

PAPA JOHNS INTERNATIONAL INC  
Form 10-Q  
October 31, 2012

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

FORM 10-Q

(Mark  
One)

Quarterly report pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934  
For the quarterly period ended September 23, 2012

OR

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<br>incorporation or organization) | (I.R.S. Employer<br>Identification<br>number) |

2002 Papa Johns Boulevard  
Louisville, Kentucky 40299-2367  
(Address of principal executive offices)  
(502) 261-7272  
(Registrant's telephone number, including area code)

---

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Edgar Filing: PAPA JOHNS INTERNATIONAL INC - Form 10-Q

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

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

Yes  No

At October 24, 2012, there were outstanding 23,130,154 shares of the registrant's common stock, par value \$0.01 per share.

---

## INDEX

| <u>PART I.</u>  | <u>FINANCIAL INFORMATION</u>   | Page No. |
|-----------------|--|----------|
| <u>Item 1.</u>  | <u>Financial Statements</u>  |          |
|                 | <u>Condensed Consolidated Balance Sheets – September 23, 2012 and December 25, 2011</u>  | 2        |
|                 | <u>Condensed Consolidated Statements of Comprehensive Income – Three and Nine Months Ended September 23, 2012 and September 25, 2011</u> | 3        |
|                 | <u>Consolidated Statements of Stockholders' Equity – Nine Months Ended September 23, 2012 and September 25, 2011</u>                     | 4        |
|                 | <u>Consolidated Statements of Cash Flows – Nine Months Ended September 23, 2012 and September 25, 2011</u>                               | 5        |
|                 | <u>Notes to Condensed Consolidated Financial Statements</u>  | 6        |
| <u>Item 2.</u>  | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>   | 13       |
| <u>Item 3.</u>  | <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | 23       |
| <u>Item 4.</u>  | <u>Controls and Procedures</u>   | 24       |
| <u>PART II.</u> | <u>OTHER INFORMATION</u>   |          |
| <u>Item 1.</u>  | <u>Legal Proceedings</u>   | 24       |
| <u>Item 2.</u>  | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>   | 25       |
| <u>Item 6.</u>  | <u>Exhibits</u>  | 26       |

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

| (In thousands)  | September 23, 2012<br>(Unaudited) | December 25, 2011<br>(Note) |
|---|-----------------------------------|-----------------------------|
| Assets  |                                   |                             |
| Current assets:   |                                   |                             |
| Cash and cash equivalents                                   | \$ 25,353                         | \$ 18,942                   |
| Accounts receivable, net                                    | 33,072                            | 28,169                      |
| Notes receivable, net                                       | 4,245                             | 4,221                       |
| Inventories   | 21,419                            | 20,091                      |
| Prepaid expenses  | 7,444                             | 10,210                      |
| Other current assets  | 5,728                             | 5,555                       |
| Deferred income taxes                                       | 8,409                             | 7,636                       |
| Total current assets  | 105,670                           | 94,824                      |
| Property and equipment, net                                 | 185,596                           | 181,910                     |
| Notes receivable, less current portion, net                 | 12,757                            | 11,502                      |
| Goodwill  | 78,971                            | 75,085                      |
| Other assets  | 29,485                            | 27,061                      |
| Total assets  | \$ 412,479                        | \$ 390,382                  |
| Liabilities and stockholders' equity                        |                                   |                             |
| Current liabilities:  |                                   |                             |
| Accounts payable  | \$ 34,072                         | \$ 32,966                   |
| Income and other taxes payable                              | 10,217                            | 3,969                       |
| Accrued expenses and other current liabilities              | 53,026                            | 44,198                      |
| Total current liabilities                                   | 97,315                            | 81,133                      |
| Deferred revenue  | 8,019                             | 4,780                       |
| Long-term debt  | 50,000                            | 51,489                      |
| Other long-term liabilities                                 | 24,611                            | 22,014                      |
| Long-term accrued income taxes                              | 4,220                             | 3,597                       |
| Deferred income taxes                                       | 10,508                            | 9,147                       |
| Stockholders' equity:                                       |                                   |                             |
| Preferred stock   | -                                 | -                           |
| Common stock  | 371                               | 367                         |
| Additional paid-in capital                                  | 277,811                           | 262,456                     |
| Accumulated other comprehensive income                      | 2,856                             | 1,849                       |
| Retained earnings   | 343,471                           | 298,807                     |
| Treasury stock  | (416,133 )                        | (353,826 )                  |
| Total stockholders' equity, net of noncontrolling interests | 208,376                           | 209,653                     |
| Noncontrolling interests in subsidiaries                    | 9,430                             | 8,569                       |
| Total stockholders' equity                                  | 217,806                           | 218,222                     |
| Total liabilities and stockholders' equity                  | \$ 412,479                        | \$ 390,382                  |

Edgar Filing: PAPA JOHNS INTERNATIONAL INC - Form 10-Q

Note: The balance sheet at December 25, 2011 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 accompanying notes.

2

---

Papa John's International, Inc. and Subsidiaries  
Condensed Consolidated Statements of Comprehensive Income  
(Unaudited)

| (In thousands, except per share amounts)         | Three Months Ended |                | Nine Months Ended |                |
|--|--------------------|----------------|-------------------|----------------|
|  | Sept. 23, 2012     | Sept. 25, 2011 | Sept. 23, 2012    | Sept. 25, 2011 |
| North America revenues:                          |                    |                |                   |                |
| Domestic Company-owned restaurant sales          | \$ 143,299         | \$ 128,787     | \$ 430,641        | \$ 395,099     |
| Franchise royalties                              | 18,777             | 17,967         | 58,396            | 55,801         |
| Franchise and development fees                   | 160                | 155            | 588               | 464            |
| Domestic commissary sales                        | 132,666            | 130,870        | 396,869           | 379,569        |
| Other sales                                      | 12,581             | 12,368         | 36,610            | 38,185         |
| International revenues:                          |                    |                |                   |                |
| Royalties and franchise and development fees     | 4,582              | 4,054          | 13,769            | 11,865         |
| Restaurant and commissary sales                  | 13,449             | 11,467         | 38,496            | 30,686         |
| <b>Total revenues</b>                            | <b>325,514</b>     | <b>305,668</b> | <b>975,369</b>    | <b>911,669</b> |
| Costs and expenses:                              |                    |                |                   |                |
| Domestic Company-owned restaurant expenses:      |                    |                |                   |                |
| Cost of sales                                    | 34,054             | 32,229         | 99,391            | 94,491         |
| Salaries and benefits                            | 39,587             | 35,012         | 118,239           | 107,028        |
| Advertising and related costs                    | 13,920             | 11,790         | 39,897            | 36,477         |
| Occupancy costs                                  | 9,185              | 8,496          | 25,702            | 24,304         |
| Other operating expenses                         | 21,490             | 18,858         | 62,738            | 57,265         |
| Total domestic Company-owned restaurant expenses | 118,236            | 106,385        | 345,967           | 319,565        |
| Domestic commissary and other expenses:          |                    |                |                   |                |
| Cost of sales                                    | 111,114            | 110,387        | 328,364           | 320,359        |
| Salaries and benefits                            | 9,654              | 8,840          | 27,875            | 26,502         |
| Other operating expenses                         | 14,082             | 13,381         | 41,886            | 40,050         |
| Total domestic commissary and other expenses     | 134,850            | 132,608        | 398,125           | 386,911        |
| International operating expenses                 | 11,394             | 9,634          | 32,761            | 26,118         |
| General and administrative expenses              | 30,426             | 27,332         | 93,485            | 84,023         |
| Other general expenses                           | 1,211              | 4,777          | 8,020             | 7,017          |
| Depreciation and amortization                    | 8,192              | 7,974          | 24,223            | 24,711         |
| <b>Total costs and expenses</b>                  | <b>304,309</b>     | <b>288,710</b> | <b>902,581</b>    | <b>848,345</b> |
| Operating income                                 | 21,205             | 16,958         | 72,788            | 63,324         |
| Investment income                                | 136                | 170            | 501               | 552            |
| Interest expense                                 | (284 )             | (282 )         | (854 )            | (1,183 )       |
| Income before income taxes                       | 21,057             | 16,846         | 72,435            | 62,693         |
| Income tax expense                               | 7,112              | 4,906          | 24,479            | 20,151         |
| Net income, including noncontrolling interests   | 13,945             | 11,940         | 47,956            | 42,542         |
|  | (794 )             | (817 )         | (3,292 )          | (2,868 )       |

Edgar Filing: PAPA JOHNS INTERNATIONAL INC - Form 10-Q

Less: income attributable to  
noncontrolling interests

|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Net income, net of noncontrolling interests      | \$ 13,151 | \$ 11,123 | \$ 44,664 | \$ 39,674 |
| Basic earnings per common share                  | \$ 0.57   | \$ 0.45   | \$ 1.89   | \$ 1.57   |
| Earnings per common share -<br>assuming dilution | \$ 0.55   | \$ 0.44   | \$ 1.85   | \$ 1.55   |
| Basic weighted average shares<br>outstanding     | 23,268    | 24,964    | 23,685    | 25,302    |
| Diluted weighted average shares<br>outstanding   | 23,721    | 25,146    | 24,107    | 25,528    |
| Comprehensive Income                             | \$ 15,192 | \$ 11,687 | \$ 48,963 | \$ 43,048 |

See accompanying notes.

