                      | (877)                                 | 50                                    | (4,197)                               |
| Accounts payable                                                                  | 1,397                                 | 4,579                                 | (1,776)                               |
| Income and other taxes payable                                                    | 2,180                                 | 480                                   | (3,623)                               |
| Accrued expenses and other current liabilities                                    | (5,685)                               | (5,830)                               | 338                                   |
| Unearned franchise and development fees                                           | (1,241)                               | 928                                   | (248)                                 |
| Net cash provided by operating activities                                         | 101,008                               | 92,581                                | 103,826                               |
| Investing activities                                                              |                                       |                                       |                                       |
| Purchases of property and equipment                                               | (29,319)                              | (31,125)                              | (33,538)                              |
| Loans issued                                                                      | (3,492)                               | (2,637)                               | (11,635)                              |
| Repayments of loans issued                                                        | 5,357                                 | 3,918                                 | 8,496                                 |
| Acquisitions, net of cash acquired                                                | -                                     | -                                     | (464)                                 |
| Proceeds from divestitures of restaurants                                         | -                                     | 1,397                                 | 830                                   |
| Other                                                                             | 68                                    | 12                                    | 756                                   |
| Net cash used in investing activities                                             | (27,386)                              | (28,435)                              | (35,555)                              |
| Financing activities                                                              |                                       |                                       |                                       |
| Net repayments on line of credit facility                                         | (47,511)                              | -                                     | (24,500)                              |
| Net repayments from short-term debt - variable interest entities                  | -                                     | -                                     | (7,075)                               |
| Excess tax benefit on equity awards                                               | 741                                   | 359                                   | 1,035                                 |
| Tax payments for restricted stock issuances                                       | (1,041)                               | -                                     | -                                     |
| Proceeds from exercise of stock options                                           | 14,042                                | 6,410                                 | 9,830                                 |
| Acquisition of Company common stock                                               | (65,323)                              | (46,936)                              | (28,477)                              |
| Distributions to redeemable noncontrolling interest holders                       | (3,669)                               | (3,147)                               | (3,840)                               |
| Other                                                                             | 160                                   | 96                                    | (27)                                  |
| Net cash used in financing activities                                             | (102,601)                             | (43,218)                              | (53,054)                              |
| Effect of exchange rate changes on cash and cash equivalents                      | 92                                    | 62                                    | 176                                   |
| Change in cash and cash equivalents                                               | (28,887)                              | 20,990                                | 15,393                                |
| Cash and cash equivalents at beginning of year                                    | 47,829                                | 26,839                                | 11,446                                |

|                                          |          |          |          |
|------------------------------------------|----------|----------|----------|
| Cash and cash equivalents at end of year | \$18,942 | \$47,829 | \$26,839 |
|------------------------------------------|----------|----------|----------|

See accompanying notes.

Papa John's International, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements

1. Restatement of Previously Issued Financial Statements

We are restating our consolidated financial statements for the fiscal years ended December 25, 2011, December 26, 2010 and December 27, 2009. In connection with the evaluation of the accounting for newly formed joint ventures, we reviewed our accounting for our previously existing joint venture arrangements. As a result of our review, we determined an error occurred in the accounting for one joint venture agreement, which contained a mandatorily redeemable feature added through a contract amendment in the third quarter of 2009. This provision contained in the 2009 contract amendment was not previously considered in determining the classification and measurement of the noncontrolling interest. In addition, we determined that an additional redeemable noncontrolling interest was incorrectly classified in shareholders' equity and should be classified as temporary equity.

As a result of the addition of the mandatorily redeemable feature for one joint venture agreement during the third quarter of 2009, we corrected the classification and measurement errors for 2009, 2010 and 2011, by reclassifying the redeemable noncontrolling interest from stockholders' equity to other long-term liabilities in our consolidated balance sheets. Changes in the redemption value were recorded as interest expense in our consolidated statements of income for the respective periods. In addition, to correct the classification of another joint venture with a redeemable feature, we reclassified \$3.4 million of noncontrolling interests from total stockholders' equity to redeemable noncontrolling interests (temporary equity) as of December 28, 2008 and all subsequent years. The impact of the restatements on the financial statements is outlined in the tables below (in thousands, except per share data). The corrections had no impact on total revenues, operating income or operating cash flows and had no impact on our compliance with debt covenants in any period presented.

## 1. Restatement of Previously Issued Financial Statements (continued)

|                                                          | December 25, 2011         |             |             |
|----------------------------------------------------------|---------------------------|-------------|-------------|
|                                                          | As Previously<br>Reported | Adjustments | As Restated |
| Consolidated Balance Sheet                               |                           |             |             |
| Noncurrent deferred income tax liabilities               | \$9,147                   | \$(2,455 )  | \$6,692     |
| Other long-term liabilities                              | 25,611                    | 11,065      | 36,676      |
| Redeemable noncontrolling interests                      | -                         | 3,965       | 3,965       |
| Retained earnings                                        | 298,807                   | (4,006 )    | 294,801     |
| Noncontrolling interests in subsidiaries                 | 8,569                     | (8,569 )    | -           |
| Total stockholders' equity                               | 218,222                   | (12,575 )   | 205,647     |
| Consolidated Statement of Income                         |                           |             |             |
| Interest expense                                         | \$1,497                   | \$1,484     | \$2,981     |
| Income before income taxes                               | 86,275                    | (1,484 )    | 84,791      |
| Income tax expense                                       | 26,888                    | (564 )      | 26,324      |
| Net income, including noncontrolling interests           | 59,387                    | (920 )      | 58,467      |
| Net income, net of noncontrolling interests              | 55,655                    | (920 )      | 54,735      |
| Comprehensive income, including noncontrolling interests | 60,387                    | (920 )      | 59,467      |
| Basic earnings per common share                          | 2.22                      | (0.03 )     | 2.19        |
| Earnings per common share - assuming dilution            | 2.20                      | (0.04 )     | 2.16        |
| Consolidated Statement of Cash Flows                     |                           |             |             |
| Net income, including noncontrolling interests           | \$59,387                  | \$(920 )    | \$58,467    |
| Deferred income taxes                                    | 9,909                     | (564 )      | 9,345       |
| Other                                                    | 3,072                     | 1,484       | 4,556       |
| Net cash provided by operating activities                | 101,008                   | -           | 101,008     |

|                                                          | December 26, 2010         |             |             |
|----------------------------------------------------------|---------------------------|-------------|-------------|
|                                                          | As Previously<br>Reported | Adjustments | As Restated |
| Consolidated Balance Sheet                               |                           |             |             |
| Noncurrent deferred income tax liabilities (assets)      | \$341                     | \$(1,892 )  | \$(1,551 )  |
| Other long-term liabilities                              | 26,604                    | 9,972       | 36,576      |
| Redeemable noncontrolling interests                      | -                         | 3,512       | 3,512       |
| Retained earnings                                        | 243,152                   | (3,086 )    | 240,066     |
| Noncontrolling interests in subsidiaries                 | 8,506                     | (8,506 )    | -           |
| Total stockholders' equity                               | 207,200                   | (11,592 )   | 195,608     |
| Consolidated Statement of Income                         |                           |             |             |
| Interest expense                                         | \$5,338                   | \$(1,029 )  | \$4,309     |
| Income before income taxes                               | 82,281                    | 1,029       | 83,310      |
| Income tax expense                                       | 26,856                    | 391         | 27,247      |
| Net income, including noncontrolling interests           | 55,425                    | 638         | 56,063      |
| Net income, net of noncontrolling interests              | 51,940                    | 638         | 52,578      |
| Comprehensive income, including noncontrolling interests | 57,358                    | 638         | 57,996      |
| Basic earnings per common share                          | 1.97                      | 0.03        | 2.00        |
| Earnings per common share - assuming dilution            | 1.96                      | 0.03        | 1.99        |
| Consolidated Statement of Cash Flows                     |                           |             |             |
| Net income, including noncontrolling interests           | \$55,425                  | \$638       | \$56,063    |
| Deferred income taxes                                    | 4,553                     | 391         | 4,944       |

|                                           |        |        |   |        |   |
|-------------------------------------------|--------|--------|---|--------|---|
| Other                                     | 286    | (1,029 | ) | (743   | ) |
| Net cash provided by operating activities | 92,581 | -      |   | 92,581 |   |

## 1. Restatement of Previously Issued Financial Statements (continued)

|                                                          | December 27, 2009         |             |             |
|----------------------------------------------------------|---------------------------|-------------|-------------|
|                                                          | As Previously<br>Reported | Adjustments | As Restated |
| <b>Consolidated Balance Sheet</b>                        |                           |             |             |
| Noncurrent deferred income tax assets                    | \$6,804                   | \$2,283     | \$9,087     |
| Other long-term liabilities                              | 16,886                    | 10,960      | 27,846      |
| Redeemable noncontrolling interests                      | -                         | 3,215       | 3,215       |
| Retained earnings                                        | 191,212                   | (3,724 )    | 187,488     |
| Noncontrolling interests in subsidiaries                 | 8,168                     | (8,168 )    | -           |
| Total stockholders' equity                               | 185,037                   | (11,892 )   | 173,145     |
| <b>Consolidated Statement of Income</b>                  |                           |             |             |
| Interest expense                                         | \$5,653                   | \$6,007     | \$11,660    |
| Income before income taxes                               | 90,194                    | (6,007 )    | 84,187      |
| Income tax expense                                       | 28,985                    | (2,283 )    | 26,702      |
| Net income, including noncontrolling interests           | 61,209                    | (3,724 )    | 57,485      |
| Net income, net of noncontrolling interests              | 57,453                    | (3,724 )    | 53,729      |
| Comprehensive income, including noncontrolling interests | 63,943                    | (3,724 )    | 60,219      |
| Basic earnings per common share                          | 2.07                      | (0.13 )     | 1.94        |
| Earnings per common share - assuming dilution            | 2.06                      | (0.13 )     | 1.93        |
| <b>Consolidated Statement of Cash Flows</b>              |                           |             |             |
| Net income, including noncontrolling interests           | \$61,209                  | \$(3,724 )  | \$57,485    |
| Deferred income taxes                                    | 7,469                     | (2,283 )    | 5,186       |
| Other                                                    | 1,071                     | 6,007       | 7,078       |
| Net cash provided by operating activities                | 103,826                   | -           | 103,826     |

|                                                       | December 28, 2008         |             |             |
|-------------------------------------------------------|---------------------------|-------------|-------------|
|                                                       | As Previously<br>Reported | Adjustments | As Restated |
| <b>Consolidated Statement of Stockholders' Equity</b> |                           |             |             |
| Noncontrolling interests in subsidiaries              | \$8,252                   | \$(3,414 )  | \$4,838     |
| Total stockholders' equity                            | 138,238                   | (3,414 )    | 134,824     |

## 2. Description of Business and Significant Accounting Policies

## Description of Business

Papa John's International, Inc. (referred to as the "Company," "Papa John's" or in the first person notations of "we," "us" and "our") operates and franchises pizza delivery and carryout restaurants under the trademark "Papa John's," currently in all 50 states, the District of Columbia, Puerto Rico and 33 countries. Substantially all revenues are 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, and 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.

## 2. Significant Accounting Policies (continued)

### Significant Accounting Policies

#### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Papa John's and its subsidiaries. Our financial results include BIBP Commodities, Inc. ("BIBP"), a variable interest entity ("VIE") for which we are the primary beneficiary. The results of our Company-owned operations in Mexico and China are consolidated one month in arrears. The results of our inactive captive insurance subsidiary, RSC Insurance Services, Ltd. ("RSC"), are consolidated one quarter in arrears. All intercompany balances and transactions have been eliminated.

#### Fiscal Year

Our fiscal year ends on the last Sunday in December of each year. All fiscal years presented consist of 52 weeks.

#### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant items that are subject to such estimates and assumptions include allowance for doubtful accounts and notes receivable, intangible assets, insurance reserves and income tax reserves. Although management bases its estimates on historical experience and assumptions that are believed to be reasonable under the circumstances, actual results could significantly differ from these estimates.

#### Revenue Recognition

Franchise fees are recognized when a franchised restaurant begins operations, at which time we have performed our obligations related to such fees. Fees received pursuant to development agreements which grant the right to develop franchised restaurants in future periods in specific geographic areas are deferred and recognized on a pro rata basis as franchised restaurants subject to the development agreements begin operations. Retail sales from Company-owned restaurants and franchise royalties, which are based on a percentage of franchise restaurant sales, are recognized as revenues when the products are delivered to or carried out by customers.

