PAPA JOHNS INTERNATIONAL INC
Form 10-Q
August 04, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 28, 2009

OR

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

Commission File Number: 0-21660

PAPA JOHN S INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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

2002 Papa Johns Boulevard

Louisville, Kentucky 40299-2367

(Address of principal executive offices)

(502) 261-7272

(Registrant s telephone number, including area code)

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

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

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

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

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

At July 29, 2009, there were outstanding 28,065,439 shares of the registrant s common stock, par value $0.01 per share.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Papa John s International, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands)	June 28, 2009 (Unaudited)	December 28, 2008 (Note)
Assets		
Current assets:		
Cash and cash equivalents	$ 24,328	$ 10,987
Accounts receivable	22,091	23,775
Inventories	16,167	16,872
Prepaid expenses	9,635	9,797
Other current assets	3,986	5,275
Assets held for sale	1,019	1,540
Deferred income taxes	8,716	7,102
Total current assets	85,942	75,348
Investments	1,717	530
Net property and equipment	192,910	189,992
Notes receivable	13,464	7,594
Deferred income taxes	12,852	17,518
Goodwill	76,705	76,914
Other assets	20,194	18,572
Total assets	$ 403,784	$ 386,468
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 25,957	$ 29,148
Income and other taxes	13,525	9,685
Accrued expenses	51,096	54,220
Current portion of debt	4,475	7,075
Total current liabilities	95,053	100,128
Unearned franchise and development fees	5,559	5,916
Long-term debt, net of current portion	103,067	123,579
Other long-term liabilities	19,923	18,607
Stockholders equity:		
Preferred stock		
Common stock	357	352
Additional paid-in capital	227,439	216,553
Accumulated other comprehensive income (loss)	(985)	(3,818)
Retained earnings	165,775	133,759
Treasury stock	(221,818)	(216,860)
Total stockholders equity, net of noncontrolling interests	170,768	129,986
Noncontrolling interests in subsidiaries	9,414	8,252
Total stockholders equity	180,182	138,238
Total liabilities and stockholders equity	$ 403,784	$ 386,468

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

See accompanying notes.

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Papa John s International, Inc. and Subsidiaries

Consolidated Statements of Income

(Unaudited)

(In thousands, except per share amounts)	Three Months Ended June 28, 2009	Three Months Ended June 29, 2008	Six Months Ended June 28, 2009	Six Months Ended June 29, 2008
Domestic revenues:				
Company-owned restaurant sales	$ 124,966	$ 133,815	$ 256,671	$ 272,670
Variable interest entities restaurant sales	11,223	2,239	16,894	4,279
Franchise royalties	14,664	14,759	30,025	30,204
Franchise and development fees	78	247	306	1,167
Commissary sales	101,444	106,321	209,360	212,368
Other sales	13,981	16,434	28,750	33,279
International revenues:				
Royalties and franchise and development fees	3,388	3,108	6,623	6,128
Restaurant and commissary sales	6,893	6,485	12,980	12,318
Total revenues	276,637	283,408	561,609	572,413
Costs and expenses:				
Domestic Company-owned restaurant expenses:				
Cost of sales	23,893	30,803	49,794	62,375
Salaries and benefits	36,157	40,050	74,360	81,610
Advertising and related costs	11,376	11,913	22,649	24,610
Occupancy costs	7,722	8,540	15,638	17,011
Other operating expenses	17,181	18,072	34,809	36,379
Total domestic Company-owned restaurant expenses	96,329	109,378	197,250	221,985
Variable interest entities restaurant expenses	9,326	1,987	14,135	3,780
Domestic commissary and other expenses:				
Cost of sales	84,586	89,976	175,536	179,982
Salaries and benefits	8,638	9,127	17,469	18,092
Other operating expenses	10,945	12,112	21,617	23,644
Total domestic commissary and other expenses	104,169	111,215	214,622	221,718
(Income) loss from the franchise cheese-purchasing program, net of minority interest	(5,462)	4,364	(12,565)	9,922
International operating expenses	5,907	5,818	11,264	11,158
General and administrative expenses	30,002	27,237	57,765	54,451
Other general expenses	3,583	539	8,050	2,752
Depreciation and amortization	8,181	8,404	16,136	16,410
Total costs and expenses	252,035	268,942	506,657	542,176
Operating income	24,602	14,466	54,952	30,237
Investment income	144	181	276	447
Interest expense	(1,440)	(1,802)	(2,856)	(3,694)
Income before income taxes	23,306	12,845	52,372	26,990
Income tax expense	8,037	4,538	18,339	9,514
Net income, including noncontrolling interests	15,269	8,307	34,033	17,476
Less: income attributable to noncontrolling interests	(1,092)	(659)	(2,017)	(1,203)
Net income, net of noncontrolling interests	$ 14,177	$ 7,648	$ 32,016	$ 16,273
Basic earnings per common share	$ 0.51	$ 0.27	$ 1.16	$ 0.57
Earnings per common share - assuming dilution	$ 0.51	$ 0.27	$ 1.15	$ 0.57
Basic weighted average shares outstanding	27,789	28,372	27,715	28,536
Diluted weighted average shares outstanding	27,989	28,705	27,860	28,754

See accompanying notes.

