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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 27, 2004

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

2002 Papa Johns Boulevard
Louisville, Kentucky 40299-2334
(Address of principal executive offices)

(502) 261-7272
(Registrant's telephone number, including area code)

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

Yes ☒ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Act).

Yes ☒ No o

At July 30, 2004, there were outstanding 16,801,399 shares of the registrant's common stock, par value $.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 27, 2004 (Unaudited)	December 28, 2003 (Note)
Assets		
Current assets:		
Cash and cash equivalents	$ 7,456	$ 7,071
Accounts receivable	22,331	19,717
Inventories	17,497	17,030
Prepaid expenses and other current assets	13,562	11,590
Deferred income taxes	7,359	7,050
Total current assets	68,205	62,458
Investments	7,692	7,522
Net property and equipment	200,994	203,818
Notes receivable from franchisees and affiliates	6,949	11,580
Goodwill	51,312	48,577
Other assets	16,350	13,259
Total assets	$ 351,502	$ 347,214
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 24,907	$ 28,309
Income and other taxes	6,629	12,070
Accrued expenses	42,052	40,288
Current portion of debt	11,234	250
Total current liabilities	84,822	80,917
Unearned franchise and development fees	7,734	5,911
Long-term debt, net of current portion	93,523	61,000
Deferred income taxes	8,172	7,881
Other long-term liabilities	28,594	32,233
Stockholders' equity:		
Preferred stock	—	—
Common stock	321	317
Additional paid-in capital	232,240	219,584
Accumulated other comprehensive loss	(1,576)	(3,116)
Retained earnings	299,834	293,921
Treasury stock	(402,162)	(351,434)
Total stockholders' equity	128,657	159,272
Total liabilities and stockholders' equity	$ 351,502	$ 347,214

Note: The balance sheet at December 28, 2003 has been derived from the audited consolidated financial statements at that date but does not include all information and footnotes required by accounting principles generally accepted in the United States for a complete set of financial statements.

See accompanying notes.

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

(In thousands, except per share amounts)	Three Months Ended June 27, 2004	Three Months Ended June 29, 2003	Six Months Ended June 27, 2004	Six Months Ended June 29, 2003
Domestic revenues:				
Company-owned restaurant sales	$ 102,271	$ 103,372	$ 208,444	$ 209,614
Variable interest entities restaurant sales	5,045	—	5,045	—
Franchise royalties	12,120	12,480	25,031	24,997
Franchise and development fees	474	208	1,008	539
Commissary sales	89,615	90,048	184,151	183,916
Other sales	12,897	12,207	27,621	23,764
International revenues:				
Royalties and franchise and development fees	1,570	1,614	3,334	3,098
Restaurant and commissary sales	6,045	6,540	12,312	12,823
Total revenues	230,037	226,469	466,946	458,751
Costs and expenses:				
Domestic Company-owned restaurant expenses:				
Cost of sales	26,688	22,567	52,547	46,063
Salaries and benefits	32,638	33,383	66,157	67,577
Advertising and related costs	9,282	9,411	18,729	19,173
Occupancy costs	6,400	6,500	12,801	12,594
Other operating expenses	13,444	13,282	27,087	27,201
Total domestic Company-owned restaurant expenses	88,452	85,143	177,321	172,608
Variable interest entities restaurant expenses	4,681	—	4,681	—
Domestic commissary and other expenses:				
Cost of sales	73,446	70,335	152,243	144,700
Salaries and benefits	7,020	7,072	14,199	14,402
Other operating expenses	14,963	15,694	29,200	28,715
Total domestic commissary and other expenses	95,429	93,101	195,642	187,817
Loss from the franchise cheese purchasing program, net of minority interest	13,972	—	14,344	—
International operating expenses	5,006	5,527	10,208	10,943
General and administrative expenses	17,575	16,509	36,109	33,061
Provision for uncollectible notes receivable	4	375	236	801
Restaurant closure, impairment and disposition losses	28	407	167	482
Other general expenses (income)	434	(1,262)	1,387	(771)
Depreciation and amortization	7,817	7,807	15,378	15,717
Total costs and expenses	233,398	207,607	455,473	420,658
Operating income (loss)	(3,361)	18,862	11,473	38,093
Investment income	143	162	284	416
Interest expense	(899)	(1,659)	(2,296)	(3,567)
Income (loss) before income taxes	(4,117)	17,365	9,461	34,942
Income tax expense (benefit)	(1,544)	6,511	3,548	13,103
Net income (loss)	$ (2,573)	$ 10,854	$ 5,913	$ 21,839
Basic earnings (loss) per common share	$ (.15)	$ .61	$ .34	$ 1.22
Earnings (loss) per common share - assuming dilution	$ (.15)	$ .60	$ .33	$ 1.21
Basic weighted average shares outstanding	17,402	17,905	17,617	17,912
Diluted weighted average shares oustanding	17,402	17,999	17,855	18,011

See accompanying notes.

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

(In thousands)	Common Stock Shares Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance at December 29, 2002	18,041	$ 314	$ 212,107	$ (5,314)	$ 260,358	$ (345,518)	$ 121,947
Comprehensive income:							
Net income	—	—	—	—	21,839	—	21,839
Change in valuation of interest rate collar and swap agreements, net of tax of $171	—	—	—	278	—	—	278
Other, net	—	—	—	132	—	—	132

Comprehensive income							22,249
Exercise of stock options	33	1	601	—	—	—	602
Tax benefit related to exercise of non-qualified stock options	—	—	96	—	—	—	96
Acquisition of treasury stock	(150)	—	—	—	—	(4,116)	(4,116)
Other	—	—	83	—	—	—	83
Balance at June 29, 2003	17,924	$ 315	$ 212,887	$ (4,904)	$ 282,197	$ (349,634)	$ 140,861
Balance at December 28, 2003	18,113	$ 317	$ 219,584	$ (3,116)	$ 293,921	$ (351,434)	$ 159,272
Comprehensive income:							
Net income	—	—	—	—	5,913	—	5,913
Change in valuation of interest rate swap agreement, net of tax of $873	—	—	—	1,425	—	—	1,425
Other, net	—	—	—	115	—	—	115
Comprehensive income							7,453
Exercise of stock options	396	4	10,250	—	—	—	10,254
Tax benefit related to exercise of non-qualified stock options	—	—	1,255	—	—	—	1,255
Acquisition of treasury stock	(1,579)	—	—	—	—	(50,728)	(50,728)
Other	—	—	1,151	—	—	—	1,151
Balance at June 27, 2004	16,930	$ 321	$ 232,240	$ (1,576)	$ 299,834	$ (402,162)	$ 128,657

At June 29, 2003, the accumulated other comprehensive loss of $4,904 was comprised of net unrealized loss on the interest rate swap agreement of $4,750 and unrealized foreign currency translation losses of $154.