Domestic production and distribution revenues are comprised of food, promotional items and supplies sold to franchised restaurants located in the United States and are recognized as revenue upon shipment of the related products to the franchisees. Information services, including software maintenance fees, help desk fees and online ordering fees are recognized as revenue as related services are provided and are included in other sales. Insurance commissions are recognized as revenue over the term of the policy period and are included in other sales.

International revenues are comprised of restaurant sales, royalties and fees received from foreign franchisees and the sale and distribution of food to foreign franchisees, and are recognized consistently with the policies applied for revenues generated in the United States.

## 2. Significant Accounting Policies (continued)

### Cash Equivalents

Cash equivalents consist of highly liquid investments with maturity of three months or less at date of purchase. These investments are carried at cost, which approximates fair value.

### Accounts Receivable

Substantially all accounts receivable are due from franchisees for purchases of food, paper products, restaurant equipment, printing and promotional items, risk management services, information systems and related services, and for royalties from December sales. Credit is extended based on an evaluation of the franchisee's financial condition and, generally, collateral is not required. A reserve for uncollectible accounts is established as deemed necessary based upon overall accounts receivable aging levels and a specific review of accounts for franchisees with known financial difficulties.

### Inventories

Inventories, which consist of food products, paper goods and supplies, smallwares, and printing and promotional items, are stated at the lower of cost, determined under the first-in, first-out (FIFO) method, or market.

### Property and Equipment

Property and equipment are stated at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets (generally five to ten years for restaurant, commissary and other equipment, and 20 to 40 years for buildings and improvements). Leasehold improvements are amortized over the terms of the respective leases, including the first renewal period (generally five to ten years).

Depreciation expense was \$31.9 million in 2011, \$31.4 million in 2010 and \$30.6 million in 2009.

### Leases

Lease expense is recognized on a straight-line basis over the expected life of the lease term. A lease term often includes option periods, available at the inception of the lease, when failure to renew the lease would impose a penalty to us. Such penalty may include the recognition of impairment on our leasehold improvements should we choose not to continue the use of the leased property.

### Intangible Assets - Goodwill

In September 2011, the Financial Accounting Standards Board ("FASB") approved Accounting Standards Update ("ASU") 2011-08, "Testing Goodwill for Impairment," which is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, however, early adoption is permitted. We elected to early adopt the provisions of ASU 2011-08 in 2011.

## 2. Significant Accounting Policies (continued)

ASU 2011-08 permits us to first assess qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step quantitative goodwill impairment test. Under the two-step quantitative goodwill impairment test, the fair value of the reporting unit is compared to its respective carrying amount including goodwill. If the fair value exceeds the carrying amount, then no impairment exists. If the carrying amount exceeds the fair value, further analysis is performed to assess impairment. Because market prices of our reporting units are not readily available, we make various estimates and assumptions in determining the estimated fair values of our reporting units. The estimated fair value is based on an income approach, with an appropriate risk adjusted discount rate, and a market approach where appropriate. Significant assumptions inherent in the methodologies are employed and include such estimates as discount rates, growth rates and certain market transaction multiples.

In accordance with ASU 2011-08, we evaluate goodwill annually in the fourth quarter or whenever we identify certain triggering events or circumstances that would more-likely-than-not reduce the fair value of a reporting unit below its carrying amount. Such tests are completed separately with respect to the goodwill of each of our reporting units. Events or circumstances that might indicate an interim evaluation is warranted include, among other factors, unexpected adverse business conditions, macro and reporting unit specific economic factors (for example, worsening results in comparison to projections, commodity inflation, or loss of key personnel), unanticipated competitive activities, and acts by governments or courts.

As defined in the authoritative guidance, a reporting unit is an operating segment, or one level below an operating segment. During 2011, in connection with a restructuring of our components in our domestic Company-owned restaurant segment, changes were made in the discrete financial information that was made available to the segment manager of our domestic Company-owned restaurant segment, which resulted in the identification of new components in 2011. Additionally, because components meet the aggregation provision of Accounting Standards Codification (“ASC”) 280, “Segment Reporting,” we now aggregate the components of our domestic Company-owned restaurant segment into one reporting unit. Prior to 2011, the components were treated as individual reporting units.

Under ASU 2011-08, companies can bypass the qualitative assessment and move directly to the quantitative assessment for any reporting unit in any period if management believes that it is more efficient or there is a risk of impairment. All companies can elect to resume performing the qualitative assessment in any subsequent period. We applied the qualitative assessment for our domestic Company-owned restaurants and China reporting units, which is included in our international reporting segment. As a result of our qualitative analysis, we determined that it was more-likely-than-not that the fair value of our domestic Company-owned restaurants and China reporting units were greater than the carrying amounts.

## 2. Significant Accounting Policies (continued)

With respect to the reporting unit for our subsidiary located in the United Kingdom (“PJUK”), which represents \$14.8 million of goodwill as of December 25, 2011, we bypassed the qualitative assessment and performed the two-step quantitative goodwill impairment test, which indicated the fair value exceeded the carrying amount by 7%. The fair value was calculated using an income approach that projected net cash flow over a 10-year discrete period and a terminal value, which were discounted using appropriate rates. The selected discount rate considers the risk and nature of our PJUK reporting unit’s cash flow and the rates of return market participants would require to invest their capital in the PJUK reporting unit. We believe our PJUK reporting unit will continue to improve its operating results through ongoing growth initiatives, by increasing Papa John’s brand awareness in the United Kingdom, improving sales and profitability for individual franchised restaurants and increasing PJUK franchised net unit openings over the next several years. Future impairment charges could be required if adverse economic events occur in the United Kingdom.

Subsequent to completing our annual qualitative and quantitative goodwill impairment tests, no indications of impairment were identified.

### Deferred Costs

We defer certain information systems development and related costs that meet established criteria. Amounts deferred, which are included in property and equipment, are amortized principally over periods not exceeding five years beginning in the month subsequent to completion of the related information systems project. Total costs deferred were approximately \$1.5 million in 2011, \$2.0 million in 2010 and \$800,000 in 2009. The unamortized information systems development costs approximated \$4.1 million and \$3.6 million as of December 25, 2011 and December 26, 2010, respectively.

### Deferred Income Tax Accounts and Tax Reserves

We are subject to income taxes in the United States and several foreign jurisdictions. Significant judgment is required in determining our provision for income taxes and the related assets and liabilities. The provision for income taxes includes income taxes paid, currently payable or receivable and those deferred. We use an estimated annual effective rate based on expected annual income to determine our quarterly provision for income taxes. Discrete items are recorded in the quarter in which they occur.

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 new tax rate is enacted. 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 December 25, 2011, we had a net deferred tax asset of \$944,000.

Tax authorities periodically audit the Company. We record reserves for identified exposures. 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. We recognized reductions of \$1.9 million, \$550,000 and \$1.2 million in our income tax expense associated with the finalization of certain income tax issues in 2011, 2010 and 2009, respectively. See Note 13 for additional information.



## 2. Significant Accounting Policies (continued)

### Advertising and Related Costs

Advertising and related costs include the costs of domestic Company-owned restaurant activities such as mail coupons, door hangers and promotional items and contributions to Papa John's Marketing Fund, Inc., an unconsolidated non-profit corporation (the "Marketing Fund") and various local market cooperative advertising funds ("Co-op Funds"). Contributions by domestic Company-owned and franchised restaurants to the Marketing Fund and the Co-op Funds are based on an established percentage of monthly restaurant revenues. The Marketing Fund is responsible for developing and conducting marketing and advertising for the Papa John's system. The Co-op Funds are responsible for developing and conducting advertising activities in a specific market, including the placement of electronic and print materials developed by the Marketing Fund. We recognize domestic Company-owned restaurant contributions to the Marketing Fund and the Co-op Funds in which we do not have a controlling interest in the period in which the contribution accrues. The assets of the Co-op Funds in which we possess majority voting rights, and thus control the cooperatives, are consolidated in other current assets in our consolidated balance sheets.

### Foreign Currency Translation

The local currency is the functional currency for our foreign subsidiaries located in the United Kingdom, Mexico and China. Earnings and losses are translated into U.S. dollars using monthly average exchange rates, while balance sheet accounts are translated using year-end exchange rates. The resulting translation adjustments are included as a component of accumulated other comprehensive income (loss).

### Stock-Based Compensation

Compensation expense for equity grants is estimated on the grant date, net of projected forfeitures. Stock options are valued using a Black-Scholes option pricing model. Our specific assumptions for estimating the fair value of options are included in Note 17. Restricted stock is valued based on the market price of the Company's shares on the date of grant.

### Fair Value Measurements and Disclosures

The Fair Value Measurements and Disclosures topic of the ASC 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. The Fair Value Measurements and Disclosures topic emphasizes that fair value is a market-based measurement, not an entity-specific measurement.

The guidance requires that assets and liabilities carried at fair value be classified and disclosed in one of the following categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

## 2. Significant Accounting Policies (continued)

Our financial assets and liabilities that were measured at fair value on a recurring basis as of December 25, 2011 and December 26, 2010 are as follows:

| (In thousands)                                    | Carrying<br>Value | Fair Value Measurements |         |         |
|---------------------------------------------------|-------------------|-------------------------|---------|---------|
|                                                   |                   | Level 1                 | Level 2 | Level 3 |
| December 25, 2011                                 |                   |                         |         |         |
| Financial assets:                                 |                   |                         |         |         |
| Cash surrender value of life insurance policies * | \$11,387          | \$11,387                | \$-     | \$-     |
| Interest rate swap                                | 11                | -                       | 11      | -       |
| December 26, 2010                                 |                   |                         |         |         |
| Financial assets:                                 |                   |                         |         |         |
| Cash surrender value of life insurance policies * | \$12,455          | \$12,455                | \$-     | \$-     |
| Financial liabilities:                            |                   |                         |         |         |
| Interest rate swaps                               | 313               | -                       | 313     | -       |

\* Represents life insurance held in our non-qualified deferred compensation plan.

## Derivative Financial Instruments

We recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. At inception and on an ongoing basis, we assess whether each derivative that qualifies for hedge accounting continues to be highly effective in offsetting changes in the cash flows of the hedged item. If the derivative meets the hedge criteria as defined by certain accounting standards, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of assets, liabilities or firm commitments through earnings or recognized in accumulated other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value, if any, is immediately recognized in earnings.

We recognized income of \$258,000 (\$165,000 after tax) in 2011, \$3.8 million (\$2.4 million after tax) in 2010 and \$2.2 million (\$1.4 million after tax) in 2009, in accumulated other comprehensive income for the net change in fair value of our derivatives associated with our debt agreements. The ineffective portion of our hedge was \$25,000 in 2010 and \$40,000 in 2009 (none in 2011). Fair value is based on quoted market prices. See Note 7 for additional information on our debt and credit arrangements.

## 2. Significant Accounting Policies (continued)

## Earnings per Share

The calculations of basic earnings per common share and earnings per common share – assuming dilution for the years ended December 25, 2011, December 26, 2010 and December 27, 2009 are as follows (in thousands, except per share data):

|                                                        | 2011<br>(As Restated) | 2010<br>(As Restated) | 2009<br>(As Restated) |
|--------------------------------------------------------|-----------------------|-----------------------|-----------------------|
| Basic earnings per common share:                       |                       |                       |                       |
| Net income, net of redeemable noncontrolling interests | \$ 54,735             | \$ 52,578             | \$ 53,729             |
| Weighted average shares outstanding                    | 25,043                | 26,328                | 27,738                |
| Basic earnings per common share                        | \$ 2.19               | \$ 2.00               | \$ 1.94               |
| Earnings per common share - assuming dilution:         |                       |                       |                       |
| Net income, net of redeemable noncontrolling interests | \$ 54,735             | \$ 52,578             | \$ 53,729             |
| Weighted average shares outstanding                    | 25,043                | 26,328                | 27,738                |
| Dilutive effect of outstanding equity awards           | 267                   | 140                   | 171                   |
| Diluted weighted average shares outstanding            | 25,310                | 26,468                | 27,909                |
| Earnings per common share - assuming dilution          | \$ 2.16               | \$ 1.99               | \$ 1.93               |

Shares subject to options to purchase common stock with an exercise price greater than the average market price for the year were not included in the computation of earnings per common share – assuming dilution because the effect would have been antidilutive. The weighted average number of shares subject to antidilutive options was 273,000 in 2011, 1.5 million in 2010 and 1.4 million in 2009.