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Papa John s International, Inc. and Subsidiaries

Consolidated Statements of Stockholders Equity

(Unaudited)

			Papa John s International, Inc.					
(In thousands)	**Common Stock Shares Outstanding**	**Common Stock**	**Additional Paid-In Capital**	**Accumulated Other Comprehensive Income (Loss)**	**Retained Earnings**	**Treasury Stock**	**Noncontrolling Interests in Subsidiaries**	**Total Stockholders Equity**
Balance at December 30, 2007	28,777	$ 349	$ 208,598	$ 156	$ 96,963	$ (179,163)	$ 8,035	$ 134,938
Comprehensive income:								
Net income					16,273		1,203	17,476
Change in valuation of interest rate swap agreements, net of tax of $113				(229)				(229)
Foreign currency translation				133				133
Comprehensive income								17,380
Exercise of stock options	50	1	964					965
Tax effect related to exercise of non-qualified stock options			117					117
Acquisition of treasury stock	(768)					(20,287)		(20,287)
Distributions to noncontrolling interests							(840)	(840)
Other			2,567					2,567
Balance at June 29, 2008	28,059	$ 350	$ 212,246	$ 60	$ 113,236	$ (199,450)	$ 8,398	$ 134,840
Balance at December 28, 2008	27,637	$ 352	$ 216,553	$ (3,818)	$ 133,759	$ (216,860)	$ 8,252	$ 138,238
Comprehensive income:								
Net income					32,016		2,017	34,033
Change in valuation of interest rate swap agreements, net of tax of $322				573				573
Foreign currency translation				2,260				2,260
Comprehensive income								36,866
Exercise of stock options	477	5	8,052					8,057
Tax effect related to exercise of non-qualified stock options			227					227
Acquisition of treasury stock	(275)					(4,958)		(4,958)
Distributions to noncontrolling interests							(855)	(855)
Other			2,607					2,607
Balance at June 28, 2009	27,839	$ 357	$ 227,439	$ (985)	$ 165,775	$ (221,818)	$ 9,414	$ 180,182

At June 29, 2008, the accumulated other comprehensive gain of $60 was comprised of unrealized foreign currency translation gains of $1,588, offset by a net unrealized loss on the interest rate swap agreements of $1,528.

At June 28, 2009, the accumulated other comprehensive loss of $985 was comprised of a net unrealized loss on the interest rate swap agreements of $3,378 and an $88 pension plan liability for PJUK, offset by unrealized foreign currency translation gains of $2,481.

See accompanying notes.

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Papa John s International, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended	
(In thousands)	June 28, 2009	June 29, 2008
Operating activities		
Net income, net of noncontrolling interests	$ 32,016	$ 16,273
Adjustments to reconcile net income to net cash provided by operating activities:		
Restaurant impairment and disposition losses		1,143
Provision for uncollectible accounts and notes receivable	2,181	1,264
Depreciation and amortization	16,136	16,410
Deferred income taxes	2,731	(7,178)
Stock-based compensation expense	2,607	2,567
Excess tax benefit related to exercise of non-qualified stock options	(443)	(117)
Other	692	161
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	718	(2,251)
Inventories	876	1,825
Prepaid expenses	184	1,026
Other current assets	1,880	(256)
Other assets and liabilities	(559)	(1,233)
Accounts payable	(4,597)	293
Income and other taxes	3,840	1,704
Accrued expenses	(3,326)	(1,885)
Unearned franchise and development fees	(357)	(494)
Net cash provided by operating activities	54,579	29,252
Investing activities		
Purchase of property and equipment	(15,193)	(16,010)
Purchase of investments	(1,187)	(437)
Proceeds from sale or maturity of investments		407
Loans issued	(9,739)	(681)
Loan repayments	1,439	1,078
Acquisitions	(464)	(100)
Proceeds from divestitures of restaurants	830	
Other	18	156
Net cash used in investing activities	(24,296)	(15,587)
Financing activities		
Net (repayments) proceeds from line of credit facility	(20,500)	1,102
Net (repayments) proceeds from short-term debt - variable interest entities	(2,600)	3,525
Excess tax benefit related to exercise of non-qualified stock options	443	117
Proceeds from exercise of stock options	8,057	965
Acquisition of Company common stock	(4,958)	(20,287)
Noncontrolling interests, net of distributions	1,162	363
Other	378	(24)
Net cash used in financing activities	(18,018)	(14,239)
Effect of exchange rate changes on cash and cash equivalents	(11)	53
Change in cash and cash equivalents	12,254	(521)
Cash recorded from consolidation of VIEs	1,087	
Cash and cash equivalents at beginning of period	10,987	8,877
Cash and cash equivalents at end of period	$ 24,328	$ 8,356

See accompanying notes.

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Papa John s International, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

June 28, 2009

1. Basis of Presentation

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

2. Recent Accounting Pronouncements

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

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

SFAS No. 141R, Business Combinations

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

SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements

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

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

Papa John s had two joint venture arrangements as of June 28, 2009 and June 29, 2008, which were as follows:

	Restaurants as of June 28, 2009	Restaurant Locations	Papa John s Ownership *	Noncontrolling Interest Ownership *
Star Papa, LP	75	Texas	51%	49%
Colonel s Limited, LLC	51	Maryland and Virginia	70%	30%

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

The pre-tax income of the joint ventures totaled $2.8 million and $5.3 million for the three and six months ended June 28, 2009, respectively, compared to $1.8 million and $3.3 million for the three months and six months ended June 29, 2008, respectively. The portion of pre-tax income attributable to the noncontrolling interest holders was $1.1 million and $2.0 million for the three and six months ended June 28, 2009, respectively, compared to $659,000 and $1.2 million for the three and six months ended June 29, 2008, respectively. The noncontrolling interest holders equity in the joint venture arrangements totaled $9.4 million as of June 28, 2009 and $8.3 million as of December 28, 2008.