At June 27, 2004, the accumulated other comprehensive loss of $1,576 was comprised of net unrealized loss on the interest rate swap agreement of $1,773, net unrealized loss on investments of $31 and unrealized foreign currency translation gains of $228.

See accompanying notes.

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

(In thousands)	**Six Months Ended June 27, 2004**	**Six Months Ended June 29, 2003**
Operating activities		
Net cash provided by operating activities	$ 6,141	$ 38,785
Investing activities		
Purchase of property and equipment	(10,341)	(7,599)
Proceeds from sale of property and equipment	3,402	189
Purchase of investments	(2,180)	(598)
Proceeds from sale or maturity of investments	1,988	—
Loans to franchisees and affiliates	(2,100)	(50)
Loan repayments from franchisees and affiliates	1,733	1,460
Acquisitions	—	(150)
Proceeds from divestitures of restaurants	78	400
Net cash used in investing activities	(7,420)	(6,348)
Financing activities		
Net proceeds (repayments) from line of credit facility	32,500	(34,600)
Net proceeds from short-term debt - variable interest entities	9,557	—
Payments on long-term debt	(250)	(235)
Proceeds from exercise of stock options	10,254	602
Acquisition of treasury stock	(50,728)	(4,116)
Other	(50)	167
Net cash provided by (used in) financing activities	1,283	(38,182)
Effect of exchange rate changes on cash and cash equivalents	127	132
Change in cash and cash equivalents	131	(5,613)
Cash acquired from consolidation of variable interest entities	254	—
Cash and cash equivalents at beginning of period	7,071	9,499
Cash and cash equivalents at end of period	$ 7,456	$ 3,886

See accompanying notes.

Papa John's International, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements
(Unaudited)

June 27, 2004

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 three and six months ended June 27, 2004, are not necessarily indicative of the results that may be expected for the year ended December 26, 2004. 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, 2003.

2. Adoption of New Accounting Pronouncement

We adopted Statement of Financial Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity,* (SFAS No. 150) during the third quarter of 2003. SFAS No. 150 requires parent companies to record minority interest liabilities at estimated settlement value if the majority-owned subsidiary has equity instruments that are redeemable at a fixed date and such redemption is certain to occur. We adopted the provisions of SFAS No. 150 for our majority interest in one subsidiary, which owns and operates 24 Papa John's restaurants. During the third quarter of 2003, we recorded an after-tax cumulative effect adjustment of $413,000 ($660,000 pre-tax) or $0.02 per share, in our Consolidated Statements of Operations, related to the adoption of SFAS No. 150.

During the second quarter of 2004, we amended the operating agreement with the minority interest holder of the 24 restaurant subsidiary. The amended operating agreement eliminates a mandatory purchase requirement and related liability, and therefore the provisions of SFAS No. 150 are no longer applicable. Due to the amendment to the operating agreement, Papa John's recorded a reduction in the minority interest liability and a reduction in interest expense of $625,000 during the second quarter of 2004 to adjust the minority interest liability to book value from the previously recorded fair value.

3. Accounting for Variable Interest Entities

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* (FIN 46). In December 2003, the FASB modified FIN 46 to make certain technical corrections and address certain implementation issues that had arisen. FIN 46 provides a new framework for identifying variable interest entities ("VIEs") and determining when a company should include the assets, liabilities, noncontrolling 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 noncontrolling 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 in 1999, 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 quarterly price based in part upon historical average market prices. PJFS in turn sells cheese to Papa John's restaurants (both Company-owned and franchised) at a set quarterly price. PJFS purchased $33.4 million and $66.3 million of cheese from BIBP for the three and six months ended June 27, 2004, respectively, and $30.1 million and $61.8 million of cheese in the comparable periods in 2003, respectively.

As defined by FIN 46, we are the primary beneficiary of BIBP, a VIE, and we began consolidating the balance sheet of BIBP as of December 28, 2003. A cumulative effect adjustment was not required upon initial consolidation because BIBP had a surplus in stockholders' equity at the December 28, 2003 adoption date, and such surplus was reflected as a minority interest liability in other long-term liabilities in the consolidated balance sheet at December 28, 2003.

We will 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 losses of $18.3 million ($11.5 million net of tax, or $0.66 per share) and $20.0 million ($12.5 million net of tax, or $0.70 per share) for the three and six months ended June 27, 2004, respectively, from the consolidation of BIBP reflecting BIBP's 2004 operating losses, net of BIBP's shareholders' equity. The impact on future operating income from the consolidation of BIBP could be significant for any given reporting period due to the noted volatility of the cheese market, but is not expected to be cumulatively significant over time.

BIBP has a $15.0 million line of credit with a commercial bank. The $15.0 million line of credit is not guaranteed by Papa John's. If the line of credit is substantially utilized, Papa John's will provide additional funding in the form of a loan to BIBP. BIBP had borrowings of $9.6 million and a letter of credit of $3.0 million outstanding under the commercial line of credit facility and $11.0 million under the line of credit from Papa John's at June 27, 2004 (the $11.0 million line of credit is eliminated upon consolidation of the financial results of BIBP with Papa John's). BIBP had no borrowings at December 28, 2003.

In addition, Papa John's has extended loans to certain franchisees. Under FIN 46, Papa John's is deemed the primary beneficiary of four of these franchise entities even though we have no ownership interest in them. These entities operate a total of 33 restaurants with annual revenues approximating $20.0 million. Our net loan balance receivable from these four entities is $4.5 million at June 27, 2004, with no further funding commitments. The consolidation of these entities resulted in the recording of goodwill approximating $2.8 million and the elimination of the $4.5 million net loan balance receivable. The consolidation of these four franchise entities had no significant net impact (less than $25,000) on Papa John's operating results for the second quarter and six months ended June 27, 2004. The impact on future operating income from the consolidation of these or other qualifying entities is not expected to be significant.