## Redeemable Noncontrolling interests

Papa John's controlled two joint venture arrangements as of December 25, 2011, December 26, 2010 and December 27, 2009, which were as follows:

|                           | Restaurants as of<br>December 25, 2011 * | Restaurant<br>Locations | Papa John's<br>Ownership * | Noncontrolling<br>Interest<br>Ownership * |
|---------------------------|------------------------------------------|-------------------------|----------------------------|-------------------------------------------|
| Star Papa, LP             | 76                                       | Texas                   | 51%                        | 49%                                       |
| Colonel's Limited,<br>LLC | 52                                       | Maryland and Virginia   | 70%                        | 30%                                       |

\*The ownership percentages for both joint ventures were the same for the years presented in the accompanying consolidated financial statements. There were 75 Star Papa, LP restaurants in 2010 and 2009 and 52 Colonel's Limited, LLC restaurants for all three years presented.

Consolidated net income is required to be reported separately at amounts attributable both to the parent and the redeemable noncontrolling interest. Additionally, disclosures are required 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 of income attributable to the redeemable noncontrolling interest holder.



## 2. Significant Accounting Policies (continued)

The income before income tax attributable to the joint ventures for the last three years is as follows:

| (In thousands)                  | 2011     | Year Ended<br>2010 | 2009     |
|---------------------------------|----------|--------------------|----------|
| Papa John's International, Inc. | \$ 6,184 | \$ 5,658           | \$ 6,171 |
| Noncontrolling interests        | 3,732    | 3,485              | 3,756    |
| Total income before income tax  | \$ 9,916 | \$ 9,143           | \$ 9,927 |

In 2009, the Colonel's Limited, LLC agreement was amended to provide for a mandatory redemption of the noncontrolling interest. The Company has recorded this noncontrolling interest as a liability at its redemption value in other long-term liabilities. Prior to 2009, the noncontrolling interest was reported at carrying value.

The Star Papa, LP agreement contains a redemption feature that is not currently redeemable, but it is probable to become redeemable in the future. Due to specific valuation provisions contained in the agreement, this noncontrolling interest has also been recorded at its carrying value in temporary equity (between liabilities and stockholders' equity).

The total of the mandatorily redeemable noncontrolling interest and the redeemable noncontrolling interest holders' equity totaled \$15.0 million as of December 25, 2011 and \$13.5 million as of December 26, 2010.

See Note 1 for information concerning the correction of errors in our accounting for our noncontrolling interests related to our joint ventures.

#### Modification of our Non-qualified Deferred Compensation Plan

During 2010, we modified the provisions of our non-qualified deferred compensation plan. Previously, participants who elected an investment in phantom Papa John's stock were paid in cash upon settlement of their investment balance. Effective the first quarter of 2010, we began settling future distributions of the deemed investment balances in Papa John's stock through the issuance of treasury stock. Accordingly, during 2010, we reclassified \$2.0 million from other long-term liabilities to paid-in capital in the accompanying consolidated financial statements.

#### New Accounting Pronouncements

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income: Presentation of Comprehensive Income. In accordance with the new guidance, an entity is no longer permitted to present comprehensive income in its consolidated statements of stockholders' equity. Instead, entities are required to present components of comprehensive income in either one continuous financial statement with two sections, net income and comprehensive income, or in two separate but consecutive statements. This guidance was required beginning with our first quarter of fiscal 2012. Since this Form 10-K/A for fiscal year ended December 25, 2011 is being filed subsequent to the adoption of ASU No. 2011-05, we are required to include the requirements of the ASU within this report. We elected the two separate statement approach in the accompanying financial statements.

## 2. Significant Accounting Policies (continued)

### Reclassifications

Certain prior year amounts in the consolidated balance sheet and the consolidated statements of cash flows have been reclassified to conform to the current year presentation, which also had no effect on current or previously reported net income.

### Segment Reporting Change

In 2011, the Company realigned management responsibility and financial reporting for Hawaii, Alaska and Canada from our international business segment to our domestic franchising segment in order to better leverage existing infrastructure and systems. As a result, we renamed the domestic franchising segment “North America franchising” in the first quarter of 2011. Certain prior year amounts have been reclassified in our consolidated statements of income, segment information and restaurant unit progression to conform to the current year presentation.

### Subsequent Events

The Company evaluated subsequent events through the date the financial statements were issued and filed. There were no subsequent events that required recognition or disclosure.

## 3. Accounting for Variable Interest Entities

The Consolidation topic of the ASC provides a framework for identifying variable interest entities (“VIEs”) and determining when a company should include the assets, liabilities, noncontrolling 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.

Consolidation of a VIE is required 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 noncontrolling interests at fair value and subsequently account for the VIE as if it were consolidated based on majority voting interest. The variable interest holder is also required to make disclosures about VIEs in which it has significant variable interest even when it is not required to consolidate.

### 3. Accounting for Variable Interest Entities (continued)

Through February 2011, we had a purchasing agreement with 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 was an independent, franchisee-owned corporation. BIBP purchased cheese at the market price and sold it to our distribution subsidiary, PJ Food Service, Inc. ("PJFS"), at a fixed price. PJFS in turn sold cheese to Papa John's restaurants (both Company-owned and franchised) at a set price. PJFS purchased \$25.1 million for the three months ended March 27, 2011 and \$153.0 million and \$142.4 million of cheese from BIBP during 2010 and 2009, respectively.

Prior to the termination of the purchasing agreement with BIBP, we recognized the operating losses generated by BIBP when BIBP's shareholders' equity was in a net deficit position. Further, we recognized the subsequent operating income generated by BIBP up to the amount of any losses previously recognized. Prior to ceasing operating activities, BIBP operated at breakeven for the three months ended March 27, 2011. We recognized pre-tax income of \$21.0 million (\$13.5 million net of tax, or \$0.51 per diluted share) in 2010 and pre-tax income of \$22.5 million (\$14.6 million net of tax, or \$0.52 per diluted share) in 2009, reflecting BIBP's operating income (losses), net of BIBP's shareholders' equity.

BIBP had an accumulated deficit (representing prior purchases of cheese by PJFS from BIBP at below market prices) of \$14.2 million at December 26, 2010. PJFS agreed to pay BIBP the amount equal to the accumulated deficit at December 26, 2010. Accordingly, BIBP recorded a decrease of \$14.2 million in cost of sales and PJFS recorded a corresponding increase in cost of sales. This transaction did not have any impact on our 2010 consolidated income statement results since both PJFS and BIBP are fully consolidated.

In February 2011, we terminated the purchasing agreement with BIBP and BIBP no longer has operating activities. Over 99% of our domestic franchisees have entered into a cheese purchasing agreement with PJFS. The cheese purchasing agreement requires participating domestic franchisees to purchase cheese through PJFS, or to pay the franchisee's portion of any accumulated cheese liability upon ceasing to purchase cheese from PJFS when a liability exists. The cheese purchasing agreement specifies that PJFS will charge the franchisees a predetermined price for cheese on a monthly basis. Any difference between the amount charged to franchisees and the actual price paid by PJFS for cheese is recorded as a receivable from or a payable to the franchisees, to be repaid based upon a predetermined formula outlined in the agreement.

### 4. Acquisitions

The Company acquired 11 restaurants in Florida in 2009 at a purchase price of \$2.8 million, which was comprised of a cash payment of approximately \$460,000 and the cancellation of a \$2.3 million note owed to us. We recorded goodwill of \$1.5 million associated with this acquisition. The business combination was accounted for by the purchase method of accounting, whereby operating results subsequent to the acquisition date are included in our consolidated financial statements. The goodwill associated with the above-mentioned acquisition was eligible for deduction over 15 years under U.S. tax regulations.

There were no significant acquisitions during 2011 and 2010.

## 5. Goodwill

The following summarizes changes to the Company's goodwill, by reporting segment (in thousands):

|                                 | Domestic<br>Company-owned<br>Restaurants | International * | All Others | Total     |
|---------------------------------|------------------------------------------|-----------------|------------|-----------|
| Balance as of December 27, 2009 | \$ 55,260                                | \$ 19,370       | \$ 436     | \$ 75,066 |
| Foreign currency adjustments    | -                                        | (369 )          | -          | (369 )    |
| Balance as of December 26, 2010 | 55,260                                   | 19,001          | 436        | 74,697    |
| Foreign currency adjustments    | -                                        | 388             | -          | 388       |
| Balance as of December 25, 2011 | \$ 55,260                                | \$ 19,389       | \$ 436     | \$ 75,085 |

\* The international goodwill balances for all years presented are net of accumulated impairment of \$2.3 million associated with our PJUK reporting unit.

Starting in 2011 the Company elected to early adopt the provisions of ASU 2011-08 with respect to our domestic Company-owned restaurants and China reporting unit, which is included in our international reporting segment, while we performed the quantitative goodwill impairment test for our PJUK reporting unit. For our 2010 and 2009 annual goodwill impairment assessments the Company performed the quantitative goodwill impairment test for all reporting units. Upon completion of our goodwill impairment tests in 2011, 2010 and 2009, no impairment charges were recorded. See Notes 4 and 6 for discussions of acquisitions and dispositions of Company-owned restaurants.

## 6. Restaurant Impairment and Dispositions

The following table summarizes restaurant impairment and disposition losses (gains) included in other general expenses in the accompanying consolidated statements of income during 2011, 2010 and 2009 (in thousands):

|                                                            | 2011    | 2010    | 2009   |
|------------------------------------------------------------|---------|---------|--------|
| Net book value of divested restaurants                     | \$-     | \$2,828 | \$659  |
| Cash proceeds received                                     | -       | 1,397   | 830    |
| Fair value of notes receivable (1)                         | -       | 1,431   | 312    |
| Total consideration at fair value (1)                      | -       | 2,828   | 1,142  |
| Gain on restaurants sold                                   | -       | -       | (483 ) |
| (Gain) loss on domestic restaurant closures                | (203 )  | 95      | 1,140  |
| Adjustment to long-lived asset impairment reserves         | 117     | 158     | -      |
| Total restaurant impairment and disposition (gains) losses | \$(86 ) | \$253   | \$657  |

(1) We sold 12 Company-owned restaurants to franchisees in 2010 and 2009. As a part of the agreements to sell the restaurants, we received notes receivable totaling \$1.4 million in 2010 and \$500,000 (fair value of \$312,000) in 2009.

## 7. Debt and Credit Arrangements

Debt and credit arrangements consist of the following (in thousands):

|                          | 2011      | 2010      |
|--------------------------|-----------|-----------|
| Revolving line of credit | \$ 51,489 | \$ 99,000 |
| Other                    | -         | 17        |
| Total long-term debt     | \$ 51,489 | \$ 99,017 |

In September 2010, we entered into a five-year, \$175.0 million unsecured Revolving Credit Facility (“New Credit Facility”) that replaced a \$175.0 million unsecured Revolving Credit Facility (“Old Credit Facility”). The New Credit Facility was amended in November 2011 (the “Amended Credit Facility”), which extended the maturity date of the New Credit Facility to November 30, 2016. Under the Amended Credit Facility, outstanding balances are charged interest at 75 basis points to 150 basis points over LIBOR or other bank developed rates at our option (previously charged 100 basis points to 175 basis points above LIBOR). Outstanding balances under the Old Credit Facility were charged interest at 50 to 100 basis points over LIBOR or other bank developed rates, at our option. The remaining availability under the Amended Credit Facility, reduced for certain outstanding letters of credit, approximated \$109.5 million as of December 25, 2011. The fair value of the outstanding debt approximates the carrying value since the debt agreements are variable-rate instruments.

The New Credit Facility contains customary affirmative and negative covenants, including financial covenants requiring the maintenance of specified fixed charges and leverage ratios. At December 25, 2011 we were in compliance with these covenants.

In August 2011, we entered into a new interest rate swap agreement that provides for a fixed rate of 0.53%, as compared to LIBOR, with a notional amount of \$50.0 million. The new interest rate swap agreement expires in August 2013. We had two interest rate swap agreements that expired in January 2011. The previous swap agreements provided for fixed rates of 4.98% and 3.74%, as compared to LIBOR, with each having a notional amount of \$50.0 million.

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 borrowings. The effective portion of the gain or loss on the swap is reported as a component of accumulated other comprehensive income and reclassified into earnings in the same period or periods during which the swap affects earnings. Gains or losses on the swap representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. Amounts payable or receivable under the swap are accounted for as adjustments to interest expense.

