

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 30, 1996

OR

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

COMMISSION FILE NUMBER: 0-21660

PAPA JOHN'S INTERNATIONAL, INC.  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

61-1203323  
(I.R.S. Employer  
Identification Number)

11492 BLUEGRASS PARKWAY, SUITE 175  
LOUISVILLE, KENTUCKY 40299-2334  
(Address of principal executive offices)

(502) 266-5200  
(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  
--- ---

At August 2, 1996, there were outstanding 19,078,252 shares of the registrant's common stock, par value \$.01 per share.

PAPA JOHN'S INTERNATIONAL, INC. AND SUBSIDIARIES

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## 1

PAPA JOHN'S INTERNATIONAL, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

<TABLE>  
<CAPTION>

	June 30, 1996 (Unaudited)	December 31, 1995 (Note)
<S>	<C>	<C>
(In thousands)		
Assets		
Current assets:		
Cash and cash equivalents.....	\$ 31,871	\$ 19,904
Accounts receivable.....	10,914	10,198
Inventories.....	5,639	5,188
Deferred pre-opening costs.....	2,266	1,936
Prepaid expenses and other current assets..	903	1,092
	-----	-----
Total current assets.....	51,593	38,318
Investments.....	58,408	24,394
Net property and equipment.....	64,411	56,699
Notes receivable from franchisees.....	3,485	837
Other assets.....	11,581	8,571
	-----	-----
Total assets.....	\$189,478	\$128,819
	=====	=====
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable.....	\$ 8,334	\$ 9,388
Accrued expenses.....	6,843	6,432
Current maturities of long-term debt.....	695	830
Deferred income taxes.....	266	250
	-----	-----
Total current liabilities.....	16,138	16,900
Unearned franchise and development fees.....	2,771	2,678
Long-term debt, less current maturities.....	1,505	1,680
Deferred income taxes.....	1,481	1,034
Other long-term liabilities.....	230	245
Stockholders' equity:		
Preferred stock.....	--	--
Common stock.....	191	178
Additional paid-in capital.....	141,521	88,133
Unrealized loss on investments.....	(385)	(263)
Deferred compensation.....	(75)	(4)
Retained earnings.....	26,593	18,842
	-----	-----
.....	26,593	18,842
Reacquired treasury stock.....	(492)	(604)
	-----	-----
Total stockholders' equity.....	167,353	106,282
	-----	-----
Total liabilities and stockholders' equity.....	\$189,478	\$128,819
	=====	=====

</TABLE>

Note: The balance sheet at December 31, 1995 has been derived from the audited financial statements at that date but does not include all information and footnotes required by generally accepted accounting principles for complete financial statements



Equity	Authorized	Issued	Value	Capital	Investments	Compensation	Earnings	Stock
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
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(In thousands)								
Balance at December 25, 1994	35,000	16,219	\$162	\$ 55,709	\$ (651)	\$ (37)	\$ 8,039	\$ (613)
Issuance of common stock	--	36	--	650	--	--	--	--
Exercise of stock options	--	68	1	202	--	--	--	--
Stock compensation and other	--	--	--	--	--	20	--	17
Change in unrealized gain (loss) on investments	--	--	--	--	382	--	--	--
Tax benefit related to exercise of non-qualified stock options	--	--	--	484	--	--	--	--
Net income	--	--	--	--	--	--	4,697	--
Balance at June 25, 1995	35,000	16,323	\$163	\$ 57,045	\$ (269)	\$ (17)	\$12,736	\$ (596)
Balance at December 31, 1995	35,000	17,846	\$178	\$ 88,133	\$ (263)	\$ ( 4)	\$18,842	\$ (604)
Issuance of common stock	--	1,139	11	50,546	--	--	--	--
Exercise of stock options	--	79	1	648	--	--	--	--
Stock compensation and other	--	--	--	39	--	(71)	--	112
Tax benefit related to exercise of non-qualified stock options	--	--	--	701	--	--	--	--
Acquisitions	--	34	1	1,454	--	--	--	--
Change in unrealized gain (loss) on investments	--	--	--	--	(122)	--	--	--
Net income	--	--	--	--	--	--	7,751	--
Balance at June 30, 1996	35,000	19,098	\$191	\$141,521	\$ (385)	\$ (75)	\$26,593	\$ (492)

See accompanying notes.

