

PAPA JOHNS INTERNATIONAL INC

Form 10-K

February 23, 2016

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 27, 2015

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**  
(State or other jurisdiction of  
incorporation or organization)

**61-1203323**  
(I.R.S. Employer  
Identification No.)

**2002 Papa Johns Boulevard**  
**Louisville, Kentucky**  
(Address of principal executive offices)

**40299-2367**  
(Zip Code)

**(502) 261-7272**

(Registrant's telephone number, including area code)

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Securities registered pursuant to Section 12(b) of the Act:

**(Title of Each Class)**  
Common Stock, \$0.01 par value

**(Name of each exchange on which registered)**  
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

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

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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.  x

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 Act). Yes  o No  x

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 28, 2015, was \$2,235,251,445.

As of February 16, 2016, there were 37,733,506 shares of the Registrant's common stock outstanding.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of Part III of this annual report are incorporated by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held April 28, 2016.

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Table of Contents

TABLE OF CONTENTS

	<b>Page</b>
<u>PART I</u>	
<u>Item 1.</u>	1
<u>Item 1A.</u>	11
<u>Item 1B.</u>	19
<u>Item 2.</u>	19
<u>Item 3.</u>	21
<u>Item 4.</u>	22
<u>PART II</u>	
<u>Item 5.</u>	23
<u>Item 6.</u>	26
<u>Item 7.</u>	27
<u>Item 7A.</u>	49
<u>Item 8.</u>	52
<u>Item 9.</u>	85
<u>Item 9A.</u>	85
<u>Item 9B.</u>	87
<u>PART III</u>	
<u>Item 10.</u>	87
<u>Item 11.</u>	87
<u>Item 12.</u>	88
<u>Item 13.</u>	88
<u>Item 14.</u>	88
<u>PART IV</u>	
<u>Item 15.</u>	89

Table of Contents

**PART I**

**Item 1. Business**

**General**

Papa John's International, Inc., a Delaware corporation (referred to as the "Company", "Papa John's" or in the first person notations of "we", "us" and "operates and franchises pizza delivery and carryout restaurants and, in certain international markets, dine-in and delivery restaurants under the trademark "Papa John's". Papa John's began operations in 1984. At December 27, 2015, there were 4,893 Papa John's restaurants in operation, consisting of 752 Company-owned and 4,141 franchised restaurants operating domestically in all 50 states and in 39 countries and territories. Our Company-owned restaurants include 213 restaurants operated under four joint venture arrangements and 45 units in Beijing and North China.

Papa John's has defined five reportable segments: domestic Company-owned restaurants, domestic commissaries (Quality Control Centers), North America franchising, international operations, and all other business units. North America is defined as the United States and Canada. Domestic is defined as the contiguous United States. International franchisees are defined as all franchise operations outside of the United States and Canada. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 20 of "Notes to Consolidated Financial Statements" for financial information about our segments.

All of our periodic and current reports filed with the Securities and Exchange Commission (the "SEC") pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), are available, free of charge, through our website located at [www.papajohns.com](http://www.papajohns.com), including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports. Those documents are available through our website as soon as reasonably practicable after we electronically file them with the SEC. We also make available free of charge on our website our Corporate Governance Guidelines, Board Committee Charters, and our Code of Ethics, which applies to Papa John's directors, officers and employees. Printed copies of such documents are also available free of charge upon written request to Investor Relations, Papa John's International, Inc., P.O. Box 99900, Louisville, KY 40269-0900. You may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. This information is also available at [www.sec.gov](http://www.sec.gov). The references to these website addresses do not constitute incorporation by reference of the information contained on the websites, which should not be considered part of this document.

**Strategy**

Our goal is to build the strongest brand loyalty in the pizza industry. Recognized as a trusted brand and quality leader in the domestic pizza category, we endeavor to build our brand on a global basis. The key elements of our strategy include:

*High-Quality Menu Offerings.* Our menu strategy focuses on the quality of our ingredients. Domestic Papa John's restaurants offer high-quality pizza along with side items, including breadsticks, cheesesticks, chicken poppers and wings, dessert items and canned or bottled beverages. Papa John's traditional crust pizza is prepared using fresh dough (never frozen). Papa John's pizzas are made from a proprietary blend of wheat flour, 100% real cheese made from mozzarella, fresh-packed pizza sauce made from vine-ripened tomatoes (not from concentrate) and a proprietary mix of savory spices, and a choice of high-quality meat and vegetable toppings. Our traditional crust pizza is delivered with a container of our

Table of Contents

special garlic sauce and a pepperoncini pepper. In addition to our fresh dough traditional crust pizza, we offer a thin crust pizza, which is a par-baked product produced by a third-party vendor. Each thin crust pizza is served with a packet of special seasonings and a pepperoncini pepper.

