PAPA JOHNS INTERNATIONAL INC
Form 10-K
February 24, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 28, 2008

or

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission File Number: 0-21660

PAPA JOHN S INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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

2002 Papa Johns Boulevard
Louisville, Kentucky 40299-2367

(Address of principal executive offices)

(502) 261-7272

(Registrant s telephone number, including area code)

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

(Title of Each Class)	**(Name of each exchange on which registered)**
Common Stock, $.01 par value	The NASDAQ Stock Market LLC

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

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

The aggregate market value of the common stock held by non-affiliates of the Registrant, computed by reference to the closing sale price on The NASDAQ Stock Market as of the last business day of the Registrant s most recently completed second fiscal quarter, June 29, 2008, was approximately $574,220,073.

As of February 17, 2009, there were 27,832,557 shares of the Registrant s Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Part III are incorporated by reference to the Registrant s Proxy Statement for the Annual Meeting of Stockholders to be held April 30, 2009.

Table of Contents

TABLE OF CONTENTS

PART I	
Item 1.	Business
Item 1A.	Risk Factors
Item 1B.	Unresolved Staff Comments
Item 2.	Properties
Item 3.	Legal Proceedings
Item 4.	Submission of Matters to a Vote of Security Holders
PART II	
Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
Item 6.	Selected Financial Data
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk
Item 8.	Financial Statements and Supplementary Data
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
Item 9A.	Controls and Procedures
Item 9B.	Other Information
PART III	
Item 10.	Directors, Executive Officers and Corporate Governance
Item 11.	Executive Compensation
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
Item 13.	Certain Relationships and Related Transactions, and Director Independence
Item 14.	Principal Accounting Fees and Services
PART IV	
Item 15.	Exhibits, Financial Statement Schedules

Table of Contents

PART I

Item 1. Business

General

Papa John s International, Inc. (referred to as the Company , Papa John s or in the first person notations of we , us and our) operates and fra pizza delivery and carryout restaurants and, in certain international markets, dine-in and restaurant-based delivery restaurants under the trademark Papa John s . The first Company-owned Papa John s restaurant opened in 1985 and the first franchised restaurant opened in 1986. At December 28, 2008, there were 3,380 Papa John s restaurants in operation, consisting of 615 Company-owned and 2,765 franchised restaurants operating domestically in all 50 states, the District of Columbia and Puerto Rico and in 29 countries.

Papa John s has defined five reportable segments: domestic restaurants, domestic commissaries (Quality Control Centers), domestic franchising, international operations and variable interest entities. See Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 21 of Notes to Consolidated Financial Statements for financial information about these segments for the fiscal years ended December 28, 2008, December 30, 2007 and December 31, 2006.

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

Management Changes

In early December 2008, our Board of Directors (the Board) appointed John H. Schnatter, our Founder and Chairman of the Board, as Interim Chief Executive Officer. Mr. Schnatter succeeds Nigel Travis, who served as Papa John s President and Chief Executive Officer and a member of the Board since 2005. Mr. Travis left the Company to accept another opportunity. Mr. Travis resigned as a member of the Board on December 4, 2008. The Board also formed a search committee to undertake a search for a permanent Chief Executive Officer. The search committee process is underway.

Table of Contents

Strategy

Our goal is to build the strongest brand loyalty of all pizza restaurants. The key elements of our strategy include:

Menu. Domestic Papa John s restaurants offer a menu of high-quality pizza along with side items, including breadsticks, cheesesticks, chicken strips and wings, dessert items and canned or bottled beverages. Papa John s traditional crust pizza is prepared using fresh dough (never frozen). Papa John s pizzas are made from a proprietary blend of wheat flour, cheese made from 100% real mozzarella, fresh-packed pizza sauce made from vine-ripened tomatoes (not from concentrate) and a proprietary mix of savory spices, and a choice of high-quality meat (100% beef, pork and chicken with no fillers) and vegetable toppings. Domestically, all ingredients and toppings can be purchased from our Quality Control Center (QC Center) system, which delivers to individual restaurants twice weekly. Internationally, the menu may be more diverse than in our domestic operations to meet local tastes and customs.

In addition to our fresh dough traditional crust pizza, we offer a thin crust pizza, Papa s Perfect Pan Pizza, and in 2008 we introduced a 100% whole-wheat hand-tossed crust pizza to our menu. Both the thin and pan crusts are par-baked products produced by third-party vendors, while our whole-wheat crust is a fresh-dough product produced at our QC Centers. Each traditional crust, pan and wheat crust pizza offers a container of our special garlic sauce and a pepperoncini pepper. Each thin crust pizza is served with a packet of special seasonings and a pepperoncini pepper.

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

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

Commitment to Team Member Training and Development. We are committed to the development and motivation of our team members through training programs, incentive compensation and opportunities for advancement. Team member training programs are conducted for corporate team members, and offered to our franchisees at training locations across the United States and internationally. We offer performance-based financial incentives to corporate and restaurant team members at various levels.

Marketing. Our marketing strategy consists of both national and local components. Our domestic national strategy includes national advertising on television, through print, direct mail and online. Nine national television campaigns aired in 2008.

Our local restaurant-level marketing programs target consumers within the delivery area of each restaurant, making extensive use of print materials including targeted direct mail and store-to-door couponing. Local marketing efforts also include a variety of community-oriented activities within schools, sports venues and other organizations. Local marketing efforts are supplemented with radio and television advertising, produced both locally and on a national basis.

Additionally, we have developed joint cross-marketing plans with certain third-party companies. For example, we entered into marketing and partnership agreements providing cross-marketing activities with

Table of Contents

Six Flags theme parks and Live Nation amphitheaters. We will continue to explore additional cross-marketing opportunities with third-party companies.

In international markets, we target customers who live or work within a small radius of a Papa John s restaurant. Certain markets can effectively use television and radio as part of their marketing strategies. The majority of the marketing efforts use print materials such as flyers, newspaper inserts and in-store marketing materials. Local marketing efforts, such as sponsoring or participating in community events, sporting events and school programs, are also used to build customer awareness.

