PAPA JOHNS INTERNATIONAL INC
Form 10-K
February 26, 2008

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 30, 2007

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. o

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

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, July 1, 2007, was approximately $665,784,682.

As of February 19, 2008 there were 28,847,782 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 May 8, 2008.

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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 30, 2007, there were 3,208 Papa John s restaurants in operation, consisting of 662 Company-owned and 2,546 franchised restaurants operating domestically in all 50 states, the District of Columbia and Puerto Rico and in 28 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 22 of Notes to Consolidated Financial Statements for financial information about these segments for the years ended December 30, 2007, December 31, 2006 and December 25, 2005.

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. 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 reference to these website addresses does not constitute incorporation by reference of the information contained on the websites, which should not be considered part of this document.

Strategy

Our goal is to build the strongest brand loyalty of all pizzerias internationally. 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 pizza and canned or bottled soft drinks. 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.

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In addition to our fresh dough, we offer a thin crust pizza and Papa s Perfect Pan Pizza, which features a square, thick buttery-tasting crust made with olive oil, and a zesty robusto pizza sauce with chunks of tomato and flavored with garlic, Italian herbs and spices. Both the thin and pan crusts are par-baked products produced by third-party vendors. Each traditional crust and pan 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. Our management compensation program is designed to attract and retain highly motivated people.

Marketing. Our marketing strategy consists of both national and local components. Our domestic national strategy includes national advertising on television, through print and direct mail and via the Internet. Seven national television campaigns aired in 2007 to support new product launches and DVD promotions.

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 with Six Flags theme parks and Live Nation amphitheaters, which provide for cross-marketing activities. 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 include using 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 seasoned 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.

Unit Economics

In 2007, the 541 domestic Company-owned restaurants included in the full year s comparable restaurant base generated average annual sales of $836,000, average cash flow (restaurant operating income plus depreciation) of $156,000 and average restaurant operating income of $132,000. Average cash flow and average restaurant operating income includes food costs as purchased directly from suppliers (i.e. excludes margin earned by our QC Centers). This average operating income represents 15.8% of average sales and the average cash flow represents 59.0% of the $265,000 average investment in property and equipment for these Company-owned restaurants.

Franchise operating income returns may differ from Company-owned restaurants for a variety of reasons, including lower average sales volumes for under-penetrated markets, lower average investment costs and differences in compensation and other costs.

The average cash investment for the 20 domestic Company-owned restaurants opened during the 2007 fiscal year, exclusive of land, was approximately $270,000, excluding tenant improvement allowances that we received. We expect the average cash investment for the 10 to 15 domestic Company-owned restaurants expected to open in 2008 to be approximately $270,000, excluding any anticipated tenant improvement allowances. Substantially all domestic restaurants do not offer dine-in areas, which reduces our restaurant capital investment.

Development

A total of 263 Papa John s restaurants were opened during 2007, consisting of 24 Company-owned (20 domestic and four international) and 239 franchised restaurants (140 domestic and 99 international), while 70 Papa John s restaurants closed during 2007, consisting of nine domestic Company-owned and 61 franchised restaurants (48 domestic and 13 international).

During 2008, we plan to open approximately 160 to 190 net new units (openings, net of closings). We expect to open 20 to 25 Company-owned restaurants (10 to 15 domestically and 10 internationally) and 240 to 265 franchise restaurants (105 to 115 domestically and 135 to 150 internationally). We also expect approximately 100 Papa John s restaurants to close during 2008, 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 and Korea.

Our Company-owned expansion strategy is to continue to open domestic restaurants in existing markets, thereby increasing consumer awareness and enabling us to take advantage of operational and advertising efficiencies. Our experience in developing markets indicates that market penetration through the opening of multiple restaurants within 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 2005 and 2006, we implemented a buy and build strategy in one large metropolitan market. Under this

strategy, the Company purchased franchised restaurants in an under-penetrated or emerging domestic market with the intention of building additional Company-owned restaurants to increase market awareness. During 2007 and 2006, we acquired restaurants with a total purchase price of $52.0 million for a variety of reasons including implementing the previously mentioned buy and build strategy, opportunities to purchase restaurants in markets where we have a significant Company-owned restaurant presence and opportunities to expand in growing metropolitan areas.

The Company plans to implement a formal refranchising initiative during 2008, the goal of which is to increase the percentage of franchised units in the domestic restaurant portfolio over time. The Company believes shifting the domestic restaurant portfolio mix more toward franchised 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. Of the total 2,760 domestic units open as of December 30, 2007, 648 or 23.5% 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. Any such unit sales completed during 2008 are not expected to have a significant impact on 2008 operating income.

Internationally, we own and operate six restaurants in the United Kingdom and eight in Beijing, China. During 2008, we plan to add five Company-owned restaurants in the United Kingdom and five Company-owned restaurants in China.

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.

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 include 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 2007, 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), leased a distribution center in the United Kingdom until it was sold in March 2006. Our PJUK subsidiary presently purchases its products from our previously owned distribution center. In addition, we acquired full-service QC Centers in Mexico City, Mexico and Beijing, China in 2006. 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 seasoned 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 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. Under this arrangement, PJFS purchases 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 via adjustments to the selling price over time. Ultimately, PJFS purchases cheese at a price approximating the actual average market price, but with more predictability and less price volatility. 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 5 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 2007, 2.6% during 2006 and 2.25% during 2005. The contribution percentage to the Marketing Fund is currently set at 2.7% for 2008.

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 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 via the Internet, including the plan ahead ordering advance ordering feature and Spanish-language ordering capability. In addition, beginning in late 2007, our customers can order via text messaging. 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 division vice presidents, who currently number four. These team members are eligible to earn performance-based financial incentives.

Training and Education. The Operations Support Services and Training (OSST) 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 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.

Reporting. Management at Company-owned restaurants reviews and evaluates daily reports of sales, cash deposits and operating costs. Physical inventories of all food and beverage items are taken nightly.

Joint Ventures. We operate 128 Company-owned restaurants under two joint venture arrangements. Under the first arrangement, we own 70% of an entity operating 48 Papa John s restaurants located in Virginia and Maryland. Under the second arrangement, we own 51% of an entity operating 80 Papa John s restaurants located in Texas and Oklahoma. 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 30, 2007, there were 2,546 franchised Papa John s restaurants operating in all 50 states, the District of Columbia, Puerto Rico and 28 countries. As of December 30, 2007, we have development agreements with our franchisees for approximately 310 additional domestic franchised restaurants committed to open through 2016 and agreements for 873 additional international franchised restaurants to open through 2017. 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 2007, 239 (140 domestic and 99 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) as more fully described below.