Domestically, all ingredients and toppings can be purchased by our Company-owned and franchised restaurants from our Quality Control Center ( QC Center ) system, which delivers to individual restaurants twice weekly. To ensure consistent food quality, each domestic franchisee is required to purchase dough and tomato sauce from our QC Centers and to purchase all other supplies from our QC Centers or other approved suppliers. Internationally, the menu may be more diverse than in our domestic operations to meet local tastes and customs. Most QC Centers outside the U.S. are operated by franchisees pursuant to license agreements or by other third parties. The Company operates three international QC Centers in Mexico, the United Kingdom and China. We provide significant assistance to licensed international QC Centers in sourcing approved quality suppliers. All of the QC Centers are required to meet food safety and quality standards and to be in compliance with all applicable laws.

We continue to test new product offerings both domestically and internationally, including limited time offering pizzas. The new products can become a part of the permanent menu if they meet certain established guidelines.

*Efficient Operating System.* We believe our operating and distribution systems, restaurant layout and designated delivery areas result in lower restaurant operating costs and improved food quality, and promote superior customer service. Our QC Center system takes advantage of volume purchasing of food and supplies and provides consistency and efficiencies of scale in fresh dough production. This eliminates the need for each restaurant to order food from multiple vendors and commit substantial labor and other resources to dough preparation.

*Commitment to Team Member Training and Development.* We are committed to the development and motivation of our team members through training programs, incentive and recognition programs and opportunities for advancement. Team member training programs are conducted for corporate restaurant team members, and operational training is offered to our franchisees. We offer performance-based financial incentives to corporate team members and restaurant managers.

*Marketing.* Our domestic marketing strategy consists of both national and local components. Our national strategy includes national advertising via television, print, direct mail, digital, mobile marketing and social media channels. Our online and digital marketing activities have increased significantly over the past several years in response to increasing consumer use of online and mobile web technology. Local advertising programs include television, radio, and print materials. We strive to efficiently allocate resources among television, print, digital, and other media. We also integrate social media into our various marketing campaigns.

In international markets, our marketing focuses on reaching customers who live or work within a small radius of a Papa John's restaurant. Our international markets use a combination of advertising strategies, including television, radio, digital, and print depending on the size of the local market.

*Technology.* We use technology to both enhance the customer experience and improve efficiencies in our Company-owned and franchised restaurants. Our proprietary digital ordering platform allows customers to order online. Our mobile ordering iPhone® and Android® applications support payment options such as Google Wallet® and PayShare, a first-of-its-kind digital solution in the pizza industry that lets customers immediately split their pizza bill. Our Papa Rewards® program is an eCommerce customer loyalty program designed to increase customer loyalty and frequency. In 2015, we upgraded our domestic proprietary point-of-sale technology, which we refer to as FOCUS . We believe this technology facilitates fast and accurate order-taking and pricing and is an easy tool for restaurant operators to learn



Table of Contents

and use. The FOCUS system is also integrated with our digital ordering solutions in all domestic traditional Papa John's restaurants, enabling Papa John's to offer nationwide digital ordering to our customers.

*Strong Franchise System.* We are committed to developing and maintaining a strong franchise system by attracting experienced operators, supporting them to expand and grow their business and monitoring their compliance with our high standards. We seek to attract franchisees with experience in restaurant or retail operations and with the financial resources and management capability to open single or multiple locations. We devote significant resources to provide Papa John's franchisees with assistance in restaurant operations, operations training, marketing, site selection and restaurant design.

Our strategy for global unit growth focuses on our strong unit economics model. We strive to eliminate barriers to expansion in existing international markets, and identify new expansion opportunities. Our growth strategy varies based on the maturity and penetration of the market and other factors in specific domestic and international markets, with overall unit growth expected to come increasingly from international markets.

**Restaurant Sales and Investment Costs**

We are committed to maintaining strong restaurant unit economics. In 2015, the 667 domestic Company-owned restaurants included in the full year's comparable restaurant base generated average annual unit sales of \$1.12 million. Our North American franchise restaurants, which included 2,351 restaurants in 2015, generated average annual unit sales of \$858,000. North American franchise restaurant sales are lower than Company-owned restaurants as a higher percentage of our Company-owned restaurants are located in more heavily penetrated markets.