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

|                                     | Papa John's International, Inc. |                    |                                   |                      |                      |              |                   |                                   |
|-------------------------------------|---------------------------------|--------------------|-----------------------------------|----------------------|----------------------|--------------|-------------------|-----------------------------------|
|                                     | Common<br>Stock                 | Additional         |                                   |                      | Accumulated<br>Other |              | Treasury<br>Stock | Noncontrolling<br>Interests<br>in |
| Shares                              | Common<br>Stock                 | Paid-In<br>Capital | Comprehensive<br>Income<br>(Loss) | Retained<br>Earnings | Subsidiaries         | Equity       |                   |                                   |
| (In thousands)                      | Outstanding                     | Stock              | Capital                           | (Loss)               | Earnings             | Stock        | Subsidiaries      | Equity                            |
| Balance at December 26, 2010        | 25,439                          | \$ 361             | \$ 245,380                        | \$ 849               | \$ 243,152           | \$ (291,048) | \$ 8,506          | \$ 207,200                        |
| Net income                          | -                               | -                  | -                                 | -                    | 39,674               | -            | 2,868             | 42,542                            |
| Other comprehensive income          | -                               | -                  | -                                 | 506                  | -                    | -            | -                 | 506                               |
| Exercise of stock options           | 459                             | 5                  | 10,976                            | -                    | -                    | -            | -                 | 10,981                            |
| Tax effect of equity awards         | -                               | -                  | (1,449 )                          | -                    | -                    | -            | -                 | (1,449 )                          |
| Acquisition of Company common stock | (1,615 )                        | -                  | -                                 | -                    | -                    | (49,579 )    | -                 | (49,579 )                         |
| Distributions                       | -                               | -                  | -                                 | -                    | -                    | -            | (3,129 )          | (3,129 )                          |
| Stock-based compensation expense    | -                               | -                  | 5,266                             | -                    | -                    | -            | -                 | 5,266                             |
| Issuance of restricted stock        | 92                              | -                  | (2,253 )                          | -                    | -                    | 2,253        | -                 | -                                 |
| Other                               | -                               | -                  | (66 )                             | -                    | -                    | 282          | -                 | 216                               |
| Balance at September 25, 2011       | 24,375                          | \$ 366             | \$ 257,854                        | \$ 1,355             | \$ 282,826           | \$ (338,092) | \$ 8,245          | \$ 212,554                        |
| Balance at December 25, 2011        | 24,019                          | \$ 367             | \$ 262,456                        | \$ 1,849             | \$ 298,807           | \$ (353,826) | \$ 8,569          | \$ 218,222                        |
| Net income                          | -                               | -                  | -                                 | -                    | 44,664               | -            | 3,292             | 47,956                            |
| Other comprehensive income          | -                               | -                  | -                                 | 1,007                | -                    | -            | -                 | 1,007                             |
| Exercise of stock options           | 399                             | 4                  | 11,395                            | -                    | -                    | -            | -                 | 11,399                            |
| Tax effect of equity awards         | -                               | -                  | 695                               | -                    | -                    | -            | -                 | 695                               |



Edgar Filing: PAPA JOHNS INTERNATIONAL INC - Form 10-Q

|                                     |          |        |            |          |            |              |          |            |
|-------------------------------------|----------|--------|------------|----------|------------|--------------|----------|------------|
| Acquisition of Company common stock | (1,472 ) | -      | -          | -        | -          | (64,146 )    | -        | (64,146 )  |
| Distributions                       | -        | -      | -          | -        | -          | -            | (2,431 ) | (2,431 )   |
| Stock-based compensation expense    | -        | -      | 4,932      | -        | -          | -            | -        | 4,932      |
| Issuance of restricted stock        | 65       | -      | (1,568 )   | -        | -          | 1,568        | -        | -          |
| Other                               | -        | -      | (99 )      | -        | -          | 271          | -        | 172        |
| Balance at September 23, 2012       | 23,011   | \$ 371 | \$ 277,811 | \$ 2,856 | \$ 343,471 | \$ (416,133) | \$ 9,430 | \$ 217,806 |

See accompanying notes.

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

| (In thousands)  | Nine Months Ended |                |
|---|-------------------|----------------|
|   | Sept. 23, 2012    | Sept. 25, 2011 |
| Operating activities  |                   |                |
| Net income, including noncontrolling interests                                    | \$ 47,956         | \$ 42,542      |
| Adjustments to reconcile net income to net cash provided by operating activities: |                   |                |
| Provision for uncollectible accounts and notes receivable                         | 1,250             | 882            |
| Depreciation and amortization   | 24,223            | 24,711         |
| Deferred income taxes   | 647               | 5,219          |
| Stock-based compensation expense  | 4,932             | 5,266          |
| Excess tax benefit on equity awards   | (1,717 )          | (576 )         |
| Other   | 3,789             | 1,272          |
| Changes in operating assets and liabilities, net of acquisitions:                 |                   |                |
| Accounts receivable   | (6,018 )          | (3,071 )       |
| Inventories   | (1,188 )          | 201            |
| Prepaid expenses  | 2,766             | 3,506          |
| Other current assets  | 372               | 596            |
| Other assets and liabilities  | (1,463 )          | 1,000          |
| Accounts payable  | 1,106             | 3,896          |
| Income and other taxes payable  | 6,248             | 3,023          |
| Accrued expenses and other current liabilities                                    | 7,258             | (228 )         |
| Long-term accrued income taxes  | 623               | 55             |
| Deferred revenue  | 3,989             | (1,078 )       |
| Net cash provided by operating activities   | 94,773            | 87,216         |
| Investing activities  |                   |                |
| Purchase of property and equipment  | (26,425 )         | (20,647 )      |
| Loans issued  | (3,951 )          | (2,598 )       |
| Repayments of loans issued  | 2,620             | 4,542          |
| Acquisitions, net of cash acquired  | (6,175 )          | -              |
| Proceeds from divestitures of restaurants   | 1,068             | -              |
| Other   | 4                 | 62             |
| Net cash used in investing activities   | (32,859 )         | (18,641 )      |
| Financing activities  |                   |                |
| Net repayments on line of credit facility   | (1,489 )          | (49,000 )      |
| Excess tax benefit on equity awards   | 1,717             | 576            |
| Tax payments for restricted stock   | (846 )            | (1,041 )       |
| Proceeds from exercise of stock options   | 11,399            | 10,981         |
| Acquisition of Company common stock   | (64,146 )         | (49,579 )      |
| Distributions to noncontrolling interests   | (2,431 )          | (3,129 )       |
| Other   | 174               | 97             |
| Net cash used in financing activities   | (55,622 )         | (91,095 )      |

|  |    |        |    |           |
|--|----|--------|----|-----------|
| Effect of exchange rate changes on cash and cash equivalents |    | 119    |    | 67        |
| Change in cash and cash equivalents                          |    | 6,411  |    | (22,453 ) |
| Cash and cash equivalents at beginning of period             |    | 18,942 |    | 47,829    |
| Cash and cash equivalents at end of period                   | \$ | 25,353 | \$ | 25,376    |

See accompanying notes.

Papa John's International, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements  
(Unaudited)

September 23, 2012

## 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 nine months ended September 23, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ended December 30, 2012. 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 25, 2011.

## 2. Significant Accounting Policies

### Comprehensive Income

The Company adopted the required Accounting Standards Updates ("ASU") Nos. 2011-05 and 2011-12, Comprehensive Income: Presentation of Comprehensive Income in the first quarter of 2012 on a retrospective basis. The updated guidance does not change the components of comprehensive income, but eliminates certain options for presenting comprehensive income in the financial statements. In accordance with this updated guidance, we no longer present comprehensive income in our Consolidated Statements of Stockholders' Equity. Instead, we are now required to present components of comprehensive income in either one continuous financial statement with two sections, net income and comprehensive income, or in two separate but consecutive statements. We elected the one continuous financial statement approach in the accompanying financial statements.

### Noncontrolling Interests

The Consolidation topic of the Accounting Standards Codification ("ASC") requires all entities to report noncontrolling interests in subsidiaries as equity in the consolidated financial statements, but separate from the equity of the parent company. The Consolidation topic 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 noncontrolling interest holder. Additionally, disclosures are required to clearly identify and distinguish between the interests of the parent company and the interests of the noncontrolling owners, including a disclosure on the face of the consolidated statements for income attributable to the noncontrolling interest holder.

Papa John's had two subsidiaries in which there were noncontrolling interests as of September 23, 2012 and September 25, 2011, which were as follows:

|                           | Restaurants as<br>of Sept. 23,<br>2012 | Restaurants as<br>of Sept. 25,<br>2011 | Restaurant<br>Locations  | Papa John's<br>Ownership | Noncontrolling<br>Interest<br>Ownership |
|---------------------------|--|--|--------------------------|--------------------------|---|
| Star Papa, LP             | 76                                     | 75                                     | Texas                    | 51% *                    | 49%*                                    |
| Colonel's Limited,<br>LLC | 52                                     | 52                                     | Maryland and<br>Virginia | 70%*                     | 30%*                                    |

\*The ownership percentages were the same for both the 2012 and 2011 periods presented in the accompanying consolidated financial statements.