The following table summarizes the balance sheets of the VIEs as of June 27, 2004:

(In thousands)	BIBP	Franchisees	Total
Assets:			
Cash and cash equivalents	$ 2,380	$ 150	$ 2,530
Accounts receivable	—	144	144
Accounts receivable - Papa John's	2,382	—	2,382
Other assets	1,540	564	2,104
Net property and equipment	—	4,136	4,136
Income tax receivable	7,515	6	7,521
Goodwill	—	2,769	2,769
Total assets	$ 13,817	$ 7,769	$ 21,586
Liabilities and stockholders' equity (deficit):			
Accounts payable and accrued expenses	$ 5,744	$ 1,566	$ 7,310
Debt - third party	9,575	1,659	11,234
Debt - Papa John's	11,000	4,530	15,530
Other liabilities	—	25	25
Total liabilities	$ 26,319	$ 7,780	$ 34,099
Stockholders' equity (deficit)	(12,502)	(11)	(12,513)
Total liabilities and stockholders' equity (deficit)	$ 13,817	$ 7,769	$ 21,586

4. Debt

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

	June 27, 2004	December 28, 2003
Revolving line of credit	$ 93,500	$ 61,000
Debt associated with VIEs *	11,234	—
Other	23	250
Total debt	104,757	61,250
Less: current portion of debt	(11,234)	(250)
Long-term debt	$ 93,523	$ 61,000

*The VIEs' third-party creditors do not have any recourse to Papa John's.

5. Calculation of Earnings (Loss) Per Share

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

	Three Months Ended		Six Months Ended	
	June 27, 2004	June 29, 2003	June 27, 2004	June 29, 2003
Basic earnings (loss) per common share:				
Net income (loss)	$ (2,573)	$ 10,854	$ 5,913	$ 21,839
Weighted average shares outstanding	17,402	17,905	17,617	17,912
Basic earnings (loss) per common share	$ (0.15)	$ 0.61	$ 0.34	$ 1.22
Earnings (loss) per common share - assuming dilution:				
Net income (loss)	$ (2,573)	$ 10,854	$ 5,913	$ 21,839
Weighted average shares outstanding	17,402	17,905	17,617	17,912

Dilutive effect of outstanding common stock options	—	94	238	99
Diluted weighted average shares outstanding	17,402	17,999	17,855	18,011
Earnings (loss) per common share - assuming dilution	$ (0.15)	$ 0.60	$ 0.33	$ 1.21

6. Stock-Based Compensation

Effective at the beginning of fiscal 2002, we elected to expense the cost of employee stock options in accordance with the fair value method contained in SFAS No. 123, *Accounting for Stock-Based Compensation.* Under SFAS No. 123, the fair value for options is estimated at the date of grant using a Black-Scholes option pricing model which requires the input of highly subjective assumptions including the expected stock price volatility. The election was effective as of the beginning of fiscal 2002 and applies to all stock options issued after the effective date. Prior to 2002, we followed Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, in accounting for our employee stock options. Under APB No. 25, no compensation expense is recognized provided the exercise price of employee stock options equals or exceeds the market price of the underlying stock on the date of grant.

The following table illustrates the effect on income and earnings per share if the fair value based method had been applied to all outstanding and unvested awards in each period:

	Three Months Ended		Six Months Ended	
(In thousands, except per share data)	**June 27, 2004**	**June 29, 2003**	**June 27, 2004**	**June 29, 2003**
Net income (loss) - as reported	$ (2,573)	$ 10,854	$ 5,913	$ 21,839
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects	376	14	726	27
Deduct: Stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(376)	(99)	(729)	(214)
Pro forma net income (loss)	$ (2,573)	$ 10,769	$ 5,910	$ 21,652
Earnings (loss) per share:				
Basic - as reported	$ (0.15)	$ 0.61	$ 0.34	$ 1.22
Basic - pro forma	$ (0.15)	$ 0.60	$ 0.34	$ 1.21
Assuming dilution - as reported	$ (0.15)	$ 0.60	$ 0.33	$ 1.21
Assuming dilution - pro forma	$ (0.15)	$ 0.60	$ 0.33	$ 1.20

7. Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of the following:

	Three Months Ended		Six Months Ended	
(In thousands)	**June 27, 2004**	**June 29, 2003**	**June 27, 2004**	**June 29, 2003**
Net income (loss)	$ (2,573)	$ 10,854	$ 5,913	$ 21,839
Change in valuation of interest rate collar and swap agreements, net of tax	1,222	(57)	1,425	278
Other, net	38	156	115	132
Comprehensive income (loss)	$ (1,313)	$ 10,953	$ 7,453	$ 22,249

8. 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 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 commissary operation located in the United Kingdom 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 the primary beneficiary, as defined in Note 3, 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.

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.

Our segment information is as follows:

(In thousands)	Three Months Ended June 27, 2004	Three Months Ended June 29, 2003	Six Months Ended June 27, 2004	Six Months Ended June 29, 2003
Revenues from external customers:				
Domestic Company-owned restaurants	$ 102,271	$ 103,372	$ 208,444	$ 209,614
Domestic commissaries	89,615	90,048	184,151	183,916
Domestic franchising	12,594	12,688	26,039	25,536
International	7,615	8,154	15,646	15,921
Variable interest entities (1)	5,045	—	5,045	—
All others	12,897	12,207	27,621	23,764
Total revenues from external customers	$ 230,037	$ 226,469	$ 466,946	$ 458,751
Intersegment revenues:				
Domestic commissaries	$ 27,080	$ 27,969	$ 56,213	$ 57,444
Domestic franchising	194	193	388	372
International	44	1,081	110	2,118
Variable interest entities (1)	33,398	—	66,345	—
All others	2,661	3,345	6,009	6,506
Total intersegment revenues	$ 63,377	$ 32,588	$ 129,065	$ 66,440
Income (loss) before income taxes:				
Domestic Company-owned restaurants	$ 2,180	$ 69	$ 4,115	$ 960
Domestic commissaries (2)	3,594	5,671	9,139	11,306
Domestic franchising	10,846	11,879	22,683	24,097
International	(49)	340	167	4
Variable interest entities (1)	(18,360)	—	(20,005)	—
All others	(153)	(782)	454	61
Unallocated corporate expenses (3)	(2,094)	264	(7,001)	(1,338)
Elimination of intersegment profits	(81)	(76)	(91)	(148)
Total income (loss) before income taxes	$ (4,117)	$ 17,365	$ 9,461	$ 34,942
Property and equipment:				
Domestic Company-owned restaurants	$ 154,701			
Domestic commissaries	71,655			
International	2,661			
Variable interest entities (4)	6,735			
All others	12,230			
Unallocated corporate assets	115,708			
Accumulated depreciation and amortization	(162,696)			
Net property and equipment	$ 200,994			

(1) The revenues from external customers for variable interest entities are attributable to the four franchise entities to which we have extended loans that qualify as VIEs. The intersegment revenues for variable interest entities of $33.4 million and $66.3 million for the three and six months ended June 27, 2004, are attributable to BIBP. The income (loss) before income taxes for variable interest entities of $18.4 million and $20.0 for the three and six months ended June 27, 2004 primarily relates to BIBP.