With few exceptions, domestic restaurants do not offer a dine-in area, which reduces our restaurant capital investment. The average cash investment for the 11 domestic traditional Company-owned restaurants opened during 2015, exclusive of land, was approximately \$319,000 per unit, compared to the \$283,000 investment for the 11 domestic traditional units opened in 2014, excluding tenant allowances that we received. Over the past few years we have experienced an increase in the cost of our new restaurants primarily as a result of building larger units to accommodate increased sales, an increase in the cost of certain equipment as a result of technology enhancements, and increased costs to comply with local regulations.

We define a traditional domestic Papa John's restaurant as a delivery and carryout unit that services a defined trade area. We consider the location of a traditional restaurant to be important and therefore devote significant resources to the investigation and evaluation of potential sites. The site selection process includes a review of trade area demographics, target population density and competitive factors. A member of our development team inspects each potential domestic Company-owned restaurant location and substantially all franchised restaurant locations before a site is approved. Papa John's restaurants are typically located in strip shopping centers or freestanding buildings that provide visibility, curb appeal and accessibility. Our restaurant design can be configured to fit a wide variety of building shapes and sizes, which increases the number of suitable locations for our Company-owned and franchised restaurants. A typical traditional domestic Papa John's restaurant averages 1,100 to 1,500 square feet with visible exterior signage.

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Non-traditional Papa John's restaurants generally do not provide delivery service but rather provide walk-up or carry out service to a captive customer group within a designated facility, such as a food court at an airport, university or military base or an event-driven service at facilities such as sports stadiums or entertainment venues. Non-traditional units are designed to fit the unique requirements of the venue and may not offer the full range of menu items available in our traditional restaurants.

Table of Contents

All of our international restaurants are franchised, except for 45 Company-owned restaurants in Beijing and North China. Generally, our international Papa John's restaurants are slightly smaller than our domestic restaurants and average between 900 and 1,400 square feet; however, in order to meet certain local customer preferences, some international restaurants have been opened in larger spaces to accommodate both dine-in and restaurant-based delivery service, typically with 35 to 140 seats.

**Development**

A total of 357 Papa John's restaurants were opened during 2015, consisting of 16 Company-owned and 341 franchised restaurants (106 in North America and 235 international), while 127 Papa John's restaurants closed during 2015, consisting of six Company-owned (two in North America and four in Beijing) and 121 franchised restaurants (72 in North America and 49 international), representing net global unit growth of 230 restaurants.

Although most of our domestic Company-owned markets are well-penetrated, our Company-owned growth strategy is to continue to open domestic restaurants in existing markets as appropriate, thereby increasing consumer awareness and enabling us to take advantage of operational and marketing efficiencies. Our experience in developing markets indicates that market penetration through the opening of multiple restaurants in a particular market results in increased average restaurant sales in that market over time. We have co-developed domestic markets with some franchisees or divided markets among franchisees and will continue to utilize market co-development in the future, where appropriate.

Of the total 3,388 North American restaurants open as of December 27, 2015, 707 or 20.9% were Company-owned (including 213 units owned in joint venture arrangements with franchisees in which the Company has a majority ownership position). Operating Company-owned restaurants allows us to improve operations, training, marketing and quality standards, for the benefit of the entire system. From time to time, we evaluate the purchase or sale of units in significant markets, which could change the percentage of Company-owned units.

Of the 1,505 international restaurants open as of December 27, 2015, 45 or 3.0% were Company-owned (all of which are located in Beijing and North China). We plan to sell the 45 Company-owned China restaurants in the next 12 months. Accordingly, as of December 27, 2015, the Company's China operations, including these restaurants and a commissary, are classified as held for sale in the accompanying consolidated financial statements.

During 2016, we expect net unit growth of approximately 180 to 210 units, with approximately 75% of openings in international franchised markets. International franchised unit expansion includes an emphasis on existing markets in Latin and South America, the United Kingdom, Europe and the Middle East.

**QC Center System and Supply Chain Management**

Our domestic QC Center system, comprised of ten full-service regional production and distribution centers, supplies pizza dough, food products, paper products, smallwares and cleaning supplies twice weekly to each traditional restaurant throughout the contiguous United States. This system enables us to monitor and control product quality and consistency, while lowering food and other costs. We evaluate the QC Center

system capacity in relation to existing restaurants volumes and planned restaurant growth, and facilities are developed or upgraded as operational or economic conditions warrant. In 2016, we have plans to construct an additional domestic full-service production and distribution center in the Southeast Region of the United States.

