PAPA JOHNS INTERNATIONAL INC
Form 10-Q
May 05, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 29, 2009

OR

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

Commission File Number: 0-21660

PAPA JOHN S INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**61-1203323**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification number)

2002 Papa Johns Boulevard

Louisville, Kentucky 40299-2367

(Address of principal executive offices)

(502) 261-7272

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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 x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

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

At April 29, 2009, there were outstanding 27,946,971 shares of the registrant s common stock, par value $0.01 per share.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Papa John s International, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands)	March 29, 2009 (Unaudited)	December 28, 2008 (Note)
Assets		
Current assets:		
Cash and cash equivalents	$ 18,141	$ 10,987
Accounts receivable	22,988	23,775
Inventories	15,001	16,872
Prepaid expenses	9,655	9,797
Other current assets	5,327	5,275
Assets held for sale	1,428	1,540
Deferred income taxes	7,811	7,102
Total current assets	80,351	75,348
Investments	627	530
Net property and equipment	189,605	189,992
Notes receivable	10,340	7,594
Deferred income taxes	14,509	17,518
Goodwill	73,282	76,914
Other assets	19,147	18,572
Total assets	$ 387,861	$ 386,468
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 27,308	$ 29,148
Income and other taxes	17,465	9,685
Accrued expenses	48,842	54,220
Current portion of debt	8,450	7,075
Total current liabilities	102,065	100,128
Unearned franchise and development fees	5,639	5,916
Long-term debt, net of current portion	103,075	123,579
Other long-term liabilities	19,300	18,607
Stockholders equity:		
Preferred stock		
Common stock	356	352
Additional paid-in capital	223,476	216,553
Accumulated other comprehensive income (loss)	(4,707)	(3,818)
Retained earnings	151,598	133,759
Treasury stock	(221,818)	(216,860)
Total stockholders equity, net of noncontrolling interests	148,905	129,986
Noncontrolling interests in subsidiaries	8,877	8,252
Total stockholders equity	157,782	138,238
Total liabilities and stockholders equity	$ 387,861	$ 386,468

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

See accompanying notes.

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Papa John s International, Inc. and Subsidiaries

Consolidated Statements of Income

(Unaudited)

(In thousands, except per share amounts)	Three Months Ended March 29, 2009	Three Months Ended March 30, 2008
Domestic revenues:		
Company-owned restaurant sales	$ 131,705	$ 138,855
Variable interest entities restaurant sales	5,671	2,040
Franchise royalties	15,361	15,445
Franchise and development fees	228	920
Commissary sales	107,916	106,047
Other sales	14,769	16,845
International revenues:		
Royalties and franchise and development fees	3,235	3,020
Restaurant and commissary sales	6,087	5,833
Total revenues	284,972	289,005
Costs and expenses:		
Domestic Company-owned restaurant expenses:		
Cost of sales	25,901	31,572
Salaries and benefits	38,203	41,560
Advertising and related costs	11,273	12,697
Occupancy costs	7,916	8,471
Other operating expenses	17,628	18,307
Total domestic Company-owned restaurant expenses	100,921	112,607
Variable interest entities restaurant expenses	4,809	1,793
Domestic commissary and other expenses:		
Cost of sales	90,950	90,006
Salaries and benefits	8,831	8,965
Other operating expenses	10,672	11,532
Total domestic commissary and other expenses	110,453	110,503
(Income) loss from the franchise cheese-purchasing program, net of minority interest	(7,103)	5,558
International operating expenses	5,357	5,340
General and administrative expenses	27,763	27,214
Other general expenses	4,467	2,213
Depreciation and amortization	7,955	8,006
Total costs and expenses	254,622	273,234
Operating income	30,350	15,771
Investment income	132	266
Interest expense	(1,416)	(1,892)
Income before income taxes	29,066	14,145
Income tax expense	10,302	4,976
Net income, including noncontrolling interests	18,764	9,169
Less: income attributable to noncontrolling interests	(925)	(544)
Net income, net of noncontrolling interests	$ 17,839	$ 8,625
Basic earnings per common share	$ 0.65	$ 0.30
Earnings per common share - assuming dilution	$ 0.64	$ 0.30
Basic weighted average shares outstanding	27,640	28,700
Diluted weighted average shares outstanding	27,707	28,885

See accompanying notes.