	Six Months Ended	
	June 30, 1996	June 25, 1995
<S>	-----	-----
	<C>	<C>
(In thousands)		
Operating activities		
Net cash provided by operating activities.....	\$ 9,329	\$ 2,788
Investing activities		
Purchase of property and equipment.....	(11,465)	(19,844)
Purchase of investments.....	(40,114)	(57)
Proceeds from sale or maturity of investments.....	6,681	3,356
Loans to franchisees.....	(2,648)	(100)
Acquisitions.....	(30)	(643)
Other.....	(840)	(114)
	-----	-----
Net cash used in investing activities.....	(48,416)	(17,402)
Financing activities		
Proceeds from issuance of long-term debt.....	--	2,000
Payments on long-term debt.....	(837)	(602)
Proceeds from issuance of common stock.....	50,557	--
Proceeds from exercise of stock options.....	649	203
Tax benefit related to exercise of non-qualified stock options.....	701	484
Other.....	(16)	174
	-----	-----
Net cash provided by financing activities.....	51,054	2,259
	-----	-----
Net increase(decrease) in cash and cash equivalents..	11,967	(12,355)
Cash and cash equivalents at beginning of period....	19,904	12,773
	-----	-----
Cash and cash equivalents at end of period.....	\$ 31,871	\$ 418
	=====	=====

</TABLE>

See accompanying notes.

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PAPA JOHN'S INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

June 30, 1996

NOTE 1 -- BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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 generally accepted accounting principles 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 30, 1996, are not necessarily indicative of the results that may be expected for the year ended December 29, 1996. For further information, refer to the consolidated financial statements and footnotes thereto included in the Papa John's International, Inc. Annual Report on Form 10-K for the year ended December 31, 1995.

Certain prior year data has been reclassified to conform to the 1996 presentation.

NOTE 2 -- BUSINESS COMBINATIONS

In February 1996, the Company purchased the assets and assumed certain liabilities of one Papa John's restaurant in Floyds Knob, Indiana, from Educators, Inc., a franchisee, for \$60,000. The purchase price consisted of a cash payment of \$30,000 and the issuance of 1,059 shares of Company stock.

In May 1996, the Company purchased the assets and assumed certain liabilities of three Papa John's restaurants in Indianapolis, Indiana from Acumen, Inc., a franchisee. The total consideration paid was approximately \$1,425,000 consisting of 33,474 shares of Company common stock.

The above business combinations were accounted for by the purchase method of accounting.

NOTE 3 -- FRANCHISEE LOAN PROGRAM

The Company has established a program under which eligible franchisees may borrow funds for use in the construction and development of their restaurants. At June 30, 1996, loans outstanding to franchisees were approximately \$3.5 million. Such loans bear interest at fixed or floating rates (ranging from 5.5% to 8.0% at June 30, 1996), and are generally secured by the fixtures, equipment, signage and, where applicable, land of each restaurant and the ownership interests in the franchisee.

NOTE 4 -- FINANCING ARRANGEMENTS

In April 1996, the Company purchased 6 acres of land in Louisville, Kentucky for approximately \$787,000. Of the total purchase price, approximately \$520,000 was financed through a non-interest bearing promissory note given by the sellers. The note requires quarterly principal payments through October 1996, at which time the note will be paid in full. The land is adjacent to 31 previously purchased acres which will be the site of the Company's corporate headquarters and Kentucky commissary facility.

NOTE 5 -- COMMON STOCK OFFERING

In May 1996, the Company completed a public offering of 1,138,500 shares of its common stock at a price of \$47.25 per share. The net proceeds to the Company of the offering were approximately \$50.6 million.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

<TABLE>  
<CAPTION>

Restaurant Progression

	Three Months Ended		Six Months Ended	
	June 30, 1996	June 25, 1995	June 30, 1996	June 25, 1995
<S>	<C>	<C>	<C>	<C>
Company-owned:				
Beginning of period.....	230	152	217	133
Opened.....	15	16	28	30
Closed.....	-	-	(1)	-
Acquired.....	3	1	4	6
	-----	-----	-----	-----
End of period.....	248	169	248	169
	=====	=====	=====	=====
Franchised:				
Beginning of period.....	702	538	661	499
Opened.....	54	45	97	89
Closed.....	(1)	(1)	(2)	(1)
Sold to Company.....	(3)	(1)	(4)	(6)
	-----	-----	-----	-----
End of period.....	752	581	752	581
	=====	=====	=====	=====
Total at end of period..	1,000	750	1,000	750
	=====	=====	=====	=====

</TABLE>  
RESULTS OF OPERATIONS

Revenues. Total revenues increased 53.0% to \$87.7 million for the three months ended June 30, 1996, from \$57.3 million for the comparable period in 1995, and 50.4% to \$164.4 million for the six months ended June 30, 1996, from \$109.3 million for the comparable period in 1995.

Restaurant sales increased 60.0% to \$40.5 million for the three months ended June 30, 1996, from \$25.3 million for the comparable period in 1995, and 58.5% to \$75.8 million for the six months ended June 30, 1996, from \$47.8 million for the comparable period in 1995. These increases were primarily due to increases of 45.7% and 49.6% in the number of equivalent Company-owned restaurants open during the three and six months ended June 30, 1996, respectively, compared to the same periods in the prior year. "Equivalent restaurants" represent the number of restaurants open at the beginning of a given period, adjusted for restaurants opened or acquired during the period on a weighted average basis. Also, sales increased 14.7% for the three months ended June 30, 1996, over the comparable period in 1995, for Company-owned restaurants open throughout both periods.