Franchise System. We are committed to maintaining and developing a strong franchise system by attracting experienced operators, supporting them to expand and grow their business and monitoring their compliance with our high standards. We seek to attract franchisees with experience in restaurant or retail operations and with the financial resources and management capability to open single or multiple locations. To ensure consistent food quality, each domestic franchisee is required to purchase dough and tomato sauce from our QC Centers and to purchase all other supplies from our QC Centers or approved suppliers. QC Centers outside the U.S. or in remote areas may be operated by franchisees pursuant to license agreements or by other third parties. We devote significant resources to provide Papa John s franchisees with assistance in restaurant operations, management training, team member training, marketing, site selection and restaurant design. We also provide significant assistance to licensed international QC Centers in sourcing high-quality suppliers located in-country or regional suppliers to the extent possible.

International Operations. As of December 28, 2008, we had 588 Papa John s restaurants operating in 29 countries, Puerto Rico, Hawaii, and Alaska (Hawaii and Alaska units are included in our international operations). Substantially all of the Papa John s international units are franchised operations (we own and operate 8 restaurants in the United Kingdom and 15 in Beijing, China). During 2008 and 2007 we opened 140 and 90 international net new units (new unit openings less unit closings), respectively. We plan to continue to grow our international franchise units during the next several years. Our total international development pipeline as of December 28, 2008 included approximately 1,200 restaurants scheduled to open over the next ten years.

Unit Sales and Investment Costs

In 2008, the 566 domestic Company-owned restaurants included in the full year s comparable restaurant base generated average sales of $867,000. Domestic franchise sales on average are lower than Company-owned restaurants as a higher percentage of our Company-owned restaurants are located in more heavily penetrated markets.

The average cash investment for the 14 domestic Company-owned restaurants opened during the 2008 fiscal year, exclusive of land, was approximately $270,000 per unit, excluding tenant allowances that we received. We expect the average cash investment for the 10 to 15 domestic Company-owned restaurants expected to open in 2009 to be similar to the 2008 level of $270,000 per unit. Substantially all domestic restaurants do not offer dine-in areas, which reduces our restaurant capital investment.

Development

A total of 267 Papa John s restaurants were opened during 2008, consisting of 24 Company-owned (14 domestic and 10 international) and 243 franchised restaurants (98 domestic and 145 international), while 95 Papa John s restaurants closed during 2008, consisting of 11 Company-owned restaurants (nine domestic and two international) and 84 franchised restaurants (71 domestic and 13 international).

Table of Contents

During 2009, we plan to open approximately 100 to 140 worldwide net new units. We expect to open 15 to 20 Company-owned restaurants (10 to 15 domestic and five international) and 230 to 265 franchise restaurants (50 to 60 domestic and 180 to 205 international). We also expect approximately 145 Papa John s restaurants to close during 2009, the majority of which are expected to be domestic franchised units. Domestic and international franchised unit expansion is expected to continue with an emphasis on markets in North America, the United Kingdom, the Middle East and Asia. We expect our expansion in Asia to include a significant focus in China.

The Company implemented a refranchising initiative during 2008 in an effort to increase the percentage of franchise units in our domestic restaurant portfolio. The Company believes shifting the domestic restaurant portfolio mix more toward franchise units will improve the absolute level and consistency of operating margin percentage and be more consistent with the trend in franchise business models in the domestic restaurant category. As part of the refranchising strategy, the Company divested 62 domestic restaurants during 2008, including Company-owned units in Philadelphia, New Jersey, Cleveland and Chicago. In addition, the Company has designated approximately 17 restaurants in two markets as held for sale. We plan to sell these Company-owned units during 2009.

For our other markets in which we operate Company-owned units, our expansion strategy is to continue to open domestic restaurants in existing markets as appropriate, thereby increasing consumer awareness and enabling us to take advantage of operational and marketing efficiencies. Our experience in developing markets indicates that market penetration through the opening of multiple restaurants in a particular market results in increased average restaurant sales in that market over time. We have co-developed markets with some franchisees or divided markets among franchisees, and will continue to utilize market co-development in the future, where appropriate. During 2007 and 2006, we acquired 128 restaurants with a total purchase price of $56.9 million for a variety of reasons including taking advantage of opportunities to purchase restaurants in markets where we have a significant Company-owned restaurant presence, to improve operational execution of the acquired restaurants, and opportunities to expand in growing areas.

Of the total 2,792 domestic units open as of December 28, 2008, 592 or 21.2% were Company-owned (including 128 units owned in joint venture arrangements with franchisees in which the Company has a majority ownership position). The Company believes that through a combination of net openings more heavily weighted toward franchise units and the selective refranchising of certain Company-owned markets, the percentage of Company-owned units can be decreased below 20% over the next few years. However, given the current and anticipated economic issues impacting consumers and the credit markets, we do not expect to aggressively pursue refranchising opportunities during 2009.

Restaurant Design and Site Selection

Backlit awnings, neon window designs and other visible signage characterize the exterior of most Papa John s restaurants. A typical domestic Papa John s restaurant averages 1,100 to 1,500 square feet. Papa John s restaurants are designed to facilitate a smooth flow of food orders through the restaurant. The layout includes specific areas for order taking, pizza preparation and routing, resulting in simplified operations, lower training and labor costs, increased efficiency and improved consistency and quality of food products. The typical interior of a Papa John s restaurant has a vibrant color scheme, and includes a bright menu board, custom counters and a carryout customer area. The counters are designed to allow customers to watch the team members slap out the dough and put sauce and toppings on pizzas.

Table of Contents

Most of our international Papa John s restaurants are between 900 and 1,400 square feet; however, in order to meet certain local customer preferences, several international restaurants have been opened in larger spaces to accommodate both dine-in and restaurant-based delivery service, with an average of 35 to 100 seats. We will utilize dine-in service as part of our international growth strategy based on a country-by-country evaluation of consumer preferences and trends.

We consider the location of a restaurant to be important and therefore devote significant resources to the investigation and evaluation of potential sites. The site selection process includes a review of trade area demographics, target population density and competitive factors. A member of our development team inspects each potential domestic Company-owned restaurant location and substantially all franchised restaurant locations and the surrounding market before a site is approved. Our restaurants are typically located in strip shopping centers or freestanding buildings that provide visibility, curb appeal and accessibility. Our restaurant design can be configured to fit a wide variety of building shapes and sizes, which increases the number of suitable locations for our restaurants.