## 7. Debt and Credit Arrangements (continued)

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

Derivatives designated as hedging instruments:

| Asset Derivatives   |                        |                                | Liability Derivatives       |                                |
|---------------------|------------------------|--------------------------------|-----------------------------|--------------------------------|
|                     |                        | Fair Value<br>Dec. 25,<br>2011 |                             | Fair Value<br>Dec. 26,<br>2010 |
|                     | Balance Sheet Location |                                | Balance Sheet Location      |                                |
| Interest rate swaps | Other long-term assets | \$ 11                          | Other long-term liabilities | \$ 313                         |

There were no derivatives that were not designated as hedging instruments under the provisions of the ASC topic, Derivatives and Hedging.

## Effect of Derivative Instruments on the Consolidated Financial Statements

|                                                        | Amount of<br>Gain<br>or (Loss)<br>Recognized in<br>Accumulated<br>OCI on<br>Derivative<br>(Effective<br>Portion) | Location of<br>Gain<br>or (Loss)<br>Reclassified<br>from<br>OCI into<br>Income<br>(Effective<br>Portion) | Amount of<br>Gain<br>or (Loss)<br>Reclassified<br>from<br>Accumulated<br>OCI into<br>Income<br>(Effective<br>Portion) | Location of<br>Gain<br>or (Loss)<br>Recognized in<br>Income on<br>Derivative<br>(Ineffective<br>Portion and<br>Amount<br>Excluded from<br>Effectiveness<br>Testing) | Amount of<br>Gain<br>or (Loss)<br>Recognized<br>in<br>Income on<br>Derivative<br>(Ineffective<br>Portion and<br>Amount<br>Excluded<br>from<br>Effectiveness<br>Testing)* |
|--------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Derivatives -<br>Cash Flow<br>Hedging<br>Relationships |                                                                                                                  |                                                                                                          |                                                                                                                       |                                                                                                                                                                     |                                                                                                                                                                          |

Interest rate swaps:

|      |          |                     |             |                  |          |
|------|----------|---------------------|-------------|------------------|----------|
| 2011 | \$ 165   | Interest<br>expense | \$ (341 )   | Interest expense | \$ 65    |
| 2010 | \$ 2,404 | Interest<br>expense | \$ (4,131 ) | Interest expense | \$ (25 ) |
| 2009 | \$ 1,388 | Interest<br>expense | \$ (4,037 ) | Interest expense | \$ (40 ) |

\* A portion of our second interest rate swap became over-hedged in 2009 since the outstanding debt balance associated with this swap was \$49 million (floating rate debt of the swap was \$50 million).

The weighted average interest rates for the credit facilities, including the impact of the previously mentioned swap agreements, were 1.9%, 5.2% and 4.8% in fiscal 2011, 2010 and 2009, respectively. Interest paid, including payments made or received under the swaps, was \$1.6 million in 2011, \$5.4 million in 2010 and \$5.5 million in 2009.

## 8. Net Property and Equipment

Net property and equipment consists of the following (in thousands):

|                                                | 2011       | 2010       |
|------------------------------------------------|------------|------------|
| Land                                           | \$ 32,735  | \$ 32,701  |
| Buildings and improvements                     | 85,907     | 84,960     |
| Leasehold improvements                         | 90,855     | 85,230     |
| Equipment and other                            | 231,059    | 217,199    |
| Construction in progress                       | 5,159      | 4,599      |
| Total property and equipment                   | 445,715    | 424,689    |
| Less accumulated depreciation and amortization | (263,805)  | (239,318)  |
| Net property and equipment                     | \$ 181,910 | \$ 185,371 |

## 9. Notes Receivable

Selected franchisees have borrowed funds from our wholly-owned 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. Loans outstanding were approximately \$15.7 million and \$17.4 million on a consolidated basis as of December 25, 2011 and December 26, 2010, respectively, net of allowance for doubtful accounts.

Notes receivable bear interest at fixed or floating rates (with an average stated rate of 5.8% at December 25, 2011), and are generally secured by the assets of each restaurant and the ownership interests in the franchisee. The carrying amounts of the loans approximate fair value. Interest income recorded on franchisee loans was approximately \$665,000 in 2011, \$794,000 in 2010 and \$535,000 in 2009 and is reported in investment income in the accompanying consolidated statements of income.

Based on our review of certain borrowers' economic performance and underlying collateral value, we established allowances of \$5.9 million and \$10.0 million as of December 25, 2011 and December 26, 2010, respectively, for potentially uncollectible notes receivable. The following summarizes changes in our notes receivable allowance for doubtful accounts (in thousands):

|                                         |          |
|-----------------------------------------|----------|
| Balance as of December 27, 2009         | \$10,858 |
| Recovered from costs and expenses       | (433 )   |
| Deductions, including notes written off | (474 )   |
| Balance as of December 26, 2010         | 9,951    |
| Recovered from costs and expenses       | (35 )    |
| Deductions, including notes written off | (4,011 ) |
| Balance as of December 25, 2011         | \$5,905  |

## 10. Insurance Reserves

Our insurance programs for workers' compensation, general liability, owned and non-owned automobiles, property, and health insurance coverage provided to our employees are funded by the Company up to certain retention levels. Losses are accrued based upon undiscounted 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 differ significantly from historical trends used to estimate the insurance reserves recorded by the Company. Our estimated corporate insurance reserves totaled \$19.3 million in 2011 and \$19.0 million in 2010.

We are a party to standby letters of credit with off-balance sheet risk associated with our insurance programs. The total amount committed under letters of credit for these programs was \$14.4 million at December 25, 2011.

## 11. Accrued Expenses

Accrued expenses and other current liabilities consisted of the following (in thousands):

|                                  | 2011      | 2010      |
|----------------------------------|-----------|-----------|
| Salaries, benefits and bonuses   | \$ 13,982 | \$ 13,337 |
| Insurance reserves, current      | 9,215     | 8,834     |
| Rent                             | 6,242     | 6,083     |
| Purchases                        | 4,764     | 4,826     |
| Consulting and professional fees | 1,911     | 1,974     |
| Utilities                        | 1,420     | 1,557     |
| Customer loyalty program         | 1,339     | 200       |
| Marketing                        | 635       | 1,192     |
| Other                            | 4,690     | 4,822     |
| Total                            | \$ 44,198 | \$ 42,825 |

## 12. Other Long-term Liabilities

Other long-term liabilities consist of the following (in thousands):

|                                                 | 2011<br>(As Restated) | 2010<br>(As Restated) |
|-------------------------------------------------|-----------------------|-----------------------|
| Mandatorily redeemable noncontrolling interests | \$ 11,065             | \$ 9,972              |
| Deferred compensation plan                      | 10,793                | 10,478                |
| Insurance reserves                              | 10,063                | 10,153                |
| Other                                           | 4,755                 | 5,973                 |
| Total                                           | \$ 36,676             | \$ 36,576             |

## 13. Income Taxes

A summary of the provision for income taxes follows (in thousands):

|                              | 2011<br>(As Restated) | 2010<br>(As Restated) | 2009<br>(As Restated) |
|------------------------------|-----------------------|-----------------------|-----------------------|
| Current:                     |                       |                       |                       |
| Federal                      | \$ 14,383             | \$ 19,049             | \$ 18,551             |
| Foreign                      | 1,273                 | 1,171                 | 904                   |
| State and local *            | 850                   | 2,083                 | 2,061                 |
| Deferred (federal and state) | 9,818                 | 4,944                 | 5,186                 |
| Total                        | \$ 26,324             | \$ 27,247             | \$ 26,702             |

\* The decrease in state and local tax expense is due to the lapse of statute of limitations and a reduction in the state effective tax rate.

Significant deferred tax assets (liabilities) follow (in thousands):

|                                                     | 2011<br>(As Restated) | 2010<br>(As Restated) |
|-----------------------------------------------------|-----------------------|-----------------------|
| Accrued liabilities                                 | \$ 7,604              | \$ 7,713              |
| Accrued bonuses                                     | 2,447                 | 2,300                 |
| Other assets and liabilities                        | 12,140                | 15,698                |
| Stock options                                       | 5,091                 | 6,291                 |
| Other                                               | 4,704                 | 3,943                 |
| Foreign net operating losses                        | 7,474                 | 8,123                 |
| Valuation allowance on foreign net operating losses | (7,474 )              | (8,123 )              |
| Total deferred tax assets                           | 31,986                | 35,945                |
| Deferred expenses                                   | (3,497 )              | (2,497 )              |
| Accelerated depreciation                            | (13,477 )             | (10,192 )             |
| Goodwill                                            | (10,426 )             | (8,506 )              |
| Other                                               | (3,642 )              | (3,552 )              |
| Total deferred tax liabilities                      | (31,042 )             | (24,747 )             |
| Net deferred tax asset                              | \$ 944                | \$ 11,198             |

The Company had approximately \$28.8 million and \$27.8 million of foreign tax net operating loss carryovers as of December 25, 2011 and December 26, 2010, respectively, for which a full valuation allowance has been provided. A substantial majority of our foreign tax net operating losses do not have an expiration date.

## 13. Income Taxes (continued)

The reconciliation of income tax computed at the U.S. federal statutory rate to income tax expense for the years ended December 25, 2011, December 26, 2010 and December 27, 2009 is as follows in both dollars and as a percentage of income before income taxes (\$ in thousands):

|                                                                              | 2011                     |                       |    | 2010                     |                       |    | 2009                     |                       |    |
|------------------------------------------------------------------------------|--------------------------|-----------------------|----|--------------------------|-----------------------|----|--------------------------|-----------------------|----|
|                                                                              | Income<br>Tax<br>Expense | Income<br>Tax<br>Rate |    | Income<br>Tax<br>Expense | Income<br>Tax<br>Rate |    | Income<br>Tax<br>Expense | Income<br>Tax<br>Rate |    |
|                                                                              | (As Restated)            |                       |    | (As Restated)            |                       |    | (As Restated)            |                       |    |
| Tax at U.S. federal statutory rate                                           | \$29,677                 | 35.0                  | %  | \$29,159                 | 35.0                  | %  | \$29,465                 | 35.0                  | %  |
| State and local income taxes                                                 | 1,702                    | 2.0                   | %  | 1,896                    | 2.3                   | %  | 2,037                    | 2.4                   | %  |
| Foreign income taxes                                                         | 1,273                    | 1.5                   | %  | 1,171                    | 1.4                   | %  | 904                      | 1.1                   | %  |
| Settlement of certain tax issues                                             | (1,912 )                 | (2.3                  | %) | (550 )                   | (0.7                  | %) | (1,238 )                 | (1.5                  | %) |
| Income of consolidated partnerships attributable to noncontrolling interests | (1,379 )                 | (1.6                  | %) | (1,297 )                 | (1.6                  | %) | (1,397 )                 | (1.7                  | %) |
| Non-qualified deferred compensation plan loss (income)                       | 153                      | 0.2                   | %  | (434 )                   | (0.5                  | %) | (803 )                   | (0.9                  | %) |
| Tax credits and other                                                        | (3,190 )                 | (3.8                  | %) | (2,698 )                 | (3.2                  | %) | (2,266 )                 | (2.7                  | %) |
| Total                                                                        | \$26,324                 | 31.0                  | %  | \$27,247                 | 32.7                  | %  | \$26,702                 | 31.7                  | %  |

Income taxes paid were \$15.6 million in 2011, \$21.7 million in 2010 and \$24.8 million in 2009.

The Company files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. The Company, with few exceptions, is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2007. The Company is currently undergoing examinations by various tax authorities. The Company anticipates that the finalization of these current examinations and other issues could result in a decrease in the liability for unrecognized tax benefits (and a decrease of income tax expense) of approximately \$377,000 during the next 12 months.

A reconciliation of the beginning and ending liability for unrecognized state tax benefits is as follows (in thousands):

|                                                |         |
|------------------------------------------------|---------|
| Balance at December 27, 2009                   | \$3,595 |
| Reductions for lapse of statute of limitations | (264 )  |
| Balance at December 26, 2010                   | 3,331   |
| Reductions for tax positions of prior years    | (95 )   |
| Reductions for lapse of statute of limitations | (248 )  |
| Balance at December 25, 2011                   | \$2,988 |

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a part of income tax expense. The Company's 2011 and 2010 income tax expense includes interest benefits of \$368,000 and \$145,000, respectively. The Company has accrued approximately \$985,000 and \$1.4 million for the payment of interest and penalties as of December 25, 2011 and December 26, 2010, respectively.