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Papa John s International, Inc. and Subsidiaries

Consolidated Statements of Stockholders Equity

(Unaudited)

(In thousands)	Common Stock Shares Outstanding	Common Stock	Additional Paid-In Capital	Papa John s International, Inc. Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Noncontrolling Interests in Subsidiaries	Total Stockholders Equity
Balance at December 30, 2007	28,777	$ 349	$ 208,598	$ 156	$ 96,963	$ (179,163)	$ 8,035	$ 134,938
Comprehensive income:								
Net income					8,625		544	9,169
Change in valuation of interest rate swap agreements, net of tax of $740				(1,345)				(1,345)
Other, net				124				124
Comprehensive income								7,948
Exercise of stock options	24	1	458					459
Tax effect related to exercise of non-qualified stock options			55					55
Acquisition of treasury stock	(104)					(2,272)		(2,272)
Distributions to noncontrolling interests							(600)	(600)
Other			1,247					1,247
Balance at March 30, 2008	28,697	$ 350	$ 210,358	$ (1,065)	$ 105,588	$ (181,435)	$ 7,979	$ 141,775
Balance at December 28, 2008	27,637	$ 352	$ 216,553	$ (3,818)	$ 133,759	$ (216,860)	$ 8,252	$ 138,238
Comprehensive income:								
Net income					17,839		925	18,764
Change in valuation of interest rate swap agreements, net of tax of $72				126				126
Other, net				(1,015)				(1,015)
Comprehensive income								17,875
Exercise of stock options	359	4	6,121					6,125
Tax effect related to exercise of non-qualified stock options			(119)					(119)
Acquisition of treasury stock	(275)					(4,958)		(4,958)
Distributions to noncontrolling interests							(300)	(300)
Other			921					921
Balance at March 29, 2009	27,721	$ 356	$ 223,476	$ (4,707)	$ 151,598	$ (221,818)	$ 8,877	$ 157,782

At March 30, 2008, the accumulated other comprehensive loss of $1,065 was comprised of a net unrealized loss on the interest rate swap agreements of $2,645, offset by unrealized foreign currency translation gains of $1,571 and a net unrealized gain on investments of $9.

At March 29, 2009, the accumulated other comprehensive loss of $4,707 was comprised of a net unrealized loss on the interest rate swap agreements of $3,824, unrealized foreign currency translation losses of $795 and an $88 pension plan liability for PJUK.

See accompanying notes.

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Papa John s International, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)	Three Months Ended March 29, 2009	Three Months Ended March 30, 2008
Operating activities		
Net income, net of noncontrolling interests	$ 17,839	$ 8,625
Adjustments to reconcile net income to net cash provided by operating activities:		
Restaurant impairment and disposition losses		1,211
Provision for uncollectible accounts and notes receivable	1,497	715
Depreciation and amortization	7,955	8,006
Deferred income taxes	2,230	(4,217)
Stock-based compensation expense	921	1,247
Excess tax benefit related to exercise of non-qualified stock options		(55)
Other	362	184
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(115)	(1,044)
Inventories	2,042	2,353
Prepaid expenses	164	1,101
Other current assets	462	(88)
Other assets and liabilities	(162)	(257)
Accounts payable	(3,246)	(3,315)
Income and other taxes	7,780	8,877
Accrued expenses	(5,487)	(2,506)
Unearned franchise and development fees	(277)	(497)
Net cash provided by operating activities	31,965	20,340
Investing activities		
Purchase of property and equipment	(5,064)	(8,710)
Purchase of investments	(97)	
Proceeds from sale or maturity of investments		312
Loans issued	(3,988)	(549)
Loan repayments	507	642
Acquisitions		(100)
Proceeds from divestitures of restaurants	200	
Other		135
Net cash used in investing activities	(8,442)	(8,270)
Financing activities		
Net repayments from line of credit facility	(20,500)	(15,580)
Net proceeds from short-term debt - variable interest entities	1,375	6,600
Excess tax benefit related to exercise of non-qualified stock options		55
Proceeds from exercise of stock options	6,125	459
Acquisition of Company common stock	(4,958)	(2,272)
Noncontrolling interests, net of distributions	625	(56)
Other	(114)	(75)
Net cash used in financing activities	(17,447)	(10,869)
Effect of exchange rate changes on cash and cash equivalents	(9)	118
Change in cash and cash equivalents	6,067	1,319
Cash recorded from consolidation of VIEs	1,087	
Cash and cash equivalents at beginning of period	10,987	8,877
Cash and cash equivalents at end of period	$ 18,141	$ 10,196

See accompanying notes.