We provide layout and design services and recommendations for subcontractors, signage installers and telephone systems to Papa John s franchisees. Our franchisees can purchase complete new store equipment packages through an approved third-party supplier. We sell replacement smallwares and related items to our franchisees through our support services subsidiary, Preferred Marketing Solutions, Inc.

Quality Control (QC) Centers; Strategic Supply Chain Management

Our domestic QC Centers, comprised of ten regional production and distribution centers in 2008, supply pizza dough, food products, paper products, smallwares and cleaning supplies twice weekly to each restaurant. This system enables us to monitor and control product quality and consistency, while lowering food costs. Our full-service QC Centers are located in Louisville, Kentucky; Dallas, Texas; Pittsburgh, Pennsylvania; Orlando, Florida; Raleigh, North Carolina; Denver, Colorado; Rotterdam, New York; Portland, Oregon; Des Moines, Iowa; and Phoenix, Arizona. The QC Center system capacity is continually evaluated in relation to planned restaurant growth, and facilities are developed or upgraded as operational or economic conditions warrant. We consider the current QC Center system capacity sufficient to accommodate domestic restaurant development for the next several years.

Our subsidiary, Papa John s UK (PJUK), purchases its products from a third-party distribution center. We own full-service QC Centers in Mexico City, Mexico; Cancun, Mexico and Beijing, China. The primary difference between a full-service QC Center and a distribution center is that full-service QC Centers produce fresh pizza dough in addition to providing other food and paper products used in our restaurants. International full-service QC Centers, licensed to franchisees and non-franchisee third parties, are generally located in the markets where our franchisees have restaurants. We expect future international QC Centers to be licensed to franchisees or non-franchisee third parties; however, we may open Company-owned QC Centers at our discretion. We also have the right to acquire licensed QC Centers from our international licensees in certain circumstances.

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

5

Table of Contents

to restaurants by refrigerated trucks leased and operated by us or transported by a dedicated logistics company.

PJ Food Service, Inc. (PJFS), our wholly owned subsidiary that operates our domestic Company-owned QC Centers, has a purchasing arrangement with BIBP Commodities, Inc. (BIBP), a third-party entity formed by franchisees for the sole purpose of reducing cheese price volatility to domestic system-wide restaurants. Historically, under this arrangement, PJFS purchased cheese from BIBP at a fixed quarterly price based in part on historical average cheese prices. Gains and losses incurred by BIBP are passed to the QC Centers and Company-owned and franchise restaurants through adjustments to the selling price. Over time, PJFS purchases cheese at a price approximating the actual average market price, but with more predictability and less price volatility. As a result of margin pressures in late third quarter and early fourth quarter 2008, a reduction in cheese pricing to restaurants was implemented in Period 11 (Q4-08 modified price). See Management s Discussion and Analysis of Financial Condition and Results of Operations Consolidation of BIBP Commodities, Inc. (BIBP) as a Variable Interest Entity, and Note 4 of Notes to Consolidated Financial Statements for additional information concerning BIBP and the purchasing arrangement, and the related financial statement treatment of BIBP s results.

Marketing Programs

All domestic Company-owned and franchised Papa John s restaurants within a defined market are required to join an area advertising cooperative (Co-op). Each member restaurant contributes a percentage of sales to the Co-op for market-wide programs, such as radio, television and print advertising. The rate of contribution and uses of the monies collected are determined by a majority vote of the Co-op s members (in most cases the contribution rate cannot be below 2.0% without approval from Papa John s). The restaurant-level and Co-op marketing efforts are supported by print and electronic advertising materials that are produced by the Papa John s Marketing Fund, Inc., a non-profit corporation (the Marketing Fund). The Marketing Fund produces and buys air time for Papa John s national television commercials, in addition to other brand-building activities, such as consumer research and public relations activities. All domestic Company-owned and franchised Papa John s restaurants are required to contribute a certain percentage of sales to the Marketing Fund. The contribution rate to the Marketing Fund can be increased above the required contribution rate if a majority of the domestic restaurants agree to such increase. The contribution percentage was 2.7% during 2008 and 2007 and 2.6% during 2006. The contribution percentage to the Marketing Fund is currently set at 2.7% for the first three months of 2009 and 2.82% for the remainder of the year.

Restaurant-level marketing programs target the delivery area of each restaurant, making extensive use of targeted print materials including direct mail and store-to-door couponing. The local marketing efforts also include a variety of community-oriented activities with schools, sports teams and other organizations. In markets in which Papa John s has a significant presence, local marketing efforts are supplemented with local radio and television advertising.

We provide both Company-owned and franchised restaurants with pre-approved print marketing materials and with catalogs for the purchase of uniforms and promotional items. We also provide direct marketing services to Company-owned and franchised restaurants using customer information gathered by our proprietary point-of-sale technology (see Company Operations *Point of Sale Technology*).

We have developed joint cross-marketing plans with certain third-party companies. For example, in 2006 we entered into a five-year marketing and partnership agreement with Six Flags theme parks and in 2007, we entered into a four-year agreement with Live Nation amphitheaters. Both agreements provide for

Table of Contents

cross-marketing activities. We will continue to explore additional cross-marketing opportunities with third-party companies.

We have developed a system by which domestic Papa John s restaurant customers in areas we service are able to place orders online at papajohns.com, including the plan ahead ordering advance ordering feature and Spanish-language ordering capability. In addition, our customers can order via text messaging and mobile web. We receive a percentage-based fee from domestic franchisees for online sales, in addition to royalties, for this service.

We offer our customers the opportunity to purchase a reloadable gift card marketed as the Papa Card, in any denomination from $10 to $100. We also offer Papa Cards for sale to consumers through third-party outlets and continue to explore other Papa Card distribution opportunities. The Papa Card may be redeemed for delivery, carryout and online orders and is accepted at substantially all Papa John s traditional domestic restaurants.