The income before income taxes attributable to these subsidiaries for the three and nine months ended September 23, 2012 and September 25, 2011 was as follows (in thousands):

|                                     | Three Months      |                   | Nine Months       |                   |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                     | Sept. 23,<br>2012 | Sept. 25,<br>2011 | Sept. 23,<br>2012 | Sept. 25,<br>2011 |
| Papa John's International, Inc.     | \$ 1,259          | \$ 1,377          | \$ 5,157          | \$ 4,693          |
| Noncontrolling interests            | 794               | 817               | 3,292             | 2,868             |
| Total income before income<br>taxes | \$ 2,053          | \$ 2,194          | \$ 8,449          | \$ 7,561          |

The noncontrolling interest holders' equity in these subsidiaries totaled \$9.4 million as of September 23, 2012 and \$8.6 million as of December 25, 2011.

#### Deferred Income Tax Accounts and Tax Reserves

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

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities, and are measured using enacted tax rates and laws that are expected to be in effect when the differences reverse. Deferred tax assets are also recognized for the estimated future effects of tax loss carryforwards. The effect on deferred taxes of changes in tax rates is recognized in the period in which the new tax is enacted. As a result, our effective tax rate may fluctuate. Valuation allowances are established when necessary on a jurisdictional basis to reduce deferred tax assets to the amounts we expect to realize. As of September 23, 2012, we had a net deferred tax liability of approximately \$2.1 million.

Tax authorities periodically audit the Company. We record reserves and related interest and penalties for identified exposures. We evaluate these issues on a quarterly basis to adjust for events, such as court rulings or audit settlements, which may impact our ultimate payment for such exposures.

Subsequent Events

The Company evaluated subsequent events through the date the financial statements were issued and filed. See Note 7 “Acquisition and Divestiture of Restaurants” for details related to a subsequent event transaction.

7

---

## Reclassifications

Certain prior year amounts in the Condensed Consolidated Balance Sheets and the Consolidated Statements of Cash Flows have been reclassified to conform to the current year presentation.

## 3. Accumulated Other Comprehensive Income (Loss)

Accumulated Other Comprehensive Income (Loss) is comprised of the following (in thousands):

|  | Foreign<br>Currency | Interest<br>Rate<br>Swaps (a) | Defined<br>Pension<br>Plan | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|--|---------------------|-------------------------------|----------------------------|--|
| <b>Three Months Ended</b>                        |                     |                               |                            |  |
| Beginning balance - June 26, 2011                | \$1,608             | \$-                           | \$-                        | \$ 1,608   |
| Current period other comprehensive income (loss) | (160 )              | (93 )                         | -                          | (253 )   |
| Ending balance - September 25, 2011              | \$1,448             | \$(93 )                       | \$-                        | \$ 1,355   |
| <b>Beginning balance - June 24, 2012</b>         |                     |                               |                            |  |
| Beginning balance - June 24, 2012                | \$1,718             | \$(80 )                       | \$(29 )                    | \$ 1,609   |
| Current period other comprehensive income (loss) | 1,256               | (9 )                          | -                          | 1,247  |
| Ending balance - September 23, 2012              | \$2,974             | \$(89 )                       | \$(29 )                    | \$ 2,856   |
| <b>Nine Months Ended</b>                         |                     |                               |                            |  |
| Beginning balance - December 26, 2010            | \$1,008             | \$(159 )                      | \$-                        | \$ 849   |
| Current period other comprehensive income (loss) | 440                 | 66                            | -                          | 506  |
| Ending balance - September 25, 2011              | \$1,448             | \$(93 )                       | \$-                        | \$ 1,355   |
| <b>Ending balance - December 25, 2011</b>        |                     |                               |                            |  |
| Ending balance - December 25, 2011               | \$1,872             | \$6                           | \$(29 )                    | \$ 1,849   |
| Current period other comprehensive income (loss) | 1,102               | (95 )                         | -                          | 1,007  |
| Ending balance - September 23, 2012              | \$2,974             | \$(89 )                       | \$(29 )                    | \$ 2,856   |

- (a) Current period other comprehensive income (loss) is shown net of tax of (\$54) and (\$6) for the three months ended September 25, 2011 and September 23, 2012, respectively and \$35 and (\$56) for the nine months ended September 25, 2011 and September 23, 2012, respectively.

## 4. Fair Value Measurements and Disclosures

The Company is required to determine the fair value of financial assets and liabilities based on the price that would be received to sell the asset or paid to transfer the liability to a market participant. Assets and liabilities carried at fair value are required to be classified and disclosed in one of the following categories:

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

Our financial assets and liabilities that were measured at fair value on a recurring basis as of September 23, 2012 and December 25, 2011 are as follows (in thousands):

|   | Carrying<br>Value | Fair Value Measurements |         |         |
|---|-------------------|-------------------------|---------|---------|
|   |                   | Level 1                 | Level 2 | Level 3 |
| September 23, 2012                                |                   |                         |         |         |
| Financial assets:                                 |                   |                         |         |         |
| Cash surrender value of life insurance policies * | \$13,088          | \$13,088                | \$-     | \$-     |
| Financial liabilities:                            |                   |                         |         |         |
| Interest rate swap                                | 142               | -                       | 142     | -       |
| December 25, 2011                                 |                   |                         |         |         |
| Financial assets:                                 |                   |                         |         |         |
| Cash surrender value of life insurance policies * | \$11,387          | \$11,387                | \$-     | \$-     |
| Interest rate swap                                | 11                | -                       | 11      | -       |

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

There were no transfers among levels within the fair value hierarchy during the nine months ended September 23, 2012.

The fair value of our interest rate swap is based on the sum of all future net present value cash flows. The future cash flows are derived based on the terms of our interest rate swap, as well as considering published discount factors, and projected London Interbank Offered Rates ("LIBOR").

## 5. Debt

Our long-term debt is comprised of the outstanding balance under our revolving line of credit. The balance was \$50.0 million as of September 23, 2012 and \$51.5 million as of December 25, 2011.

In September 2010, we entered into a five-year, \$175.0 million unsecured revolving credit facility ("Credit Facility"). The Credit Facility was amended in November 2011 (the "Amended Credit Facility"), which extended the maturity date of the Credit Facility to November 30, 2016. Under the Amended Credit Facility, outstanding balances accrue interest at 75 basis points to 150 basis points over LIBOR or other bank developed rates at our option (previously interest accrued at 100 basis points to 175 basis points above LIBOR). The remaining availability under the Amended Credit Facility, reduced for outstanding letters of credit, was approximately \$111.5 million as of September 23, 2012. The fair value of the outstanding debt approximates the carrying value since the debt agreements are variable-rate instruments.

The Amended Credit Facility contains customary affirmative and negative covenants, including financial covenants requiring the maintenance of specified fixed charges and leverage ratios. At September 23, 2012, we were in compliance with these covenants.

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



million.

Our swaps are derivative instruments that are designated as cash flow hedges because the swaps provide a hedge against the effects of rising interest rates on borrowings. The effective portion of the gain or loss on the swap is reported as a component of accumulated other comprehensive income and reclassified into earnings in the same period or periods during which the swap affects earnings. Gains or losses on the swap representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. Amounts payable or receivable under the swap are accounted for as adjustments to interest expense. As of September 23, 2012, the swap is a highly effective cash flow hedge.

9

---

The weighted average interest rates for our revolving credit facilities, including the impact of the swap agreements, were 1.3% for each of the three months ended September 23, 2012 and September 25, 2011, and 1.3% and 2.0% for the nine months ended September 23, 2012 and September 25, 2011, respectively. Interest paid, including payments made or received under the swaps, was \$237,000 and \$230,000 for the three months ended September 23, 2012 and September 25, 2011, respectively, and \$718,000 and \$1.4 million for the nine months ended September 23, 2012 and September 25, 2011, respectively. The interest rate swap (liability of \$142,000 at September 23, 2012) will be recorded as interest expense over the next twelve months.

## 6. Calculation of Earnings Per Share

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

|  | Three Months Ended |                   | Nine Months Ended |                   |
|--|--------------------|-------------------|-------------------|-------------------|
|  | Sept. 23,<br>2012  | Sept. 25,<br>2011 | Sept. 23,<br>2012 | Sept. 25,<br>2011 |
| Basic earnings per common share:                   |                    |                   |                   |                   |
| Net income   | \$ 13,151          | \$ 11,123         | \$ 44,664         | \$ 39,674         |
| Weighted average shares outstanding                | 23,268             | 24,964            | 23,685            | 25,302            |
| Basic earnings per common share                    | \$ 0.57            | \$ 0.45           | \$ 1.89           | \$ 1.57           |
| Earnings per common share - assuming dilution:     |                    |                   |                   |                   |
| Net income   | \$ 13,151          | \$ 11,123         | \$ 44,664         | \$ 39,674         |
| Weighted average shares outstanding                | 23,268             | 24,964            | 23,685            | 25,302            |
| Dilutive effect of outstanding compensation awards | 453                | 182               | 422               | 226               |
| Diluted weighted average shares outstanding        | 23,721             | 25,146            | 24,107            | 25,528            |
| Earnings per common share - assuming dilution      | \$ 0.55            | \$ 0.44           | \$ 1.85           | \$ 1.55           |

Shares subject to options to purchase common stock with an exercise price greater than the average market price were not included in the computation of earnings per common share – assuming dilution because the effect would have been antidilutive. The weighted average number of shares subject to the antidilutive options was 207,000 for the three months ended September 25, 2011 and 306,000 for the nine months ended September 25, 2011 (none for the three and nine months ended September 23, 2012).