Our previous standard domestic franchise agreement provided for a term of ten years (with one ten-year renewal option) and payment to us of a royalty fee of 4% of sales. Prior to the Renewal Program, substantially all franchise agreements allowed us to increase the royalty fee up to 5% of sales.

During 2007, the Company collaborated with the Franchise Advisory Council, which consists of Company and franchisee representatives of domestically owned restaurants, to develop a revised form of franchise agreement (the Negotiated Agreement). As of February 19, 2008, approximately 95% of the franchise units executed the renewal (75% as of December 30, 2007). Under the Renewal Program, the Company offered certain renewal fee discounts to encourage all existing franchisees to renew under the Negotiated Agreement. Existing franchisees electing not to renew under the Negotiated Agreement are subject to the new standard form of the franchise agreement (the New Standard Agreement) upon their subsequent renewal. The primary objectives of the revised form of franchise agreement included:

- Providing visibility to franchisees as to the potential timing and amount of future royalty rate increases;
- Ensuring minimum funding levels for the National Marketing Fund, given the scale advantages of our larger competitors;
- Providing a funding mechanism for continued investment in maintaining and enhancing our online technological capabilities; and
- Addressing alternative marketing or other business developments to ensure the new form of franchise agreement is consistent and up to date.

Key provisions of the Negotiated Agreement in comparison to existing franchise agreements and the New Standard Agreement are as follows:

Royalty Rate Under the form of franchise agreement to which substantially all franchisees were subject prior to the Renewal Program, the royalty rate can be 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. The royalty rate increase provisions of the Negotiated Agreement are more favorable to the franchisees than the provisions of either the majority of existing agreements as noted above or the New Standard Agreement, which provides for a minimum 5% royalty rate that can be increased to 6% at any time at the discretion of the Company.

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 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 the Company has recovered a certain portion of its initial investment in the development of the online system via the 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 addresses 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 renewal activity for the Company are as follows:

- Collections from franchisees approximated $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 those franchisees who renewed subject to the Negotiated Agreement. The royalty rate for most franchisees who choose not to renew under the Negotiated Agreement increased to 5%. The current annual impact of a one-quarter percent royalty rate increase is approximately $3.5 to $4.0 million; however, given the current and projected cost environment for 2008, the Company anticipates that a portion of the incremental royalty income to be received in 2008 as a result of the rate increase will be expended in the form of investments in the system, including additional marketing in support of under-penetrated markets.

- The Company has communicated its intention to further increase the royalty rate under the Negotiated Agreement to 4.50% in 2009, 4.75% in 2010 and 5.00% in 2011, in accordance with the terms of the negotiation. Facts and circumstances existing at such future dates may impact the Company s final determination as to whether to reinvest any of the funds for the benefit of the system.

- The Company recognized approximately $3.0 million of operating income from the online ordering system business unit in 2007 and expects to recognize a similar amount in 2008, completing the negotiated amount of recovery of the Company s initial investment in the development of the system. As noted above, this business unit will subsequently be operated at a break-even level and, 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.

Under our current standard development agreement, the franchisee is required to pay, at the time of signing the agreement, a non-refundable fee of $25,000 for the first restaurant and $5,000 for any additional restaurants. The non-refundable fee is credited against the standard $25,000 franchise fee payable to us upon signing the franchise agreement for a specific location. Generally, a franchise agreement is executed when a franchisee secures a location.

We have the right to terminate a franchise agreement for a variety of reasons, including a franchisee s failure to make payments when due or failure to adhere to our policies and standards.

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. The remaining terms applicable to the operation of individual restaurants are substantially equivalent to the terms of our recently amended domestic franchise agreement. From time to time, development agreements will be negotiated at other than standard terms for fees and royalties.

We have entered into a limited number of development and franchise agreements for non-traditional restaurants. As an example, a total of 17 franchised net units opened in Six Flags theme parks in 2006 and 2007 as part of a five-year marketing and partnership agreement, and 23 franchised units opened in Live Nation amphitheaters in 2007 as a part of our 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 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 franchisees may purchase complete new store equipment packages through an approved third-party supplier. Internationally, our franchisees buy their equipment from approved third-party suppliers.

Franchisee Loans. Selected franchisees have borrowed funds from our subsidiary, Capital Delivery, Ltd., principally for use in the construction and development of their restaurants. We have also entered into loan agreements with certain franchisees that purchased restaurants from us or other franchisees. 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 the ownership interests in the franchisee. At December 30, 2007, loans outstanding totaled $11.8 million, which were composed of $7.0 million of loans to franchisees and a loan balance of $4.8 million with the purchaser of

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our Perfect Pizza operations. See Note 11 of Notes to Consolidated Financial Statements for additional information.

We have a commitment to lend up to $30.0 million to BIBP, a franchisee-owned corporation with an outstanding balance of $20.5 million at December 30, 2007. See Notes 5 and 11 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, this new agreement eliminates our risk of loss for franchise insurance coverage written after September 2004. As of December 30, 2007, approximately 50% of domestic franchised restaurants had obtained insurance coverage through Risk Services. See Note 12 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 an on-site training crew 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 director of training, as well as regional vice presidents and international business managers assigned to specific franchisee territories. We also maintain communications with our franchisees through periodic system-wide meetings, newsletters and regional or national conference calls.

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 such as the previously discussed franchise agreement that was negotiated during 2007. The Company is aware that 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 and participation in an operators exchange best practices forum. Monthly web conferences 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, 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 2007, of which Papa John s share was reported at 5.6%, an increase from 5.4% reported for 2006. 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. Additionally, a continued increased emphasis on drive-through, carryout and curbside pickup availability by casual dining and other restaurants, as well as improved quality of fresh and frozen supermarket offerings, could also have an adverse impact on our sales and earnings.

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

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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 100 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.

Employees

As of December 30, 2007, we employed approximately 17,800 persons, of whom 15,600 were restaurant team members, 800 were restaurant management personnel, 600 were corporate personnel and 800 were QC Center and support services personnel. Most restaurant team members work part-time and are paid on an hourly basis. None of our team members are covered by a collective bargaining agreement. We consider our team member relations to be excellent.