Company Operations

Restaurant Personnel. A typical Papa John s restaurant employs a restaurant manager, one or two assistant managers and approximately 20 to 25 hourly team members, most of whom work part-time. The manager is responsible for the day-to-day operation of the restaurant and maintaining Company-established operating standards. The operating standards and other resources are contained in a comprehensive operations manual supplied to each restaurant. We seek to hire experienced restaurant managers and staff, provide comprehensive training on operations and managerial skills, and motivate and retain them by providing opportunities for advancement and performance-based financial incentives.

We also employ directors of operations who are responsible for overseeing an average of seven Company-owned restaurants. The directors of operations report to operations vice presidents, who are each responsible for the management of approximately 100 Company-owned restaurants in specific geographic regions. The operations vice presidents report to four division vice presidents, who also have responsibility for franchise restaurant operations in their respective regions. These team members are eligible to earn performance-based financial incentives.

Training and Education. The Operations Support and Training (OST) department is responsible for creating the tools and materials for the training and development of team members. With these tools and materials, our field-based trainers train and certify training general managers in all markets. Operations personnel, both corporate and franchise, complete our management training program and ongoing development programs in which instruction is given on all aspects of our systems and operations. The program includes hands-on training at an operating Papa John s restaurant by a Company-certified training general manager. Our training includes new team member orientation, in-store and delivery training, core management skills training and new product or program implementation. Our ongoing developmental workshops include operating partner training, advanced operator training and senior operator training. We provide on-site training and operating support before, during and after the opening of all Company-owned restaurants and for the first two restaurants per franchise group with additional support available upon request.

Point of Sale Technology. Point of sale technology (our proprietary PROFIT SystemTM) is in place in all domestic traditional Papa John s restaurants. We believe this technology facilitates faster and more accurate order-taking and pricing, reduces paperwork and allows the restaurant manager to better monitor and control food and labor costs. We believe the PROFIT System enhances restaurant-level marketing capabilities through the development of a database containing information on customers and their buying habits with respect to our products.

Polling capabilities allow us to obtain restaurant operating

Table of Contents

information, thereby improving the speed, accuracy and efficiency of restaurant-level reporting. The PROFIT System is also closely integrated with our online ordering system in all domestic traditional Papa John s restaurants, enabling Papa John s to offer nationwide online ordering to our customers.

Joint Ventures. We operate 128 Company-owned restaurants under two joint venture arrangements. Under the first arrangement, we own 70% of an entity operating 51 Papa John s restaurants located in Virginia and Maryland. Under the second arrangement, we own 51% of an entity operating 77 Papa John s restaurants located in Texas. We will continue to evaluate further joint venture arrangements on an individual basis as opportunities arise.

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

Franchise Program

General. We continue to attract franchisees with significant restaurant and retail experience. We consider our franchisees to be a vital part of our system s continued growth and believe our relationship with our franchisees is good. As of December 28, 2008, there were 2,765 franchised Papa John s restaurants operating in all 50 states, the District of Columbia, Puerto Rico and 29 countries. As of December 28, 2008, we have development agreements with our franchisees for over 300 additional domestic franchised restaurants committed to open through 2018 and agreements for over 1,200 additional international franchised restaurants to open through 2018. There can be no assurance that all of these restaurants will be opened or that the development schedule set forth in the development agreements will be achieved. During 2008, 243 (98 domestic and 145 international) franchised Papa John s restaurants were opened.

Approval. Franchisees are approved on the basis of the applicant s business background, restaurant operating experience and financial resources. We seek franchisees to enter into development agreements for single or multiple restaurants. We require each franchisee to complete our training program or to hire a full-time operator who completes the training and has either an equity interest or the right to acquire an equity interest in the franchise operation.

Domestic Development and Franchise Agreements. We enter into development agreements with our domestic franchisees for the opening of a specified number of restaurants within a defined period of time and specified geographic area. Substantially all existing franchise agreements have an initial 10-year term with a 10-year renewal option. Many state franchise laws limit the ability of a franchisor to terminate or refuse to renew a franchise. In October 2007, the Company initiated its domestic Franchise Agreement Renewal Program (the Renewal Program), which was executed with substantially all of our domestic franchisees by the first quarter of 2008. Key provisions of the revised form of the franchise agreement (the Negotiated Agreement) are as follows:

Royalty Rate - Under the form of the franchise agreement to which substantially all franchisees were subject prior to the Renewal Program, the royalty rate could have been increased from 4% to 5% at any time at the discretion of the Company. The Negotiated Agreement limits the royalty rate increase to a maximum of one-quarter percent per year beginning in 2008, reaching 5% no earlier than 2011, and further limits the royalty rate to a maximum of 5% through 2020. Royalty rate increases subsequent to 2020 are also limited to one-quarter percent per year and cannot exceed 5.5% through 2025, with a maximum rate of 6% thereafter.

Marketing Expenditures - The Negotiated Agreement provides for certain minimum contributions as a percentage of sales to the national Marketing Fund and a minimum level of spending as a percentage of

Table of Contents

sales on all marketing activities, consisting of contributions to both the national Marketing Fund and local marketing cooperatives, as well as local store marketing initiatives.

Online Ordering System Fees - The Negotiated Agreement limits the fee charged for online transactions to 3% of the amount of the transaction. Additionally, once we have recovered a certain portion of our initial investment in the development of the online system via net operating profits of the system, the online business unit will be operated at a break-even level through either a reduction in the fee percentage or a contribution of any net operating profits into the National Marketing Fund.

The Negotiated Agreement also addressed several other issues, including sharing of profits from partnership marketing or alternative sales channels activities, development of a process for defining trade areas for alternative ordering methodologies and marketing contribution requirements for non-traditional units.

The financial implications of this Negotiated Agreement for the Company are as follows:

- We collected franchise fees of approximately $2.0 million in the fourth quarter of 2007 due to the renewal program.

- The royalty rate increased to 4.25% effective December 31, 2007 (beginning of fiscal 2008) for domestic franchisees. The annual impact of a one-quarter percent royalty increase is approximately $3.5 to $4.0 million. However, during 2008, the Company contributed a portion of this incremental royalty increase to increased marketing support for the domestic system.