(2) The results for the domestic commissaries segment are favorably impacted by a reduction in the corporate expense allocations approximating $650,000 and $1.3 million for the second quarter and six months ended June 27, 2004, as compared to the same periods in 2003.

(3) The increase in 2004 unallocated corporate expenses from 2003 is primarily due to: (1) increases of $1.1 million and $3.0 million, respectively, in G&A expenses for the three and six months ended June 27, 2004, primarily attributable to stock options awarded in 2003 and incentive compensation awarded in 2004; (2) the above-noted reduction in the corporate allocations to domestic commissaries approximating $650,000 and $1.3 million, respectively; and (3) increases in the provision for uncollectible accounts receivable of $185,000 and $600,000, respectively.

(4) Represents assets of VIE franchisees to which we have extended loans.

9. Subsequent Event

On July 26, 2004, Papa John’s entered into a joint venture arrangement with a third party. Under the terms of the arrangement, Papa John’s effectively sold 49% of 71 Company-owned restaurants located in Texas to a third party for $3.0 million ($2.5 million in cash and $500,000 as a note payable to Papa John’s). No significant gain or loss is anticipated from the sale of Papa John’s 49% interest in the 71 restaurants. Papa John’s will retain a 51% ownership interest and will be required to consolidate the financial results of the joint venture with those of Papa John’s.

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

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. 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 and intangible (i.e., goodwill) assets is evaluated annually or more frequently 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 and intangible assets based on forecasted undiscounted cash flows. The estimation of future cash flows requires management's judgment concerning future operations, economic growth in local or regional markets and the impact of competition. There are inherent uncertainties related to these factors and management's judgments in applying these factors to the analysis of long-lived and intangible asset impairment. It is possible that the assumptions underlying the impairment analysis will change in such a manner that additional impairment charges may occur.

Insurance Reserves

Our insurance programs for workers' compensation, general liability, owned and non-owned automobiles and health insurance coverage provided to our employees, and the captive insurance program provided to our franchisees 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 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.

We recorded increases of $1.2 million and $1.5 million for the three and six months ended June 27, 2004 and an increase of $2.4 million for the three and six months ended June 29, 2003 in existing claims loss reserves, as compared to expected claims costs, at our captive insurance company based on mid-year actuarial valuations.

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 Financial Accounting Standards Board's ("FASB") Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51 (FIN 46)*, we began consolidating the balance sheet of BIBP at the end of the fourth quarter of 2003. We recognized pre-tax losses of $18.3 million and $20.0 million for the three and six months ended June 27, 2004 from the consolidation of BIBP. The consolidation of BIBP could 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 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.

The spot market for cheese has experienced significant volatility during 2004 as the price increased from $1.30 per pound at the beginning of 2004 to $2.04 per pound as of March 28, 2004 and decreased to $1.45 per pound as of June 27, 2004. Based on the Chicago Mercantile Exchange milk futures market prices as of July 30, 2004, and the actual third quarter and projected fourth quarter 2004 and first and second quarter 2005 cheese costs to restaurants as determined by the BIBP pricing formula, the consolidation of BIBP is projected to increase (decrease) our operating income as follows (in thousands):

Quarter 3 - 2004	$	(964)
Quarter 4 - 2004		1,438
Quarter 1 - 2005		4,102
Quarter 2 - 2005		4,427
	$	9,003

Restaurant Progression:

	Three Months Ended		Six Months Ended	
	June 27, 2004	June 29, 2003	June 27, 2004	June 29, 2003
Papa John's Restaurant Progression:				
U.S. Company-owned:				
Beginning of period	568	585	568	585
Opened	1	2	3	5
Closed	(3)	(2)	(5)	(5)
End of period	566	585	566	585
International Company-owned:				
Beginning of period	2	7	2	9
Closed	—	(1)	—	(1)
Acquired from franchisees	—	1	—	1
Sold to franchisees	(1)	(2)	(1)	(4)
End of period	1	5	1	5
U.S. franchised:				
Beginning of period	2,017	2,006	2,006	2,000
Opened	18	10	38	25
Closed	(51)	(12)	(60)	(21)
End of period	1,984	2,004	1,984	2,004

International franchised:				
Beginning of period	222	202	214	198
Opened	7	9	19	17
Closed	(10)	(9)	(14)	(15)
Acquired from Company	1	2	1	4
Sold to Company	—	(1)	—	(1)
End of period	220	203	220	203
Total restaurants - end of period	2,771	2,797	2,771	2,797
Perfect Pizza Restaurant Progression:				
Franchised				
Beginning of period	127	142	135	144
Opened	2	1	2	1
Closed	(5)	(2)	(13)	(4)
Total restaurants - end of period	124	141	124	141

Results of Operations

As required by FIN 46, our operating results include BIBP's operating results. The consolidation of BIBP had a significant impact on the first six months of operating results 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 in two separate components of our statement of operations. 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 remainder 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.

In addition, we have extended loans to certain franchisees. Under the FIN 46 rules, Papa John's is deemed to be the primary beneficiary of four of these franchisees, even though we have no ownership interest in them. Beginning in the second quarter of 2004, FIN 46 requires us to recognize the operating income (losses) generated by these four franchise entities (representing 33 Papa John's restaurants). For the second quarter and full year of 2004, the consolidation of these four franchise entities had no significant net impact (less than $25,000) on our operating results, generating revenues of $5.0 million, operating expenses of $4.7 million and other expenses (including G&A, depreciation and interest) totaling $300,000.

Revenues. Total revenues increased 1.6% to $230.0 million for the three months ended June 27, 2004, from $226.5 million for the comparable period in 2003, and increased 1.8% to $466.9 million for the six months ended June 27, 2004, from $458.8 million for the comparable period in 2003.