## 14. Related Party Transactions

Certain of our officers and directors own equity interests in entities that franchise restaurants. Following is a summary of full-year transactions and year-end balances with franchisees owned by related parties, the Marketing Fund and Papa Card, Inc. (in thousands):

|                                  | 2011      | 2010      | 2009      |
|----------------------------------|-----------|-----------|-----------|
| Revenues from affiliates:        |           |           |           |
| Commissary sales                 | \$ 22,132 | \$ 19,137 | \$ 17,625 |
| Other sales                      | 2,352     | 1,961     | 2,284     |
| Franchise royalties              | 3,579     | 3,192     | 2,514     |
| Franchise and development fees   | 15        | -         | 50        |
| Total                            | \$ 28,078 | \$ 24,290 | \$ 22,473 |
| Other income from affiliates     | \$ -      | \$ -      | \$ 57     |
| Accounts receivable - affiliates | \$ 682    | \$ 624    | \$ 648    |

We paid \$1.0 million in 2011, \$443,000 in 2010 and \$755,000 in 2009 for charter aircraft services provided by an entity owned by our Founder, Chairman and Chief Executive Officer.

We contributed \$6.0 million in 2010 and \$7.7 million in 2009 to the Marketing Fund as discretionary advertising contributions (none in 2011).

See Note 3 for information related to our purchasing agreement with BIBP.

## 15. Commitments and Contingencies

We lease office, retail and commissary space under operating leases, which have an average term of five years and provide for at least one renewal. Certain leases further provide that the lease payments may be increased annually based on the fixed rate terms or adjustable terms such as the Consumer Price Index. PJUK, our subsidiary located in the United Kingdom, leases certain retail space, which is primarily subleased to our franchisees. We also lease the tractors and trailers used by our distribution subsidiary, PJFS, for an average period of eight years. Total lease expense was \$25.7 million in 2011, \$24.5 million in 2010 and \$24.2 million in 2009, net of sublease payments received.

We subleased certain sites to our Papa John's franchisees located in the United Kingdom in 2011, 2010 and 2009 and received payments of \$3.7 million, \$3.1 million and \$2.9 million, respectively, which are netted with international operating expenses.

## 15. Commitments and Contingencies (continued)

Future gross lease costs, future expected sublease payments and net lease costs as of December 25, 2011, are as follows (in thousands):

| Year       | Gross Lease Costs | Future Expected Sublease Payments | Net Lease Costs |
|------------|-------------------|-----------------------------------|-----------------|
| 2012       | \$ 29,760         | \$ 3,675                          | \$ 26,085       |
| 2013       | 26,430            | 3,583                             | 22,847          |
| 2014       | 22,394            | 3,330                             | 19,064          |
| 2015       | 17,703            | 3,068                             | 14,635          |
| 2016       | 12,853            | 2,777                             | 10,076          |
| Thereafter | 29,703            | 15,653                            | 14,050          |
| Total      | \$ 138,843        | \$ 32,086                         | \$ 106,757      |

In connection with the 2006 sale of our former Perfect Pizza operations in the United Kingdom, we remain contingently liable for payment under approximately 40 lease arrangements, primarily associated with Perfect Pizza restaurant sites for which the Perfect Pizza franchisor is primarily liable. As the initial party to the lease agreements, we are liable to the extent the primary obligor does not satisfy its payment obligations. The leases have varying terms, the latest of which expires in 2017, with most expiring by the end of 2014. As of December 25, 2011, the estimated maximum amount of undiscounted rental payments we would be required to make in the event of non-payment under all such leases was approximately \$2.5 million, excluding the \$832,000 charge discussed below.

On August 1, 2011 the High Court of Justice Chancery Division, Birmingham District Registry entered an order placing Perfect Pizza in administration, thereby providing Perfect Pizza with protection from its creditors in accordance with UK insolvency law. On the same date, the administrators entered into an agreement to sell substantially all of the business and assets of Perfect Pizza. In accordance with the terms of the agreement, the buyer has an option period up to nine months to determine which Perfect Pizza leases they will assume.

The buyer is continuing to assess most restaurant leases but has identified certain leases that will not be assumed. Accordingly, for the year ended December 25, 2011, we recorded an expense of \$832,000 in other general expenses in the accompanying consolidated statements of income, representing the remaining rentals, taxes and insurance related to these specific leases. Given the uncertainty of the remaining restaurant locations, we are unable to reasonably estimate any potential additional liability for those locations and therefore, no amount has been recorded in the consolidated financial statements as of December 25, 2011 with respect to the remaining restaurant locations.

The Company's headquarters facility is leased under a capital lease arrangement with the City of Jeffersontown, Kentucky in connection with the issuance of \$80.2 million in Industrial Revenue Bonds. The bonds are held 100% by the Company and, accordingly, the bond obligation and investment and related interest income and expense are eliminated in the consolidated financial statements.

We are subject to claims and legal actions in the ordinary course of 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.



## 16. Share Repurchase Program

The Company's Board of Directors authorized the repurchase of up to \$925.0 million of common stock through December 31, 2012, of which \$71.5 million remained available for repurchase at December 25, 2011. Funding for the share repurchase program has been provided through a credit facility, operating cash flow, stock option exercises and cash and cash equivalents.

Subsequent to year-end (through February 14, 2012), we acquired an additional 60,000 shares at an aggregate cost of \$2.2 million. As of February 14, 2012, approximately \$69.3 million remained available for repurchase of common stock under this authorization.

## 17. Equity Compensation

We award stock options and restricted stock from time to time under the Papa John's International, Inc. 2011 Omnibus Incentive Plan and other such agreements as may arise. There are approximately 4.8 million shares of common stock authorized for issuance and remaining available under the 2011 Omnibus Incentive Plan as of December 25, 2011, which includes 2.0 million shares transferred from the Papa John's International, Inc. 2008 Omnibus Incentive Plan. Option awards are granted with an exercise price equal to the market price of the Company's stock at the date of grant. Options outstanding as of December 25, 2011 generally expire five years from the date of grant and vest over a 24- or 36-month period.

We recorded stock-based employee compensation expense of \$6.7 million in 2011, \$6.1 million in 2010 and \$5.8 million in 2009. The total income tax benefit recognized in the income statement for share-based compensation arrangements was \$2.2 million in 2011, \$2.2 million in 2010 and \$2.1 million in 2009. At December 25, 2011, there was \$5.5 million of unrecognized compensation cost related to nonvested option awards and restricted stock, of which the Company expects to recognize \$3.8 million in 2012, \$1.5 million in 2013 and \$200,000 in 2014.

### Stock Options

Options exercised included 572,000 shares in 2011, 356,000 shares in 2010 and 612,000 shares in 2009. The total intrinsic value of the options exercised during 2011, 2010 and 2009 was \$4.6 million, \$2.6 million and \$4.3 million, respectively. Cash received upon the exercise of stock options was \$14.0 million, \$6.4 million and \$9.8 million during 2011, 2010 and 2009, respectively, and the related tax benefits realized were approximately \$1.7 million, \$943,000 and \$1.5 million during the corresponding periods.

## 17. Equity Compensation (continued)

Information pertaining to option activity during 2011 is as follows (number of options and aggregate intrinsic value in thousands):

|                                                 | Number<br>of<br>Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|-------------------------------------------------|-------------------------|------------------------------------------|---------------------------------------------------------|---------------------------------|
| Outstanding at December 26, 2010                | 1,931                   | \$ 26.80                                 |                                                         |                                 |
| Granted                                         | 403                     | 29.09                                    |                                                         |                                 |
| Exercised                                       | (572 )                  | 24.56                                    |                                                         |                                 |
| Cancelled                                       | (334 )                  | 31.74                                    |                                                         |                                 |
| Outstanding at December 25, 2011                | 1,428                   | \$ 27.19                                 | 2.63                                                    | \$ 15,259                       |
| Vested or expected to vest at December 25, 2011 | 1,396                   | \$ 27.04                                 | 2.69                                                    | \$ 14,919                       |
| Exercisable at December 25, 2011                | 791                     | \$ 26.40                                 | 1.77                                                    | \$ 9,077                        |

The following is a summary of the significant assumptions used in estimating the fair value of options granted in 2011, 2010 and 2009:

|                                 | 2011 |   | 2010 |   | 2009 |   |
|---------------------------------|------|---|------|---|------|---|
| Assumptions (weighted average): |      |   |      |   |      |   |
| Risk-free interest rate         | 1.5  | % | 1.8  | % | 1.3  | % |
| Expected dividend yield         | 0.0  | % | 0.0  | % | 0.0  | % |
| Expected volatility             | 0.41 |   | 0.43 |   | 0.41 |   |
| Expected term (in years)        | 3.7  |   | 3.7  |   | 3.7  |   |

The risk-free interest rate for the periods within the contractual life of an option is based on the U.S. Treasury yield curve in effect at the time of grant. The estimated volatility is based on the historical volatility of our stock and other factors. The expected term of options represents the period of time that options granted are expected to be outstanding.

The weighted average grant-date fair values of options granted during 2011, 2010 and 2009 was \$9.50, \$9.13 and \$7.26, respectively. The Company granted 403,000, 445,000 and 997,000 options in 2011, 2010 and 2009, respectively.

## Restricted Stock

In 2011, 2010 and 2009, we granted shares of restricted stock that were 100% time-based and have a three-year graded vesting schedule. These restricted shares are intended to focus participants on our long-range objectives, while at the same time serving as a retention mechanism. Prior to 2009, we granted performance-based restricted stock, which vested based on the achievement of compounded annual growth rate (CAGR) of consolidated income, as defined. The fair value of the restricted stock is based on the market price of the Company's shares on the grant date.



## 17. Equity Compensation (continued)

Information pertaining to restricted stock activity during 2011, 2010 and 2009 is as follows (shares in thousands):

|                               | Shares | Weighted<br>Average<br>Grant-Date<br>Fair Value |
|-------------------------------|--------|-------------------------------------------------|
| Total as of December 28, 2008 | 283    | \$ 29.84                                        |
| Granted                       | 108    | 26.54                                           |
| Forfeited                     | (121 ) | 30.03                                           |
| Total as of December 27, 2009 | 270    | 28.34                                           |
| Granted                       | 171    | 27.13                                           |
| Forfeited                     | (123 ) | 30.77                                           |
| Vested                        | (34 )  | 26.40                                           |
| Total as of December 26, 2010 | 284    | 26.62                                           |
| Granted                       | 160    | 29.07                                           |
| Forfeited                     | (78 )  | 26.99                                           |
| Vested                        | (116 ) | 27.27                                           |
| Total as of December 25, 2011 | 250    | \$ 28.19                                        |

## 18. Employee Benefit Plans

We have established the Papa John's International, Inc. 401(k) Plan (the "401(k) Plan"), as a defined contribution benefit plan, in accordance with Section 401(k) of the Internal Revenue Code. The 401(k) Plan is open to employees who meet certain eligibility requirements and allows participating employees to defer receipt of a portion of their compensation and contribute such amount to one or more investment funds. At our discretion, we contributed a matching payment of 1.5% in 2011 and 2.1% in 2009 (no match in 2010) of a participating employee's earnings, which is subject to vesting based on an employee's length of service with us. Costs of the 401(k) Plan recognized in 2011 and 2009 were \$550,000 and \$800,000, respectively (none in 2010).

In addition, we maintain a non-qualified deferred compensation plan available to certain employees and directors. Under this plan, the participants may defer a certain amount of their compensation, which is credited to the participants' accounts. The participant-directed investments associated with this plan are included in other long-term assets (\$11.4 million and \$12.5 million at December 25, 2011 and December 26, 2010, respectively) and the associated liabilities (\$10.8 million and \$10.5 million at December 25, 2011 and December 26, 2010, respectively) are included in other long-term liabilities in the accompanying consolidated balance sheets.

Most administrative costs of the 401(k) Plan and the non-qualified deferred compensation plan are paid by the Company and are not significant.

PJUK, the Company's United Kingdom subsidiary, provided a pension plan that was frozen in 1999. There are approximately 20 participants in the PJUK pension plan. The Company recorded expense of \$268,000, \$258,000 and \$260,000 associated with the pension plan for the fiscal years ended 2011, 2010 and 2009, respectively. The pension plan was fully funded at December 25, 2011.

## 19. Segment Information

We have defined six reportable segments: domestic Company-owned restaurants, domestic commissaries, North America franchising, international operations, variable interest entities (“VIEs”) and “all other” units.

The domestic Company-owned 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 North America 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 franchisees located in the United States and Canada. 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, Mexico and China 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. International franchisees are defined as all franchise operations outside of the United States and Canada. BIBP, which operated through February 2011, was a VIE in which we were deemed the primary beneficiary, as defined in Note 3, and is the only activity reflected in the VIE segment. All other business units that do not meet the quantitative thresholds for determining reportable segments, which are not operating segments, we refer to as our “all other” segment, which consists 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, including our online and other technology-based ordering platforms.