- Given the current economic climate, the Company recently elected to defer an increase in the royalty rate of 0.25% (i.e. increase the rate to 4.50%) for six months in 2009 (the royalty rate will remain at 4.25% for the first six months of 2009 with the Company deciding whether to continue to suspend collection of the royalty rate increase at mid-year). Currently, the Company has the ability to increase the royalty rate to 4.75% in 2010 and 5.00% in 2011, in accordance with the terms of the Negotiated Agreement. Facts and circumstances existing at such future dates may impact the Company s final determination as to whether to implement such royalty rate increases or defer them for the benefit of the system.

- The Company recognized approximately $3.0 million of operating income from the online ordering system business unit in 2008 and 2007. This business unit will be operated at a break-even level in 2009 and future years. Accordingly, the amount of operating income recognized by the Company related to this business unit is expected to be approximately $3.0 million less in 2009 than in 2008.

Franchise Support Initiatives

In late 2008, the Company announced a comprehensive package of domestic franchise system support initiatives in response to the current economic and consumer climate. The initiatives included:

- Providing cheese cost relief to our system in late 2008 and 2009 by modifying the cheese pricing formula used by BIBP Commodities, Inc.;

- Providing additional system-wide national marketing support for 2009;
- Providing expanded targeted royalty relief and local marketing support for struggling franchisees or markets;
- Convening a lender summit, principally of regional banks and other lenders, to educate them on the Papa John s model with the goal of expanding credit availability to franchisees;
- Providing financing on a selected basis to assist new or existing franchisees with the acquisition of troubled franchise restaurants; and

Table of Contents

- For the first six months of 2009, suspending collection of the 0.25% royalty rate increase that was scheduled for January 2009 with the effect that the royalty rate will remain at 4.25% for the first six months of 2009 (with the Company deciding whether to continue to suspend collection of the royalty rate increase at mid-year).

With respect to the BIBP cheese cost relief for 2009, for the first two months of the year the price per pound was set at a level approximately equal to the Q4-08 modified price, and substantially less than the price as would have been determined by the standard formula. Effective in March 2009, we will modify the BIBP formula to establish the price of cheese on a more frequent basis at the projected spot market price plus a certain mark-up. The amount of the mark-up depends on the projected spot market prices. The modification of the BIBP formula in 2008 and 2009 could delay the recoupment of the BIBP deficit. However, the Franchise Advisory Council has acknowledged a domestic system responsibility to continue to buy cheese from our QC Centers so long as the BIBP cheese purchasing entity remains in a deficit position. Under this new price formula, we anticipate BIBP will substantially repay its cumulative deficit by the end of 2011.

The Company estimates the gross incremental impact of these and certain other support initiatives and non-recurring costs on the Company s operating income, excluding the impact of consolidating BIBP s operating results, to be $12.0 million to $14.0 million for 2009 (excluding any favorable impact to sales and profits resulting from the increased marketing).

The Company believes the support program will produce long-term shareholder value for the Papa John s system by mitigating potential unit closures and strengthening our brand during this challenging economic environment. In addition to reducing unit closures, other important objectives of the support program include growing market share in a consolidating category, stabilizing transaction levels and targeting a substantial multi-year increase in online ordering percentage.

International Development and Franchise Agreements. We opened our first franchised restaurant outside the United States in 1998. We define international to be all markets outside the contiguous United States in which we have either a development agreement or a master franchise agreement with a franchisee for the opening of a specified number of restaurants within a defined period of time and specified geographic area. Under a master franchise agreement, the franchisee has the right to subfranchise a portion of the development to one or more subfranchisees approved by us. Under our current standard international development agreement (except for Hawaii and Alaska, in which the initial fees are the same as for domestic restaurants), the franchisee is required to pay total fees of $25,000 per restaurant: $5,000 at the time of signing the agreement and $20,000 when the restaurant opens or the agreed-upon development date, whichever comes first. Under our current standard master franchise agreement, the master franchisee is required to pay total fees of $25,000 per restaurant owned and operated by the master franchisee, under the same terms as the development agreement, and $15,000 for each subfranchised restaurant $5,000 at the time of signing the agreement and $10,000 when the restaurant opens or the agreed-upon development date, whichever comes first.

Our current standard international master franchise and development agreement provides for payment to us of a royalty fee of 5% of sales (3% of sales by subfranchised restaurants), with no provision for increase during the initial term. The remaining terms applicable to the operation of individual restaurants are substantially equivalent to the terms of our domestic franchise agreement. From time to time, development agreements will be negotiated at other than standard terms for fees and royalties.

Non-traditional Restaurant Development. We have entered into a limited number of development and franchise agreements for non-traditional restaurants. For example, a total of 17 franchised net units opened in Six Flags theme parks in 2006, 2007 and 2008 as part of a five-year marketing and partnership

Table of Contents

agreement, and 27 franchised units opened in Live Nation amphitheaters in 2007 and 2008 as part of a four-year marketing and partnership agreement. These agreements generally cover venues or areas not originally targeted for development and have terms differing from the standard agreement. To date, these agreements have not had a significant, direct impact on our pre-tax earnings.

Franchise Restaurant Development. We provide assistance to Papa John s franchisees in selecting sites, developing restaurants and evaluating the physical specifications for typical restaurants. Each franchisee is responsible for selecting the location for its restaurants but must obtain our approval of restaurant design and location based on accessibility and visibility of the site and targeted demographic factors, including population, density, income, age and traffic. Our domestic and international franchisees may purchase complete new store equipment packages through an approved third-party supplier.

Franchisee Loans. Selected franchisees have borrowed funds from our subsidiary, Capital Delivery, Ltd., principally for the purchase of restaurants from us or other franchisees or for use in the construction and development of new restaurants. Loans made to franchisees typically bear interest at fixed or floating rates and in most cases are secured by the fixtures, equipment and signage (and where applicable, the land) of the restaurant and/or guarantees from the franchisee s owners. At December 28, 2008, loans outstanding totaled $7.6 million, which were composed of loans to franchisees and a loan with the purchaser of the Perfect Pizza operations. See Note 10 of Notes to Consolidated Financial Statements for additional information.

We have a commitment to lend up to $40.0 million to BIBP, a franchisee-owned corporation with an outstanding balance of $35.7 million at December 28, 2008. See Notes 4 and 10 of Notes to Consolidated Financial Statements for additional information.