Papa John s International, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 29, 2009

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the three months ended March 29, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ended December 27, 2009. For further information, refer to the consolidated financial statements and footnotes thereto included in the Annual Report on Form 10-K for Papa John s International, Inc. (referred to as the Company , Papa John s or in the first person notations of we , us and our) for the year ended December 28, 2008.

2. Recent Accounting Pronouncements

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

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

SFAS No. 141R, Business Combinations

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

SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements

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

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

Papa John s had two joint venture arrangements as of March 29, 2009 and March 30, 2008, which were as follows:

	Restaurants as of Mar. 29, 2009	Restaurant Locations	Papa John s Ownership *	Noncontrolling Interest Ownership *
Star Papa, LP	76	Texas	51%	49%
Colonel s Limited, LLC	51	Maryland and Virginia	70%	30%

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

The pre-tax income of the joint ventures totaled $2.5 million for the three months ended March 29, 2009 and $1.5 million for the three months ended March 30, 2008. The portion of pre-tax income attributable to the noncontrolling interest holders was $925,000 for the three months ended March 29, 2009, compared to $544,000 for the three months ended March 30, 2008. The noncontrolling interest holders equity in the joint venture arrangements totaled $8.9 million as of March 29, 2009 and $8.3 million as of December 28, 2008.

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

Papa John s adopted the provisions of SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133,* in the first quarter of 2009. SFAS No. 161 enhances the required disclosures regarding derivatives and hedging activities, including disclosures regarding how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* and how derivative instruments and related hedged items affect an entity s financial position, results of operations and cash flows. See Note 4 for additional information.

3. Accounting for Variable Interest Entities

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

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

FIN 46 requires a VIE to be consolidated if a party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) is obligated to absorb a majority of the risk of loss from the VIE s activities, is entitled to receive a majority of the VIE s residual returns (if no party absorbs a majority of the VIE s losses), or both. A variable interest holder that consolidates the VIE is called the primary beneficiary. Upon consolidation, the primary beneficiary generally must initially record all of the VIE s assets, liabilities and non-controlling interests at fair value and subsequently account for the VIE as if it were consolidated based on

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majority voting interest. FIN 46 also requires disclosures about VIEs that the variable interest holder is not required to consolidate but in which it has a significant variable interest.

We have a purchasing arrangement with BIBP Commodities, Inc. (BIBP), a special-purpose entity formed at the direction of our Franchise Advisory Council for the sole purpose of reducing cheese price volatility to domestic system-wide restaurants. BIBP is an independent, franchisee-owned corporation. BIBP purchases cheese at the market price and sells it to our distribution subsidiary, PJ Food Service, Inc. (PJFS), at a fixed price. PJFS in turn sells cheese to Papa John s restaurants (both Company-owned and franchised) at a set price. Effective March 2009, we modified the BIBP formula to establish the price of cheese on a more frequent basis based on the projected spot market prices. Under this new formula, we anticipate BIBP will substantially repay its cumulative deficit by the end of 2011. PJFS purchased $36.0 million and $39.7 million of cheese from BIBP for the three months ended March 29, 2009 and March 30, 2008, respectively.

As defined by FIN 46, we are the primary beneficiary of BIBP, a VIE. We recognize the operating losses generated by BIBP if BIBP s shareholders equity is in a net deficit position. Further, we will recognize the subsequent operating income generated by BIBP up to the amount of any losses previously recognized. We recognized a pre-tax gain of $9.0 million ($5.9 million net of tax, or $0.21 per share) and a pre-tax loss of $8.0 million ($5.2 million net of tax, or $0.18 per share) for the three months ended March 29, 2009 and March 30, 2008, respectively, from the consolidation of BIBP. The impact on future operating income from the consolidation of BIBP is expected to continue to be significant for any given reporting period due to the volatility of the cheese market.

BIBP has a $15.0 million line of credit with a commercial bank, which is guaranteed by Papa John s. Papa John s has agreed to provide additional funding in the form of a loan to BIBP. As of March 29, 2009, BIBP had outstanding borrowings of $8.5 million and a letter of credit of $3.0 million outstanding under the commercial line of credit facility and outstanding borrowings of $28.0 million with Papa John s.