Item 1A. Risk Factors

This Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended (the Act), including information within Management s Discussion and Analysis of Financial Condition and Results of Operations. The following cautionary statements are being made pursuant to the provisions of the Act and with the intention of obtaining the benefits of the safe harbor provisions of the Act. 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:

1. 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

uncertainties associated with litigation, 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, 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.

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

3. An increase in the cost of 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.

4. 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.

5. Health- or disease-related disruptions or consumer concerns about commodities supplies or our food products could negatively impact the availability and/or cost of commodities and adversely impact restaurant operations and our financial results.

6. 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, labor shortages in various markets could result in higher required wage rates. Local government agencies have also implemented ordinances, which restrict the sale of certain food products. Additional local government ordinances could be harmful to system-wide restaurant sales.

7. 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.

8. 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.

9. Impairment charges for Company-owned operations are possible if PJUK or recently acquired restaurants perform below our expectations. In addition, we remain contingently liable for payment under approximately 74 lease arrangements with a total value of $10.3 million associated with the sold Perfect Pizza operations.

10. 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.

11. Domestic franchisees are only required to purchase seasoned sauce and dough from our QC Centers and changes in purchasing practices by domestic franchisees could adversely affect the financial results of our QC Centers.

12. Beginning in October 2004, a third-party commercial insurance company began providing fully-insured coverage to franchisees participating in our franchise insurance program, thus eliminating our risk of loss for franchise insurance coverage written after September 2004. However, with respect to self-insurance coverage by our captive insurance company prior to October 2004, the Captive s relatively immature claims history limits the predictive value of estimating the costs of incurred and future claims; accordingly, our operating income is subject to potential significant adjustments for changes in estimated insurance reserves for policies written from the Captive s inception in October 2000 through September 2004.

13. Our domestic and 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 operations will achieve or maintain profitability or meet planned growth rates.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 30, 2007, there were 3,208 Papa John s restaurants system-wide.

Company-owned Papa John s Restaurants

	Number of Restaurants
Arizona	45
Florida	34
Georgia	86
Illinois	9
Indiana	41
Kansas	13
Kentucky	43
Maryland	60
Missouri	37
New Jersey	14
New Mexico	10
North Carolina	76
Ohio	17
Oklahoma	1
Pennsylvania	27
South Carolina	5
Tennessee	27
Texas	79
Virginia	24
Total Domestic Company-owned Papa John s Restaurants	648
China	8
United Kingdom	6
Total Company-owned Papa John s Restaurants	662

Note: Company-owned Papa John s restaurants include restaurants owned by majority-owned joint ventures. There were 128 such restaurants at December 30, 2007 (79 in Texas, one in Oklahoma, 24 in Virginia and 24 in Maryland).

Domestic Franchised Papa John s Restaurants

	Number of Restaurants
Alabama	62
Arizona	29
Arkansas	15
California	199
Colorado	50
Connecticut	3
Delaware	11
Florida	207
Georgia	56
Idaho	10
Illinois	65
Indiana	78
Iowa	23
Kansas	17
Kentucky	54
Louisiana	41
Maine	7
Maryland	30
Massachusetts	23
Michigan	43
Minnesota	50
Mississippi	21
Missouri	30
Montana	9
Nebraska	15
Nevada	20
New Hampshire.	2
New Jersey	33
New Mexico	8
New York	98
North Carolina	55
North Dakota	6
Ohio	136
Oklahoma	24
Oregon	18
Pennsylvania	67
Rhode Island	5
South Carolina	44
South Dakota	6
Tennessee	64
Texas	140
Utah	25
Vermont	1
Virginia	93
Washington	55
West Virginia	21
Wisconsin	33
Wyoming	5
Washington, D.C.	5
Total Domestic Franchised Papa John s Restaurants	2,112

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International Franchised Papa John s Restaurants

	Number of Restaurants
Alaska (a)	2
Aruba	2
Bahamas	4
Bahrain	11
Canada	16
Cayman Islands	1
China	69
Costa Rica	12
Cyprus	3
Ecuador	5
Egypt	5
El Salvador	1
Hawaii (a)	16
India	8
Ireland	7
Korea	64
Kuwait	11
Mexico	14
Nicaragua.	2
Oman	6
Pakistan	2
Peru.	10
Portugal	2
Puerto Rico	12
Qatar	2
Russia	11
Saudi Arabia	22
Trinidad	3
United Arab Emirates	4
United Kingdom	88
Venezuela	19
Total International Franchised Papa John s Restaurants	434

(a) We define domestic operations as units located in the contiguous United States and international operations as units located outside the contiguous United States.

Most Papa John s restaurants are located in leased space. The initial term of most restaurant leases is generally five years with most leases providing for one or more options to renew for at least one additional term. Virtually all of our leases specify a fixed annual rent. Generally, the leases are triple net leases, which require us to pay all or a portion of the cost of insurance, taxes and utilities. Certain leases further provide that the lease payments may be increased annually, with a small number of escalations based on changes in the Consumer Price Index.

Approximately 49 Company-owned restaurants are located in buildings we own on land either owned or leased by us. These restaurants range from 1,100 to 3,000 square feet. Four of these restaurants are located in multi-bay facilities. These multi-bay facilities contain from 2,800 to 5,000 square feet, and the space not utilized by the Papa John s restaurant in each facility is leased or held for lease to third-party tenants.

At December 30, 2007, we had 94 Papa John s restaurants located in the United Kingdom (88 franchised and six Company-owned). In addition to leasing the six Company-owned restaurant sites, we lease and sublease to franchisees 71 of the 88 franchised Papa John s restaurant sites and 16 sites to former Perfect Pizza franchisees. The initial lease terms on the Company and franchised sites are generally 10 to 15 years. The initial lease terms of the franchisee subleases are generally five to ten years. Additionally, we leased seven Company-owned restaurant sites in Beijing, China as of December 30, 2007.

Information with respect to our leased domestic QC Centers as of December 30, 2007 is set forth below:

Facility	Square Footage
Raleigh, NC	61,000
Denver, CO	32,000
Phoenix, AZ	57,000
Des Moines, IA	43,000
Rotterdam, NY	45,000
Portland, OR	37,000
Pittsburgh, PA	52,000

We own land in Orlando, Florida on which our 63,000 square foot full-service QC Center is located. We also own land and a 175,000 square foot facility in Dallas, Texas, of which 77,500 square feet is used by our full-service QC Center and the remaining space is leased to a third-party tenant. In addition, we own land in Louisville, Kentucky, on which a portion of this land is located in a 42,000 square foot building housing our printing operations and a 247,000 square foot building, approximately 30% to 40% of which accommodates the Louisville QC Center operation and promotions division. The remainder of the building houses our corporate offices.