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

Papa John s adopted the provisions of SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133,* in the first quarter of 2009. SFAS No. 161 enhances the required disclosures regarding derivatives and hedging activities, including disclosures regarding how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* and how derivative instruments and related hedged items affect an entity s financial position, results of operations and cash flows. See Note 5 for additional information.

SFAS No. 165, Subsequent Events

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The provisions of SFAS No. 165 require public companies to evaluate subsequent events through the date the financial statements are issued. We were required to adopt SFAS No. 165 for our second quarter ended June 28, 2009. In accordance with our adoption of this standard, we evaluated for subsequent events occurring after June 28, 2009 (our financial statement date) through August 4, 2009 (the date this report was filed). We determined no disclosures were required.

SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R).* The objective of SFAS No. 167 is to improve the financial reporting of companies involved with variable interest entities (VIEs). As required by this statement, the provisions required by FIN 46(R) are now applicable for entities previously considered qualifying special-purpose entities, as the concept of these entities was eliminated from SFAS No. 140 with the issuance of SFAS No. 166, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140.* This Statement amends FIN 46(R) to replace the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in the VIE with a

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qualitative approach focused on identifying which company has the power to direct the activities of a VIE that most significantly impact the entity s economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. Additionally, this statement requires a company to perform ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. Prior to this statement, a company was only required to reassess the status when specific events occurred. We are required to adopt the provisions of SFAS No. 167 for our first quarter of 2010. We have not yet assessed the impact, if any, of the adoption of this statement on our financial statements.

SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 168 replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, to become the single official source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification did not change GAAP but reorganizes the literature. SFAS No. 168 is effective for interim and annual periods ending after September 15, 2009. The Company will begin to use the new Codification when referring to GAAP in its annual report on Form 10-K for the fiscal year ending December 27, 2009. SFAS No. 168 will not have an impact on the consolidated results of the Company.

3. Acquisitions and Dispositions

During the second quarter of 2009, we completed the acquisition of 11 restaurants in Florida. The purchase price for those restaurants totaled $2.8 million, which was comprised of cash and the cancellation of a $2.3 million note due to us, of which approximately $1.5 million was recorded as goodwill. The acquisition was accounted for by the purchase method of accounting, whereby operating results subsequent to the acquisition date are included in our consolidated financial results.

During the second quarter of 2009, we completed the sale of 10 Company-owned restaurants located in New Mexico. The sales price of $1.1 million consisted of a cash payment of $600,000 and notes financed by Papa John s to the purchasers, who are current Papa John s franchisees, for $500,000. We recorded a pre-tax gain of approximately $350,000 associated with the sale of those restaurants.

4. Accounting for Variable Interest Entities

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

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

FIN 46 requires a VIE to be consolidated if a party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) is obligated to absorb a majority of the risk of loss from the VIE s activities, is entitled to receive a majority of the VIE s residual returns (if no party absorbs a majority of the VIE s losses), or both. A variable interest holder that consolidates the VIE is called the primary beneficiary. Upon consolidation, the primary beneficiary generally must initially record all of the VIE s assets, liabilities and non-controlling interests at fair value and subsequently account for the VIE as if it were consolidated based on majority voting interest. FIN 46 also requires disclosures about VIEs that the variable interest holder is not required to consolidate but in which it has a significant variable interest.

We have a purchasing arrangement with BIBP Commodities, Inc. (BIBP), a special-purpose entity formed at the direction of our Franchise Advisory Council for the sole purpose of reducing cheese price volatility to domestic system-wide restaurants. BIBP is an independent, franchisee-owned corporation. BIBP purchases cheese at the market price and sells it to our distribution subsidiary, PJ Food Service, Inc. (PJFS), at a fixed price. PJFS in turn sells cheese to Papa John s restaurants (both Company-owned and franchised) at a set price. Effective March 2009, we modified the BIBP formula to establish the price of cheese on a more frequent basis based on the projected spot market prices. At the current rate of repayment, BIBP s cumulative deficit would be substantially repaid at the end of 2011. PJFS purchased $35.0 million and $71.0 million of cheese from BIBP for the three and six months ended June 28, 2009, respectively, compared to $40.6 million and $80.2 million in the 2008 comparable periods, respectively.

As defined by FIN 46, we are the primary beneficiary of BIBP, a VIE. We recognize the operating losses generated by BIBP if BIBP s shareholders equity is in a net deficit position. Further, we will recognize the subsequent operating income generated by BIBP up to the amount of any losses previously recognized. We recognized pre-tax gains of $6.9 million ($4.2 million net of tax, or $0.15 per share) and $15.9 million ($10.0 million net of tax, or $0.36 per share) for the three and six months ended June 28, 2009, respectively, and pre-tax losses of $6.3 million ($4.1 million net of tax, or $0.14 per share) and $14.3 million ($9.3 million net of tax, or $0.32 per share) for the three months and six months ended June 29, 2008, respectively, from the consolidation of BIBP. The impact on future operating income from the consolidation of BIBP is expected to continue to be significant for any given reporting period due to the volatility of the cheese market.