Table of Contents

We own full-service international QC Centers in the United Kingdom, Mexico City, Mexico and Beijing, China. Other international QC Centers are licensed to franchisees or non-franchisee third parties and are generally located in the markets where our franchisees have restaurants.

We set quality standards for all products used in Papa John's restaurants and designate approved outside suppliers of food and paper products that meet our quality standards. To ensure product quality and consistency, all domestic Papa John's restaurants are required to purchase tomato sauce and dough from QC Centers. Franchisees may purchase other goods directly from our QC Centers or other approved suppliers. National purchasing agreements with most of our suppliers generally result in volume discounts to us, allowing us to sell products to our restaurants at prices we believe are below those generally available to restaurants in the marketplace. Within our domestic QC Center system, products are distributed to restaurants by leased refrigerated trucks operated by us.

**Marketing Programs**

Our local restaurant-level marketing programs target consumers within the delivery area of each restaurant through the use of local television, radio, print materials, targeted direct mail, store-to-door flyers, digital display advertising, email marketing, text messages and local social media. Local marketing efforts also include a variety of community-oriented activities within schools, sports venues and other organizations supported with some of the same advertising vehicles mentioned above.

Domestic Company-owned and franchised Papa John's restaurants within a defined market may be required to join an area advertising cooperative ( Co-op ). Each member restaurant contributes a percentage of sales to the Co-op for market-wide programs, such as television, radio, digital and print advertising, and sports sponsorships. The rate of contribution and uses of the monies collected are determined by a majority vote of the Co-op's members. The contribution rate for Co-ops generally may not be below 2% of sales without approval from Papa John's.

The restaurant-level and Co-op marketing efforts are supported by media, print, digital and electronic advertising materials that are produced by Papa John's Marketing Fund, Inc. ( PJMF ). PJMF is an unconsolidated nonstock corporation designed to operate at break-even for the purpose of designing and administering advertising and promotional programs for all participating domestic restaurants. PJMF produces and buys air time for Papa John's national television commercials, buys digital media such as banner advertising, paid search-engine advertising, mobile marketing, social media advertising and marketing, and SMS text and email. It also engages in other brand-building activities, such as consumer research and public relations activities. Domestic Company-owned and franchised Papa John's restaurants are required to contribute a certain minimum percentage of sales to PJMF. The contribution rate to PJMF can be set at up to 3% of sales, if approved by the governing board of PJMF, and beyond that level if approved by a supermajority of domestic restaurants. The contribution rate has been 4% since 2011.

Our proprietary digital ordering platform allows customers to order online. Our eCommerce platforms include plan ahead ordering, Spanish-language ordering capability, Google Wallet® alternative payment and enhanced mobile web ordering for our customers, including Papa John's iPhone® and Android® applications. In April 2015, we introduced PayShare, a first-of-its-kind digital solution in the pizza industry that lets customers immediately split their pizza bill. PayShare, powered by Venmo, provides our customers a safe and secure option to simply and easily split the check on any mobile or online order. Our Papa Rewards® program is an eCommerce customer loyalty program designed to increase loyalty and frequency of consumer use of our eCommerce ordering platform. We receive a percentage-based fee from U.S. franchisees for online sales, in addition to royalties, to defray development and operating costs associated with our eCommerce ordering platform.



## Table of Contents

Our domestic restaurants offer customers the opportunity to purchase a reloadable gift card referred to as the Papa Card. The Papa Card is sold as either a plastic gift card purchased in our restaurants, or an online digital card. We sell Papa Cards to consumers on our website and through third-party retailers. We also sell cards in bulk to business entities and organizations. We continue to explore other Papa Card distribution opportunities. The Papa Card may be redeemed for delivery, carryout, and eCommerce orders and is accepted at all Papa John's traditional domestic restaurants.

We provide both Company-owned and franchised restaurants with pre-approved marketing materials and catalogs for the purchase of uniforms and promotional items. We also provide direct marketing services to Company-owned and franchised restaurants using customer information gathered by our proprietary point-of-sale technology (see Company Operations *Domestic Point-of-Sale Technology*). In addition, we provide database tools, templates and training for operators to facilitate local email marketing and text messaging through our approved tools.