In addition, Papa John s has extended loans to certain franchisees. Under FIN 46, Papa John s was deemed the primary beneficiary of five franchise entities as of March 29, 2009 and three franchise entities as of March 30, 2008, even though we had no ownership in the franchise entities. The five franchise entities at March 29, 2009 operate a total of 65 restaurants with annual revenues approximating $44.0 million. Our net loan balance receivable from these entities was $8.1 million at March 29, 2009, with no further funding commitments. The consolidation of these franchise entities had no significant impact on Papa John s operating results and is not expected to have a significant impact in future periods.

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The following table summarizes the balance sheets for our consolidated VIEs as of March 29, 2009 and December 28, 2008:

(In thousands)	March 29, 2009 BIBP	March 29, 2009 Franchisees	March 29, 2009 Total	December 28, 2008 BIBP	December 28, 2008 Franchisees	December 28, 2008 Total
Assets:						
Cash and cash equivalents	$ 2,495	$ 1,087	$ 3,582	$	$ 70	$ 70
Accounts receivable - Papa John s	4,817		4,817	4,687		4,687
Other current assets	790	778	1,568	1,089	55	1,144
Net property and equipment		7,358	7,358		4,314	4,314
Goodwill		1,528	1,528		4,556	4,556
Deferred income taxes	11,899		11,899	15,057		15,057
Total assets	$ 20,001	$ 10,751	$ 30,752	$ 20,833	$ 8,995	$ 29,828
Liabilities and stockholders equity (deficit):						
Accounts payable and accrued expenses	$ 5,039	$ 1,881	$ 6,920	$ 5,391	$ 381	$ 5,772
Short-term debt - third party	8,450		8,450	7,075		7,075
Short-term debt - Papa John s	28,022	8,059	36,081	35,743	7,991	43,734
Total liabilities	41,511	9,940	51,451	48,209	8,372	56,581
Stockholders equity (deficit)	(21,510)	811	(20,699)	(27,376)	623	(26,753)
Total liabilities and stockholders equity (deficit)	$ 20,001	$ 10,751	$ 30,752	$ 20,833	$ 8,995	$ 29,828

4. Debt

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

	March 29, 2009	December 28, 2008
Revolving line of credit	$ 103,000	$ 123,500
Debt associated with VIEs *	8,450	7,075
Other	75	79
Total debt	111,525	130,654
Less: current portion of debt	(8,450)	(7,075)
Long-term debt	$ 103,075	$ 123,579

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

In January 2006, we executed a five-year, unsecured Revolving Credit Facility (Credit Facility) totaling $175.0 million. Under the Credit Facility, outstanding balances accrue interest at 50.0 to 100.0 basis points over the London Interbank Offered Rate (LIBOR) or other bank-developed rates, at our option. The commitment fee on the unused balance ranges from 12.5 to 20.0 basis points. The increment over

LIBOR and the commitment fee are determined quarterly based upon the ratio of total indebtedness to earnings before interest, taxes, depreciation and amortization (EBITDA), as defined. The remaining availability under our line of credit, reduced for certain outstanding letters of credit, approximated $51.6 million and $31.1 million as of March 29, 2009 and December 28, 2008, respectively. The fair value of our outstanding debt approximates the carrying value since our debt agreements are variable-rate instruments.

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The Credit Facility contains customary affirmative and negative covenants, including financial covenants requiring the maintenance of specified fixed charges and leverage ratios. At March 29, 2009 and December 28, 2008, we were in compliance with these covenants.

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

		Floating Rate Debt	Fixed Rates
The first interest rate swap agreement:			
January 16, 2007 to January 15, 2009	$	60 million	4.98%
January 15, 2009 to January 15, 2011	$	50 million	4.98%
The second interest rate swap agreement:			
January 31, 2009 to January 31, 2011	$	50 million	3.74%

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

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

Fair Values of Derivative Instruments

	Balance Sheet Location	Liability Derivatives Fair Value Mar-09	Fair Value Dec-08
Derivatives designated as hedging instruments under Statement 133:			
Interest rate swaps	Other long-term liabilities	$ 5,975	$ 6,173

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

Effect of Derivative Instruments on the Consolidated Financial Statements

Derivatives in Statement 133 Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	Mar-09	Mar-08		Mar-09	Mar-08		Mar-09	Mar-08
Interest rate swaps	$ 126	$ (1,345)	Interest expense	$ 971	$ 291	Not applicable	$	$

The weighted average interest rate for our Revolving lines of credit, including the impact of the previously mentioned swap agreements, was 4.5% and 5.4% for the three months ended March 29, 2009 and March 30, 2008, respectively. Interest paid in the three months ended March 29, 2009 and March 30, 3008, including payments made or received under the swaps, was $1.4 million and $1.8 million, respectively.