BIBP has a $10.0 million line of credit with a commercial bank, which is guaranteed by Papa John s. In addition, Papa John s has agreed to provide additional funding in the form of a loan to BIBP. As of June 28, 2009, BIBP had outstanding borrowings of $4.5 million and a letter of credit of $3.0 million outstanding under the commercial line of credit facility and outstanding borrowings of $28.2 million with Papa John s.

In addition, Papa John s has extended loans to certain franchisees. Under FIN 46, Papa John s was deemed the primary beneficiary of five franchise entities as of June 28, 2009 and three franchise entities as of June 29, 2008, even though we had no ownership in the franchise entities. The five franchise entities at June 28, 2009 operate a total of 65 restaurants with annual revenues approximating $44.0 million. Our net loan balance receivable from those entities was $7.8 million at June 28, 2009, with no further funding commitments. The consolidation of those franchise entities had no significant impact on Papa John s operating results and is not expected to have a significant impact in future periods.

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

(In thousands)	June 28, 2009 BIBP	June 28, 2009 Franchisees	June 28, 2009 Total	December 28, 2008 BIBP	December 28, 2008 Franchisees	December 28, 2008 Total
Assets:						
Cash and cash equivalents	$ 5,259	$ 1,590	$ 6,849	$	$ 70	$ 70
Accounts receivable - Papa John s	1,042		1,042	4,687		4,687
Other current assets	1,555	692	2,247	1,089	55	1,144
Net property and equipment		6,975	6,975		4,314	4,314
Goodwill		1,409	1,409		4,556	4,556
Deferred income taxes	9,416		9,416	15,057		15,057
Other noncurrent assets		9	9			
Total assets	$ 17,272	$ 10,675	$ 27,947	$ 20,833	$ 8,995	$ 29,828
Liabilities and stockholders equity (deficit):						
Accounts payable and accrued expenses	$ 1,946	$ 1,554	$ 3,500	$ 5,391	$ 381	$ 5,772
Short-term debt - third party	4,475		4,475	7,075		7,075
Short-term debt - Papa John s	28,182	7,808	35,990	35,743	7,991	43,734
Total liabilities	34,603	9,362	43,965	48,209	8,372	56,581
Stockholders equity (deficit)	(17,331)	1,313	(16,018)	(27,376)	623	(26,753)
Total liabilities and stockholders equity (deficit)	$ 17,272	$ 10,675	$ 27,947	$ 20,833	$ 8,995	$ 29,828

5. Debt

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

	June 28, 2009	December 28, 2008
Revolving line of credit	$ 103,000	$ 123,500
Debt associated with VIEs *	4,475	7,075
Other	67	79
Total debt	107,542	130,654
Less: current portion of debt	(4,475)	(7,075)
Long-term debt	$ 103,067	$ 123,579

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

In January 2006, we executed a five-year, unsecured revolving credit facility (Credit Facility) totaling $175.0 million. Under the Credit Facility, outstanding balances accrue interest at 50.0 to 100.0 basis points over the London Interbank Offered Rate (LIBOR) or other bank-developed rates, at our option. The commitment fee on the unused balance ranges from 12.5 to 20.0 basis points. The increment over LIBOR and the commitment fee are determined quarterly based upon the ratio of total indebtedness to earnings before interest, taxes, depreciation and amortization (EBITDA), as defined. The remaining availability under our line of credit, reduced for certain outstanding letters of credit, approximated \$54.0 million and \$31.1 million as of June 28, 2009 and December 28, 2008, respectively. The fair value of our outstanding debt approximates the carrying value since our debt agreements are variable-rate instruments.

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

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

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

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

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

Fair Values of Derivative Instruments

		Liability Derivatives	
	Balance Sheet Location	Fair Value Jun-09	Fair Value Dec-08
Derivatives designated as hedging instruments under Statement 133:			
Interest rate swaps	Other long-term liabilities	$ 5,278	$ 6,173

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

Effect of Derivative Instruments on the Consolidated Financial Statements

Derivatives in Statement 133 Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from	Amount of Gain or (Loss) Reclassified from Accumulated OCI	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on

			Accumulated OCI into Income (Effective Portion)	into Income (Effective Portion)		(Ineffective Portion and Amount Excluded from Effectiveness Testing)	Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	Jun-09	Jun-08		Jun-09	Jun-08		Jun-09	Jun-08
Interest rate swaps:			Interest expense:			Not applicable:		
Quarter to date	$ 447	$ 1,116	Quarter to date	$ 997	$ 550	Quarter to date	$	$
Year to date	$ 573	$ (229)	Year to date	$ 1,968	$ 841	Year to date	$	$

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The weighted average interest rates for our Credit Facility, including the impact of the previously mentioned swap agreements, were 4.83% and 5.05% for the three months ended June 28, 2009 and June 29, 2008, respectively, and 4.65% and 5.21% for the six months ended June 28, 2009 and June 29, 2008, respectively. Interest paid, including payments made or received under the swaps, was $1.4 million and $2.8 million for the three and six months ended June 28, 2009, respectively, compared to $1.8 million and $3.6 million for the three and six months ended June 29, 2008, respectively.