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 activity 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. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 2).

As previously noted, beginning in 2011, we realigned management responsibility for Hawaii, Alaska and Canada from the international segment to the domestic franchising segment in order to better leverage existing infrastructure and systems. As a result, we renamed the domestic franchising segment “North America franchising” in the first quarter of 2011. The prior year data has been reclassified from the international segment to the North America franchising segment to conform to the current year presentation.

## 19. Segment Information (continued)

Our segment information is as follows:

| (in thousands)                         | 2011<br>(As<br>Restated) | 2010<br>(As<br>Restated) | 2009<br>(As<br>Restated) |
|----------------------------------------|--------------------------|--------------------------|--------------------------|
| Revenues from external customers:      |                          |                          |                          |
| Domestic Company-owned restaurants     | \$525,841                | \$503,272                | \$503,818                |
| Domestic commissaries                  | 508,155                  | 454,506                  | 417,689                  |
| North America franchising              | 74,416                   | 70,241                   | 62,995                   |
| International                          | 58,558                   | 46,427                   | 40,003                   |
| All others                             | 50,912                   | 51,951                   | 54,045                   |
| Total revenues from external customers | \$1,217,882              | \$1,126,397              | \$1,078,550              |
| Intersegment revenues:                 |                          |                          |                          |
| Domestic commissaries                  | \$151,423                | \$135,005                | \$133,999                |
| North America franchising              | 2,163                    | 2,045                    | 2,019                    |
| International                          | 215                      | 909                      | 1,093                    |
| Variable interest entities (1)         | 25,117                   | 153,014                  | 142,407                  |
| All others                             | 10,468                   | 12,061                   | 11,751                   |
| Total intersegment revenues            | \$189,386                | \$303,034                | \$291,269                |
| Depreciation and amortization:         |                          |                          |                          |
| Domestic Company-owned restaurants     | \$12,965                 | \$13,155                 | \$12,993                 |
| Domestic commissaries                  | 4,633                    | 4,522                    | 4,819                    |
| International                          | 2,398                    | 2,368                    | 2,207                    |
| All others                             | 4,663                    | 3,489                    | 2,743                    |
| Unallocated corporate expenses         | 8,022                    | 8,873                    | 8,684                    |
| Total depreciation and amortization    | \$32,681                 | \$32,407                 | \$31,446                 |
| Income (loss) before income taxes:     |                          |                          |                          |
| Domestic Company-owned restaurants     | \$28,980                 | \$31,619                 | \$34,894                 |
| Domestic commissaries                  | 30,532                   | 14,188                   | 29,393                   |
| North America franchising              | 66,222                   | 62,229                   | 55,008                   |
| International                          | (165 )                   | (4,771 )                 | (4,368 )                 |
| Variable interest entities (2)         | -                        | 20,954                   | 22,543                   |
| All others                             | (441 )                   | 1,847                    | 2,697                    |
| Unallocated corporate expenses         | (39,727 )                | (42,237 )                | (55,762 )                |
| Elimination of intersegment profits    | (610 )                   | (519 )                   | (218 )                   |
| Total income before income taxes       | \$84,791                 | \$83,310                 | \$84,187                 |

## 19. Segment Information (continued)

| (in thousands)                                | 2011       | 2010       | 2009       |
|-----------------------------------------------|------------|------------|------------|
| Property and equipment:                       |            |            |            |
| Domestic Company-owned restaurants            | \$ 176,506 | \$ 165,434 | \$ 158,884 |
| Domestic commissaries                         | 85,714     | 82,162     | 80,180     |
| International                                 | 17,413     | 17,574     | 16,587     |
| All others                                    | 33,984     | 32,335     | 25,526     |
| Unallocated corporate assets                  | 132,098    | 127,184    | 120,885    |
| Accumulated depreciation and amortization     | (263,805 ) | (239,318 ) | (214,091 ) |
| Net property and equipment                    | \$ 181,910 | \$ 185,371 | \$ 187,971 |
| Expenditures for property and equipment:      |            |            |            |
| Domestic Company-owned restaurants            | \$ 14,094  | \$ 9,124   | \$ 8,300   |
| Domestic commissaries                         | 5,612      | 2,795      | 6,029      |
| International                                 | 1,733      | 4,835      | 7,277      |
| All others                                    | 1,792      | 8,151      | 313        |
| Unallocated corporate                         | 6,088      | 6,220      | 11,619     |
| Total expenditures for property and equipment | \$ 29,319  | \$ 31,125  | \$ 33,538  |

- (1) The intersegment revenues for variable interest entities of \$25.1 million in 2011, \$153.0 million in 2010 and \$142.4 million in 2009 are attributable to BIBP.
- (2) Represents BIBP's operating income, net of noncontrolling interest income, for each year. The 2010 operating income for BIBP includes a reduction in BIBP's cost of sales of \$14.2 million associated with PJFS's agreement to pay to BIBP for past cheese purchases an amount equal to its accumulated deficit.

## 20. Quarterly Data - Unaudited, in Thousands, except Per Share Data

Our quarterly select financial data is as follows:

| 2011                                          | Quarter                 |                         |                         |                         |
|-----------------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|                                               | 1st<br>(As<br>Restated) | 2nd<br>(As<br>Restated) | 3rd<br>(As<br>Restated) | 4th<br>(As<br>Restated) |
| Total revenues (a)                            | \$ 312,467              | \$ 293,534              | \$ 305,668              | \$ 306,213              |
| Operating income (a)                          | 27,211                  | 19,155                  | 16,958                  | 23,693                  |
| Net income                                    | 15,976                  | 12,068                  | 10,800                  | 15,891 (b)              |
| Basic earnings per common share               | \$ 0.63                 | \$ 0.47                 | \$ 0.43                 | \$ 0.66                 |
| Earnings per common share - assuming dilution | \$ 0.62                 | \$ 0.47                 | \$ 0.43                 | \$ 0.65                 |
|                                               |                         |                         |                         |                         |
| 2010                                          | Quarter                 |                         |                         |                         |
|                                               | 1st<br>(As<br>Restated) | 2nd<br>(As<br>Restated) | 3rd<br>(As<br>Restated) | 4th<br>(As<br>Restated) |
| Total revenues (a)                            | \$ 285,786              | \$ 280,647              | \$ 273,126              | \$ 286,838              |
| Operating income (a), (c)                     | 27,942                  | 22,799                  | 13,783                  | 22,220                  |

|                                                   |        |        |        |        |     |
|---------------------------------------------------|--------|--------|--------|--------|-----|
| Net income (c)                                    | 17,194 | 13,260 | 7,904  | 14,220 | (d) |
| Basic earnings per common share (c)               | \$0.64 | \$0.50 | \$0.30 | \$0.56 | (d) |
| Earnings per common share - assuming dilution (c) | \$0.63 | \$0.49 | \$0.30 | \$0.55 | (d) |

- (a) The restatement as described in Note 1 had no impact on revenues or operating income.
- (b) Net income previously reported in the 2011 Unaudited Quarterly Data table was \$15,981.

## 20. Quarterly Data - Unaudited, in Thousands, except Per Share Data (continued)

(c) During 2010, we recorded pre-tax income of \$3.5 million (\$2.2 million after tax or \$0.08 per diluted share) in the first quarter, pre-tax income of \$2.7 million (\$1.7 million after tax or \$0.06 per diluted share) in the second quarter, pre-tax losses of \$658,000 (\$417,000 after tax or \$0.02 per diluted share) in the third quarter and pre-tax income of \$1.3 million (\$843,000 after tax or \$0.04 per diluted share) in the fourth quarter upon consolidation of BIBP. BIBP's total pre-tax income, excluding the reduction in BIBP's cost of sales of \$14.2 million associated with PJFS's agreement to pay to BIBP for past cheese purchases an amount equal to its accumulated deficit, for 2010 was \$6.8 million (\$4.3 million after tax or \$0.16 per diluted share).

(d) Amounts previously reported in the 2010 Unaudited Quarterly Data table were as follows: Net income - \$14,025, Basic earnings per common share - \$0.55, and Earnings per common share – assuming dilution - \$0.55.

All quarterly information above is presented in 13-week periods. Quarterly earnings per share on a full-year basis may not agree to the consolidated statements of income due to rounding.

## Restated Interim Financial Information

The following tables present amounts previously reported and restated as a result of the errors associated with the accounting for our joint venture arrangements (in thousands, except per share data). See Notes 1 and 2 for additional information.

|                                                             | As of and For The<br>Three Months Ended<br>March 27, 2011 |             |
|-------------------------------------------------------------|-----------------------------------------------------------|-------------|
|                                                             | As Previously<br>Reported                                 | As Restated |
| Condensed Consolidated Balance Sheet                        |                                                           |             |
| Noncurrent deferred income tax liabilities (assets)         | \$ 1,138                                                  | \$ (1,030 ) |
| Other long-term liabilities                                 | 12,219                                                    | 22,677      |
| Redeemable noncontrolling interests                         | -                                                         | 3,146       |
| Retained earnings                                           | 259,579                                                   | 256,042     |
| Noncontrolling interests in subsidiaries                    | 7,899                                                     | -           |
| Total stockholders' equity                                  | 223,416                                                   | 211,980     |
| Condensed Consolidated Statement of<br>Comprehensive Income |                                                           |             |
| Interest expense                                            | \$ 608                                                    | \$ 1,335    |
| Income before income taxes                                  | 26,780                                                    | 26,053      |
| Income tax expense                                          | 9,231                                                     | 8,955       |
| Net income, including noncontrolling interests              | 17,549                                                    | 17,098      |
| Net income, net of noncontrolling interests                 | 16,427                                                    | 15,976      |
| Comprehensive income, including noncontrolling<br>interests | 18,822                                                    | 18,371      |
| Basic earnings per common share                             | 0.64                                                      | 0.63        |
| Earnings per common share - assuming dilution               | 0.64                                                      | 0.62        |
| Consolidated Statement of Cash Flows                        |                                                           |             |
| Net income, including noncontrolling interests              | \$ 17,549                                                 | \$ 17,098   |
| Deferred income taxes                                       | 2,664                                                     | 2,388       |
| Other                                                       | 43                                                        | 770         |
| Net cash provided by operating activities                   | 26,687                                                    | 26,687      |



## 20. Quarterly Data - Unaudited, in Thousands, except Per Share Data (continued)

|                                                                 | As of and For The<br>Three Months Ended<br>June 26, 2011 |             | As of and For The<br>Six Months Ended<br>June 26, 2011 |             |
|-----------------------------------------------------------------|----------------------------------------------------------|-------------|--------------------------------------------------------|-------------|
|                                                                 | As<br>Previously<br>Reported                             | As Restated | As<br>Previously<br>Reported                           | As Restated |
| <b>Condensed Consolidated Balance Sheet</b>                     |                                                          |             |                                                        |             |
| Noncurrent deferred income tax liabilities                      | \$3,485                                                  | \$1,283     | \$3,485                                                | \$1,283     |
| Other long-term liabilities                                     | 12,478                                                   | 23,153      | 12,478                                                 | 23,153      |
| Redeemable noncontrolling interests                             | -                                                        | 3,648       | -                                                      | 3,648       |
| Retained earnings                                               | 271,703                                                  | 268,110     | 271,703                                                | 268,110     |
| Noncontrolling interests in subsidiaries                        | 8,528                                                    | -           | 8,528                                                  | -           |
| Total stockholders' equity                                      | 223,801                                                  | 211,680     | 223,801                                                | 211,680     |
| <b>Condensed Consolidated Statement of Comprehensive Income</b> |                                                          |             |                                                        |             |
| Interest expense                                                | \$293                                                    | \$383       | \$901                                                  | \$1,718     |
| Income before income taxes                                      | 19,067                                                   | 18,977      | 45,847                                                 | 45,030      |
| Income tax expense                                              | 6,014                                                    | 5,980       | 15,245                                                 | 14,935      |
| Net income, including noncontrolling interests                  | 13,053                                                   | 12,997      | 30,602                                                 | 30,095      |
| Net income, net of noncontrolling interests                     | 12,124                                                   | 12,068      | 28,551                                                 | 28,044      |
| Comprehensive income, including noncontrolling interests        | 12,539                                                   | 12,483      | 31,361                                                 | 30,854      |
| Basic earnings per common share                                 | 0.48                                                     | 0.47        | 1.12                                                   | 1.10        |
| Earnings per common share - assuming dilution                   | 0.47                                                     | 0.47        | 1.11                                                   | 1.09        |
| <b>Consolidated Statement of Cash Flows</b>                     |                                                          |             |                                                        |             |
| Net income, including noncontrolling interests                  |                                                          |             | \$30,602                                               | \$30,095    |
| Deferred income taxes                                           |                                                          |             | 4,332                                                  | 4,022       |
| Other                                                           |                                                          |             | 316                                                    | 1,133       |
| Net cash provided by operating activities                       |                                                          |             | 52,925                                                 | 52,925      |