In international markets, our marketing focuses on customers who live or work within a small radius of a Papa John's restaurant. Certain markets can effectively use television and radio as part of their marketing strategies. The majority of the marketing efforts include using print materials such as flyers, newspaper inserts, in-store marketing materials, and to a growing extent, digital marketing such as display, search engine marketing, social media, mobile marketing, email, and SMS text. Local marketing efforts, such as sponsoring or participating in community events, sporting events and school programs, are also used to build customer awareness.

## **Company Operations**

*Domestic Restaurant Personnel.* A typical Papa John's Company-owned domestic restaurant employs a restaurant manager and approximately 20 to 25 hourly team members, many of whom work part-time. The manager is responsible for the day-to-day operation of the restaurant and maintaining Company-established operating standards. We seek to hire experienced restaurant managers and staff and provide comprehensive training programs in areas such as operations and managerial skills. We also employ directors of operations who are responsible for overseeing an average of seven Company-owned restaurants. Senior management and corporate staff also support the field teams in many areas, including, but not limited to, quality assurance, food safety, training, marketing and technology. We seek to motivate and retain personnel by providing opportunities for advancement and performance-based financial incentives.

*Training and Education.* The Global Operations Support and Training department is responsible for creating tools and materials for the operational training and development of both corporate and franchise team members. We believe training is very important to delivering consistent operational execution. Operations personnel complete our management training program and ongoing development programs, including multi-unit training, in which instruction is given on all aspects of our systems and operations.

*Domestic Point-of-Sale Technology.* Our proprietary point-of-sale technology, FOCUS, is in place in all North America traditional Papa John's restaurants. We believe this technology facilitates fast and accurate order-taking and pricing, and allows the restaurant manager to better monitor and control food and labor costs, including food inventory management and order placement from the domestic QC Centers. The system allows us to obtain restaurant operating

information, providing us with timely access to sales and customer information. The FOCUS system is also integrated with our digital ordering solutions in all domestic traditional Papa John's restaurants, enabling Papa John's to offer nationwide digital ordering to our customers.

*Domestic Hours of Operation.* Our domestic restaurants are open seven days a week, typically from 11:00 a.m. to 12:30 a.m. Monday through Thursday, 11:00 a.m. to 1:30 a.m. on Friday and Saturday and



Table of Contents

12:00 noon to 11:30 p.m. on Sunday. Carry out hours are generally more limited for late night, for security purposes.

**Franchise Program**

*General.* We continue to attract franchisees with significant restaurant and retail experience. We consider our franchisees to be a vital part of our system's continued growth and believe our relationship with our franchisees is good. As of December 27, 2015, there were 4,141 franchised Papa John's restaurants operating in all 50 states and 39 countries and territories. During 2015, our franchisees opened an additional 341 (106 North America and 235 international) restaurants. As of December 27, 2015, we have development agreements with our franchisees for approximately 200 additional North America restaurants, the majority of which are committed to open over the next two to three years, and agreements for approximately 940 additional international franchised restaurants, the majority of which are scheduled to open over the next six years. There can be no assurance that all of these restaurants will be opened or that the development schedule set forth in the development agreements will be achieved.

*Approval.* Franchisees are approved on the basis of the applicant's business background, restaurant operating experience and financial resources. We seek franchisees to enter into development agreements for single or multiple restaurants. We require each franchisee to complete our training program or to hire a full-time operator who completes the training and has either an equity interest or the right to acquire an equity interest in the franchise operation. For most non-traditional operations and for operations outside the United States, we will allow an approved operator bonus plan to substitute for the equity interest.

*North America Development and Franchise Agreements.* We enter into development agreements with our franchisees in North America for the opening of a specified number of restaurants within a defined period of time and specified geographic area. Our standard domestic development agreement includes a fee of \$25,000 before consideration of any incentives. The franchise agreement is generally executed once a franchisee secures a location. Our current standard franchise agreement requires the franchisee to pay a royalty fee of 5% of sales, and the majority of our existing franchised restaurants have a 5% royalty rate in effect.

Over the past several years, we have offered various development incentive programs for domestic franchisees to accelerate unit openings. Such incentives included the following for 2015 traditional openings: (1) waiver of the standard one-time \$25,000 franchise fee if the unit opens on time in accordance with the agreed-upon development schedule, or a reduced fee of \$5,000 if the unit opens late; (2) the waiver of some or all of the 5% royalty fee for a period of time; (3) a credit for a portion of the purchase of certain leased equipment; and (4) a credit to be applied toward a future food purchase, under certain circumstances. We believe the development incentive programs have accelerated unit openings and expect they will continue to do so in 2016.