6. Calculation of Earnings Per Share

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

	Three Months Ended				Six Months Ended			
	June 28, 2009		June 29, 2008		June 28, 2009		June 29, 2008	
Basic earnings per common share:								
Net income, net of noncontrolling interests	$	14,177	$	7,648	$	32,016	$	16,273
Weighted average shares outstanding		27,789		28,372		27,715		28,536
Basic earnings per common share	$	0.51	$	0.27	$	1.16	$	0.57
Earnings per common share - assuming dilution:								
Net income, net of noncontrolling interests	$	14,177	$	7,648	$	32,016	$	16,273
Weighted average shares outstanding		27,789		28,372		27,715		28,536
Dilutive effect of outstanding stock compensation awards		200		333		145		218
Diluted weighted average shares outstanding		27,989		28,705		27,860		28,754
Earnings per common share - assuming dilution	$	0.51	$	0.27	$	1.15	$	0.57

Shares subject to options to purchase common stock with an exercise price greater than the average market price for the three and six months ended June 28, 2009 were not included in the computation of the dilutive effect of common stock options because the effect would have been antidilutive. The weighted average number of shares subject to the antidilutive options were 1.4 million and 1.0 million for the three-month periods ending June 28, 2009 and June 29, 2008, respectively. The six-month period weighted averages ending June 28, 2009 and June 29, 2008 were 1.4 million and 1.2 million, respectively.

7. Comprehensive Income

Comprehensive income is comprised of the following:

	Three Months Ended		Six Months Ended	
(In thousands)	June 28, 2009	June 29, 2008	June 28, 2009	June 29, 2008

Net income, including noncontrolling interests	$ 15,269	$ 8,307	$ 34,033	$ 17,476
Change in valuation of interest rate swap agreements, net of tax	447	1,116	573	(229)
Foreign currency translation	3,275	9	2,260	133
Comprehensive income	$ 18,991	$ 9,432	$ 36,866	$ 17,380

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8. Notes Receivable

Selected franchisees have borrowed funds from our subsidiary, Capital Delivery, Ltd., principally for use in the acquisition, construction and development of their restaurants. We have also entered into loan agreements with certain franchisees that purchased restaurants from us or from other franchisees. In addition, as part of the 2006 sale of our former Perfect Pizza operations, we have a loan outstanding from the purchaser. Loans outstanding, net of allowance for doubtful accounts, were approximately $13.5 million as of June 28, 2009 and $7.6 million as of December 28, 2008.

We have recorded reserves of $7.2 million and $5.4 million as of June 28, 2009 and December 28, 2008, respectively, for potentially uncollectible notes receivable from franchisees and the purchaser of the Perfect Pizza operations. We concluded the reserves were necessary due to certain franchisees economic performance and underlying collateral value and credit risk related to the Perfect Pizza operations.

In connection with the 2006 sale of our former Perfect Pizza operations, we remain contingently liable for payment under approximately 70 lease arrangements, primarily associated with Perfect Pizza restaurants sites. The leases have varying terms, the latest of which expires in 2017. As of June 28, 2009, the potential amount of undiscounted payments we could be required to make in the event of non-payment by Perfect Pizza and associated franchisees was approximately $6.2 million. We have not recorded a liability with respect to such leases as of June 28, 2009 as our cross-default provisions with the Perfect Pizza franchisor substantially reduce the risk that we will be required to make payments under these leases at the present time.

9. Segment Information

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

The domestic restaurant segment consists of the operations of all domestic (domestic is defined as contiguous United States) Company-owned restaurants and derives its revenues principally from retail sales of pizza and side items, such as breadsticks, cheesesticks, chicken strips, chicken wings, dessert pizza, and soft drinks to the general public. The domestic commissary segment consists of the operations of our regional dough production and product distribution centers and derives its revenues principally from the sale and distribution of food and paper products to domestic Company-owned and franchised restaurants. The domestic franchising segment consists of our franchise sales and support activities and derives its revenues from sales of franchise and development rights and collection of royalties from our domestic franchisees. The international operations segment principally consists of our Company-owned restaurants and distribution sales to franchised Papa John s restaurants located in the United Kingdom, China and Mexico and our franchise sales and support activities, which derive revenues from sales of franchise and development rights and the collection of royalties from our international franchisees. VIEs consist of entities in which we are deemed the primary beneficiary, as defined in Note 4, and include BIBP and certain franchisees to which we have extended loans. All other business units that do not meet the quantitative thresholds for determining reportable segments consist of operations that derive revenues from the sale, principally to Company-owned and franchised restaurants, of printing and promotional items, risk management services, and information systems and related services used in restaurant operations and certain partnership development activities.