## 7. Acquisition and Divestiture of Restaurants

During the second quarter of 2012, we completed the acquisition of 56 franchised Papa John's restaurants located in the Denver and Minneapolis markets. The purchase price, which was paid in cash, was \$5.2 million net of divestiture proceeds of \$0.7 million from the sale of six restaurants located in the Denver market to an existing franchisee. This

business combination was accounted for by the purchase method of accounting, whereby operating results subsequent to the acquisition date are included in our consolidated financial results.

The preliminary purchase price of the acquisition has been allocated based on initial fair value estimates as follows (in thousands):

|                            |          |
|----------------------------|----------|
| Property and equipment     | \$ 1,602 |
| Reacquired franchise right | 245      |
| Goodwill                   | 3,830    |
| Other, including cash      | 239      |
| Total purchase price       | \$5,916  |

The excess of the purchase price over the aggregate fair value of net assets acquired was allocated to goodwill, all of which is expected to be deductible for tax purposes.

On July 23, 2012, Papa John's and a third party formed a limited liability company (PJ Minnesota, LLC) to operate the previously acquired Minneapolis restaurants. The Company's equity (80% ownership) in the operations was funded by the contribution of the acquired restaurants, while the third party's equity (20% ownership) was funded through a \$275,000 loan issued by Papa John's and a \$25,000 cash contribution. There was no gain on this transaction. We are required to fully consolidate the financial results of this limited liability company.

Subsequent to the end of our third quarter, Papa John's and a third party formed a limited liability company (PJ Denver, LLC) to operate the previously acquired Denver restaurants. The Company's equity (60% ownership) in the operations was funded by the contribution of the acquired restaurants and cash (total value of \$2.5 million), while the third party's equity (40% ownership) was funded by a cash contribution of \$1.7 million. We will be required to consolidate the financial results of this limited liability company.

## 8. Commitments and Contingencies

In connection with the 2006 sale of our former Perfect Pizza operations in the United Kingdom, we remain contingently liable for payment of approximately 40 leases, which have varying terms with most expiring by the end of 2015. As the initial party to the lease agreements, we are liable to the extent the primary obligor does not satisfy its payment obligations. The estimated maximum amount of undiscounted rental payments we would be required to make in the event of non-payment under these leases is approximately \$1.8 million, net of amounts reserved of approximately \$700,000.

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

## 9. Segment Information

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

The domestic Company-owned restaurant segment consists of the operations of all domestic ("domestic" is defined as contiguous United States) Company-owned restaurants and derives its revenues principally from retail sales of pizza, side items and soft drinks to the general public. The domestic commissary segment consists of the operations of our regional dough production and product distribution centers and derives its revenues principally from the sale and distribution of food and paper products to domestic Company-owned and franchised restaurants. The North America franchising segment consists of our franchise sales and support activities and derives its revenues from sales of franchise and development rights and collection of royalties from our franchisees located in the United States and

Canada. The international operations segment principally consists of our Company-owned restaurants in China and distribution sales to franchised Papa John's restaurants located in the United Kingdom, Mexico and China and our franchise sales and support activities, which derive revenues from sales of franchise and development rights and the collection of royalties from our international franchisees. International franchisees are defined as all franchise operations outside of the United States and Canada. BIBP Commodities, Inc., a franchisee-owned corporation, which operated through February 2011, was a VIE in which we were deemed the primary beneficiary, and is the only activity reflected in the VIE segment. All other business units that do not meet the quantitative thresholds for determining reportable segments, which are not operating segments, we refer to as our "all other" segment, which consists of operations that derive revenues from the sale, principally to Company-owned and franchised restaurants, of printing and promotional items, risk management services, and information systems and related services used in restaurant operations, including our online and other technology-based ordering platforms.

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

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

Our segment information is as follows (in thousands):

|  | Three Months Ended |                | Nine Months Ended |                |
|--|--------------------|----------------|-------------------|----------------|
|  | Sept. 23, 2012     | Sept. 25, 2011 | Sept. 23, 2012    | Sept. 25, 2011 |
| Revenues from external customers:      |                    |                |                   |                |
| Domestic Company-owned restaurants     | \$ 143,299         | \$ 128,787     | \$ 430,641        | \$ 395,099     |
| Domestic commissaries                  | 132,666            | 130,870        | 396,869           | 379,569        |
| North America franchising              | 18,937             | 18,122         | 58,984            | 56,265         |
| International                          | 18,031             | 15,521         | 52,265            | 42,551         |
| All others                             | 12,581             | 12,368         | 36,610            | 38,185         |
| Total revenues from external customers | \$ 325,514         | \$ 305,668     | \$ 975,369        | \$ 911,669     |
| Intersegment revenues:                 |                    |                |                   |                |
| Domestic commissaries                  | \$ 42,313          | \$ 38,702      | \$ 123,802        | \$ 112,674     |
| North America franchising              | 546                | 542            | 1,656             | 1,625          |
| International                          | 60                 | 58             | 171               | 163            |
| Variable interest entities             | -                  | -              | -                 | 25,117         |
| All others                             | 2,758              | 2,793          | 8,443             | 7,919          |
| Total intersegment revenues            | \$ 45,677          | \$ 42,095      | \$ 134,072        | \$ 147,498     |
| Income (loss) before income taxes:     |                    |                |                   |                |
| Domestic Company-owned restaurants     | \$ 5,549           | \$ 4,273       | \$ 27,228         | \$ 22,577      |
| Domestic commissaries                  | 6,846              | 7,237          | 25,990            | 21,112         |
| North America franchising              | 16,070             | 15,941         | 50,829            | 50,190         |
| International                          | 625                | 249            | 1,217             | (817 )         |
| All others                             | 732                | (66 )          | 1,598             | (742 )         |
| Unallocated corporate expenses         | (9,007 )           | (11,085 )      | (34,198 )         | (29,371 )      |
| Elimination of intersegment profits    | 242                | 297            | (229 )            | (256 )         |
| Total income before income taxes       | \$ 21,057          | \$ 16,846      | \$ 72,435         | \$ 62,693      |
| Property and equipment:                | \$ 180,973         |                |                   |                |

|  |            |
|--|------------|
| Domestic Company-owned<br>restaurants        |            |
| Domestic commissaries                        | 92,192     |
| International                                | 20,702     |
| All others                                   | 36,199     |
| Unallocated corporate assets                 | 139,153    |
| Accumulated depreciation and<br>amortization | (283,623 ) |
| Net property and equipment                   | \$ 185,596 |

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

### Overview

Papa John's International, Inc. (referred to as the "Company," "Papa John's" or in the first person notations of "we," "us" and "our") began operations in 1985. At September 23, 2012, there were 4,029 Papa John's restaurants (680 Company-owned and 3,349 franchised) operating in all 50 states and 34 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 ("GAAP"). 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.

### Non-GAAP Measures

In connection with a new multi-year supplier agreement, the Company received a \$5.0 million supplier marketing payment in the first quarter of 2012. The Company is recognizing the supplier marketing payment evenly as income over the five-year term of the agreement (\$250,000 per quarter). The Company then contributed the supplier marketing payment to the Papa John's Marketing Fund ("PJMF"), an unconsolidated, non-profit corporation, for the benefit of domestic restaurants. The Company contribution to PJMF was fully expensed in the first quarter of 2012.

PJMF elected to distribute the \$5.0 million supplier marketing payment to the domestic system as advertising credits in the first quarter of 2012. Our domestic Company-owned restaurants' portion of the advertising credits resulted in an increase in income before income taxes of approximately \$1.0 million for the nine months ended September 23, 2012.

The overall impact of the two transactions described above, which are collectively defined as the "Incentive Contribution," was a net increase to income before income taxes of approximately \$250,000 for the three months ended September 23, 2012 and a reduction of \$3.2 million for the nine months ended September 23, 2012. The impact for full-year 2012 will be a reduction to income before income taxes of approximately \$3.0 million (or a reduction to diluted earnings per share of approximately \$0.08).