Substantially all existing franchise agreements have an initial 10-year term with a 10-year renewal option. We have the right to terminate a franchise agreement for a variety of reasons, including a franchisee's failure to make payments when due or failure to adhere to our policies and

standards. Many state franchise laws limit our ability as a franchisor to terminate or refuse to renew a franchise.

We provide assistance to Papa John's franchisees in selecting sites, developing restaurants and evaluating the physical specifications for typical restaurants. We provide layout and design services and recommendations for subcontractors, signage installers and telephone systems to Papa John's franchisees. Our franchisees can purchase complete new store equipment packages through an approved third-party supplier. We sell replacement smallwares and related items to our franchisees. Each franchisee is responsible for selecting the location for its restaurants but must obtain our approval of restaurant design

Table of Contents

and location based on traffic accessibility and visibility of the site and targeted demographic factors, including population density, income, age and traffic.

*Domestic Franchise Support Initiatives.* From time to time, we offer discretionary support initiatives to our domestic franchisees, including:

- Performance-based incentives;
- Targeted royalty relief and local marketing support to assist certain identified franchisees or markets;
- Restaurant opening incentives; and
- Reduced-cost direct mail campaigns from Preferred Marketing Solutions ( Preferred, our wholly owned print and promotions subsidiary).

In 2016, we plan to offer some or all of these domestic franchise support initiatives.

*International Development and Franchise Agreements.* We opened our first franchised restaurant outside the United States in 1998. We define international as all markets outside the United States and Canada. In international markets, we have either a development agreement or a master franchise agreement with a franchisee for the opening of a specified number of restaurants within a defined period of time and specified geographic area. Under a master franchise agreement, the franchisee has the right to sub-franchise a portion of the development to one or more sub-franchisees approved by us. Under our current standard international development or master franchise agreement, the franchisee is required to pay total fees of \$25,000 per restaurant: \$5,000 at the time of signing the agreement and \$20,000 when the restaurant opens or on the agreed-upon development date, whichever comes first. Additionally, under our current standard master franchise agreement, the master franchisee is required to pay \$15,000 for each sub-franchised restaurant \$5,000 at the time of signing the agreement and \$10,000 when the restaurant opens or on the agreed-upon development date, whichever comes first.

Our current standard international master franchise and development agreements provide for payment to us of a royalty fee of 5% of sales. For international markets with sub-franchise agreements, the effective sub-franchise royalty received by the Company is generally 3% of sales and the master franchisee generally receives a royalty of 2% of sales. The remaining terms applicable to the operation of individual restaurants are substantially equivalent to the terms of our domestic franchise agreement. From time to time, development agreements will be negotiated at other-than-standard terms for fees and royalties, and we may offer various development and royalty incentives to help drive net unit growth and results.

*Non-traditional Restaurant Development.* We had 228 non-traditional domestic restaurants at December 27, 2015.

Non-traditional restaurants generally cover venues or areas not originally targeted for traditional unit development, and our franchised non-traditional restaurants have terms differing from the standard agreements.

*Franchisee Loans.* Selected domestic and international franchisees have borrowed funds from us, principally for the purchase of restaurants from us or other franchisees or for construction and development of new restaurants. Loans made to franchisees can bear interest at fixed or floating rates and in most cases are secured by the fixtures, equipment and signage of the restaurant and/or are guaranteed by the franchise owners. At December 27, 2015, net loans outstanding totaled \$18.9 million. See Note 11 of Notes to Consolidated Financial Statements for additional information.

*Domestic Franchise Insurance Program.* Our franchisees may elect to purchase various insurance policies, such as health, general liability, non-owned automobile and workers compensation insurance, through our wholly-owned insurance agency. The Company bears no liability under this program.

Table of Contents

Various third-party commercial insurance companies provide fully-insured coverage for these lines of business to franchisees participating in the franchise insurance program.

*Domestic Franchise Training and Support.* Our domestic field support structure consists of franchise business directors, each of whom is responsible for serving an average of 130 franchised units. Our franchise business directors maintain open communication with the franchise community, relaying operating and marketing information and new initiatives between franchisees and us. Franchise business directors report to division vice presidents, who report to the Vice President North America Franchise Operations.