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

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

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Our segment information is as follows:

(In thousands)	Three Months Ended June 28, 2009	Three Months Ended June 29, 2008	Six Months Ended June 28, 2009	Six Months Ended June 29, 2008
Revenues from external customers:				
Domestic Company-owned restaurants	$ 124,966	$ 133,815	$ 256,671	$ 272,670
Domestic commissaries	101,444	106,321	209,360	212,368
Domestic franchising	14,742	15,006	30,331	31,371
International	10,281	9,593	19,603	18,446
Variable interest entities (1)	11,223	2,239	16,894	4,279
All others	13,981	16,434	28,750	33,279
Total revenues from external customers	$ 276,637	$ 283,408	$ 561,609	$ 572,413
Intersegment revenues:				
Domestic commissaries	$ 34,529	$ 35,851	$ 70,227	$ 72,076
Domestic franchising	508	478	1,014	944
International	266	307	510	608
Variable interest entities (1)	35,028	40,572	71,000	80,233
All others	2,881	4,027	5,783	8,136
Total intersegment revenues	$ 73,212	$ 81,235	$ 148,534	$ 161,997
Income (loss) before income taxes:				
Domestic Company-owned restaurants	$ 10,152	$ 7,157	$ 20,543	$ 14,955
Domestic commissaries	7,484	7,624	16,868	16,057
Domestic franchising	12,824	13,095	26,506	27,567
International	(847)	(1,520)	(1,624)	(3,259)
Variable interest entities (2)	6,854	(6,302)	15,879	(14,253)
All others	613	1,993	1,014	4,518
Unallocated corporate expenses	(13,673)	(9,144)	(26,698)	(18,363)
Elimination of intersegment profits	(101)	(58)	(116)	(232)
Total income before income taxes	$ 23,306	$ 12,845	$ 52,372	$ 26,990
Income attributable to noncontrolling interests	(1,092)	(659)	(2,017)	(1,203)
Total income before income taxes, net of noncontrolling interests	$ 22,214	$ 12,186	$ 50,355	$ 25,787
Property and equipment:				
Domestic Company-owned restaurants	$ 156,293			
Domestic commissaries	80,700			
International	13,823			
Variable interest entities	10,115			
All others	23,060			
Unallocated corporate assets	120,201			
Accumulated depreciation and amortization	(211,282)			
Net property and equipment	$ 192,910			

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

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

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

Results of Operations and Critical Accounting Policies and Estimates

Papa John s International, Inc. (referred to as the Company, Papa John s or in the first person notations of we, us and our) began operations 1985. At June 28, 2009, there were 3,418 Papa John s restaurants (612 Company-owned and 2,806 franchised) operating in all 50 states and 29 countries. Our revenues are principally derived from retail sales of pizza and other food and beverage products to the general public by Company-owned restaurants, franchise royalties, sales of franchise and development rights, sales to franchisees of food and paper products, printing and promotional items, risk management services, and information systems and related services used in their operations.

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

Allowance for Doubtful Accounts and Notes Receivable

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

Long-Lived and Intangible Assets

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

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

At June 28, 2009, we had a net investment of approximately $20.8 million associated with our United Kingdom subsidiary (PJUK). During the fourth quarter of 2008, we recorded a goodwill impairment charge of $2.3 million associated with our PJUK operations. We have developed plans for PJUK to continue to improve its operating results. The plans include efforts to increase Papa John s brand awareness in the United Kingdom, improve sales and profitability for individual restaurants and increase net PJUK franchised unit openings over the next several years. We will continue to periodically evaluate our progress in achieving these plans. If our initiatives with PJUK and certain domestic markets are not successful, future impairment charges could occur.

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Insurance Reserves

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

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

Deferred Income Tax Assets and Tax Reserves

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

As of June 28, 2009, we had a net deferred income tax asset balance of $21.6 million, of which approximately $9.4 million relates to the net operating loss carryforward of BIBP Commodities, Inc. (BIBP). We have not provided a valuation allowance for the deferred income tax assets associated with our domestic operations, including BIBP, since we believe it is more likely than not that future earnings will be sufficient to ensure the realization of the net deferred income tax assets for federal and state purposes.

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

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

BIBP is a franchisee-owned corporation that conducts a cheese-purchasing program on behalf of domestic Company-owned and franchised restaurants. As required by FASB Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* (FIN 46), we consolidate the financial results of BIBP since we qualify as the primary beneficiary, as defined by FIN 46, of BIBP. We recognized pre-tax income of $6.9 million and $15.9 million for the three and six months ended June 28, 2009 and pre-tax losses of $6.3 million and $14.3 million for the three and six months ended June 29, 2008 from the consolidation of BIBP. We expect the consolidation of BIBP to continue to have a significant impact on Papa John s operating income in future periods due to the volatility of cheese prices. Papa John s will recognize the operating losses generated by BIBP if the shareholders equity of BIBP is in a net deficit position. Further, Papa

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John s will recognize subsequent operating income generated by BIBP up to the amount of BIBP losses previously recognized by Papa John s.

Recent Accounting Pronouncements

SFAS No. 157

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

SFAS No. 141 revised 2007

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

SFAS No. 160

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

The provisions of SFAS No. 160 apply to our joint venture arrangements with Colonel s Limited, LLC (51 restaurants) and Star Papa, LP (75 restaurants). The minority interest holders own 30% and 49% of Colonel s Limited and Star Papa, respectively.

SFAS No. 161

Papa John s adopted the provisions of SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133,* in the first quarter of 2009. SFAS No. 161 enhances the required disclosures regarding derivatives and hedging activities, including disclosures regarding how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* and how derivative instruments and related hedged items affect an entity s financial position, results of operations and cash flows. The disclosures required by SFAS No. 133 are included in Note 5 to the accompanying financial statements.