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5. Calculation of Earnings Per Share

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

	Three Months Ended			
		March 29, 2009		March 30, 2008
Basic earnings per common share:				
Net income	$	17,839	$	8,625
Weighted average shares outstanding		27,640		28,700
Basic earnings per common share	$	0.65	$	0.30
Earnings per common share - assuming dilution:				
Net income	$	17,839	$	8,625
Weighted average shares outstanding		27,640		28,700
Dilutive effect of outstanding common stock options		67		185
Diluted weighted average shares outstanding		27,707		28,885
Earnings per common share - assuming dilution	$	0.64	$	0.30

Shares subject to options to purchase common stock with an exercise price greater than the average market price for the quarter were not included in the computation of the dilutive effect of common stock options because the effect would have been antidilutive. The weighted average number of shares subject to the antidilutive options was 1.3 million and 1.1 million at March 29, 2009 and March 30, 2008, respectively.

6. Segment Information

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

The domestic restaurant segment consists of the operations of all domestic (domestic is defined as contiguous United States) Company-owned restaurants and derives its revenues principally from retail sales of pizza and side items, such as breadsticks, cheesesticks, chicken strips, chicken wings, dessert pizza, and soft drinks to the general public. The domestic commissary segment consists of the operations of our regional dough production and product distribution centers and derives its revenues principally from the sale and distribution of food and paper products to domestic Company-owned and franchised restaurants. The domestic franchising segment consists of our franchise sales and support activities and derives its revenues from sales of franchise and development rights and collection of royalties from our domestic franchisees. The international operations segment principally consists of our Company-owned restaurants and distribution sales to franchised Papa John s restaurants located in the United Kingdom, China and Mexico and our franchise sales and support activities, which derive revenues from sales of franchise and development rights and the collection of royalties from our international franchisees. VIEs consist of entities in which we are deemed the primary beneficiary, as defined in Note 3, and include BIBP and certain franchisees to which we have extended loans. All other business units that do not meet the quantitative thresholds for determining reportable segments consist of operations that derive revenues from the sale, principally to Company-owned and franchised restaurants, of printing and promotional items, risk management services, and information systems and related services used in restaurant operations.

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

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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.

Our segment information is as follows:

(In thousands)	Three Months Ended March 29, 2009	March 30, 2008
Revenues from external customers:		
Domestic Company-owned restaurants	$ 131,705	$ 138,855
Domestic commissaries	107,916	106,047
Domestic franchising	15,589	16,365
International	9,322	8,853
Variable interest entities (1)	5,671	2,040
All others	14,769	16,845
Total revenues from external customers	$ 284,972	$ 289,005
Intersegment revenues:		
Domestic commissaries	$ 35,698	$ 36,225
Domestic franchising	506	466
International	244	301
Variable interest entities (1)	35,972	39,661
All others	2,902	4,109
Total intersegment revenues	$ 75,322	$ 80,762
Income (loss) before income taxes:		
Domestic Company-owned restaurants	$ 10,391	$ 7,798
Domestic commissaries	9,384	8,433
Domestic franchising	13,682	14,472
International	(777)	(1,739)
Variable interest entities (2)	9,025	(7,951)
All others	401	2,525
Unallocated corporate expenses	(13,025)	(9,219)
Elimination of intersegment profits	(15)	(174)
Total income before income taxes	$ 29,066	$ 14,145
Income attributable to noncontrolling interests	(925)	(544)
Total income before income taxes, net of noncontrolling interests	$ 28,141	$ 13,601
Property and equipment:		
Domestic Company-owned restaurants	$ 156,369	
Domestic commissaries	79,197	
International	10,101	
Variable interest entities	10,116	
All others	22,748	
Unallocated corporate assets	116,930	
Accumulated depreciation and amortization	(205,856)	
Net property and equipment	$ 189,605	

(1) The revenues from external customers for variable interest entities are attributable to the franchise entities to which we have extended loans that qualify as consolidated VIEs. The intersegment revenues for variable interest

entities are attributable to BIBP.