## 20. Quarterly Data - Unaudited, in Thousands, except Per Share Data (continued)

|                                                                 | As of and For The<br>Three Months Ended<br>September 25, 2011 |                | As of and For The<br>Nine Months Ended<br>September 25, 2011 |                |
|-----------------------------------------------------------------|---------------------------------------------------------------|----------------|--------------------------------------------------------------|----------------|
|                                                                 | As<br>Previously<br>Reported                                  | As<br>Restated | As<br>Previously<br>Reported                                 | As<br>Restated |
| <b>Condensed Consolidated Balance Sheet</b>                     |                                                               |                |                                                              |                |
| Noncurrent deferred income tax liabilities                      | \$7,110                                                       | \$4,710        | \$7,110                                                      | \$4,710        |
| Other long-term liabilities                                     | 11,542                                                        | 22,545         | 11,542                                                       | 22,545         |
| Redeemable noncontrolling interests                             | -                                                             | 3,558          | -                                                            | 3,558          |
| Retained earnings                                               | 282,826                                                       | 278,910        | 282,826                                                      | 278,910        |
| Noncontrolling interests in subsidiaries                        | 8,245                                                         | -              | 8,245                                                        | -              |
| Total stockholders' equity                                      | 212,554                                                       | 200,393        | 212,554                                                      | 200,393        |
| <b>Condensed Consolidated Statement of Comprehensive Income</b> |                                                               |                |                                                              |                |
| Interest expense                                                | \$282                                                         | \$804          | \$1,183                                                      | \$2,522        |
| Income before income taxes                                      | 16,846                                                        | 16,324         | 62,693                                                       | 61,354         |
| Income tax expense                                              | 4,906                                                         | 4,707          | 20,151                                                       | 19,642         |
| Net income, including noncontrolling interests                  | 11,940                                                        | 11,617         | 42,542                                                       | 41,712         |
| Net income, net of noncontrolling interests                     | 11,123                                                        | 10,800         | 39,674                                                       | 38,844         |
| Comprehensive income, including noncontrolling interests        | 11,687                                                        | 11,364         | 43,048                                                       | 42,218         |
| Basic earnings per common share                                 | 0.45                                                          | 0.43           | 1.57                                                         | 1.54           |
| Earnings per common share - assuming dilution                   | 0.44                                                          | 0.43           | 1.55                                                         | 1.52           |
| <b>Consolidated Statement of Cash Flows</b>                     |                                                               |                |                                                              |                |
| Net income, including noncontrolling interests                  |                                                               |                | \$42,542                                                     | \$41,712       |
| Deferred income taxes                                           |                                                               |                | 5,219                                                        | 4,710          |
| Other                                                           |                                                               |                | 1,272                                                        | 2,611          |
| Net cash provided by operating activities                       |                                                               |                | 87,216                                                       | 87,216         |

## 20. Quarterly Data - Unaudited, in Thousands, except Per Share Data (continued)

|                                                          | As of and For The<br>Three Months Ended<br>March 28, 2010 |             |
|----------------------------------------------------------|-----------------------------------------------------------|-------------|
|                                                          | As                                                        |             |
|                                                          | Previously<br>Reported                                    | As Restated |
| Condensed Consolidated Balance Sheet                     |                                                           |             |
| Noncurrent deferred income tax assets                    | \$4,817                                                   | \$6,904     |
| Other long-term liabilities                              | 13,744                                                    | 24,407      |
| Redeemable noncontrolling interests                      | -                                                         | 3,906       |
| Retained earnings                                        | 208,087                                                   | 204,682     |
| Noncontrolling interests in subsidiaries                 | 9,077                                                     | -           |
| Total stockholders' equity                               | 204,100                                                   | 191,618     |
| Condensed Consolidated Statement of Comprehensive Income |                                                           |             |
| Interest expense                                         | \$1,244                                                   | \$730       |
| Income before income taxes                               | 26,929                                                    | 27,443      |
| Income tax expense                                       | 8,965                                                     | 9,160       |
| Net income, including noncontrolling interests           | 17,964                                                    | 18,283      |
| Net income, net of noncontrolling interests              | 16,875                                                    | 17,194      |
| Comprehensive income, including noncontrolling interests | 16,704                                                    | 17,023      |
| Basic earnings per common share                          | 0.62                                                      | 0.64        |
| Earnings per common share - assuming dilution            | 0.62                                                      | 0.63        |
| Consolidated Statement of Cash Flows                     |                                                           |             |
| Net income, including noncontrolling interests *         | \$17,964                                                  | \$18,283    |
| Deferred income taxes                                    | 1,901                                                     | 2,096       |
| Other                                                    | 330                                                       | (184 )      |
| Net cash provided by operating activities *              | 27,102                                                    | 27,102      |

\*Amounts have been reclassified to conform to the current year presentation.

## 20. Quarterly Data - Unaudited, in Thousands, except Per Share Data (continued)

|                                                                 | As of and For The<br>Three Months Ended<br>June 27, 2010 |             | As of and For The<br>Six Months Ended<br>June 27, 2010 |             |
|-----------------------------------------------------------------|----------------------------------------------------------|-------------|--------------------------------------------------------|-------------|
|                                                                 | As<br>Previously<br>Reported                             | As Restated | As<br>Previously<br>Reported                           | As Restated |
| <b>Condensed Consolidated Balance Sheet</b>                     |                                                          |             |                                                        |             |
| Noncurrent deferred income tax assets                           | \$5,920                                                  | \$7,965     | \$5,920                                                | \$7,965     |
| Other long-term liabilities                                     | 12,729                                                   | 22,978      | 12,729                                                 | 22,978      |
| Redeemable noncontrolling interests                             | -                                                        | 4,431       | -                                                      | 4,431       |
| Retained earnings                                               | 221,279                                                  | 217,942     | 221,279                                                | 217,942     |
| Noncontrolling interests in subsidiaries                        | 9,298                                                    | -           | 9,298                                                  | -           |
| Total stockholders' equity                                      | 202,498                                                  | 189,863     | 202,498                                                | 189,863     |
| <b>Condensed Consolidated Statement of Comprehensive Income</b> |                                                          |             |                                                        |             |
| Interest expense                                                | \$1,333                                                  | \$1,223     | \$2,577                                                | \$1,953     |
| Income before income taxes                                      | 21,663                                                   | 21,773      | 48,592                                                 | 49,216      |
| Income tax expense                                              | 7,560                                                    | 7,602       | 16,525                                                 | 16,762      |
| Net income, including noncontrolling interests                  | 14,103                                                   | 14,171      | 32,067                                                 | 32,454      |
| Net income, net of noncontrolling interests                     | 13,192                                                   | 13,260      | 30,067                                                 | 30,454      |
| Comprehensive income, including noncontrolling interests        | 15,075                                                   | 15,143      | 31,779                                                 | 32,166      |
| Basic earnings per common share                                 | 0.49                                                     | 0.50        | 1.12                                                   | 1.13        |
| Earnings per common share - assuming dilution                   | 0.49                                                     | 0.49        | 1.11                                                   | 1.13        |
| <b>Consolidated Statement of Cash Flows</b>                     |                                                          |             |                                                        |             |
| Net income, including noncontrolling interests *                |                                                          |             | \$32,067                                               | \$32,454    |
| Deferred income taxes                                           |                                                          |             | (250)                                                  | (13)        |
| Other                                                           |                                                          |             | 368                                                    | (256)       |
| Net cash provided by operating activities *                     |                                                          |             | 47,686                                                 | 47,686      |

\*Amounts have been reclassified to conform to the current year presentation.

## 20. Quarterly Data - Unaudited, in Thousands, except Per Share Data (continued)

|                                                                 | As of and For The<br>Three Months Ended<br>September 26, 2010<br>As |             | As of and For The<br>Nine Months Ended<br>September 26, 2010<br>As |             |
|-----------------------------------------------------------------|---------------------------------------------------------------------|-------------|--------------------------------------------------------------------|-------------|
|                                                                 | Previously<br>Reported                                              | As Restated | Previously<br>Reported                                             | As Restated |
| <b>Condensed Consolidated Balance Sheet</b>                     |                                                                     |             |                                                                    |             |
| Noncurrent deferred income tax assets                           | \$5,557                                                             | \$7,568     | \$5,557                                                            | \$7,568     |
| Other long-term liabilities                                     | 12,854                                                              | 22,937      | 12,854                                                             | 22,937      |
| Redeemable noncontrolling interests                             | -                                                                   | 3,142       | -                                                                  | 3,142       |
| Retained earnings                                               | 229,127                                                             | 225,846     | 229,127                                                            | 225,846     |
| Noncontrolling interests in subsidiaries                        | 7,933                                                               | -           | 7,933                                                              | -           |
| Total stockholders' equity                                      | 193,262                                                             | 182,048     | 193,262                                                            | 182,048     |
| <b>Condensed Consolidated Statement of Comprehensive Income</b> |                                                                     |             |                                                                    |             |
| Interest expense                                                | \$1,416                                                             | \$1,326     | \$3,993                                                            | \$3,279     |
| Income before income taxes                                      | 12,540                                                              | 12,630      | 61,132                                                             | 61,846      |
| Income tax expense                                              | 4,020                                                               | 4,054       | 20,545                                                             | 20,816      |
| Net income, including noncontrolling interests                  | 8,520                                                               | 8,576       | 40,587                                                             | 41,030      |
| Net income, net of noncontrolling interests                     | 7,848                                                               | 7,904       | 37,915                                                             | 38,358      |
| Comprehensive income, including noncontrolling interests        | 10,572                                                              | 10,628      | 42,351                                                             | 42,794      |
| Basic earnings per common share                                 | 0.30                                                                | 0.30        | 1.43                                                               | 1.44        |
| Earnings per common share - assuming dilution                   | 0.30                                                                | 0.30        | 1.42                                                               | 1.43        |
| <b>Consolidated Statement of Cash Flows</b>                     |                                                                     |             |                                                                    |             |
| Net income, including noncontrolling interests *                |                                                                     |             | \$40,587                                                           | \$41,030    |
| Deferred income taxes                                           |                                                                     |             | (850)                                                              | (579)       |
| Other                                                           |                                                                     |             | 303                                                                | (411)       |
| Net cash provided by operating activities *                     |                                                                     |             | 64,831                                                             | 64,831      |

\*Amounts have been reclassified to conform to the current year presentation.

## Item 9A. Controls and Procedures

## (a) Evaluation of Disclosure Controls and Procedures

Prior to the filing of our Form 10-K for the fiscal year ended December 25, 2011 ("Original Filing"), we carried out an evaluation, under the supervision and with the participation of our management, including our CEO and CFO, of 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) as of December 25, 2011. Based upon this evaluation, the CEO and CFO concluded that the disclosure controls and procedures were effective at a reasonable assurance level as of December 25, 2011.

Item 9A. Controls and Procedures (continued)

Subsequent to this evaluation and conclusion, on February 26, 2013, we reported that we had identified a material weakness in our internal controls over financial reporting related to accounting for certain redemption features of the noncontrolling interests in our joint venture agreements. Specifically, the review controls in place with respect to non-routine contractual changes or amendments were not effective. As a result of this discovery, our CEO and CFO have now concluded that our disclosure controls and procedures were not effective at a reasonable assurance level as of December 25, 2011, solely as a result of the material weakness identified in Management's Report on our Internal Control over Financial Reporting related to accounting for certain redemption features of our noncontrolling interests as discussed below.

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under potential future conditions, regardless of how remote.

(b) Management's Report on our Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) promulgated under the Exchange Act. Our internal control system is designed to provide reasonable assurance to our management and the board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Prior to the filing of our Original Filing, our management, including our CEO and CFO, assessed the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control—Integrated Framework. Based on this assessment, our management believed our internal control over financial reporting was effective based on those criteria. Subsequently, during our 2012 fourth quarter reporting process, we identified a material weakness in our internal controls over financial reporting related to the accounting for certain redemption features of the noncontrolling interests of our joint venture agreements. Specifically, the review controls in place with respect to non-routine contractual changes or amendments were not effective. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness in our internal controls resulted in the restatement of our 2009, 2010, and 2011 financial statements included in this report. As a result, management has now concluded that our internal control over financial reporting was not effective as of December 25, 2011, based on the COSO criteria.