Franchise Insurance Program. Our franchisees have the opportunity to purchase various insurance policies, such as non-owned automobile and workers compensation, through our insurance agency, Risk Services Corp. (Risk Services). In October 2000, we established a captive insurance company (Captive) domiciled in Bermuda, RSC Insurance Services, Ltd., to accommodate this business. Beginning in October 2004, a third-party commercial insurance company began providing fully-insured coverage to franchisees participating in the franchise insurance program. Accordingly, in 2004 we eliminated our risk of loss for franchise insurance coverage written after September 2004. As of December 28, 2008, approximately 46% of domestic franchised restaurants had obtained insurance coverage through Risk Services. See Note 11 of Notes to Consolidated Financial Statements for additional information concerning the Captive.

Franchise Training and Support. Our domestic field support structure consists of Franchise Business Directors (FBDs), each of whom is responsible for serving an average of approximately 100 franchised units. Our FBDs maintain open communication with the franchise community, relaying operating and marketing information and new ideas between franchisees and us.

Every franchisee is required to have a principal operator approved by us who satisfactorily completes our required training program and who devotes his or her full business time and efforts to the operation of the franchisee s restaurants. Each franchised restaurant manager is also required to complete our Company-certified management training program. Domestically, we provide an on-site training team three days before and three days after the opening of a franchisee s first two restaurants. Internationally, we provide on-site training personnel five days before and five days after the opening of a franchisee s first two stores. Ongoing supervision of training is monitored by the franchise training team. Multi-unit franchisees are encouraged to appoint training store general managers or hire a full-time training coordinator certified to deliver Company-approved programs in order to train new team members and management candidates for their restaurants. Internationally, training is monitored by our international

Table of Contents

operations services and support team, as well as regional vice presidents and international business managers assigned to specific franchisee territories.

Franchise Operations. All franchisees are required to operate their Papa John s restaurants in compliance with our policies, standards and specifications, including matters such as menu items, ingredients, materials, supplies, services, fixtures, furnishings, decor and signs. Each franchisee has full discretion to determine the prices to be charged to its customers.

Franchise Advisory Council. We have a Franchise Advisory Council that consists of Company and franchisee representatives of domestic restaurants. The Franchise Advisory Council and subcommittees hold regular meetings to discuss new marketing ideas, operations, growth and other relevant issues. Certain franchisees have formed an operators exchange group for the purpose of communicating and addressing issues, needs and opportunities among its members and the Company.

We currently communicate with, and receive input from, our franchisees in several forms, including through the Company s Franchise Advisory Council, annual operations conferences, newsletters, national conference calls and various regional meetings conducted with franchisees throughout the year. Monthly webcasts are also conducted by the Company to discuss current operational, marketing or other issues affecting the franchisees business. We are committed to communicating with our franchisees and receiving input from them.

Reporting and Business Processes. We collect sales and other operating information from domestic Papa John s franchisees daily. We have agreements with substantially all Papa John s domestic franchisees permitting us to debit electronically the franchisees bank accounts for substantially all required payments, including the payment of royalties, Marketing Fund contributions, risk management services, online ordering fees and purchases from our print and promotions operations and QC Centers. This system significantly reduces the resources needed to process receivables, improves cash flow and mitigates the amount of past-due accounts related to these items. Domestic franchisees are required to purchase and install the Papa John s PROFIT System in their traditional restaurants (see Company Operations *Point of Sale Technology*).

Comprehensive Restaurant Measurement Program. As part of our effort to deliver on our brand promise of Better Ingredients. Better Pizza. , we have implemented a comprehensive measurement program for all domestic and international restaurants. The measurement program focuses on the quality of the pizza and the customer service experience.

Industry and Competition

The United States Quick Service Restaurant pizza industry (QSR Pizza) is mature and highly competitive with respect to price, service, location, food quality and variety. There are well-established competitors with substantially greater financial and other resources than Papa John s. Competitors include international, national and regional chains, as well as a large number of local independent pizza operators. Some of our competitors have been in existence for substantially longer periods than Papa John s and can have higher levels of restaurant penetration and a stronger, more developed brand awareness in markets where we have restaurants. Based on independent third-party information, the QSR Pizza category, which includes dine-in, carry-out and delivery, had sales of approximately $33.9 billion in 2008, of which Papa John s share was reported at 5.9%, an increase from 5.6% reported for 2007. Within the QSR Pizza category, we believe our primary competitors are the national pizza chains, including Pizza Hut, Domino s and Little Caesars, as well as several regional chains and take and bake concepts. A change in pricing or other marketing strategies of one or more of our competitors could have an adverse impact on our sales and earnings. The QSR Pizza category has experienced little or no growth

Table of Contents

over the past few years. There are several factors contributing to the growth stagnation for the QSR pizza category, including consumers shifting of dine-out occasions toward breakfast and lunch and away from dinner. Many non-pizza restaurant chains, including chains focusing on fresh sandwiches, have begun to emphasize dinner meals. In addition, many casual diners and other restaurants are emphasizing carryout and curbside offerings. Finally, supermarkets continue to increase fresh and frozen pizza offerings to consumers.

With respect to the sale of franchises, we compete with many franchisors of restaurants and other business concepts. In general, there is also active competition for management personnel and attractive commercial real estate sites suitable for our restaurants.

Government Regulation

We, along with our franchisees, are subject to various federal, state and local laws affecting the operation of our respective businesses. Each Papa John s restaurant is subject to licensing and regulation by a number of governmental authorities, which include health, safety, sanitation, building and fire agencies in the state or municipality in which the restaurant is located. Difficulties in obtaining, or the failure to obtain, required licenses or approvals could delay or prevent the opening of a new restaurant in a particular area. Our full-service QC Centers are licensed and subject to regulation by state and local health and fire codes, and the operation of our trucks is subject to Department of Transportation regulations. We are also subject to federal and state environmental regulations.