The Papa John s UK management team is located in a leased office near London with a remaining lease term of eight years.

The Papa John s China management team leases an office and a QC Center in Beijing, China. The Papa John s Mexico management team and QC Center lease a facility in Mexico City, Mexico and their QC Center operation located in Cancun, Mexico.

Item 3. 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 4. Submission of Matters to a Vote of Security Holders

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below are the current executive officers of Papa John s:

Name	Age (a)	Position	First Elected Executive Officer
Nigel Travis	58	President and Chief Executive Officer	2005
J. David Flanery	50	Senior Vice President, Chief Financial Officer and Treasurer	1994
Lou H. Jones	57	Senior Vice President and General Counsel	2007
Julie L. Larner	47	Senior Vice President and President PJ Food Service, Inc.	2001
Peter McCue	53	Senior Vice President, Human Resources	2006
William M. Mitchell	43	Senior Vice President, Domestic Operations	2007
Charles W. Schnatter	45	Senior Vice President and Chief Development Officer	1991
William M. Van Epps	59	President, USA	2002

(a) Ages are as of January 1, 2008.

Nigel Travis has served as President and Chief Executive Officer since April 1, 2005 after joining Papa John s in January 2005 as Executive Vice President. He also serves as a member of our Board of Directors. Prior to joining Papa John s, Mr. Travis held various leadership positions at Blockbuster, Inc., from 1994 to 2004, most recently as President and Chief Operating Officer. From 1985 to 1994, Mr. Travis served in various capacities for Grand Metropolitan PLC (London, England), including leadership positions at Burger King Corporation for five years.

J. David Flanery has served as Senior Vice President, Chief Financial Officer and Treasurer since 2004. He previously served as Senior Vice President of Finance since August 2002. He served as Vice President of Finance from 1995 through August 2002, after having joined Papa John s in 1994 as Corporate Controller. From 1979 to 1994, Mr. Flanery was with Ernst & Young LLP in a variety of positions, most recently as Audit Senior Manager. Mr. Flanery is a licensed Certified Public Accountant.

Lou H. Jones has served as Senior Vice President and General Counsel since May 2007. Prior to joining Papa John s, she spent nine years with Blockbuster Inc., ending her tenure as Senior Vice President, Corporate and International Law. Prior to Blockbuster Inc., she served as shareholder/partner in the Dallas-based law firm of Thompson & Knight.

Julie L. Larner has served as Senior Vice President and President - PJ Food Service, Inc. since 2004. Ms. Larner served as Senior Vice President, Chief Administrative Officer and Treasurer from 2001 to 2004.

Ms. Larner has been with Papa John s since 1992, serving as controller for PJ Food Service, Inc. from 1992 to 1997 and Vice President of Finance and Administration from 1998 to 2001.

Peter McCue has served as Senior Vice President, Human Resources since October 2006. Prior to joining Papa John s, Mr. McCue served as Senior Vice President, Human Resources for Spectrum Brands, a global manufacturer and marketer of consumer products from January 2005 to June 2006. Prior to that, Mr. McCue held several senior-level human resources positions with Hewlett-Packard, including Vice President, Human Resources for the personal systems group after its 2001 merger with Compaq Computer Corp. Mr. McCue also spent 17 years with Motorola, Inc. during two separate stints with the company.

William M. Mitchell has served as Senior Vice President, Domestic Operations since February 2007. Mr. Mitchell served from 2005 to 2007 as a Division Vice President responsible for corporate and franchised restaurant operations in the Midwest. He served as one of our Operations Vice Presidents from 2000 to 2005. Prior to joining Papa John s, Mr. Mitchell served as Senior Director of Operations for AFCE/Popeye s from 1996 to 2000, responsible for company and franchise operations as well as Popeye s related acquisitions. From 1993 to 1996, he served as Vice President of Operations for RTM Restaurant Group.

Charles W. Schnatter has served as Senior Vice President and Chief Development Officer since 2001 and served as Secretary from 1991 until October 2005; he has been a Senior Vice President since 1993. Mr. Schnatter also held the position of General Counsel from 1991 to March 2002. From 1988 to 1991, he was an attorney with Greenebaum Doll & McDonald PLLC. Mr. Schnatter has been a franchisee since 1989.

William M. Van Epps has served as President, USA since May 2006, responsible for domestic corporate and franchised restaurant operations. Mr. Van Epps served as Senior Vice President and Chief Operations Officer from 2004 to 2006 and Managing Director, International from September 2001 to 2004. Prior to joining Papa John s, Mr. Van Epps served for two years as President, International Division of Yorkshire Global Restaurants, responsible for the international development of Long John Silver s and A&W restaurants. From 1993 to 1999, he served in several positions with AFC Enterprises, including President of its International Division. From 1988 to 1993, he was Vice President, Marketing and International for Western Sizzlin, Inc.

Charles Schnatter is the brother of John Schnatter, Founder and Chairman of our Board of Directors. There are no other family relationships among our executive officers and other key personnel.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock trades on The NASDAQ Global Select Market tier of The NASDAQ Stock Market under the symbol PZZA. As of February 19, 2008, there were approximately 876 record holders of common stock. However, there are significantly more beneficial owners of our common stock than there are record holders. The following table sets forth, for the quarters indicated, the high and low closing sales prices of our common stock, as reported by The NASDAQ Stock Market.

2007	**High**	**Low**
First Quarter	$30.88	$27.03
Second Quarter	33.92	28.53
Third Quarter	29.19	24.03
Fourth Quarter	26.91	21.95

2006	**High**	**Low**
First Quarter	$35.15	$29.66
Second Quarter	34.84	29.68
Third Quarter	36.56	30.54
Fourth Quarter	37.80	28.85

Since our initial public offering of common stock in 1993, we have not paid cash dividends on our common stock, and have no current plans to do so.

Papa John s Board of Directors has authorized the repurchase of up to $725.0 million of common stock under a share repurchase program that began December 9, 1999, and runs through December 28, 2008. Through December 30, 2007, a total of 40.8 million shares with an aggregate cost of $675.0 million and an average price of $16.55 per share have been repurchased under this program. Subsequent to year-end (through February 19, 2008), we acquired an additional 104,000 shares at an aggregate cost of $2.3 million. As of February 19, 2008, approximately $47.7 million remains available for repurchase of common stock under this authorization.