Franchise royalties increased 34.4% to \$4.3 million for the three months ended June 30, 1996, from \$3.2 million for the comparable period in 1995, and 32.3% to \$8.2 million for the six months ended June 30, 1996, from \$6.2 million for the comparable period in 1995. These increases were primarily due to increases of 30.4% and 30.6% in the number of equivalent franchised restaurants open during the three and six months ended June 30, 1996, respectively, compared to the same periods in the prior year. Also, sales increased 8.1% for the three months ended June 30, 1996, over the comparable period in 1995, for franchised restaurants open throughout both periods.

Franchise and development fees increased 6.4% to \$1.0 million for the three months ended June 30, 1996, from \$943,000 for the comparable period in 1995, and 3.7% to \$1.8 million for the six months ended June 30, 1996, from \$1.7 million for the comparable period in 1995. These increases were primarily due to the 97 franchised restaurants opened during the six months ended June 30, 1996, versus the 89 opened during the comparable period in 1995, an increase of 9.0%, partially offset by the fact that certain of the 1996 openings were in smaller markets for which lower initial franchise fees were required.

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Commissary sales increased 51.1% to \$35.4 million for the three months ended June 30, 1996, from \$23.4 million for the comparable period in 1995, and 47.0% to \$66.9 million for the six months ended June 30, 1996, from \$45.5 million for the comparable period in 1995. These increases were primarily the result of the increases in equivalent franchised restaurants and comparable sales for franchised restaurants noted above. Additionally, sales for the Orlando commissary increased for the three and six months ended June 30, 1996, versus the comparable periods in 1995 due to its conversion from a dough production facility to a full-service commissary and distribution center beginning in August 1995.

Equipment and other sales increased 46.2% to \$6.5 million for the three months ended June 30, 1996, from \$4.5 million for the comparable period in 1995, and 45.0% to \$11.8 million for the six months ended June 30, 1996, from \$8.1 million for the comparable period in 1995. These increases were primarily due to the increase in equivalent franchised restaurants open during the three and six months ended June 30, 1996, as compared to the same periods in 1995, and the increase in franchised restaurants opened during the three and six months ended June 30, 1996, as compared to the same periods in 1995.

Costs and Expenses. Restaurant cost of sales, which consists of food, beverage and paper costs, increased as a percentage of restaurant sales to 28.8% for the three months ended June 30, 1996, from 28.6% for the comparable period in 1995, and decreased as a percentage of restaurant sales to 28.3% for the six months ended June 30, 1996, from 28.5% for the comparable period in 1995. Increasing cheese prices were the primary reason for the higher cost of sales for the three month period. However, the impact of higher cheese prices in the second quarter was offset by the lower cost of sales for the six month period resulting from generally lower product costs, other than cheese, due to increased purchasing power.

Restaurant salaries and benefits (26.4% vs. 27.3%), advertising and related costs (9.5% vs. 10.4%) and occupancy costs (4.9% vs. 5.1%) all decreased as a percentage of restaurant sales for the three months ended June 30, 1996, as compared to the same period in 1995, after being relatively consistent for the three months ended March 31, 1996, as compared to the same period in 1995. These decreases were primarily the result of efficiencies related to strong restaurant sales during the three months ended June 30, 1996, and a generally maturing restaurant base.

Other restaurant operating expenses increased as a percentage of restaurant sales to 13.5% for the three months ended June 30, 1996, from 12.6% for the comparable period in 1995, and were consistent at 13.5% for the six months ended June 30, 1996 and June 25, 1995. Other operating expenses include all other restaurant-level operating costs, the material components of which are automobile mileage reimbursement for delivery drivers, telephone costs, training costs and workers compensation insurance. Other operating expenses also include an allocation of commissary operating expenses equal to 3% of Company-owned restaurant sales in order to assess a portion of the costs of dough production and food and equipment purchasing and storage to Company-owned restaurants.

The increase in other restaurant operating expenses for the three months ended June 30, 1996 versus the comparable period in 1995 was primarily due to unusually low insurance costs during the 1995 period as a result of a settlement under the Company's previous retrospectively-based workers compensation insurance coverage.

Commissary, equipment and other expenses include cost of sales and operating expenses associated with sales of food, paper, equipment, printing and promotional items to franchisees and other customers. These costs decreased as a percentage of combined commissary sales and equipment and other sales to 91.3% for the three months ended June 30, 1996, as compared to 93.3% for the same period in 1995, and to 91.7% for the six months ended June 30, 1996, from 92.8% for the comparable period in 1995. These decreases were primarily due to volume-

related efficiencies in commissary and support services operations.