We are subject to Federal Trade Commission (FTC) regulation and various state laws regulating the offer and sale of franchises. Several state laws also regulate substantive aspects of the franchisor-franchisee relationship. The FTC requires us to furnish to prospective franchisees a franchise disclosure document containing prescribed information. Substantive state laws that regulate the franchisor-franchisee relationship presently exist in a substantial number of states, and bills have been introduced in Congress from time to time, which would provide for federal regulation of the franchisor-franchisee relationship in certain respects if enacted. The state laws often limit, among other things, the duration and scope of non-competition provisions and the ability of a franchisor to terminate or refuse to renew a franchise. Some foreign countries also have disclosure requirements and other laws regulating franchising and the franchisor-franchisee relationship. Further national, state and local government initiatives, such as mandatory health insurance coverage, living wage or other proposed increases in minimum wage rates, could adversely affect Papa John s as well as the restaurant industry. As we expand internationally, we will be subject to applicable laws in each jurisdiction where franchised units are established.

Trademarks

Our rights in our principal trademarks and service marks are a significant part of our business. We are the owner of the federal registration of the trademark Papa John s. We have also registered Pizza Papa John s and design (our logo), Better Ingredients. Better Pizza. and Pizza Papa John Better Ingredients. Better Pizza. and design as trademarks and service marks. We also own federal registrations for several ancillary marks, principally advertising slogans. We have also applied to register our primary trademark, Pizza Papa John s and design, in more than 90 foreign countries and the European Community. We are aware of the use by other persons in certain geographical areas of names and marks that are the same as or similar to our marks. It is our policy to pursue registration of our marks whenever possible and to oppose vigorously any infringement of our marks.

Table of Contents

Employees

As of December 28, 2008, we employed approximately 16,700 persons, of whom 14,500 were restaurant team members, 800 were restaurant management personnel, 600 were corporate personnel and 800 were QC Center and Preferred Marketing Solutions, Inc. personnel. Most restaurant team members work part-time and are paid on an hourly basis. None of our team members is covered by a collective bargaining agreement. We consider our team member relations to be excellent.

Item 1A. Risk Factors

We are subject to various risks, which could have a negative effect on our business, financial condition and results of operations. These risks could cause actual operating results to differ from those expressed in certain forward looking statements contained in this Form 10-K as well as in other Company communications. Although we believe that our expectations are based on reasonable assumptions, actual results may differ materially from those in the forward-looking statements as a result of various factors, including but not limited to, the following:

Our growth strategy requires the opening of new Papa John s restaurants. We may not be able to achieve our planned growth targets due to factors outside of our control, including the current economic environment.

Our growth strategy depends on our ability and the ability of our franchisees to open new restaurants and to operate these new restaurants on a profitable basis. Planned growth targets and our ability and our franchisees ability to operate new and existing restaurants profitably are affected by the current economic conditions and the resulting impact on consumer buying habits. Our business is susceptible to adverse changes in domestic and global economic conditions, which could make it difficult and uncertain for us to forecast operating results. Continuing weakness in the residential real estate and mortgage markets, volatility in commodity and fuel costs, difficulties in the financial sector and credit markets, and other factors affecting consumer spending could cause reduced sales of our products or make it difficult for us to execute our strategy. Other effects on our business from these factors could include insolvency of key suppliers.

The ability of the Papa John s system to continue to open new restaurants is affected by a number of factors, many of which are beyond our control. These factors include, among other things, the availability of financing, the selection and availability of suitable restaurant locations, increases in the cost of or sustained high levels of cost of food ingredients and other commodities, paper, utilities, fuel, employee compensation and benefits, insurance and similar costs, availability and negotiation of suitable lease or financing terms, constraints on permitting and construction of restaurants, higher than anticipated construction costs, and the hiring, training and retention of management and other personnel. Accordingly, there can be no assurance that, system-wide, Papa John s will be able to meet planned growth targets, open restaurants in markets now targeted for expansion or continue to operate in existing markets profitably.

We face substantial competition from other food industry competitors, and our results of operations can be negatively impacted by the actions of one or more of our major competitors.

The restaurant industry is intensely competitive with respect to price, service, location and food quality, and there are many well-established competitors with substantially greater financial and other resources than the Papa John s system. Some of these competitors have been in existence for a substantially longer period than Papa John s and may be better established in the markets where restaurants operated by us or our franchisees are, or may be, located. Experience has shown that a change in the pricing or other

Table of Contents

marketing or promotional strategies, including new product and concept developments, by one or more of our major competitors can have an adverse impact on our sales and earnings and our system-wide restaurant operations.

Our results of operations and the operating results of our franchisees may be adversely impacted by any increases in the cost of food ingredients and other commodities.

An increase in the cost or sustained high levels of the cost of cheese or other commodities could adversely affect the profitability of our system-wide restaurant operations. Cheese costs, historically representing 35% to 40% of our food cost, and other commodities are subject to fluctuations, weather, availability, demand and other factors that are beyond our control. Additionally, sustained increases in fuel and utility costs could adversely affect the profitability of our restaurant and QC Center businesses. Higher commodity costs (primarily cheese and wheat) have resulted in operating margin pressure on our franchisees. Given the current commodity cost environment, we chose to mitigate commodity cost increases at domestic restaurants by supporting the entire domestic system via reduced commissary margins. For example, we did not pass through higher fuel charges incurred during 2008 by our QC Centers to our domestic restaurants. Additionally, for the last two months of 2008, in an effort to assist franchisees through this difficult period, we decided not to pass along the higher price of cheese that would have been required under the pricing formula for cheese sales from BIBP to franchisees. Instead, we allowed domestic restaurants to pay the expected futures spot market price for cheese plus an interest carry cost (Q4-08 modified price), which was approximately $0.28 per pound less than the pre-established fourth quarter price paid by domestic restaurants during October 2008. Our decision during the fourth quarter to reduce the BIBP formula price will result in a delay in the recovery of the BIBP cheese purchasing entity deficit. Additionally, further delays in the recovery of the BIBP deficit will occur as we have decided to continue to assist the domestic franchise system in 2009 or beyond by maintaining a lower BIBP price than would otherwise be called for by the pricing formula.

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

Changes in consumer taste (for example, changes in dietary preferences that could cause consumers to avoid pizza in favor of foods that are perceived as more healthful), demographic trends, traffic patterns and the type, number and location of competing restaurants could adversely affect our restaurant business. Also, our success depends to a significant extent on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. Further adverse changes in these factors could reduce sales or impose practical limits on pricing, either of which could materially adversely affect our results of operations. Like other food industry competitors, we can also be materially adversely affected by negative publicity concerning food quality, illness, injury, publication of government or industry findings concerning food products served by us, or other health concerns or operating issues stemming from one restaurant or a limited number of restaurants.