Domestic corporate restaurant sales decreased 1.1% to $102.3 million for the three months ended June 27, 2004, from $103.4 million for the same period in 2003, and decreased to $208.4 million for the six months ended June 27, 2004, from $209.6 million for the comparable period in 2003. These decreases are primarily due to decreases of 2.6% and 2.5% in equivalent units, as we closed 22 under performing restaurants in the fourth quarter of 2003, partially offset by 0.3% and 0.8% increases in comparable sales for the three and six month periods in 2004. "Equivalent restaurants" represents the number of restaurants open at the beginning of a given period, adjusted for restaurants opened, closed, acquired or sold during the period on a weighted average basis.

Variable interest entities restaurant sales include restaurant sales for four franchise entities to which we have extended loans, that qualify as VIEs. We began consolidating the operating results of these entities beginning in the second quarter of 2004.

Domestic franchise sales decreased 2.0% to $318.3 million for the three months ended June 27, 2004, from $324.6 million for the same period in 2003, and were essentially the same for both six-month periods at $653.3 million. The decrease for the three months ended June 27, 2004, primarily resulted from a 2.6% decrease in comparable sales for the 2004 quarter and a 0.4% decrease in the number of equivalent franchise units. Domestic franchise royalties decreased 2.9% to $12.1 million for the three months ended June 27, 2004, from $12.5 million for the comparable period in 2003, and were $25.0 million for both six-month periods in 2004 and 2003. The decrease for the three months ended June 27, 2004 is due to the previously mentioned decrease in franchised sales.

The comparable sales base and average weekly sales for 2004 and 2003 for domestic corporate and franchised restaurants consisted of the following:

	Three Months Ended			
	June 27, 2004		June 29, 2003	
	Company	**Franchise**	**Company**	**Franchise**
Total domestic units (end of period)	566	1,984	585	2,004
Equivalent units	563	1,982	578	1,990
Comparable sales base units	548	1,890	563	1,906
Comparable sales base percentage	97.3%	95.4%	97.4%	95.8%
Average weekly sales - comparable units	$ 14,054	$ 12,482	$ 13,841	$ 12,626
Average weekly sales - other units	$ 10,976	$ 9,702	$ 10,761	$ 10,853

Average weekly sales - all units	$	13,972	$	12,353	$	13,762	$	12,552

	Six Months Ended							
	June 27, 2004				June 29, 2003			
	Company		Franchise		Company		Franchise	
Total domestic units (end of period)		566		1,984		585		2,004
Equivalent units		563		1,988		578		1,986
Comparable sales base units		548		1,908		561		1,886
Comparable sales base percentage		97.2%		96.0%		97.1%		95.0%
Average weekly sales - comparable units	$	14,339	$	12,727	$	14,055	$	12,772
Average weekly sales - other units	$	10,660	$	10,472	$	10,775	$	10,779
Average weekly sales - all units	$	14,237	$	12,636	$	13,961	$	12,672

Domestic franchise and development fees were $474,000 for the three months ended June 27, 2004, including approximately $109,000 recognized upon development cancellation or franchise renewal and transfer, compared to $208,000 for the same period in 2003 and increased to $1.0 million for the six months ended June 27, 2004, including approximately $243,000 recognized upon development cancellation or franchise renewal and transfer, from $539,000 for the same period in 2003. These increases were due to 18 and 38 domestic franchise openings, respectively, during the three and six months ended June 27, 2004, compared to 10 and 25 opened during the same periods in 2003.

Domestic commissary sales decreased slightly to $89.6 million for the three months ended June 27, 2004, from $90.0 million for the comparable period in 2003 and were essentially flat for the six months ended June 27, 2004 with the comparable period in 2003, as the impact of higher cheese price increases were substantially offset by lower volumes resulting from decreased restaurant transactions. Other sales increased to $12.9 million for the three months ended June 27, 2004, from $12.2 million for the comparable period in 2003, primarily as a result of an increase in revenues associated with insurance-related services provided to franchisees. Other sales increased to $27.6 million for the six months ended June 27, 2004 from $23.8 million for the comparable period in 2003, primarily as a result of an increase in revenues associated with insurance-related services to franchisees and the first quarter promotional item sales associated with our March 2004 NCAA national promotion.

International revenues consist of the Papa John's United Kingdom (U.K.) operations, denominated in British Pounds Sterling and converted to U.S. dollars (91% of international revenues for both the three and six-month periods in 2004) and combined revenues from operations in 15 other international markets denominated in U.S. dollars. Total international revenues decreased 6.6% to $7.6 million for the three months ended June 27, 2004, compared to $8.2 million for the comparable period in 2003, reflecting a decrease in restaurant revenues due to the operation of only one Company-owned restaurant during the second quarter of 2004 as compared to an average of six restaurants for the comparable period in 2003. Total international revenues decreased 1.7% to $15.6 million for the six months ended June 27, 2004, compared to $15.9 million for the same period in 2003, as revenues from increased unit openings and the impact of a more favorable dollar/pound exchange rate were more than offset by a decrease in corporate restaurant revenues due to the operation of only one Company-owned restaurant during the first six months of 2004 as compared to an average of six restaurants for the comparable period in 2003.

Costs and Expenses. The restaurant operating margin at domestic Company-owned units was 13.5% and 14.9% for the three and six months ended June 27, 2004, compared to 17.6% and 17.7% for the same periods in 2003, consisting of the following differences:

- Cost of sales were 4.3% and 3.2% higher as a percentage of sales for the three and six month periods in 2004 compared to the same periods in 2003, due primarily to the consolidation of BIBP, which increased cost of sales 4.1% and 2.6% for the three and six months ended June 27, 2004. The remaining increases in cost of sales is due to higher cheese costs as charged by BIBP, which were substantially offset by lower costs for other commodities as a result of the various product cost savings initiatives, and the impact of an increase in restaurant pricing.
- Salaries and benefits were 0.4% and 0.5% lower as a percentage of sales in 2004 due to staffing efficiencies and leverage on pricing increases.
- Advertising and related costs as a percentage of sales were relatively flat.
- Occupancy costs as a percentage of sales were relatively flat.
- Other operating expenses were 0.2% higher for the three months ended June 27, 2004 primarily as a result of increased workers' compensation costs. Other operating expenses for the six-month period in 2004 were flat.