Every franchisee is required to have a principal operator approved by us who satisfactorily completes our required training program. Principal operators for traditional restaurants are required to devote their full business time and efforts to the operation of the franchisee's traditional restaurants. Each franchised restaurant manager is also required to complete our Company-certified management operations training program. Ongoing compliance with training is monitored by the Global Operations Support and Training team. Multi-unit franchisees are encouraged to appoint training store general managers or hire a full-time training coordinator certified to deliver Company-approved operational training programs.

*International Franchise Operations Support.* We employ or contract with international business directors who are responsible for supporting one or more franchisees. The international business directors usually report to regional vice presidents. Senior management and corporate staff also support the international field teams in many areas, including but not limited to food safety, quality assurance, marketing, technology, operations training and financial analysis.

*Franchise Operations.* All franchisees are required to operate their Papa John's restaurants in compliance with our policies, standards and specifications, including matters such as menu items, ingredients, and restaurant design. Franchisees have full discretion in human resource practices, and generally have full discretion to determine the prices to be charged to customers, but we have the authority to set maximum price points for nationally advertised promotions.

*Franchise Advisory Council.* We have a Franchise Advisory Council ( FAC ) that consists of Company and franchisee representatives of domestic restaurants. We also have a franchise advisory council in the United Kingdom ( UK FAC ). The FAC and UK FAC and subcommittees hold regular meetings to discuss new product and marketing ideas, operations, growth and other business issues. From time to time, certain domestic franchisees have also formed a separate franchise association for the purpose of communicating and addressing issues, needs and opportunities among its members.

We currently communicate with, and receive input from, our franchisees in several forms, including through the FAC, UK FAC, annual operations conferences, system communications, national conference calls, various regional meetings conducted with franchisees throughout the year and ongoing communications from franchise business directors and international business directors in the field. Monthly webcasts are also conducted by the Company to discuss current operational, marketing or other issues affecting the domestic franchisees' business. We are committed to communicating with our franchisees and receiving input from them.

**Industry and Competition**

The United States Quick Service Restaurant pizza ( QSR Pizza ) industry is mature and highly competitive with respect to price, service, location, food quality and product innovation. There are well-established competitors with substantially greater financial and other resources than Papa John's. The category is largely fragmented and competitors include international, national and regional chains, as well as a large number of local independent pizza operators, any of which can utilize a growing number of

Table of Contents

food delivery services. Some of our competitors have been in existence for substantially longer periods than Papa John's and can have higher levels of restaurant penetration and stronger, more developed brand awareness in markets where we compete. According to industry sources, domestic QSR Pizza category sales, which includes dine-in, carry out and delivery, totaled approximately \$33.8 billion in 2015, or an increase of 3% from the prior year.

With respect to the sale of franchises, we compete with many franchisors of restaurants and other business concepts. There is also active competition for management personnel and attractive commercial real estate sites suitable for Papa John's restaurants.

**Government Regulation**

We, along with our franchisees, are subject to various federal, state, local and international laws affecting the operation of our respective businesses, including laws and regulations related to the preparation and sale of food, including food safety and menu labeling. Each Papa John's restaurant is subject to licensing and regulation by a number of governmental authorities, which include zoning, health, safety, sanitation, building and fire agencies in the state or municipality in which the restaurant is located. Difficulties in obtaining, or the failure to obtain, required licenses or approvals could delay or prevent the opening of a new restaurant in a particular area. Our QC Centers are licensed and subject to regulation by state and local health and fire codes, and the operation of our trucks is subject to federal and state transportation regulations. We are also subject to federal and state environmental regulations. In addition, our domestic system-wide restaurant operations are subject to various federal and state laws governing such matters as minimum wage requirements, benefits, working conditions, citizenship requirements, and overtime.

We are subject to Federal Trade Commission (FTC) regulation and various state laws regulating the offer and sale of franchises. The laws of several states also regulate substantive aspects of the franchisor-franchisee relationship. The FTC requires us to furnish to prospective franchisees a franchise disclosure document containing prescribed information. State laws that regulate the franchisor-franchisee relationship presently exist in a significant number of states and bills have been introduced in Congress from time to time that would provide for federal regulation of the U.S. franchisor-franchisee relationship in certain respects if such bills were enacted. The state laws often limit, among other things, the duration and scope of non-competition provisions and the ability of a franchisor to terminate or refuse to renew a franchise. Some foreign countries also have disclosure requirements and other laws regulating franchising and the franchisor-franchisee relationship. National, state and local government regulations or initiatives, including health care legislation, living wage, legislation imposing joint employer liability or other current or proposed regulations and increases in minimum wage rates affect Papa John's as well as others within the restaurant industry. As we expand internationally, we are subject to applicable laws in each jurisdiction where franchised units are established.