The following table reconciles our GAAP financial results to the adjusted financial results, excluding the impact of the Incentive Contribution, for the three and nine months ended September 23, 2012:

| (In thousands, except per share amounts)                     | Three Months Ended |                   |                        | Nine Months Ended |                   |                        |
|--|--------------------|-------------------|------------------------|-------------------|-------------------|------------------------|
|  | Sept. 23,<br>2012  | Sept. 25,<br>2011 | Increase<br>(decrease) | Sept. 23,<br>2012 | Sept. 25,<br>2011 | Increase<br>(decrease) |
| Income before income taxes, as reported                      | \$ 21,057          | \$ 16,846         | \$ 4,211               | \$ 72,435         | \$ 62,693         | \$ 9,742               |
| Incentive Contribution                                       | (250 )             | -                 | (250 )                 | 3,221             | -                 | 3,221                  |
| Income before income taxes, excluding Incentive Contribution | \$ 20,807          | \$ 16,846         | \$ 3,961               | \$ 75,656         | \$ 62,693         | \$ 12,963              |
| Net income, as reported                                      | \$ 13,151          | \$ 11,123         | \$ 2,028               | \$ 44,664         | \$ 39,674         | \$ 4,990               |
| Incentive Contribution                                       | (159 )             | -                 | (159 )                 | 2,116             | -                 | 2,116                  |
| Net income, excluding Incentive Contribution                 | \$ 12,992          | \$ 11,123         | \$ 1,869               | \$ 46,780         | \$ 39,674         | \$ 7,106               |
| Earnings per diluted share, as reported                      | \$ 0.55            | \$ 0.44           | \$ 0.11                | \$ 1.85           | \$ 1.55           | \$ 0.30                |
| Incentive Contribution                                       | -                  | -                 | -                      | 0.09              | -                 | 0.09                   |
| Earnings per diluted share, excluding Incentive Contribution | \$ 0.55            | \$ 0.44           | \$ 0.11                | \$ 1.94           | \$ 1.55           | \$ 0.39                |

The presentation in this report of financial results excluding the Incentive Contribution are non-GAAP measures and should not be construed as a substitute for or a better indicator of the Company's performance than the Company's GAAP measures. Management believes presenting the financial information excluding the impact of the Incentive Contribution is important for purposes of comparison to prior year results. In addition, management uses these non-GAAP measures to allocate resources, and analyze trends and underlying operating performance. Annual cash bonuses, and certain long-term incentive programs for various levels of management, were based on financial measures that excluded the Incentive Contribution. See "Discussion of Operating Results" below for further analysis regarding the impact of the Incentive Contribution.

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

The presentation of the non-GAAP measures in this report is made alongside the most directly comparable GAAP measures.



## Restaurant Progression

|                                   | Three Months Ended |                | Nine Months Ended |                |
|-----------------------------------|--------------------|----------------|-------------------|----------------|
|                                   | Sept. 23, 2012     | Sept. 25, 2011 | Sept. 23, 2012    | Sept. 25, 2011 |
| North America Company-owned:      |                    |                |                   |                |
| Beginning of period               | 643                | 595            | 598               | 591            |
| Opened                            | 2                  | 2              | 2                 | 6              |
| Closed                            | -                  | -              | (3 )              | -              |
| Acquired from franchisees         | 1                  | -              | 57                | -              |
| Sold to franchisees               | (3 )               | -              | (11 )             | -              |
| End of period                     | 643                | 597            | 643               | 597            |
| International Company-owned:      |                    |                |                   |                |
| Beginning of period               | 33                 | 23             | 30                | 21             |
| Opened                            | 5                  | 3              | 9                 | 5              |
| Closed                            | (1 )               | -              | (2 )              | -              |
| End of period                     | 37                 | 26             | 37                | 26             |
| North America franchised:         |                    |                |                   |                |
| Beginning of period               | 2,475              | 2,393          | 2,463             | 2,346          |
| Opened                            | 45                 | 36             | 127               | 103            |
| Closed                            | (9 )               | (16 )          | (31 )             | (36 )          |
| Acquired from Company             | 3                  | -              | 11                | -              |
| Sold to Company                   | (1 )               | -              | (57 )             | -              |
| End of period                     | 2,513              | 2,413          | 2,513             | 2,413          |
| International franchised:         |                    |                |                   |                |
| Beginning of period               | 822                | 722            | 792               | 688            |
| Opened                            | 23                 | 33             | 74                | 82             |
| Closed                            | (9 )               | (11 )          | (30 )             | (26 )          |
| End of period                     | 836                | 744            | 836               | 744            |
| Total restaurants - end of period | 4,029              | 3,780          | 4,029             | 3,780          |

## Results of Operations

## Summary of Operating Results - Segment Review

## Discussion of Revenues

Consolidated revenues were \$325.5 million for the third quarter of 2012, an increase of \$19.8 million, or 6.5%, over the corresponding 2011 period. For the nine months ended September 23, 2012, total revenues were \$975.4 million, an increase of \$63.7 million, or 7.0%, from revenues of \$911.7 million for the comparable period in 2011. The increases in revenues for the third quarter and nine months ended September 23, 2012 were primarily due to the following:

Domestic Company-owned restaurant sales increased \$14.5 million, or 11.3%, and \$35.5 million, or 9.0%, for the three and nine months ended September 23, 2012, respectively, due to increases in comparable sales of 5.0% and 5.1% and the net acquisition of 50 restaurants in the Denver and Minneapolis markets from a franchisee in the second quarter of 2012. "Comparable sales" represents the change in year-over-year sales for the same base of restaurants for the same fiscal periods.

North America franchise royalty revenue increased approximately \$800,000, or 4.5%, and \$2.6 million, or 4.7%, for the three and nine months ended September 23, 2012, respectively, primarily due to increases in comparable sales of 1.7% and 2.4% and increases in net franchise units over the prior year. Royalty revenue increases were slightly offset by reduced royalties attributable to the Company's net acquisition of the 50 restaurants noted above.

Domestic commissary sales increased \$1.8 million, or 1.4%, and \$17.3 million, or 4.6%, for the three and nine months ended September 23, 2012, respectively, primarily due to higher commissary product volumes resulting from increases in the volume of restaurant sales, partially offset by lower revenues due to lower commodity costs. International revenues increased \$2.5 million, or 16.2%, and increased \$9.7 million, or 22.8%, for the three and nine months ended September 23, 2012, respectively, primarily due to increases in the number of Company-owned and franchised restaurants and increases in comparable sales of 6.9% and 7.1%, calculated on a constant dollar basis. Other sales increased approximately \$200,000, or 1.7%, for the three months ended September 23, 2012, and decreased \$1.6 million, or 4.1%, for the nine months ended September 23, 2012. The decrease for the nine-month period was primarily due to a decline in sales at our print and promotions subsidiary, Preferred Marketing Solutions, partially offset by an increase in online sales.

### Discussion of Operating Results

Third quarter 2012 income before income taxes was \$21.1 million compared to \$16.8 million in the prior year, or a 25.0% increase. Income before income taxes was \$72.4 million for the nine months ended September 23, 2012, compared to \$62.7 million for the prior year, or a 15.5% increase. The Incentive Contribution (see “Non-GAAP Measures” above) increased income before income taxes by \$250,000 for the third quarter of 2012 and decreased income before income taxes by \$3.2 million for the nine-month period of 2012. Excluding the net impact of the Incentive Contribution, income before income taxes was \$20.8 million for the third quarter of 2012, an increase of \$4.0 million or 23.5% compared to the same period in the prior year and was \$75.7 million for the nine-month period of 2012, an increase of \$13.0 million, or 20.7%, compared to the same period in the prior year. Income before income taxes is summarized in the following table on a reporting segment basis (in thousands):

|   | Three Months Ended |                   |                        | Nine Months Ended |                   |                        |
|---|--------------------|-------------------|------------------------|-------------------|-------------------|------------------------|
|   | Sept. 23,<br>2012  | Sept. 25,<br>2011 | Increase<br>(Decrease) | Sept. 23,<br>2012 | Sept. 25,<br>2011 | Increase<br>(Decrease) |
| Domestic Company-owned restaurants (a)    | \$ 5,549           | \$ 4,273          | \$ 1,276               | \$ 27,228         | \$ 22,577         | \$ 4,651               |
| Domestic commissaries                     | 6,846              | 7,237             | (391 )                 | 25,990            | 21,112            | 4,878                  |
| North America franchising                 | 16,070             | 15,941            | 129                    | 50,829            | 50,190            | 639                    |
| International                             | 625                | 249               | 376                    | 1,217             | (817 )            | 2,034                  |
| All others                                | 732                | (66 )             | 798                    | 1,598             | (742 )            | 2,340                  |
| Unallocated corporate expenses (b)        | (9,007 )           | (11,085 )         | 2,078                  | (34,198 )         | (29,371 )         | (4,827 )               |
| Elimination of intersegment loss (profit) | 242                | 297               | (55 )                  | (229 )            | (256 )            | 27                     |
| Total income before income taxes          | \$ 21,057          | \$ 16,846         | \$ 4,211               | \$ 72,435         | \$ 62,693         | \$ 9,742               |

(a) Includes the benefit of a \$1.0 million advertising credit from PJMF related to the Incentive Contribution for the nine months ended September 23, 2012. See “Non-GAAP Measures” above for further information about the Incentive Contribution.

(b) Includes the impact of the Incentive Contribution in 2012 (\$250,000 increase for the three-month period and a \$4.3 million reduction for the nine-month period).

Income before income taxes increased \$4.2 million and \$9.7 million for the three and nine months ended September 23, 2012, respectively (\$4.0 million and \$13.0 million, respectively, excluding the net impact of the Incentive Contribution). The changes in income before income taxes were due to the following:

Domestic Company-owned Restaurant Segment. Domestic Company-owned restaurants' income increased \$1.3 million in the third quarter of 2012, and \$4.7 million for the nine months ended September 23, 2012, including the \$1.0 million advertising credit from PJMF. These increases were primarily due to the previously noted comparable sales increases and lower commodity costs, including cheese, partially offset by higher local advertising, including additional costs for newly acquired markets. Additionally, the nine-month period benefited from various supplier incentives.