Domestic commissary and other margin was 6.9% and 7.6% for the three and six months ended June 27, 2004, compared to 9.0% and 9.6% for the same periods in 2003. Cost of sales was 71.6% of revenues for the three months ended June 27, 2004, compared to 68.8% for the same period in 2003, and 71.9% for the six months ended June 27, 2004, compared to 69.7% for the same period in 2003. The increases are primarily due to higher cheese costs incurred by the commissaries (cheese has a fixed-dollar as opposed to fixed-percentage mark-up) and increased sales of lower-margin products, such as promotional items (principally DVDs). Salaries and benefits as a percentage of sales were substantially the same as the corresponding periods in 2003. Other operating expenses decreased to 14.6% of sales for the three months ended June 27, 2004, from 15.3% for the same period in 2003, primarily as a result of a $1.2 million decrease in claims loss reserves related to the franchise insurance program recorded in the second quarter of 2004 as compared to 2003. Other operating expenses as a percentage of sales were substantially the same in both six-month periods.

An updated actuarial valuation completed for our franchise insurance program during the second quarter of 2004 indicated an increase in claims loss reserves of approximately $1.5 million was required in excess of the expected claims losses, of which $300,000 was recorded in the first quarter of 2004. However, an even larger increase in claims loss reserves ($2.4 million over expected levels) was required in the second quarter of 2003. We believe claims loss reserves are at adequate levels as of the end of the second quarter; however the estimated insurance claims losses could be significantly affected should the frequency or ultimate cost of claims significantly differ from the trends used to estimate the recorded insurance reserves.

The loss from the franchise cheese purchasing program, net of minority interest, was $14.0 million and $14.3 million for the three and six months ended June 27, 2004. This represents the portion of the total $18.3 million BIBP operating loss related to the proportion of BIBP cheese sales to franchisees (77% for both the three and six-month periods).

International operating margin increased to 17.2% and 17.1% for the three and six months ended June 27, 2004, from 15.5% and 14.7% for the same periods in 2003, due to the disposition of Company-owned restaurants, which had a lower margin than our commissary operation.

General and administrative expenses were $17.6 million or 7.6% of revenues for the three months ended June 27, 2004, compared to $16.5 million or 7.3% of revenues for the same period in 2003, and $36.1 million or 7.7% of revenues for the six months ended June 27, 2004, compared to $33.1 million or 7.2% of revenues for the same period in 2003. The increase for the three-month period in 2004 is primarily attributable to: a $375,000 increase in bonuses paid to corporate and restaurant management who met pre-established targets for their operating units; a $500,000 increase in compensation expense related to stock options awarded in late 2003 that vest over a 12-month period throughout 2004; and a $540,000 increase in administrative costs associated with our international operations to support our new franchisees. The increase for the six-month period in 2004 is primarily attributable to: a $930,000 increase in bonuses paid to corporate and restaurant management who met pre-established targets for their operating units, a $1.0 million increase in compensation expense related to stock options awarded in late 2003 that vest over a 12-month period throughout 2004, a $600,000 increase in administrative costs associated with our international operations to support our new franchisees and $380,000 of consulting fees associated with our initiatives to identify opportunities for improving restaurant operating margins.

Provisions for uncollectible notes receivable of $4,000 and $236,000, respectively, were recorded in the three and six months ended June 27, 2004, compared to $375,000 and $801,000 for the same periods of 2003. The provisions were based on our evaluation of our franchise loan portfolio.

Restaurant closure, impairment and disposition losses of $28,000 and $167,000 were recorded for the three and six months ended June 27, 2004, compared to $407,000 and $482,000 for the comparable periods in 2003. These losses are related to under-performing restaurants that are subject to impairment or identified for closure as required by Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.*

Other general expenses (income) reflected net expense of $434,000 for the three months ended June 27, 2004, compared to net income of $1.3 million for the comparable period in 2003, and net expense of $1.4 million for the six months ended June 27, 2004, compared to net income of $771,000 for the same period in 2003. The three-month period ended June 27, 2004 included a $455,000 provision for uncollectible accounts receivable and $315,000 related to the disposition or valuation losses for other assets, partially offset by a gain of $550,000 related to the sale of unused property. The three-month period ended June 29, 2003 included $42,000 of pre-opening costs, $192,000 of restaurant relocation costs and $213,000 related to disposition or valuation losses for other assets. These costs were more than offset by $2.0 million of income derived from the settlement of a litigation matter. The six-month period ended June 27, 2004, included $130,000 of restaurant relocation costs, $736,000 of disposition and valuation related costs of other assets and a $898,000 provision for uncollectible accounts receivable, partially offset by the previously mentioned $550,000 gain on the sale of unused property. The six-month period ended June 29, 2003, included $110,000 of pre-opening costs, $242,000 of restaurant relocation costs, and $449,000 related to disposition or valuation losses for other assets. The costs were more than offset by the previously mentioned $2.0 million of income derived from the settlement of a litigation matter.

Depreciation and amortization was $7.8 million (3.4% of revenues) for the three months ended June 27, 2004 and June 29, 2003 and $15.4 million (3.3% of revenues) for the six months ended June 27, 2004, compared to $15.7 million (3.4% of revenues) for the same period in 2003.

Net interest. Net interest expense was $756,000 in the second quarter of 2004, compared to $1.5 million in 2003, and $2.0 million for the six months ended June 27, 2004, compared to $3.2 million for the comparable period in 2003. The primary reason for the reduction in the three and six months ended June 27, 2004 as compared to prior year is due to a $625,000 benefit we recorded, under the provisions of SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, associated with a change in a joint venture operating agreement eliminating a mandatory purchase requirement and related liability. No such favorable adjustments are expected in future quarters. The six-month period was also impacted by a lower average debt outstanding during the first six months of 2004 as compared to 2003.

Income Tax Expense. The effective income tax rate was 37.5% for the three and six months ended June 27, 2004 and June 29, 2003.

Operating Income (Loss) and Earnings (Loss) Per Common Share. The operating loss for the three months ended June 27, 2004 was ($3.4) million or (1.5%) of revenues, compared to operating income of $18.9 million or 8.3% of revenues for the same period in 2003, and operating income decreased to $11.5 million or 2.5% of revenues for the six months ended June 27, 2004, from $38.1 million or 8.3% of total revenues for the same period in 2003. The decreases in operating income are primarily due to: the impact of consolidating BIBP, which reduced pre-tax income approximately $18.3 million and $20.0 million for the three and six months ended June 27, 2004; a decrease in our domestic commissary operations of $2.1 million and $2.2 million for the three and six month periods ended June 27, 2004, respectively, as a result of lower sales volumes; and the previously mentioned increases in general and administrative expenses in 2004 as compared to 2003.