Ernst & Young LLP, an independent registered public accounting firm, has audited the Consolidated Financial Statements included in this Annual Report on Form 10-K/A and, as part of its audit, has issued an attestation report, included herein, on the effectiveness of our internal control over financial reporting.

Item 9A. Controls and Procedures (continued)

(c) Changes in Internal Control over Financial Reporting

The material weakness described above, which related to the accounting for certain redemption features of our noncontrolling interests in our joint venture agreements, was identified after the end of the period covered by the Original Filing. We have implemented certain remedial measures including a review of all existing joint venture agreements to ensure the accounting for any such redemption features was in compliance with U.S. generally accepted accounting principles. In addition, we are in the process of developing enhanced control procedures designed to ensure proper accounting for any future non-routine contractual changes or amendments to existing joint venture agreements. The material weakness cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Except as otherwise discussed above, there were no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect such controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) Financial Statements:

The following consolidated financial statements, notes related thereto and report of independent auditors are included in Item 8 of this Report:

- Reports of Independent Registered Public Accounting Firm
- Consolidated Statements of Income for the years ended December 25, 2011, December 26, 2010 and December 27, 2009
- Consolidated Statements of Comprehensive Income for the years ended December 25, 2011, December 26, 2010 and December 27, 2009
- Consolidated Balance Sheets as of December 25, 2011 and December 26, 2010
- Consolidated Statements of Stockholders' Equity for the years ended December 25, 2011, December 26, 2010 and December 27, 2009
- Consolidated Statements of Cash Flows for the years ended December 25, 2011, December 26, 2010 and December 27, 2009
- Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules:  
Schedule II – Valuation and Qualifying Accounts

| Classification<br>(in thousands)                           | Balance at<br>Beginning of<br>Year | Charged to<br>(recovered<br>from)<br>Costs and<br>Expenses | Additions /<br>(Deductions) | Balance at<br>End of<br>Year |
|------------------------------------------------------------|------------------------------------|------------------------------------------------------------|-----------------------------|------------------------------|
| Fiscal year ended December 25, 2011:                       |                                    |                                                            |                             |                              |
| Deducted from asset accounts:                              |                                    |                                                            |                             |                              |
| Reserve for uncollectible accounts receivable              | \$ 2,795                           | \$ 1,072                                                   | \$ (833 ) (2 )              | \$ 3,034                     |
| Reserve for uncollectible accounts receivable - affiliates | -                                  | -                                                          | -                           | -                            |
| Reserve for franchisee notes receivable                    | 9,951                              | (35 )                                                      | (4,011 ) (2 )               | 5,905                        |
| Valuation allowance on foreign net operating losses        | 8,123                              | (649 )                                                     | -                           | 7,474                        |
|                                                            | \$ 20,869                          | \$ 388                                                     | \$ (4,844 )                 | \$ 16,413                    |
| Reserves included in liability accounts:                   |                                    |                                                            |                             |                              |
| Reserve for restaurant closures and dispositions           | \$ 310                             | \$ (155 )                                                  | \$ (66 ) (1 )               | \$ 89                        |

Fiscal year ended December 26, 2010:

|                                                            |           |          |                  |           |
|------------------------------------------------------------|-----------|----------|------------------|-----------|
| Deducted from asset accounts:                              |           |          |                  |           |
| Reserve for uncollectible accounts receivable              | \$ 2,791  | \$ 1,350 | \$ (1,346 ) (2 ) | \$ 2,795  |
| Reserve for uncollectible accounts receivable - affiliates | -         | -        | -                | -         |
| Reserve for franchisee notes receivable                    | 10,858    | (433 )   | (474 ) (2 )      | 9,951     |
| Valuation allowance on foreign net operating losses        | 7,158     | 965      | -                | 8,123     |
|                                                            | \$ 20,807 | \$ 1,882 | \$ (1,820 )      | \$ 20,869 |
| Reserves included in liability accounts:                   |           |          |                  |           |
| Reserve for restaurant closures and dispositions           | \$ 525    | \$ (84 ) | \$ (131 ) (1 )   | \$ 310    |

Fiscal year ended December  
27, 2009:

Deducted from asset  
accounts:

|                                                                  |           |          |             |      |           |
|------------------------------------------------------------------|-----------|----------|-------------|------|-----------|
| Reserve for uncollectible<br>accounts receivable                 | \$ 3,003  | \$ 1,452 | \$ (1,664 ) | (2 ) | \$ 2,791  |
| Reserve for uncollectible<br>accounts receivable -<br>affiliates | -         | -        | -           | -    | -         |
| Reserve for franchisee<br>notes receivable                       | 9,265     | 790      | 803         | (2 ) | 10,858    |
| Valuation allowance on<br>foreign net operating losses           | 7,203     | (45 )    | -           | -    | 7,158     |
|                                                                  | \$ 19,471 | \$ 2,197 | \$ (861 )   |      | \$ 20,807 |

Reserves included in  
liability accounts:

|                                                     |        |        |           |      |        |
|-----------------------------------------------------|--------|--------|-----------|------|--------|
| Reserve for restaurant<br>closures and dispositions | \$ 454 | \$ 284 | \$ (213 ) | (1 ) | \$ 525 |
|-----------------------------------------------------|--------|--------|-----------|------|--------|

(1) Represents cash  
payments and other  
adjustments.

(2) Uncollectible accounts written off, net of recoveries and reclassifications between accounts and notes receivable reserves.

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

(a)(3) Exhibits:

The exhibits listed in the accompanying index to Exhibits are filed as part of this Form 10-K/A.

SIGNATURE

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

Date: April 16, 2013

PAPA JOHN'S INTERNATIONAL, INC.  
(Registrant)

/s/ John H. Schnatter  
John H. Schnatter  
Founder, Chairman and Chief Executive  
Officer (Principal Executive Officer)

/s/ Lance F. Tucker  
Lance F. Tucker  
Senior Vice President, Chief Financial Officer,  
Chief Administrative Officer and Treasurer  
(Principal Financial Officer and Principal  
Accounting Officer)

# EXHIBIT INDEX

| Exhibit Number | Description of Exhibit                                                                                                                                                                                                                                              |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1            | Our Amended and Restated Certificate of Incorporation. Exhibit 3.1 to our Registration Statement on Form S-1 (Registration No. 33-61366) is incorporated herein by reference.                                                                                       |
| 3.2            | Our Certificate of Amendment of Amended and Restated Certificate of Incorporation. Exhibit 3 to our Quarterly Report on Form 10-Q for the quarterly period ended June 29, 1997, is incorporated herein by reference.                                                |
| 3.3            | Our Restated By-Laws. Exhibit 3.1 to our report on Form 8-K dated December 5, 2007 is incorporated herein by reference.                                                                                                                                             |
| 4.1            | Specimen Common Stock Certificate. Exhibit 4.1 to our Annual Report on Form 10-K for the fiscal year ended December 31, 1995 (Commission File No. 0-21660) is incorporated herein by reference.                                                                     |
| 4.2            | Amended and Restated Certificate of Incorporation and Restated By-Laws (see Exhibits 3.1, 3.2 and 3.3 above) are incorporated herein by reference.                                                                                                                  |
| 10.1*          | Papa John's International, Inc. Deferred Compensation Plan, as amended through January 25, 2010. Exhibit 10.1 to our report on Form 10-K for the fiscal year ended December 26, 2010 is incorporated herein by reference.                                           |
| 10.2*          | Amended and Restated 2003 Stock Option Plan for Non-Employee Directors, Amended and Restated as of January 13, 2006. Exhibit 10 to our Registration Statement on Form S-8 (Registration No. 333-138427) dated November 3, 2006 is incorporated herein by reference. |
| 10.3*          | Papa John's International, Inc. 1999 Team Member Stock Ownership Plan, Amended and Restated as of December 6, 2006. Exhibit 10.1 to our report on Form 10-K for the fiscal year ended December 31, 2006 is incorporated herein by reference.                        |
| 10.4*          | Papa John's International, Inc. 2008 Omnibus Incentive Plan. Exhibit 10.1 to our Registration Statement on Form S-8 (Registration No. 333-150762) dated May 5, 2008 is incorporated herein by reference.                                                            |
| 10.5*          | Papa John's International, Inc. 2011 Omnibus Incentive Plan. Exhibit 4.1 to our report on Form 8-K as filed on May 3, 2011 is incorporated herein by reference.                                                                                                     |
| 10.6*          | Agreement for Service as Chairman between John H. Schnatter and Papa John's International, Inc. Exhibit 10.1 to our report on Form 8-K as filed on August 15, 2007 is incorporated herein by reference.                                                             |
| 10.7*          | Agreement for Service as Founder between John H. Schnatter and Papa John's International, Inc. Exhibit 10.1 to our report on Form 8-K as filed on August 15, 2007 is incorporated herein by reference.                                                              |



- 10.8\* Amendment and Restated Exclusive License Agreement between John H. Schnatter and Papa John's International, Inc. Exhibit 10.1 to our report on Form 8-K as filed on May 19, 2008 is incorporated herein by reference.
- 10.9\* Agreement and Release between J. David Flanery and Papa John's International, Inc. Exhibit 10.1 to our report on Form 8-K/A filed on March 25, 2011 is incorporated herein by reference.
- 10.10\* Agreement and Release between J. Jude Thompson and Papa John's International, Inc. Exhibit 10.1 to our report on Form 8-K as filed on April 15, 2011 is incorporated herein by reference.
- 10.11 Conformed Copy through Fourth Amendment, As of December 19, 2007, of the Promissory Note by BIBP Commodities, Inc. Exhibit 10.2 to our Annual Report on Form 10-K for the fiscal year ended December 28, 2008 is incorporated herein by reference.
- 10.12 Fifth Amendments, As of July 31, 2008, of the Secured Loan Agreement, by and between BIBP Commodities, Inc. and Capital Delivery, Ltd. and of the Promissory Note by BIBP Commodities, Inc. Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarter ended September 28, 2008 is incorporated herein by reference.
- 10.13 \$175,000,000 Revolving Credit Facility by and among Papa John's International, Inc., the Guarantors party thereto, RSC Insurance Services, Ltd., a Bermuda company, the Banks party thereto, PNC Bank, National Association, as Administrative Agent, JPMorgan Chase Bank, N.A., as Syndication Agent, U.S. Bank, National Association, as Co-Documentation Agent, Bank of America, N.A., as Co-Documentation Agent, Fifth Third Bank, as Co-Documentation Agent, PNC Capital Markets LLC, as Joint Lead Arranger and as Joint Bookrunner, and J.P. Morgan Securities LLC, as Joint Lead Arranger and as Joint Bookrunner dated September 2, 2010. Exhibit 10.1 to our report on Form 8-K as filed on September 9, 2010 is incorporated by reference.
- 10.14 First Amendment to Credit Agreement by and among Papa John's International, Inc. the Guarantors party thereto, RSC Insurance Services, Ltd., a Bermuda company, PNC Bank, National Association, as a Bank and as Administrative Agent, JPMorgan Chase Bank, N.A., as a Bank and as Syndication Agent, Bank of America, N.A., as a Bank and as Co-Documentation Agent, Fifth Third Bank, as a Bank and as Co-Documentation Agent, U.S. Bank, National Association, as a Bank and as Co-Documentation Agent, and Branch Banking and Trust Company, as a Bank, dated November 30, 2011. Exhibit 10.1 to our report on Form 8-K filed December 1, 2011 is incorporated by reference.
- 10.15 Agreement for the Sale and Purchase of the Perfect Pizza Franchise Business Operated by Perfect Pizza Limited (to be Renamed Papa John's (GB) Limited). Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarter ended March 26, 2006 is incorporated herein by reference.
- 21 Subsidiaries of the Company. Exhibit 21 to our report on Form 10-K as filed on February 21, 2012 is incorporated herein by reference.

- 23 Consent of Ernst & Young LLP.
- 31.1 Section 302 Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-15(e).
- 31.2. Section 302 Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-15(e).
- 32.1 Section 906 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 Section 906 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 Annual Report on Form 10-K/A of Papa John's International, Inc. for the year ended December 25, 2011, filed on April 16, 2013, formatted in XBRL: (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements.

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\*Compensatory plan required to be filed as an exhibit pursuant to Item 15(c) of Form 10-K.