Domestic Commissary Segment. Domestic commissaries' income decreased approximately \$400,000 and increased approximately \$4.9 million for three and nine months ended September 23, 2012, respectively. The decrease for the three-month period was primarily due to lower margins resulting from lower prices charged to restaurants and higher distribution costs, slightly offset by increased profits from higher restaurant sales. The increase for the nine-month period was primarily due to higher commissary product volumes resulting from increased sales volumes from the previously noted increase in net units and comparable sales, slightly offset by higher distribution costs.

North America Franchising Segment. North America Franchising income increased approximately \$100,000 and \$600,000 for the three and nine months ended September 23, 2012, respectively. The increases were due to the previously mentioned royalty revenue increases, partially offset by both an increase in development incentive costs and a reduction in royalties attributable to the Company's net acquisition of the 50 Denver and Minneapolis restaurants.

International Segment. The International Segment reported income of approximately \$600,000 and \$1.2 million for the three and nine months ended September 23, 2012, respectively. The improvements in operating results of approximately \$400,000 and \$2.0 million for the three- and nine-month periods, respectively, compared to the corresponding 2011 periods were primarily due to increased royalties due to growth in the number of units and the 6.9% and 7.1% increases in comparable sales in the three and nine months ended September 23, 2012, respectively, and improved operating results at our United Kingdom commissary.

All Others Segment. The "All others" reporting segment reported income of approximately \$700,000 and \$1.6 million for the three and nine months ended September 23, 2012, respectively. The "All Others" reporting segment results increased approximately \$800,000 and \$2.3 million for the three- and nine-month periods, respectively, as compared to the corresponding 2011 periods. These increases were primarily due to an improvement in our eCommerce operations due to higher online sales. These improved results were somewhat offset by reduced operating results of Preferred Marketing Solutions due to the previously noted reduction in sales.

Unallocated Corporate Segment. Unallocated corporate expenses decreased approximately \$2.1 million and increased approximately \$4.8 million for the three and nine months ended September 23, 2012, respectively, compared to the corresponding 2011 periods. The components of unallocated corporate expenses were as follows (in thousands):

|  | Three Months Ended |                   |                        | Nine Months Ended |                   |                        |
|--|--------------------|-------------------|------------------------|-------------------|-------------------|------------------------|
|  | Sept. 23,<br>2012  | Sept. 25,<br>2011 | Increase<br>(decrease) | Sept. 23,<br>2012 | Sept. 25,<br>2011 | Increase<br>(decrease) |
| General and administrative (a)           | \$ 7,589           | \$ 5,629          | \$ 1,960               | \$ 24,289         | \$ 18,987         | \$ 5,302               |
| Supplier marketing (income) payment (b)  | (250 )             | -                 | (250 )                 | 4,250             | -                 | 4,250                  |
| Net interest                             | 153                | 116               | 37                     | 392               | 675               | (283 )                 |
| Depreciation                             | 1,829              | 1,818             | 11                     | 5,382             | 6,236             | (854 )                 |
| Franchise incentives and initiatives (c) | -                  | 2,754             | (2,754 )               | -                 | 2,754             | (2,754 )               |
| Perfect Pizza lease obligation (d)       | -                  | 782               | (782 )                 | 197               | 782               | (585 )                 |
| Other income                             | (315 )             | (14 )             | (301 )                 | (312 )            | (63 )             | (249 )                 |
| Total unallocated corporate expenses     | \$ 9,006           | \$ 11,085         | \$ (2,079 )            | \$ 34,198         | \$ 29,371         | \$ 4,827               |

- (a) Unallocated general and administrative costs increased for the three- and nine-month periods primarily due to an increase in legal and insurance costs. The nine-month period was also impacted by higher short-term management incentive costs and higher costs related to our operators' conference.
- (b) See "Non-GAAP Measures" above for further information about the Incentive Contribution.
- (c) In 2011, we offered incentives to domestic franchisees for meeting certain sales targets, including comparable sales, transactions and online sales.
- (d) The Perfect Pizza lease obligation relates to rents, taxes and insurance associated with the former Perfect Pizza operations in the United Kingdom. See the notes to condensed consolidated financial statements for additional information.



Diluted earnings per share were \$0.55 in the third quarter of 2012 compared to \$0.44 in the third quarter of 2011, an increase of \$0.11, or 25.0%. For the nine months ended September 23, 2012 and September 25, 2011, diluted earnings per share were \$1.85 and \$1.55, respectively (\$1.94 per share for the nine months ended September 23, 2012, excluding the impact of the Incentive Contribution, an increase of \$0.39 or 25.2%). Diluted weighted average shares outstanding decreased 5.7% and 5.6% for the three and nine months ended September 23, 2012, respectively, from the prior year comparable periods. Diluted earnings per share increased \$0.03 and \$0.10 for the three- and nine-month periods, respectively, due to the reduction in shares outstanding.

#### Review of Consolidated Operating Results

Revenues. Domestic Company-owned restaurant sales were \$143.3 million for the three months ended September 23, 2012, compared to \$128.8 million for the same period in 2011, and \$430.6 million for the nine months ended September 23, 2012, compared to \$395.1 million for the same period in 2012. The increases of \$14.5 million and \$35.5 million were primarily due to the previously mentioned increases of 5.0% and 5.1% in comparable sales during the three and nine months ended September 23, 2012, respectively. The net acquisition of 50 restaurants in Denver and Minneapolis from a franchisee in the second quarter of 2012 also increased sales.

North America franchise sales, which are not included in the Company's revenues, were \$434.6 million for the three months ended September 23, 2012, compared to \$419.7 million for the same period in 2011, and \$1.352 billion for the nine months ended September 23, 2012, compared to \$1.287 billion for the same period in 2011. Domestic franchise comparable sales increased 1.7% for the third quarter and increased 2.4% for the nine months ended September 23, 2012, and equivalent units increased 2.7% and 3.7%, respectively, for the comparable periods. "Equivalent units" represents the number of restaurants open at the beginning of a given period, adjusted for restaurants opened, closed, acquired or sold during the period on a weighted average basis. North America franchise royalties were \$18.8 million and \$58.4 million for the three and nine months ended September 23, 2012, respectively, representing increases of 4.5% and 4.7% from the comparable periods in the prior year. The increases in royalties were primarily due to the previously noted increases in franchise sales.

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

The comparable sales base and average weekly sales for 2012 and 2011 for domestic Company-owned and North America franchised restaurants consisted of the following:

|   | Three Months Ended |        |            |        |                    |        |            |        |
|---|--------------------|--------|------------|--------|--------------------|--------|------------|--------|
|   | September 23, 2012 |        |            |        | September 25, 2011 |        |            |        |
|   | Company            |        | Franchised |        | Company            |        | Franchised |        |
| Total domestic units (end of period)              | 643                |        | 2,513      |        | 597                |        | 2,413      |        |
| Equivalent units                                  | 638                |        | 2,391      |        | 591                |        | 2,328      |        |
| Comparable sales base units                       | 631                |        | 2,187      |        | 582                |        | 2,150      |        |
| Comparable sales base percentage                  | 98.9               | %      | 91.5       | %      | 98.5               | %      | 92.4       | %      |
| Average weekly sales - comparable units           | \$                 | 17,329 | \$         | 14,353 | \$                 | 16,850 | \$         | 14,154 |
| Average weekly sales - total non-comparable units | \$                 | 12,519 | \$         | 9,980  | \$                 | 11,144 | \$         | 10,422 |
| Average weekly sales - all units                  | \$                 | 17,274 | \$         | 13,980 | \$                 | 16,763 | \$         | 13,869 |

|   | Nine Months Ended  |        |            |        |                    |        |            |        |
|---|--------------------|--------|------------|--------|--------------------|--------|------------|--------|
|   | September 23, 2012 |        |            |        | September 25, 2011 |        |            |        |
|   | Company            |        | Franchised |        | Company            |        | Franchised |        |
| Total domestic units (end of period)              | 643                |        | 2,513      |        | 597                |        | 2,413      |        |
| Equivalent units                                  | 618                |        | 2,403      |        | 588                |        | 2,318      |        |
| Comparable sales base units                       | 609                |        | 2,186      |        | 581                |        | 2,126      |        |
| Comparable sales base percentage                  | 98.5               | %      | 91.0       | %      | 98.8               | %      | 91.7       | %      |
| Average weekly sales - comparable units           | \$                 | 17,943 | \$         | 14,839 | \$                 | 17,303 | \$         | 14,559 |
| Average weekly sales - total non-comparable units | \$                 | 12,179 | \$         | 10,316 | \$                 | 11,155 | \$         | 10,612 |
| Average weekly sales - all units                  | \$                 | 17,856 | \$         | 14,431 | \$                 | 17,224 | \$         | 14,231 |

Domestic commissary sales increased 1.4% to \$132.7 million for the three months ended September 23, 2012, from \$130.9 million in the comparable 2011 period and increased 4.6% to \$396.9 million for the nine months ended September 23, 2012, from \$379.6 million in the comparable 2011 period. The increases were primarily due to higher commissary product volumes resulting from increases in the volume of restaurant sales slightly offset by lower revenues due to lower commodity costs.