Diluted earnings (loss) per share for the three months ended June 27, 2004 were ($0.15) compared to $0.60 in 2003 and $0.33 for the six months ended June 27, 2004 compared to $1.21 in 2003.

Liquidity and Capital Resources

Our debt is comprised of the following:

	June 27, 2004	December 28, 2003
Revolving line of credit	$ 93,500	$ 61,000
Debt associated with VIEs *	11,234	—
Other	23	250
Total debt	104,757	61,250
Less: current portion of debt	(11,234)	(250)
Long-term debt	$ 93,523	$ 61,000

*The VIEs' third-party creditors do not have any recourse to Papa John's.

The revolving line of credit allows us to borrow up to $175.0 million with an expiration date of January 2006. Outstanding balances accrue interest at 62.5 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 15.0 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).

Cash flow from operations decreased to $6.1 million for the six months ended June 27, 2004, from $38.8 million for the comparable period in 2003, reflecting lower net income of $15.9 million in 2004 and unfavorable changes in accounts payable and income and other taxes in 2004. The reduction in accounts payable and income and other taxes were the result of the routine timing of payments.

We require capital primarily for the development, acquisition, renovation and maintenance of restaurants, the development, renovation and maintenance of quality control centers and support services facilities and equipment and the enhancement of corporate systems and facilities. Additionally, we began a common stock repurchase program in December 1999. During the six months ended June 27, 2004, common stock repurchases of $50.7 million and capital expenditures of $10.3 million were funded primarily by cash flow from operations, the proceeds from stock option exercises, net proceeds from debt arrangements and available cash and cash equivalents.

Our Board of Directors has authorized the repurchase of up to $425.0 million of our common stock through December 26, 2004. Through June 27, 2004, an aggregate of $402.4 million had been repurchased. Approximately 16.9 million shares were outstanding as of June 27, 2004. Subsequent to June 27, 2004, through July 30, 2004, we repurchased an additional 146,000 shares at an aggregate cost of $4.3 million (an average price of $29.20 per share).

Capital resources available at June 27, 2004, include $7.5 million of cash and cash equivalents and approximately $59.0 million remaining borrowing capacity, reduced for outstanding letters of credit of $22.5 million, under a $175.0 million, three-year, unsecured revolving line of credit agreement expiring in January 2006. We expect to fund planned capital expenditures and additional discretionary repurchases of our common stock, if any, for the remainder of 2004 from these resources and operating cash flows.

Forward Looking Statements

Certain information contained in this quarterly report, particularly information regarding future financial performance and plans and objectives of management, is forward-looking. Certain factors could cause actual results to differ materially from those expressed in forward-looking statements. These factors include, but are not limited to the uncertainties associated with litigation; increases in projected claims losses for the Company's self-insured coverage or within the captive franchise insurance program; increases in advertising promotions and discounting by competitors which may adversely affect sales; new product and concept developments by food industry competitors; the ability of the Company and its franchisees to open new restaurants and operate new and existing restaurants profitably; increases in food, labor, utilities, fuel, employee benefits, insurance and similar costs; the ability to obtain ingredients from alternative suppliers if needed; health- or disease-related disruptions or consumer concerns about the commodity supply; economic and political and health conditions in the countries in which the Company or its franchisees operate; the selection and availability of suitable restaurant locations; negotiation of suitable lease or financing terms; constraints on permitting and construction of restaurants; higher than anticipated construction costs; the hiring, training and retention of management and other personnel; changes in consumer taste, demographic trends, traffic patterns and the type, number and location of competing restaurants; federal and state laws governing such matters as wages, working conditions, citizenship requirements and overtime; and labor shortages in various markets resulting in higher required wage rates. These factors might be especially harmful to the financial viability of franchises in under-penetrated or emerging markets, leading to greater unit closings than anticipated. Our international operations are subject to additional factors, including currency regulations and fluctuations; differing cultures and consumer preferences; diverse government regulations and structures; ability to source high quality ingredients and other commodities in a cost-effective manner; differing interpretation of the obligations established in franchise agreements with international franchisees; and the successful conversion of Perfect Pizza restaurants to Papa John's restaurants. See "Part I. Item 1. – Business Section – Forward-Looking Statements" of the Annual Report on Form 10-K for the fiscal year ended December 28, 2003 for additional factors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our debt at June 27, 2004 is principally comprised of a $93.5 million outstanding principal balance on the $175.0 million unsecured revolving line of credit. The interest rate on the revolving line of credit is variable and is based on LIBOR plus a 62.5 to 100.0 basis point spread, tiered based upon debt and cash flow levels. In November 2001, we entered into an interest rate swap agreement that provides for a fixed rate of 5.31%, as compared to LIBOR, on $100.0 million of floating rate debt from March 2003 to March 2004, reducing to a notional value of $80.0 million from March 2004 to March 2005, and reducing to a notional value of $60.0 million in March 2005 with an expiration date of March 2006.

The effective interest rate on the line of credit, including the impact of the interest rate swap agreement, was 5.36% as of June 27, 2004. An increase in the present interest rate of 100 basis points on the line of credit debt balance outstanding as of June 27, 2004, as mitigated by the interest rate swap based on present interest rates, would increase annual interest expense approximately $135,000. The annual impact of a 100 basis point increase in interest rates on the debt associated with VIEs would be $112,000.

Substantially all of our business is transacted in U.S. dollars. Accordingly, foreign exchange rate fluctuations do not have a significant impact on our operating results.

Cheese costs, historically representing 35% to 40% of our total food cost, are subject to seasonal fluctuations, weather, availability, demand and other factors that are beyond our control. As previously discussed in Results of Operations and Critical Accounting Policies and Estimates, we have a purchasing arrangement with a third-party entity, BIBP, formed at the direction of our Franchise Advisory Council for the sole purpose of reducing cheese price volatility to domestic system-wide restaurants. Under this arrangement, domestic Company-owned and franchised restaurants are able to purchase cheese at a fixed price per pound throughout a given quarter, based in part on historical average cheese prices. Gains and losses incurred by BIBP are used as a factor in determining adjustments to the selling price to restaurants over time. As a result, for any given quarter, the price paid by the domestic Company-owned and franchised restaurants may be less than or greater than the prevailing average market price.