The following table summarizes our repurchase activity by fiscal period during 2007 (in thousands, except per-share amounts):

Fiscal Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
01/01/2007 - 01/28/2007	732	$ 29.00	38,837	$ 101,598
01/29/2007 - 02/25/2007	61	$ 27.93	38,898	$ 99,897
02/26/2007 - 04/01/2007	87	$ 30.31	38,985	$ 97,267
04/02/2007 - 04/29/2007	82	$ 29.81	39,067	$ 94,807
04/30/2007 - 05/27/2007	33	$ 30.95	39,100	$ 93,795
05/28/2007 - 07/01/2007	228	$ 29.78	39,328	$ 87,016
07/02/2007 - 07/29/2007	209	$ 28.93	39,537	$ 80,963
07/30/2007 - 08/26/2007	300	$ 26.71	39,837	$ 72,955
08/27/2007 - 09/30/2007	481	$ 25.09	40,318	$ 60,900
10/01/2007 - 10/28/2007	267	$ 23.40	40,585	$ 54,656
10/29/2007 - 11/25/2007	204	$ 22.96	40,789	$ 49,971
11/26/2007 - 12/30/2007		*	40,789	$ 49,971

*There were no share repurchases during this period.

Our share repurchase authorization increased from $625.0 million to $675.0 million in February 2007 and increased to $725.0 million in December 2007. For presentation purposes, the maximum dollar value of shares that may be purchased was adjusted retroactively to January 1, 2007.

In connection with a two-for-one stock dividend issued to shareholders of record as of December 23, 2005, we retired all shares held in treasury at that date. Common shares repurchased after December 23, 2005 are held in treasury.

Stock Performance Graph

The following performance graph compares the cumulative total return of the Company s Common Stock to the NASDAQ Stock Market (U.S.) Index and a group of the Company s peers consisting of U.S. companies listed on NASDAQ with standard industry classification (SIC) codes 5800-5899 (eating and drinking places). Relative performance is compared for the five-year period extending through the end of fiscal 2007. The graph assumes that the value of the investments in the Company s Common Stock and in each index was $100 at the end of fiscal 2002, and, with respect to the index and peer group, that all dividends were reinvested.

Item 6. Selected Financial Data

The selected financial data presented for each of the years in the five-year period ended December 30, 2007 was derived from our audited consolidated financial statements. The selected financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and Notes thereto included in Item 7 and Item 8, respectively, of this Form 10-K.

(In thousands, except per share data)			**Year Ended (1)**		
	Dec. 30, 2007 52 weeks	**Dec. 31, 2006 53 weeks**	**Dec. 25, 2005 52 weeks**	**Dec. 26, 2004 52 weeks**	**Dec. 28, 2003 52 weeks**
Income Statemet Data					
Domestic revenues:					
Company-owned restaurant sales	$ 504,330	$ 447,938	$ 434,525	$ 412,676	$ 416,049
Variable interest entities restaurant sales (2)	7,131	7,859	11,713	14,387	
Franchise royalties (3)	55,283	56,374	52,289	50,292	49,851
Franchise and development fees	4,758	2,597	3,026	2,475	1,475
Commissary sales	399,099	413,075	398,372	376,642	369,825
Other sales	61,820	50,505	50,474	53,117	48,541
International revenues:					
Royalties and franchise and development fees (4)	10,314	7,551	6,529	5,010	3,810
Restaurant and commissary sales (5)	20,860	15,658	11,860	10,747	10,572
Total revenues	1,063,595	1,001,557	968,788	925,346	900,123
Operating income (6)	52,047	97,955	72,700	36,682	55,353
Investment income	1,446	1,682	1,248	689	672
Interest expense	(7,465)	(3,480)	(4,316)	(5,313)	(6,851)
Income from continuing operations before income taxes and cumulative effect of a change in accounting principle	46,028	96,157	69,632	32,058	49,174
Income tax expense	13,293	33,171	25,364	12,021	18,440
Income from continuing operations before cumulative effect of a change in accounting principle	32,735	62,986	44,268	20,037	30,734
Income from discontinued operations, net of tax (7)		389	1,788	3,184	3,242
Cumulative effect of accounting change, net of tax (8)					(413)
Net income	$ 32,735	$ 63,375	$ 46,056	$ 23,221	$ 33,563
Basic earnings per common share:					
Income from continuing operations before cumulative effect of a change in accounting principle	$ 1.10	$ 1.95	$ 1.32	$ 0.58	$ 0.86
Income from discontinued operations, net of tax (7)		0.01	0.05	0.09	0.09
Cumulative effect of accounting change, net of tax (8)					(0.01)
Basic earnings per common share	$ 1.10	$ 1.96	$ 1.37	$ 0.67	$ 0.94
Earnings per common share - assuming dilution:					
Income from continuing operations before cumulative effect of a change in accounting principle	$ 1.09	$ 1.91	$ 1.29	$ 0.58	$ 0.85
Income from discontinued operations, net of tax (7)		0.01	0.05	0.09	0.09
Cumulative effect of accounting change, net of tax (8)					(0.01)
Earnings per common share - assuming dilution	$ 1.09	$ 1.92	$ 1.34	$ 0.67	$ 0.93
Basic weighted average shares outstanding	29,666	32,312	33,594	34,414	35,876
Diluted weighted average shares outstanding	30,017	33,046	34,316	34,810	36,074
Balance Sheet Data					
Total assets	$ 401,817	$ 379,639	$ 350,562	$ 374,487	$ 347,214
Total debt	142,706	97,036	55,116	94,230	61,250
Total stockholders equity	126,903	146,168	161,279	139,223	159,272

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(1) We operate on a 52-53 week fiscal year ending on the last Sunday of December of each year. The 2007, 2005, 2004 and 2003 fiscal years consisted of 52 weeks, and the 2006 fiscal year consisted of 53 weeks. The additional week resulted in additional revenues of approximately $20.0 million and additional pre-tax income of approximately $3.5 million, or $0.07 per diluted share for 2006.

(2) We began consolidating variable interest entities (VIEs) restaurants in 2004. See Note 5 of Notes to Consolidated Financial Statements.