Other sales increased approximately \$200,000, or 1.7%, and decreased \$1.6 million, or 4.1%, for the three and nine months ended September 23, 2012, respectively. The decrease for the nine-month period was primarily due to a decline in sales at our print and promotions subsidiary, Preferred Marketing Solutions, partially offset by an increase in online sales.

International revenues increased 16.2% to \$18.0 million and 22.8% to \$52.3 million for the three and nine months ended September 23, 2012, from the prior year comparable periods. The increases were due to increases in the number of Company-owned and franchised restaurants in addition to increases of 6.9% and 7.1% in comparable sales, calculated on a constant dollar basis, for the three- and nine-month periods, respectively.

Costs and expenses. The restaurant operating margin for domestic Company-owned units was 17.5% for the three months ended September 23, 2012, compared to 17.4% for the same period in 2011, and 19.7% (19.4% excluding the \$1.0 million advertising credit from PJMF) for the nine months ended September 23, 2012, compared to 19.1% for the same period in 2011. The restaurant operating margin increases of 0.1% and 0.6% for the three and nine months ended

September 23, 2012, respectively, consisted of the following differences:

Cost of sales was 1.3% and 0.8% lower for the three and nine months ended September 23, 2012, as compared to the same periods in 2011 due to lower commodity costs, primarily cheese. Additionally, the nine-month period benefited from various supplier incentives.

Salaries and benefits were 0.4% higher as a percentage of sales for both the three and nine months ended September 23, 2012, as compared to the same periods in 2011, primarily due to higher bonuses paid to general managers.

Advertising and related costs as a percentage of sales were 0.6% higher for the three months ended September 23, 2012. The nine-month period was flat and included a \$1.0 million advertising credit received from PJMF. The higher costs, excluding the advertising credit from PJMF, were due to increased local advertising, including additional costs for newly acquired markets.

Occupancy costs and other operating costs, on a combined basis, as a percentage of sales, were 0.2% higher and 0.1% lower for the three and nine months ended September 23, 2012, respectively.

Domestic commissary and other margin was 7.2% for the three months ended September 23, 2012, compared to 7.4% for the corresponding period in 2011, and was 8.2% for the nine months ended September 23, 2012, compared to 7.4% for the corresponding period in 2011, consisting of the following differences:

Cost of sales was 0.6% and 0.9% lower as a percentage of revenues for the three and nine months ended September 23, 2012, respectively, due to lower commodity costs, primarily cheese, which has a fixed-dollar markup and due to the benefit of increased online sales.

Salaries and benefits were 0.4% and 0.1% higher as a percentage of revenues for the three and nine months ended September 23, 2012, respectively. The increases were due to the previously mentioned higher commissary product volumes.

Other operating expenses as a percentage of sales were 0.4% and 0.1% higher as a percentage of revenues for the three and nine months ended September 23, 2012, respectively, as compared to the same periods in 2011 due primarily to higher distribution costs.

International operating expenses were 84.7% of international restaurant and commissary sales for the three months ended September 23, 2012, compared to 84.0% for the same period in 2011, and 85.1% of international restaurant and commissary sales for both the 2012 and 2011 nine-month periods. The increase in operating expenses for the three-month period was primarily due to costs associated with new Company-owned restaurants in China.

General and administrative costs were \$30.4 million, or 9.3%, of revenues for the three months ended September 23, 2012, compared to \$27.3 million, or 8.9%, of revenues for the same period in 2011, and \$93.5 million, or 9.6%, of revenues for the nine months ended September 23, 2012, compared to \$84.0 million, or 9.2%, of revenues for the same period in 2011. The increases for the three- and nine-month periods were primarily due to increases in legal and insurance costs. The nine-month period was also impacted by higher short-term management incentive costs and higher costs related to our operators' conference.

Other general expenses reflected net expense of \$1.2 million for the three months ended September 23, 2012, compared to \$4.8 million for the comparable period in 2011, and \$8.0 million, for the nine months ended September 23, 2012 compared to \$7.0 million for the comparable period in 2011, as detailed below (in thousands):

|   | Three Months Ended |                   |                        | Nine Months Ended |                   |                        |
|---|--------------------|-------------------|------------------------|-------------------|-------------------|------------------------|
|   | Sept. 23,<br>2012  | Sept. 25,<br>2011 | Increase<br>(Decrease) | Sept. 23,<br>2012 | Sept. 25,<br>2011 | Increase<br>(Decrease) |
| Supplier marketing (income) payment (a)                   | \$ (250 )          | \$ -              | \$ (250 )              | \$ 4,250          | \$ -              | \$ 4,250               |
| Disposition and valuation-related losses                  | 344                | 120               | 224                    | 460               | 506               | (46 )                  |
| Provision for uncollectible accounts and notes receivable | 297                | 583               | (286 )                 | 466               | 455               | 11                     |
|   | 929                | 3,307             | (2,378 )               | 2,403             | 3,927             | (1,524 )               |

|  |          |          |             |          |          |          |
|--|----------|----------|-------------|----------|----------|----------|
| Franchise and development incentives (b) |          |          |             |          |          |          |
| Perfect Pizza lease obligation (c)       | -        | 782      | (782 )      | 197      | 782      | (585 )   |
| Other                                    | (109 )   | (15 )    | (94 )       | 244      | 1,347    | (1,103 ) |
| Total other general expenses             | \$ 1,211 | \$ 4,777 | \$ (3,566 ) | \$ 8,020 | \$ 7,017 | \$ 1,003 |

- (a) See “Non-GAAP Measures” above for further information about the Incentive Contribution.
- (b) Includes incentives provided to domestic franchisees for opening restaurants. The 2011 amounts include approximately \$2.8 million of incentives offered to domestic franchisees for meeting certain sales targets, including driving comparable sales, transactions and online sales.
- (c) The Perfect Pizza lease obligation relates to rents, taxes and insurance associated with the former Perfect Pizza operations in the United Kingdom. See the notes to condensed consolidated financial statements for additional information.

Depreciation and amortization was \$8.2 million (2.5% of revenues) for the three months ended September 23, 2012, compared to \$8.0 million (2.6% of revenues) for the same 2011 period, and \$24.2 million (2.5% of revenues) for the nine months ended September 23, 2012, compared to \$24.7 million (2.7% of revenues) for the 2011 period.

Net interest. Net interest expense was approximately \$148,000 for the three months ended September 23, 2012, compared to \$112,000 for the same period in 2011, and \$353,000 for the nine months ended September 23, 2012, compared to \$631,000 for the same period in 2011. Interest expense was lower for the nine-month period due to a lower average outstanding debt balance and a lower effective interest rate.

Income tax expense. Our effective income tax rates were 33.8% for both the three and nine months ended September 23, 2012, representing increases of 4.7% and 1.7%, from the prior year rates. Our effective income tax rate may fluctuate from quarter to quarter for various reasons, including the settlement or resolution of specific federal and state issues. The prior year included significant favorable tax resolution items.

#### Liquidity and Capital Resources

Our long-term debt is comprised entirely of the outstanding balance under our revolving line of credit. The balance was \$50.0 million as of September 23, 2012 and \$51.5 million as of December 25, 2011.

In September 2010, we entered into a five-year, \$175.0 million unsecured revolving credit facility (“Credit Facility”). The Credit Facility was amended in November 2011 (the “Amended Credit Facility”), which extended the maturity date of the Credit Facility to November 30, 2016. Under the Amended Credit Facility, outstanding balances accrue interest at 75 to 150 basis points over the London Interbank Offered Rate (“LIBOR”) or other bank developed rates at our option (previously interest accrued at 100 to 175 basis points over LIBOR). The commitment fee on the unused balance under the Amended Credit Facility ranges from 17.5 to 25.0 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 by the Amended Credit Facility.

We have used interest rate swaps to hedge against the effects of potential interest rate increases on borrowings under our revolving credit facility. We currently have a swap with a fixed rate of 0.53%, as compared to LIBOR, with a notional amount of \$50.0 million. See the notes to condensed consolidated financial statements for additional information.

Our Amended Credit Facility contains customary affirmative and negative covenants, including the following financial covenants, as defined by the Amended Credit Facility:

|                         | Permitted Ratio          | Actual Ratio for the<br>Quarter Ended<br>September 23, 2012 |
|-------------------------|--------------------------|---|
| Leverage Ratio          | Not to exceed 2.5 to 1.0 | 0.5 to 1.0  |
| Interest Coverage Ratio | Not less than 3.5 to 1.0 | 5.5 to 1.0  |

Our leverage ratio is defined as outstanding debt divided by consolidated EBITDA for the most recent four fiscal quarters. Our interest coverage ratio is defined as the sum of consolidated EBITDA and consolidated rental expense for the most recent four fiscal quarters divided by the sum of consolidated interest expense and consolidated rental expense for the most recent four fiscal quarters. We were in compliance with all covenants at September 23, 2012.

Cash flow provided by operating activities was \$94.8 million for the nine months ended September 23, 2012, compared to \$87.2 million for the same period in 2011. The increase of approximately \$7.6 million was primarily due to higher operating income and favorable changes in working capital.