SFAS No. 165

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The provisions of SFAS No. 165 require public companies to evaluate subsequent events through the date the financial statements are issued. We were required to adopt SFAS No.

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165 for our second quarter ended June 28, 2009. In accordance with our adoption of this standard, we evaluated for subsequent events occurring after June 28, 2009 (our financial statement date) through August 4, 2009 (the date this report was filed). We determined no disclosures were required.

SFAS No. 167

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R).* The objective of SFAS No. 167 is to improve the financial reporting of companies involved with variable interest entities (VIEs). As required by this statement, the provisions required by FIN 46(R) are now applicable for entities previously considered qualifying special-purpose entities, as the concept of these entities was eliminated from SFAS No. 140 with the issuance of SFAS No. 166, *Accounting for Transfers of Financial Assets an amendment of FASB* ***Statement*** *No. 140.* This Statement amends FIN 46(R) to replace the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in the VIE with a qualitative approach focused on identifying which company has the power to direct the activities of a VIE that most significantly impact the entity s economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. Additionally, this statement requires a company to perform ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. Prior to this statement, a company was only required to reassess the status when specific events occurred. We are required to adopt the provisions of SFAS No. 167 for our first quarter of 2010. We have not yet assessed the impact, if any, of the adoption of this statement on our financial statements.

SFAS No. 168

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 168 replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, to become the single official source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification did not change GAAP but reorganizes the literature. SFAS No. 168 is effective for interim and annual periods ending after September 15, 2009. The Company will begin to use the new Codification when referring to GAAP in its annual report on Form 10-K for the fiscal year ending December 27, 2009. SFAS No. 168 will not have an impact on the consolidated results of the Company.

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Restaurant Progression

	Three Months Ended		Six Months Ended	
	June 28, 2009	June 29, 2008	June 28, 2009	June 29, 2008
Papa John s Restaurant Progression:				
U.S. Company-owned:				
Beginning of period	590	648	592	648
Opened		5	3	9
Closed	(1)	(1)	(5)	(6)
Acquired from franchisees	11		11	1
Sold to franchisees	(11)		(12)	
End of period	589	652	589	652
International Company-owned:				
Beginning of period	22	17	23	14
Opened	1	2	1	5
Closed		(1)	(1)	(1)
End of period	23	18	23	18
U.S. franchised:				
Beginning of period	2,198	2,122	2,200	2,112
Opened	11	24	25	46
Closed	(17)	(29)	(34)	(40)
Acquired from Company	11		12	
Sold to Company	(11)		(11)	(1)
End of period	2,192	2,117	2,192	2,117
International franchised:				
Beginning of period	594	451	565	434
Opened	28	36	62	55
Closed	(8)	(4)	(13)	(6)
End of period	614	483	614	483
Total restaurants - end of period	3,418	3,270	3,418	3,270

Results of Operations

Variable Interest Entities

As required by FIN 46, our operating results include BIBP s operating results. The consolidation of BIBP had a significant impact on our operating results for the first six months of 2009 and for the full year of 2008, and is expected to have a significant impact on our future operating results, including the full year of 2009, 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

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BIBP s income or loss from purchasing cheese at the spot market price and selling to franchised restaurants at a fixed monthly 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 to be the primary beneficiary of certain franchisees even though we have no ownership interest in them. We consolidated the financial results of five franchise entities operating a total of 65 restaurants with annual sales approximating $44.0 million for the three and six months ended June 28, 2009 and three franchise entities operating a total of thirteen restaurants with annual sales approximating $9.0 million for the three and six months ended June 29, 2008.

The following table summarizes the impact of VIEs, prior to required consolidating eliminations, on our consolidated statements of income for the three and six months ended June 28, 2009 and June 29, 2008 (in thousands):

	Three Months Ended June 28, 2009			Three Months Ended June 29, 2008		
	BIBP	**Franchisees**	**Total**	**BIBP**	**Franchisees**	**Total**
Variable interest entities restaurant sales	$	$ 11,223	$ 11,223	$	$ 2,239	$ 2,239
BIBP sales	35,028		35,028	40,572		40,572
Total revenues	35,028	11,223	46,251	40,572	2,239	42,811
Operating expenses	27,923	10,083	38,006	46,370	2,153	48,523
General and administrative expenses	26	214	240	23	82	105
Other general expenses (income)		540	540		(12)	(12)
Depreciation and amortization		386	386		16	16
Total costs and expenses	27,949	11,223	39,172	46,393	2,239	48,632
Operating income (loss)	7,079		7,079	(5,821)		(5,821)
Interest expense	(225)		(225)	(481)		(481)
Income (loss) before income taxes	$ 6,854	$	$ 6,854	$ (6,302)	$	$ (6,302)

	Six Months Ended June 28, 2009			Six Months Ended June 29, 2008		
	BIBP	**Franchisees**	**Total**	**BIBP**	**Franchisees**	**Total**
Variable interest entities restaurant sales	$	$ 16,894	$ 16,894	$	$ 4,279	$ 4,279
BIBP sales	71,000		71,000	80,233		80,233
Total revenues	71,000	16,894	87,894	80,233	4,279	84,512
Operating expenses	54,582	15,281	69,863	93,445	4,094	97,539
General and administrative expenses	51	440	491	46	164	210
Other general expenses (income)		635	635		(9)	(9)
Depreciation and amortization		538	538		30	30