(3) Domestic Franchise royalties were derived from franchised restaurant sales of $1.46 billion in 2007, $1.51 billion in 2006, $1.38 billion in 2005, $1.30 billion in 2004 and $1.29 billion in 2003.

(4) International Royalties were derived from franchised restaurant sales of $176.2 million in 2007, $139.3 million in 2006, $104.2 million in 2005, $67.6 million in 2004 and $65.0 million in 2003.

(5) Restaurant sales for International Company-owned restaurants were $4.0 million in 2007, $1.7 million in 2006, $642,000 in 2005, $629,000 in 2004 and $2.4 million in 2003.

(6) The operating results include the consolidation of BIBP beginning in 2004, which reduced operating income approximately $31.0 million in 2007 and $22.9 million in 2004 and increased operating income $19.7 million in 2006 and $5.8 million in 2005. The 2006 operating results include the benefit of the 53rd week, which increased operating income approximately $3.5 million. Operating income includes domestic and international restaurant closure, impairment and disposition losses (gains) of $1.4 million in 2007, ($2.0 million) in 2005 and $5.5 million in 2003 (the amounts recorded in 2006 and 2004 were not significant). See Notes 5 and 8 of Notes to Consolidated Financial Statements.

(7) The Perfect Pizza operations, which were sold in March 2006, are classified as discontinued operations and the related assets as held for sale. See Note 4 of Notes to Consolidated Financial Statements.

(8) Reflects the cumulative effect on income and earnings per share of a change in accounting principle, net of tax, as required by Statement of Financial Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.*

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

Introduction

Papa John s International, Inc. (referred to as the Company, Papa John s or in the first person notations of we, us and our) began operations 1985 with the opening of the first Papa John s restaurant in Jeffersonville, Indiana. At December 30, 2007, there were 3,208 Papa John s restaurants in operation, consisting of 662 Company-owned and 2,546 franchised restaurants. Our revenues are principally derived from retail sales of pizza and other food and beverage products to the general public by Company-owned restaurants, franchise royalties, sales of franchise and development rights, sales to franchisees of food and paper products, printing and promotional items, risk management services, and information systems and related services used in their operations.

New unit openings in 2007 were 263 as compared to 211 in 2006 and 204 in 2005 and unit closings in 2007 were 70 as compared to 125 in 2006 and 113 in 2005. We expect net unit growth of approximately 160 to 190 units during 2008.

We have continued to produce strong average sales from our domestic Company-owned restaurants even in a very competitive market environment. Our expansion strategy is to cluster restaurants in targeted markets, thereby increasing consumer awareness and enabling us to take advantage of operational, distribution and advertising efficiencies. Average annual Company-owned sales for our most recent comparable restaurant base were $836,000 for 2007 (52 weeks), compared to $865,000 for 2006 (53 weeks) and $818,000 for 2005 (52 weeks). Average sales volumes in new markets are generally lower than in those markets in which we have established a significant market position. The comparable sales for Company-owned restaurants increased 0.5% in 2007, 3.6% in 2006 and 7.4% in 2005.

We continually strive to obtain high-quality sites with good access and visibility, and to enhance the appearance and quality of our restaurants. We believe that these factors improve our image and brand awareness. The average property and equipment investment for the restaurants in our most recent comparable sales base is $265,000. The average cash investment for the 20 domestic Company-owned restaurants opened during 2007, exclusive of land, increased to approximately $270,000 from $249,000 for the 19 units opened in 2006, excluding tenant improvement allowances that we received in both years. We expect the average cash investment for the anticipated 10 to 15 domestic Company-owned restaurants opening in 2008 to be approximately $270,000, excluding any expected tenant improvement allowances that are received.

Approximately 43% of our revenues for 2007, compared to 46% of our revenues for 2006 and 2005, were derived from the sale to our domestic and international franchisees of food and paper products, printing and promotional items, risk management services and information systems equipment and software and related services by us. The decline in the percentage of revenues is due to the acquisition of over 100 domestic franchise restaurants during late 2006 and 2007. We believe that, in addition to supporting both Company and franchised growth, these subsidiaries contribute to product quality and consistency and restaurant profitability throughout the Papa John s system.

Our fiscal year ends on the last Sunday in December of each year. All fiscal years presented consist of 52 weeks except for the 2006 fiscal year, which consisted of 53 weeks.

Results of Operations and Critical Accounting Policies and Estimates

The results of operations are based on the preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States. The preparation of consolidated financial statements requires management to select accounting policies for critical accounting areas as well as estimates and assumptions that affect the amounts reported in the consolidated financial statements. The Company s accounting policies are more fully described in Note 2 of Notes to Consolidated Financial Statements. Significant changes in assumptions and/or conditions in our critical accounting policies could materially impact the operating results. We have identified the following accounting policies and related judgments as critical to understanding the results of our operations.

Allowance for Doubtful Accounts and Notes Receivable

We establish reserves for uncollectible accounts and notes receivable based on overall receivable aging levels and a specific evaluation of accounts and notes for franchisees with known financial difficulties. These reserves and corresponding write-offs could significantly increase if the identified franchisees continue to experience deteriorating financial results.

Long-lived and Intangible Assets

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

The recoverability of indefinite-lived intangible assets (i.e., goodwill) is evaluated annually, or more frequently if impairment indicators exist, on a reporting unit basis by comparing the fair value derived from discounted expected cash flows of the reporting unit to its carrying value. We purchased 118 domestic restaurants during 2007 and 2006 in several markets. If our plans for increased sales, unit growth and profitability are not met, future impairment charges could occur.

We recorded a goodwill impairment charge of $1.1 million associated with PJUK during 2005, reflecting our estimated fair value of PJUK at that date. A goodwill impairment charge was not deemed necessary in 2007 and 2006 based on our forecasted future cash flows and estimated fair value of the entity at those dates. At December 30, 2007, we had a net investment of approximately $17.3 million associated with PJUK, excluding the $4.8 million loan due from the purchaser of Perfect Pizza. The estimated fair value of PJUK at the end of 2007 is in excess of our net investment. In addition to the sale of the Perfect Pizza operations, which occurred in March 2006, we have restructured management and developed plans for PJUK to improve its future operating results. The plans include efforts to increase Papa John s brand awareness in the United Kingdom, improve sales and profitability for individual restaurants and increase net PJUK franchised unit openings over the next several years. We will continue to periodically evaluate our progress in achieving these plans. If our initiatives are not successful, future impairment charges could occur.