We are subject to federal and state laws governing our workforce. Changes in these laws, including minimum wage increases, or additional laws could increase costs for our system-wide operations.

System-wide restaurant operations are subject to federal and state laws governing such matters as wage benefits, working conditions, citizenship requirements and overtime. A significant number of hourly personnel employed by our franchisees and us are paid at rates related to the federal and state minimum wage requirements. Accordingly, further increases in the federal minimum wage or the enactment of additional state or local minimum wage increases above federal wage rates will increase labor costs for our system-wide operations. Additionally, proposed legislation which may make it easier for workers to

15

Table of Contents

form unions and labor shortages in various markets could result in higher costs. Local government agencies have also implemented ordinances which restrict the sale of certain food products. Additional government ordinances, including proposed menu labeling legislation, could increase costs and be harmful to system-wide restaurant sales.

Current credit markets may adversely impact the ability of our franchisees to obtain financing, which may hinder our ability to achieve our planned growth in restaurant openings.

Our growth strategy depends in large part on our ability and the ability of our franchisees to expand or open new restaurants and to operate those restaurants on a profitable basis. Delays or failures in opening new restaurants could materially and adversely affect our planned growth. In recent months, the credit markets have experienced instability, resulting in declining real estate values, credit and liquidity concerns and increased loan default rates. Many lenders have subsequently reduced their willingness to make new loans and have tightened their credit requirements. Our franchisees depend on the availability of financing to expand existing locations or construct and open new restaurants. If our franchisees experience difficulty in obtaining adequate financing for these purposes, our growth strategy and franchise revenues may be adversely affected. The unavailability of credit may require the Company to provide financing to certain franchisees and prospective franchisees in order to mitigate store closings, allow new units to open and continue to execute our refranchising strategy. If we are unable or unwilling to provide such financing, our results of operations may be adversely impacted.

Our expansion into emerging or under-penetrated markets may present increased risks.

Any or all of the risks listed above potentially adversely impacting restaurant sales or costs could be especially harmful to the financial viability of franchisees in under-penetrated or emerging markets. A decline in or failure to improve financial performance for this group of franchisees could lead to unit closings at greater than anticipated levels and therefore impact contributions to marketing funds, our royalty stream, PJFS and support services efficiencies and other system-wide results.

We may be subject to impairment charges.

Impairment charges for Company-owned operations are possible if PJUK or previously acquired domestic restaurants perform below our expectations. This would result in a decrease in our assets and reduction in our net income.

Our dependence on a sole or limited number of suppliers for some ingredients could result in disruptions to our business.

Domestically, we are dependent on sole suppliers for our cheese, flour, and thin and pan crust dough products. Alternative sources for these ingredients may not be available on a timely basis to supply these key ingredients or be available on terms as favorable to us as under our current arrangements. Domestic restaurants purchase substantially all food and related products from our QC Centers. Accordingly, both our corporate and franchised restaurants could be harmed by any prolonged disruption in the supply of products from our QC Centers.

Changes in purchasing practices by our domestic franchisees could harm our commissary business.

Although our domestic franchisees currently purchase substantially all food products from our QC Centers, they are only required to purchase tomato sauce and dough from our QC Centers. Any changes in purchasing practices by domestic franchisees, such as seeking alternative suppliers of food products,

Table of Contents

including cheese, could adversely affect the financial results of our QC Centers, including the recoverability of the BIBP cheese purchasing entity deficit.

We may be required to resort to litigation to protect our intellectual property rights, which could negatively affect our results of operations.

We depend on our Papa John s brand name and we rely on a combination of trademarks, copyrights, service marks and similar intellectual property rights to protect our brand. We believe that the success of our business depends on our continued ability to use our existing trademarks and service marks to increase brand awareness and further develop our brand, both domestically and abroad. We may not be able to adequately protect our intellectual property rights and we may be required to resort to litigation to enforce such rights. Litigation could result in high costs and diversion of resources, which could negatively affect our results of operations, regardless of the outcome.

Our international operations are subject to increased risks and other factors that may make it more difficult to achieve or maintain profitability or meet planned growth rates.

Our international operations could be negatively impacted by significant changes in international economic, political and health conditions in the countries in which the Company or its franchisees operate. In addition, our international operations are subject to additional factors, including compliance with foreign laws, currency regulations and fluctuations, differing business and social cultures and consumer preferences, diverse government regulations and structures, availability and cost of land and construction, ability to source high-quality ingredients and other commodities in a cost-effective manner, and differing interpretation of the obligations established in franchise agreements with international franchisees. Accordingly, there can be no assurance that our international operations will achieve or maintain profitability or meet planned growth rates.

Item 1B. Unresolved Staff Comments

None.

Table of Contents

Item 2. Properties

As of December 28, 2008, there were 3,380 Papa John s restaurants system-wide.

Company-owned Papa John s Restaurants

	Number of Restaurants
Arizona	48
Florida	34
Georgia	86
Illinois	4
Indiana	41
Kansas	12
Kentucky	43
Maryland	61
Missouri	39
New Mexico	10
North Carolina	78
South Carolina	6
Tennessee	27
Texas	77
Virginia	26
Total Domestic Company-owned Papa John s Restaurants	592
China	15
United Kingdom	8
Total Company-owned Papa John s Restaurants	615

Note: Company-owned Papa John s restaurants include restaurants owned by majority-owned joint ventures. There were 128 such restaurants at December 28, 2008 (77 in Texas, 26 in Virginia and 25 in Maryland).

Table of Contents

Domestic Franchised Papa John s Restaurants

	Number of Restaurants
Alabama	63
Arizona	27
Arkansas	15
California	208
Colorado	49
Connecticut	1
Delaware	11
Florida	211
Georgia	56
Idaho	10
Illinois	71
Indiana	79
Iowa	23
Kansas	18
Kentucky	54
Louisiana	43
Maine	7
Maryland	32
Massachusetts	22
Michigan	39
Minnesota	48
Mississippi	23
Missouri	31
Montana	9
Nebraska	15
Nevada	21