Our free cash flow for the nine months ended September 23, 2012 and September 25, 2011 was as follows (in thousands):

|   | Nine Months Ended |                   |
|---|-------------------|-------------------|
|   | Sept. 23,<br>2012 | Sept. 25,<br>2011 |
| Net cash provided by operating activities | \$ 94,773         | \$ 87,216         |
| Purchase of property and equipment        | (26,425 )         | (20,647 )         |
| Free cash flow (a)                        | \$ 68,348         | \$ 66,569         |

(a) We define free cash flow as net cash provided by operating activities (from the consolidated statements of cash flows) less the purchases of property and equipment. We believe free cash flow is an important measure because it is one factor that management uses in determining the amount of cash available for discretionary investment. See “Non-GAAP Measures” above for discussion about this non-GAAP measure, its limitations and why we present free cash flow alongside the most directly comparable GAAP measure.

We require capital primarily for the development, acquisition, renovation and maintenance of restaurants, the development, renovation and maintenance of commissary and print and promotions facilities and equipment and the enhancement of corporate systems and facilities. Capital expenditures were \$26.4 million during the nine months ended September 23, 2012.

During the nine months ended September 23, 2012, capital expenditures of \$26.4 million and common stock repurchases of \$64.1 million (1.5 million shares) were funded by cash flow from operations. Subsequent to September 23, 2012, through October 24, 2012, we repurchased an additional 107,000 shares of our common stock at an aggregate cost of \$5.6 million. As of October 24, 2012, \$51.8 million remained available for repurchase of common stock under our existing Board of Directors’ authorization.





## Forward-Looking Statements

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

The risks, uncertainties and assumptions that are involved in our forward-looking statements include, but are not limited to: aggressive changes in pricing or other marketing or promotional strategies by competitors which may adversely affect sales, including an increase in or continuation of the aggressive pricing and promotional environment; new product and concept developments by food industry competitors; increases in or sustained high costs of food ingredients and other commodities, paper, utilities and fuel, including increases related to drought conditions; the ability of the Company and its franchisees to meet planned growth targets and operate new and existing restaurants profitably, which could be impacted by challenges securing financing, finding suitable store locations or securing required domestic or foreign government permits and approvals; our ability to successfully integrate the operations of franchised restaurants we acquire; the credit performance of our franchise loan program; adverse macroeconomic or business conditions; general economic and political conditions, including increasing tax rates, and their resulting impact on consumer buying habits; changes in consumer preferences; increased employee compensation, benefits, insurance and similar costs (including the impact of the implementation of federal health care legislation); the ability of the Company to pass along increases in or sustained high costs to franchisees or consumers; the impact of current or future legal claims and current or proposed legislation impacting our business; the impact that product recalls, food quality or safety issues, and general public health concerns could have on our restaurants; currency exchange and interest rates; credit risk associated with parties to leases of restaurants and commissaries, including those Perfect Pizza locations formerly operated by us, for which we remain contractually liable; risks associated with security breaches, including theft of Company and customer information; and increased risks associated with our international operations, including economic and political conditions in our international markets and difficulty in meeting planned sales targets and new store growth for our international operations. These and other risk factors as discussed in detail in "Part I. Item 1A. – Risk Factors" in our Annual Report on Form 10-K for our 2011 fiscal year could materially affect the Company's business, financial condition or operating results. We undertake no obligation to update publicly any forward-looking statements, whether as a result of future events, new information or otherwise, except as required by law.

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

Our long-term debt at September 23, 2012 was comprised of a \$50.0 million outstanding principal balance on our \$175.0 million unsecured revolving line of credit. The interest rate on the revolving line of credit is variable and is based on the London Interbank Offered Rate ("LIBOR") plus a 75 to 150 basis point spread, tiered based upon debt and cash flow levels, or other bank developed rates at our option.

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

The effective interest rate on the revolving line of credit, including the impact of the interest rate swap agreement, was 1.3% as of September 23, 2012. An increase in the present market interest rate of 100 basis points on the line of credit balance outstanding as of September 23, 2012, net of the swap, would have no impact on interest expense.

We do not enter into financial instruments to manage foreign currency exchange rates since approximately 5% of our total revenues are derived from sales to customers and royalties outside the United States.

In the ordinary course of business, the food and paper products we purchase, including cheese (historically representing 35% to 40% of our food cost), are affected by changes in commodity prices and, as a result we are subject to on-going volatility in our food costs. We have pricing agreements with our vendors, including forward pricing agreements for a portion of our cheese purchases for our domestic Company-owned restaurants, which are accounted for as normal purchases; however, we still remain exposed to on-going commodity volatility.

The following table presents the actual average block price for cheese by quarter through the third quarter of 2012 and the projected average block prices for the fourth quarter and full year of 2012 and for 2013 by quarter and full year (based on the October 24, 2012 Chicago Mercantile Exchange cheese futures market prices).

|           | 2013<br>Projected<br>Block Price |  | 2012<br>Projected<br>Block Price |  | 2011<br>Actual<br>Block Price |
|-----------|----------------------------------|--|----------------------------------|--|-------------------------------|
| Quarter 1 | \$ 1.884 *                       |  | \$ 1.522                         |  | \$ 1.695                      |
| Quarter 2 | 1.842 *                          |  | 1.539                            |  | 1.736                         |
| Quarter 3 | 1.828 *                          |  | 1.750                            |  | 2.006                         |
| Quarter 4 | 1.811 *                          |  | 2.018 *                          |  | 1.760                         |
| Full Year | \$ 1.841 *                       |  | \$ 1.713 *                       |  | \$ 1.799                      |

\*amounts are estimates based on futures prices

#### Item 4. Controls and Procedures

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

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

## PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings

We are subject to claims and legal actions in the ordinary course of our business. We believe that none of the claims and actions currently pending against us would have a material adverse effect on us if decided in a manner unfavorable to us.



## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Our Board of Directors has authorized the repurchase of up to \$975.0 million of common stock under a share repurchase program that began on December 9, 1999 and expires on June 30, 2013. Through September 23, 2012, a total of 48.9 million shares with an aggregate cost of \$917.6 million have been repurchased under this program. Subsequent to September 23, 2012, through October 24, 2012, we acquired an additional 107,000 shares at an aggregate cost of \$5.6 million. As of October 24, 2012, approximately \$51.8 million remained available for repurchase of common stock under this authorization.

The following table summarizes our repurchases by fiscal period during the first nine months of 2012 (in thousands, except per-share amounts):

| Fiscal Period | Total<br>Number<br>of Shares<br>Purchased | Average<br>Price<br>Paid per<br>Share | Total Number<br>of Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Maximum<br>Dollar<br>Value of<br>Shares<br>that May Yet<br>Be<br>Purchased<br>Under the<br>Plans or<br>Programs |
|---------------|---|---------------------------------------|---|---|
| 12/26/2011 -  |   |                                       |   |   |
| 01/22/2012    | 60  | \$37.72                               | 47,533  | \$119,292   |
| 01/23/2012 -  |   |                                       |   |   |
| 02/19/2012    | -   | - *                                   | 47,533  | \$119,292   |
| 02/20/2012 -  |   |                                       |   |   |
| 03/25/2012    | 312                                       | \$37.09                               | 47,845  | \$107,719   |
| 03/26/2012 -  |   |                                       |   |   |
| 04/22/2012    | 248                                       | \$37.57                               | 48,093  | \$98,391  |
| 04/23/2012 -  |   |                                       |   |   |
| 05/20/2012    | 22  | \$38.67                               | 48,115  | \$97,561  |
| 05/21/2012 -  |   |                                       |   |   |
| 06/24/2012    | 315                                       | \$46.78                               | 48,430  | \$82,810  |
| 06/25/2012 -  |   |                                       |   |   |
| 07/22/2012    | 264                                       | \$47.12                               | 48,694  | \$70,390  |
| 07/23/2012 -  |   |                                       |   |   |
| 08/19/2012    | 111                                       | \$51.25                               | 48,805  | \$64,710  |
| 08/20/2012 -  |   |                                       |   |   |
| 09/23/2012    | 140                                       | \$52.05                               | 48,945  | \$57,392  |

\* There were no share repurchases during this period.

Our share repurchase authorization increased from \$925 million to \$975 million in July 2012. For presentation purposes, the maximum dollar value of shares that may be purchased was adjusted retroactively to December 26, 2011.

The Company utilizes a written trading plan under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, from time to time to facilitate the repurchase of shares of our common stock under this share repurchase program. There can be no assurance that we will repurchase shares of our common stock either through a Rule 10b5-1 trading plan or otherwise.

Item 6. Exhibits

| Exhibit Number | Description   |
|----------------|---|
| 31.1           | Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-15(e), As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 31.2           | Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-15(e), As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 32.1           | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 32.2           | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 101            | Financial statements from the quarterly report on Form 10-Q of Papa John's International, Inc. for the quarter ended September 23, 2012, filed on October 31, 2012, formatted in XBRL: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Consolidated Statements of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Condensed Consolidated Financial Statements. |

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PAPA JOHN'S INTERNATIONAL, INC.  
(Registrant)

Date: October 31, 2012

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