Insurance Reserves

Our insurance programs for workers compensation, general liability, owned and non-owned automobiles and health insurance coverage provided to our employees are self-insured up to certain individual and aggregate reinsurance levels. Losses are accrued based upon estimates of the aggregate retained liability for claims incurred using certain third-party actuarial projections and our claims loss experience. The estimated insurance claims losses could be significantly affected should the frequency or ultimate cost of claims significantly differ from historical trends used to estimate the insurance reserves recorded by the Company. In 2007, we recorded a $2.0 million decrease in existing claims losses, as compared to previous year s expected claims costs, based on updated actuarial valuations.

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

Deferred Tax Assets and Tax Reserves

Papa John s is subject to income taxes in the United States and several foreign jurisdictions. Significant judgment is required in determining Papa John s provision for income taxes and the related assets and liabilities. Income taxes are accounted for under Statement of Financial Accounting Standards (SFAS) No. 109 (FAS 109), Accounting for Income Taxes. The provision for income taxes includes income taxes paid, currently payable or receivable and those deferred. Under FAS 109, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and

liabilities, and are measured using enacted tax rates and laws that are expected to be in effect when the differences reverse. Deferred tax assets are also recognized for the estimated future effects of tax loss carryforwards. The effect on deferred taxes of changes in tax rates is recognized in the period in which the enactment date changes. As a result, our effective tax rate may fluctuate. Valuation allowances are established when necessary on a jurisdictional basis to reduce deferred tax assets to the amounts we expect to realize.

We have not provided a valuation allowance for the deferred income tax assets associated with our domestic operations since we believe it is more likely than not that future earnings will be sufficient to ensure the realization of the net deferred income tax assets for federal and state purposes.

Certain tax authorities periodically audit the Company. We provide reserves for potential exposures based on Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) requirements. We evaluate these issues on a quarterly basis to adjust for events, such as court rulings or audit settlements, which may impact our ultimate payment for such exposures. We recognized reductions of $3.4 million and $2.5 million in our customary income tax expense associated with the finalization of certain income tax issues in 2007 and 2006, respectively (see Note 15 of Notes to Consolidated Financial Statements).

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

BIBP is a franchisee-owned corporation that conducts a cheese-purchasing program on behalf of domestic Company-owned and franchised restaurants. As required by the FASB Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* (FIN 46), we consolidate the financial results of BIBP, since we are deemed to be the primary beneficiary, as defined by FIN 46, of BIBP. We recognized pre-tax losses of approximately $31.7 million during 2007 and pre-tax income of $19.0 million during 2006 and $4.5 million during 2005 from the consolidation of BIBP. We expect the consolidation of BIBP to continue to have a significant impact on Papa John s operating income in future periods due to the volatility of cheese prices, but BIBP s operating results are not expected to be cumulatively significant over time. Papa John s will recognize the operating losses generated by BIBP if the shareholders equity of BIBP is in a net deficit position. Further, Papa John s will recognize subsequent operating income generated by BIBP up to the amount of BIBP losses previously recognized by Papa John s.

New Accounting Standards

We adopted the provisions of FIN 48 on January 1, 2007. FIN 48 addresses the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. In addition, FIN 48 expands the disclosure requirements concerning unrecognized tax benefits as well as any significant changes that may occur in the next twelve months associated with such unrecognized tax benefits. As a result of the implementation of FIN 48, we recognized an approximate $614,000 decrease in the liability for unrecognized tax benefits, which is accounted for as an increase to the January 1, 2007 balance of retained earnings. See Note 15 for additional information.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 requires companies to determine fair value based on the price that would be received to sell the asset or paid to transfer the liability to a market participant. SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. We will adopt the provisions of SFAS No. 157 in two phases: (1) phase one is effective for financial assets and liabilities in the fiscal year beginning after November 15, 2007 or our first quarter of 2008 and (2) phase two is effective for non-financial assets and liabilities beginning after November 15, 2008 or our first quarter of 2009. The adoption of SFAS No. 157 for financial assets and liabilities in 2008 is not expected to have any impact on our results of operations and financial condition. The adoption for non-financial assets and liabilities in fiscal 2009 could impact our future estimates of valuing long-lived and intangible assets such as our annual fair value evaluation of PJUK and domestic Company-owned restaurants.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS No. 115*. SFAS No. 159 is effective for fiscal years beginning after November 15, 2008 or our first quarter of fiscal 2009. This statement provides companies with the option to measure, at specified election dates, many financial instruments and certain other items at fair value that are not currently measured at fair value. Companies electing to adopt SFAS No. 159 will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The adoption of SFAS No. 159 is not expected to have a significant impact on Papa John s consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 - revised 2007 (SFAS No. 141R), *Business Combinations*. SFAS 141R establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable financial statement users to evaluate the nature and financial effects of the business combination. SFAS 141R applies to business combinations for which the acquisition date is on or after December 15, 2008 or our first quarter of fiscal 2009. Early adoption is prohibited. The adoption of this statement is not expected to have a significant impact on Papa John s consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment to ARB No. 51*. SFAS No. 160 requires all entities to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements, but separate from the equity of the parent company. The statement further requires that consolidated net income be reported at amounts attributable to the parent and the noncontrolling interest, rather than expensing the income attributable to the minority interest holder. This statement also requires that companies provide sufficient disclosures to clearly identify and distinguish between the interests of the parent company and the interests of the noncontrolling owners, including a disclosure on the face of the consolidated statements for income attributable to the noncontrolling interest holder. This statement is effective for fiscal years beginning on or after December 15, 2008 or for our first quarter of 2009. Early adoption is prohibited. The adoption of this statement is not expected to have a significant impact on Papa John s consolidated financial statements.