We are increasingly subject to laws and regulations that require us to disclose calorie content and other specific content of our food, including, fat, trans fat, and salt content. The Patient Protection and Affordable Care Act of 2010 (ACA) requires us and many restaurant companies to disclose calorie information on their restaurant menus. The Food and Drug Administration has issued final rules to implement this provision beginning in December 2016 that would require restaurants to post the number of calories for most items on menus or menu boards and to make other nutritional information available. A number of states, counties and cities in which we do business have also enacted menu labeling laws. Government regulation of nutrition disclosure and advertising could result in increased costs of compliance and also impact consumer habits in a way that adversely impacts sales at our restaurants. For further information regarding governmental regulation, see Item 1A, Risk Factors.

Table of Contents

**Trademarks, Copyrights and Domain Names**

Our intellectual property rights are a significant part of our business. We have registered and continue to maintain federal registrations through the United States Patent and Trademark Office (the USPTO) for the marks PAPA JOHN S, PIZZA PAPA JOHN S & Design (our logo), BETTER INGREDIENTS. BETTER PIZZA., PIZZA PAPA JOHN S BETTER INGREDIENTS. BETTER PIZZA. & Design, and PAPA REWARDS. We also own federal registrations through the USPTO for several ancillary marks, principally advertising slogans. Moreover, we have registrations for and/or have applied for PIZZA PAPA JOHN S & Design in more than 100 foreign countries and the European Community, in addition to international registrations for PAPA JOHN S and PIZZA PAPA JOHN S BETTER INGREDIENTS. BETTER PIZZA. & Design in various foreign countries. From time to time, we are made aware of the use by other persons in certain geographical areas of names and marks that are the same as or substantially similar to our marks. It is our policy to pursue registration of our marks whenever possible and to vigorously oppose any infringement of our marks.

We hold copyrights in authored works used in our business, including advertisements, packaging, training, and promotional materials. In addition, we have registered and maintain Internet domain names, including papajohns.com.

**Employees**

As of December 27, 2015, we employed approximately 22,350 persons, of whom approximately 19,500 were restaurant team members, approximately 900 were restaurant management personnel, approximately 750 were corporate personnel and approximately 1,200 were QC Center and Preferred personnel. Most restaurant team members work part-time and are paid on an hourly basis. None of our team members are covered by a collective bargaining agreement. We consider our team member relations to be good.

**Item 1A. Risk Factors**

We are subject to various risks that could have a negative effect on our business, financial condition and results of operations. These risks could cause actual operating results to differ from those expressed in certain forward looking statements contained in this Form 10-K as well as in other Company communications. Before you invest in our securities you should carefully consider these risk factors together with all other information included in this Form 10-K and our other publicly filed documents.

*Our profitability may suffer as a result of competition in our industry.*

The QSR Pizza industry is mature and highly competitive. Competition is based on price, service, location, food quality, brand recognition and loyalty, product innovation, effectiveness of marketing and promotional activity, use of technology, and the ability to identify and satisfy consumer preferences. From time to time, we may need to reduce the prices for some of our products to respond to competitive and customer pressures, which may adversely affect our profitability. Additionally, when commodity and other costs increase, we may be limited in our ability to increase prices. With the significant levels of competition we may be required to increase investment spending in several areas including marketing and technology, which can decrease profitability.



In addition to competition with our larger and more established competitors who have substantially greater financial and other resources than we do, we also face competition from new competitors and concepts such as fast casual pizza concepts. We also face additional competitive pressures from food delivery concepts using new delivery technologies, some of which may have more effective marketing. The emergence or growth of new competitors may make it difficult for us to maintain or increase our market share and could negatively impact our sales and our system-wide restaurant operations.

Table of Contents

One of our competitive strengths is our Better Ingredients, Better Pizza brand promise. This means that we may use ingredients which cost more than the ingredients some of our competitors may use. Because of our investment in higher quality ingredients, we could have lower profit margins than some of our competitors if we are not able to maintain premium pricing for our products.

*Changes in consumer preferences or discretionary consumer spending could adversely impact our results.*

Changes in consumer preferences and