As a result of the adoption of FIN 46, Papa John's began consolidating the operating results of BIBP in 2004. Consolidation accounting requires the portion of BIBP operating income (loss) related to domestic Company-owned restaurants to be reflected as a reduction (increase) in the "Domestic Company-owned restaurant expenses – cost of sales" line item, thus reflecting the actual market price of cheese had the purchasing arrangement not existed. The consolidation of BIBP had a significant impact on our first six months of operating results and is expected to have a significant impact on future operating results depending on the prevailing spot block market price of cheese as compared to the price charged to domestic restaurants. Over time, we expect BIBP to achieve break-even financial results.

The following table presents the actual average block market price for cheese and the BIBP block price by quarter for 2003 and as projected through the end of 2004 (based on the July 30, 2004 Chicago Mercantile Exchange (CME) milk futures market prices):

	2003		2004	
	BIBP Block Price	Actual Block Price	BIBP Block Price	Actual Block Price
Quarter 1	$ 1.159	$ 1.115	$ 1.220	$ 1.426
Quarter 2	1.122	1.134	1.326	2.012
Quarter 3	1.242	1.536	1.556	1.578*
Quarter 4	1.217	1.474	1.542*	1.499*
Full Year	$ 1.185	$ 1.315	$ 1.411*	$ 1.629*

*amounts are projections.

Based on the above-noted CME milk futures market prices and the actual third quarter and projected fourth quarter 2004 and first and second quarter 2005 cheese costs to restaurants as determined by the BIBP pricing formula, the consolidation of BIBP is projected to increase (decrease) our operating income as follows (in thousands):

	2004	2005
Quarter 1	$ (1,647)	$ 4,102*
Quarter 2	(18,248)	4,427*
Quarter 3	(964)*	N/A
Quarter 4	1,438*	N/A
Full Year	$ (19,421)*	N/A

* - amounts are projections
N/A - information not yet available

Over the long-term, we expect to purchase cheese at a price approximating the actual average market price and therefore we do not generally make use of financial instruments to hedge commodity prices.

Item 4. Controls and Procedures

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

The Papa John’s Board of Directors has authorized the repurchase of up to $425.0 million of common stock under a share repurchase program that began December 9, 1999, and runs through December 26, 2004. Through June 27, 2004, a total of 15.1 million shares with an aggregate cost of $402.4 million and an average price of $26.57 per share have been repurchased under this program and placed in treasury. The following table summarizes our repurchases by fiscal period during 2004 (in thousands, except per share amounts):

Fiscal Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs

12/29/2003 - 01/25/2004	257	$	32.26	13,824	$	65,074
01/26/2004 - 02/22/2004	377	$	34.28	14,201	$	52,161
02/23/2004 - 03/28/2004	94	$	35.43	14,295	$	48,814
03/29/2004 - 04/25/2004	58	$	33.42	14,353	$	46,876
04/26/2004 - 05/23/2004	461	$	31.73	14,814	$	32,240
05/24/2004 - 06/27/2004	332	$	28.96	15,146	$	22,644

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

Our annual meeting of stockholders was held on May 13, 2004 at our corporate offices in Louisville, Kentucky.

At the meeting, our stockholders elected three directors to serve until the 2007 annual meeting of stockholders. The vote counts were as follows:

	Affirmative	Withheld
F. William Barnett	16,504,705	664,216
Norborne P. Cole, Jr.	16,260,527	908,394
William M. Street	16,925,672	243,249

Our other directors continue to serve until either the 2005 or 2006 annual meetings, in accordance with their previous election: 2005 - John H. Schnatter, Owsley Brown Frazier, and Wade S. Oney; 2006 – Philip Guarascio, Olivia F. Kirtley, and Jack A. Laughery.

At the meeting, our stockholders ratified the selection of Ernst & Young LLP as our independent auditors for the fiscal year ending December 26, 2004, by a vote of 16,885,566 affirmative to 277,511 negative, with 5,844 abstention votes. The stockholders also approved the adoption of the Papa John's International, Inc., 2003 Stock Option Plan for Non-Employee Directors by a vote of 7,684,765 affirmative to 7,633,965 negative, with 11,590 abstention votes.

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

Exhibit Number	Description
31.1	Section 302 Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a -15(e)
31.2	Section 302 Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a -15(e)
32.1	Section 906 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Section 906 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Cautionary Statements. Exhibit 99.1 to our Annual Report on Form 10-K for the fiscal year ended December 28, 2003 (Commission File No. 0-21660) is incorporated herein by reference.

b. Current Reports on Form 8-K filed in the second quarter of 2004:

1. We filed a Current Report on Form 8-K on May 5, 2004, attaching a press release dated May 4, 2004, announcing our first quarter 2004 financial results.

SIGNATURES

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

PAPA JOHN'S INTERNATIONAL, INC.
(Registrant)

Date: August 4, 2004

/s/ J. David Flanery
J. David Flanery
Senior Vice President and Chief Financial Officer

EXHIBIT 31.1

SECTION 302
CERTIFICATION

I, John H. Schnatter, Chairman, Chief Executive Officer and President, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Papa John’s International, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 4, 2004

/s/ John H. Schnatter
John H. Schnatter
Chairman, Chief Executive Officer
and President

EXHIBIT 31.2

**SECTION 302
CERTIFICATION**

I, J. David Flanery, Senior Vice President and Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Papa John's International, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2004

/s/ J. David Flanery

J. David Flanery
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

**SECTION 906
CERTIFICATION**

I, John H. Schnatter, Chairman, Chief Executive Officer and President of Papa John's International, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Report on Form 10-Q of the Company for the quarterly period ended June 27, 2004 (the "Report") fully complies with the requirements of Section 13 (a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 4, 2004

/s/ John H. Schnatter
John H. Schnatter
Chairman, Chief Executive Officer
and President

EXHIBIT 32.2

SECTION 906
CERTIFICATION

I, J. David Flanery, Senior Vice President and Chief Financial Officer of Papa John's International, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Report on Form 10-Q of the Company for the quarterly period ended June 27, 2004 (the "Report") fully complies with the requirements of Section 13 (a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 4, 2004

/s/ J. David Flanery
J. David Flanery
Senior Vice President and Chief
Financial Officer