Percentage Relationships and Restaurant Data and Unit Progression

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

	Year Ended (1)		
	Dec. 30, 2007 52 weeks	**Dec. 31, 2006 53 weeks**	**Dec. 25, 2005 52 weeks**
Income Statement Data:			
Domestic revenues:			
Company-owned restaurant sales	47.4%	44.7%	44.9%
Variable interest entities restaurant sales	0.7	0.8	1.2
Franchise royalties	5.2	5.6	5.4
Franchise and development fees	0.4	0.3	0.3
Commissary sales	37.5	41.2	41.1
Other sales	5.8	5.0	5.2
International revenues:			
Royalties and franchise and development fees	1.0	0.8	0.7
Restaurant and commissary sales	2.0	1.6	1.2
Total revenues	100.0	100.0	100.0
Costs and expenses:			
Domestic Company-owned restaurant cost of sales (2)	22.4	19.7	21.5
Domestic Company-owned restaurant operating expenses (2)	59.3	57.9	58.2
Variable interest entities restaurant expenses (3)	84.4	85.4	87.0
Domestic commissary and other expenses (4)	89.1	89.3	90.9
Loss (income) from the franchise cheese purchasing program, net of minority interest (5)	2.1	(1.5)	(0.5)
International operating expenses (6)	89.7	101.1	100.0
General and administrative expenses	9.5	10.3	9.1
Minority interests and other general expenses	0.7	0.4	0.7
Depreciation and amortization	3.0	2.7	3.0
Total costs and expenses	95.1	90.2	92.5
Operating income	4.9	9.8	7.5
Net interest expense	(0.6)	(0.2)	(0.3)
Income from continuing operations before income taxes	4.3	9.6	7.2
Income tax expense	1.2	3.3	2.6
Income from continuing operations	3.1	6.3	4.6
Income from discontinued operations, net of tax (7)	0.0	0.0	0.2
Net income	3.1%	6.3%	4.8%

	Year Ended (1) Dec. 30, 2007 52 weeks	Dec. 31, 2006 53 weeks	Dec. 25, 2005 52 weeks
Restaurant Data:			
Percentage increase in comparable domestic Company-owned restaurant sales (8)	0.5%	3.6%	7.4%
Number of Company-owned restaurants included in the most recent full year s comparable restaurant base	541	485	472
Average sales for Company-owned restaurants included in the most recent comparable restaurant base	$ 836,000	$ 865,000	$ 818,000
Papa John s Restaurant Progression:			
U.S. Company-owned:			
Beginning of period	577	502	568
Opened	20	19	7
Closed	(9)	(1)	(1)
Acquired from franchisees	61	57	20
Sold to franchisees	(1)		(92)
End of period	648	577	502
International Company-owned:			
Beginning of period	11	2	1
Opened	4	1	1
Acquired from franchisees	2	8	
Sold to franchisees	(3)		
End of period	14	11	2
U.S. franchised:			
Beginning of period	2,080	2,097	1,997
Opened	140	105	101
Closed	(48)	(65)	(73)
Acquired from Company	1		92
Sold to Company	(61)	(57)	(20)
End of period	2,112	2,080	2,097
International franchised:			
Beginning of period	347	325	263
Opened	99	86	89
Closed	(13)	(56)	(28)
Converted (9)			1
Acquired from Company	3		
Sold to Company	(2)	(8)	
End of period	434	347	325
Total restaurants end of period	3,208	3,015	2,926

	Dec. 30, 2007 52 weeks	Year Ended (1) Dec. 31, 2006 53 weeks	Dec. 25, 2005 52 weeks
Perfect Pizza Restaurant Progression (7):			
Franchised			
Beginning of period		112	118
Opened			6
Closed		(3)	(11)
Converted (9)			(1)
Sold		(109)	
Total restaurants end of period (7)			112

(1) We operate on a 52-53 week fiscal year ending on the last Sunday of December of each year. The 2007 and 2005 fiscal years consisted of 52 weeks, and the 2006 fiscal year consisted of 53 weeks. The additional week resulted in additional revenues of approximately $20.0 million and additional pre-tax income of approximately $3.5 million, or $0.07 per diluted share for 2006.

(2) As a percentage of domestic Company-owned restaurant sales.

(3) As a percentage of domestic variable interest entities restaurant sales.

(4) As a percentage of domestic commissary sales and other sales on a combined basis.

(5) As a percentage of total Company revenues; the loss (income) is a result of the consolidation of BIBP, a VIE. The sales reported by BIBP are eliminated in consolidation.

(6) As a percentage of international restaurant and commissary sales.

(7) The Perfect Pizza operations are classified as discontinued operations, as the operations were sold in March 2006. See Note 4 of Notes to Consolidated Financial Statements.

(8) Includes only Company-owned restaurants open throughout the periods being compared.

(9) Represents Perfect Pizza restaurants converted to Papa John s restaurants.

2007 Compared to 2006

Variable Interest Entities

As required by FIN 46, Papa John s is deemed the primary beneficiary of BIBP; accordingly, our operating results include BIBP s operating results. The consolidation of BIBP had a significant impact on our operating results in both 2007 and 2006 (pre-tax loss of $31.7 million in 2007 and pre-tax income of $19.0 million in 2006) and is expected to have a significant ongoing impact on our future operating results and income statement presentation as described below.

Consolidation accounting requires the net impact from the consolidation of BIBP to be reflected primarily in three separate components of our statement of income. The first component is the portion of BIBP operating income or loss attributable to the amount of cheese purchased by Company-owned restaurants during the period. This portion of BIBP operating income (loss) is reflected as a reduction (increase) in the Domestic Company-owned restaurant expenses - cost of sales line item. This approach effectively reports cost of sales for Company-owned restaurants as if the purchasing arrangement with BIBP did not exist and such restaurants were purchasing cheese at the spot market prices (i.e., the impact of BIBP is eliminated in consolidation).

The second component of the net impact from the consolidation of BIBP is reflected in the caption Loss (income) from the franchise cheese-purchasing program, net of minority interest. This line item represents BIBP s income or loss from purchasing cheese at the spot market price and selling to franchised restaurants at a fixed quarterly price, net of any income or loss attributable to the minority interest BIBP shareholders. The amount of income or loss attributable to the BIBP shareholders depends on its cumulative shareholders equity balance and the change in such balance during the reporting period. The third component is reflected as investment income or interest expense depending upon whether BIBP is in a net investment or net borrowing position during the reporting period.

In addition, Papa John s has extended loans to certain franchisees. Under the FIN 46 rules, Papa John s is deemed the primary beneficiary of certain franchisees even though we have no ownership interest in them. We included the financial results of three franchisees operating twelve restaurants as of December 30, 2007 and two franchisees operating seven restaurants as of December 31, 2006.

The following table summarizes the impact of VIEs, prior to required consolidating eliminations, on our consolidated statements of income for the years ended December 30, 2007 and December 31, 2006 (in thousands):

	Year Ended December 30, 2007			**Year Ended December 31, 2006**		
	BIBP	**Franchisees**	**Total**	**BIBP**	**Franchisees**	**Total**
Variable interest entities						