Total costs and expenses		54,633		16,894		71,527		93,491		4,279	97,770
Operating income (loss)		16,367				16,367		(13,258)			(13,258)
Interest expense		(488)				(488)		(995)			(995)
Income (loss) before income taxes	$	15,879	$		$	15,879	$	(14,253)	$	$	(14,253)

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Non-GAAP Measures

Certain components of the financial information we present in this report that exclude the impact of the consolidation of BIBP, are not measures that are defined in accordance with accounting principles generally accepted in the United States (GAAP). These non-GAAP measures should not be construed as a substitute for or a better indicator of the Company s performance than the Company s GAAP measures. We believe the financial information excluding the impact of the consolidation of BIBP is important for purposes of comparison to prior periods and development of future projections and earnings growth prospects. We analyze our business performance and trends excluding the impact of the consolidation of BIBP because the results of BIBP are not indicative of our principal operating activities. In addition, annual cash bonuses, and certain long-term incentive programs for various levels of management, are based on financial measures that exclude BIBP. The presentation of the non-GAAP measures in this report is made alongside the most directly comparable GAAP measures.

Summary of Operating Results

Total revenues were $276.6 million for the second quarter of 2009, representing a decrease of $6.8 million, or 2.4%, from revenues of $283.4 million for the comparable period in 2008. For the six-month period ended June 28, 2009, total revenues were $561.6 million, representing a decrease of $10.8 million, or 1.9%, from revenues of $572.4 million for the comparable period in 2008. The decreases of $6.8 million and $10.8 million in revenues for the three and six months ended June 28, 2009, respectively, were primarily due to the following:

- Domestic Company-owned restaurant revenues decreased $8.8 million or 6.6% and $16.0 million or 5.9% for the three and six months ended June 28, 2009, respectively, reflecting the sale of 62 Company-owned restaurants to franchisees during the fourth quarter of 2008.

- Domestic commissary sales decreased $4.9 million and $3.0 million for the three and six months ended June 28, 2009, respectively, due to decreases in the prices of certain commodities, primarily cheese.

- Other sales decreased $2.5 million and $4.5 million for the three and six months ended June 28, 2009, respectively, primarily due to a decline in sales at our print and promotions subsidiary, Preferred Marketing Solutions.

- Variable interest entities restaurant sales increased $9.0 million and $12.6 million for the three and six months ended June 28, 2009, respectively, due to the consolidation of two additional franchise entities in the second quarter and first six months of 2009. We extended loans to these two entities in the fourth quarter of 2008 in conjunction with our sale of the Company-owned restaurants.

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Our income before income taxes, net of noncontrolling interests, totaled $22.2 million and $50.4 million for the three and six months ended June 28, 2009, respectively, compared to $12.2 million and $25.8 million for the same periods in 2008, respectively, as summarized in the following table on an operating segment basis (in thousands):

	Three Months Ended			Six Months Ended		
	June 28, 2009	June 29, 2008	Increase (Decrease)	June 28, 2009	June 29, 2008	Increase (Decrease)
Domestic Company-owned restaurants	$ 10,152	$ 7,157	$ 2,995	$ 20,543	$ 14,955	$ 5,588
Domestic commissaries	7,484	7,624	(140)	16,868	16,057	811
Domestic franchising	12,824	13,095	(271)	26,506	27,567	(1,061)
International	(847)	(1,520)	673	(1,624)	(3,259)	1,635
All others	613	1,993	(1,380)	1,014	4,518	(3,504)
Unallocated corporate expenses	(13,673)	(9,144)	(4,529)	(26,698)	(18,363)	(8,335)
Elimination of intersegment profits	(101)	(58)	(43)	(116)	(232)	116
Income before income taxes, excluding variable interest entities	16,452	19,147	(2,695)	36,493	41,243	(4,750)
Variable interest entities	6,854	(6,302)	13,156	15,879	(14,253)	30,132
Total income before income taxes	23,306	12,845	10,461	52,372	26,990	25,382
Income attributable to noncontrolling interests	(1,092)	(659)	(433)	(2,017)	(1,203)	(814)
Total income before income taxes, net of noncontrolling interests	$ 22,214	$ 12,186	$ 10,028	$ 50,355	$ 25,787	$ 24,568

Excluding the impact of the consolidation of BIBP, second quarter 2009 income before income taxes, net of noncontrolling interests was $15.4 million, or a decrease of approximately $3.1 million from 2008 comparable results, and income before income taxes for the six months ended June 28, 2009 was $34.5 million, or a decrease of approximately $5.6 million from 2008 comparable results. The decreases of $3.1 million and $5.6 million, respectively, for the three and six months ended June 28, 2009 (excluding the consolidation of BIBP) were principally due to the following:

- **Domestic Company-owned Restaurant Segment.** Domestic Company-owned restaurants operating income increased $3.0 million and $5.6 million for the three and six months ended June 28, 2009, respectively, comprised of the following:

	Three Months Ended			Six Months Ended		
	June 28, 2009	June 29, 2008	Increase (decrease)	June 28, 2009	June 29, 2008	Increase (decrease)
Recurring operations	$ 10,152	$ 7,157	$			