(2) Represents BIBP s operating income (loss), net of minority interest income for each year.

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7. Subsequent Events

On April 27, 2009, we divested ten restaurants located in our Albuquerque, New Mexico market. Total consideration for the sale of the restaurants was $1.1 million, consisting of cash proceeds of $630,000 and notes to Papa John s from the purchasers, who are existing Papa John s franchisees, for $500,000. We anticipate a gain of approximately $300,000 will be recognized in the second quarter of 2009 upon completion of the sale.

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

Results of Operations and Critical Accounting Policies and Estimates

Papa John s International, Inc. (referred to as the Company, Papa John s or in the first person notations of we, us and our) began operations 1985. At March 29, 2009, there were 3,404 Papa John s restaurants (612 Company-owned and 2,792 franchised) operating in all 50 states and 29 countries. Our revenues are principally derived from retail sales of pizza and other food and beverage products to the general public by Company-owned restaurants, franchise royalties, sales of franchise and development rights, sales to franchisees of food and paper products, printing and promotional items, risk management services, and information systems and related services used in their operations.

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

Allowance for Doubtful Accounts and Notes Receivable

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

Long-Lived and Intangible Assets

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

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

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royalties less any incremental direct operating costs, that would be collected under the ten-year franchise agreement.

At March 29, 2009, we had a net investment of approximately $15.4 million associated with our United Kingdom subsidiary (PJUK). During 2008, we recorded a goodwill impairment charge of $2.3 million associated with our PJUK operations. We have developed plans for PJUK to continue to improve in operating results. The plans include efforts to increase Papa John s brand awareness in the United Kingdom, improve sales and profitability for individual restaurants and increase net PJUK franchised unit openings over the next several years. We will continue to periodically evaluate our progress in achieving these plans. If our initiatives with PJUK and certain domestic markets are not successful, future impairment charges could occur.

Insurance Reserves

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

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

Deferred Income Tax Assets and Tax Reserves

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

As of March 29, 2009, we had a net deferred income tax asset balance of $22.3 million, of which approximately $11.9 million relates to the net operating loss carryforward of BIBP Commodities, Inc. (BIBP). We have not provided a valuation allowance for the deferred income tax assets associated with our domestic operations, including BIBP, since we believe it is more likely than not that future earnings will be sufficient to ensure the realization of the net deferred income tax assets for federal and state purposes.

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

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

BIBP is a franchisee-owned corporation that conducts a cheese-purchasing program on behalf of domestic Company-owned and franchised restaurants. As required by FASB Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* (FIN 46), we consolidate the financial results of BIBP since we qualify as the primary beneficiary, as defined by FIN 46, of BIBP. We recognized pre-tax income of $9.0 million for the three months ended March 29, 2009 and a pre-tax loss of $8.0 million for the three months ended March 30, 2008 from the consolidation of BIBP. We expect the consolidation of BIBP to continue to have a significant impact on Papa John s operating income in future periods due to the volatility of cheese prices. Papa John s will recognize the operating losses generated by BIBP if the shareholders equity of BIBP is in a net deficit position. Further, Papa John s will recognize subsequent operating income generated by BIBP up to the amount of BIBP losses previously recognized by Papa John s.

Recent Accounting Pronouncements

SFAS No. 157

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

SFAS No. 141 revised 2007

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

SFAS No. 160

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

The provisions of SFAS No. 160 apply to our joint venture arrangements with Colonel s Limited, LLC (51 restaurants) and Star Papa, LP (76 restaurants). The minority interest holders own 30% and 49% of Colonel s Limited and Star Papa, respectively.

SFAS No. 161

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

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the required disclosures regarding derivatives and hedging activities, including disclosures regarding how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* and how derivative instruments and related hedged items affect an entity s financial position, results of operations and cash flows. The disclosures required by SFAS No. 133 are included in Note 4 to the accompanying financial statements.

Restaurant Progression:

	Three Months Ended	
	March 29, 2009	**March 30, 2008**
Papa John s Restaurant Progression:		
U.S. Company-owned:		
Beginning of period	592	648
Opened	3	4
Closed	(4)	(5)
Acquired from franchisees		1
Sold to franchisees	(1)	
End of period	590	648
International Company-owned:		
Beginning of period	23	14
Opened		3
Closed	(1)	