General and administrative expenses were relatively consistent as a percentage of total revenues at 7.6% for the three months ended June 30, 1996, as compared to 7.7% for the comparable period in 1995, and decreased to 7.6% for the six months ended June 30, 1996, from 8.2% for the comparable period in 1995. The decrease was primarily related to the hiring of additional corporate and restaurant management personnel throughout 1995, particularly in the early months of the year, to develop the infrastructure necessary to support planned growth for 1996 and beyond. The infrastructure was substantially in place at the end of 1995, providing efficiencies in 1996 as revenue growth continued.

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Depreciation and amortization was relatively consistent as a percentage of total revenues at 3.8% for the three and six months ended June 30, 1996, as compared to 3.6% and 3.5%, respectively, for the comparable periods in 1995. Increases in depreciation and amortization due to additional capital expenditures by the Company, the amortization of intangibles related to acquisitions, the amortization of deferred pre-opening costs for newly-opened restaurants and commissaries and the amortization of deferred information systems costs were partially offset by decreases due to a change in estimate of the useful lives of certain restaurant equipment and signage implemented as of the beginning of July 1995 to more accurately reflect the economic lives of the assets. The estimated useful life for ovens and certain other restaurant equipment was extended from five to seven years, and the estimated useful life for restaurant signage was extended from five to ten years.

Investment Income. Investment income increased to \$819,000 for the three months ended June 30, 1996, from \$329,000 for the comparable period in 1995, and to \$1.3 million for the six months ended June 30, 1996, from \$755,000 for the comparable period in 1995. These increases were primarily the result of higher average investment balances during the first three and six months of 1996 compared to the same periods in 1995 due to the investment of proceeds from the Company's public offerings of Common Stock in August 1995 and May 1996.

Income Tax Expense. Income tax expense reflects a combined federal, state and local effective tax rate of 37% for the three and six months ended June 30, 1996, versus 38% for the comparable periods in 1995. The decrease in the effective tax rate for the three and six month periods is primarily due to the investment of proceeds from the August 1995 and May 1996 stock offerings in securities which produced tax-exempt investment income during the periods.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company requires capital primarily for the development and acquisition of restaurants, the addition of new commissary and support services facilities and equipment and the enhancement of corporate systems and facilities. Capital expenditures of \$11.5 million for the six months ended June 30, 1996, were primarily funded by cash flow from operations.

Cash flow from operations increased to \$9.3 million for the six months ended June 30, 1996, from \$2.8 million for the comparable period in 1995, due primarily to the higher level of net income for the first six months of 1996. Also, the Company received net proceeds of \$50.6 million from a May 1996 public offering of 1,138,500 shares of its common stock.

In addition to restaurant development and possible acquisitions, significant capital projects for the next twelve months are expected to include the construction of new commissaries in New York and Iowa, and a distribution center in Arizona. The Company also expects to begin construction during the third quarter of 1996 of a 250,000 square foot facility in Louisville, Kentucky, scheduled for completion in mid-1997, approximately one-half of which will accommodate relocation and expansion of the Louisville commissary facility and Novel Approach promotional division and the remainder of which will accommodate relocation and consolidation of corporate offices.

Additionally, during each of 1996 and 1997 the Company expects to provide approximately \$6 to \$8 million in loans to eligible franchisees under a loan program adopted during the second quarter. Approximately \$3.5 million in loans were outstanding under this program as of June 30, 1996, and the amounts actually provided during 1996 and 1997 may vary as the Company gains experience with the loan program.

Capital resources available at June 30, 1996, include \$31.9 million of cash and cash equivalents, \$58.4 million of investments and an \$8 million line of credit which is currently in the process of being increased to \$10 million and renewed through June 1997. The Company expects to fund planned capital expenditures and disbursements under the franchise loan program for the next twelve months from these resources and operating cash flows.

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ITEM 1. LEGAL PROCEEDINGS.

For a description of the significant legal proceedings involving the Company, reference is made to Item 3 of the Company's Annual Report on Form 10-K for the period ended December 31, 1995.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The Company's annual meeting of stockholders was held on May 22, 1996, at the Seelbach Hotel, 500 Fourth Avenue, Louisville, Kentucky at 11:00 a.m.

At the meeting, the Company's stockholders elected John H. Schnatter to serve as a director until the 1999 annual meeting of stockholders by a vote of 13,681,929 affirmative and 53,143 withheld. The Company's other directors continue to serve in accordance with their previous elections: through 1997 - O. Wayne Gaunce, Jack A. Laughery and Michael W. Pierce; and through 1998 - Charles W. Schnatter and Richard F. Sherman.

The Company's stockholders also took the following actions at the meeting:

(1) Amended the 1993 Stock Ownership Incentive Plan to increase the number of shares available for issuance under the plan by a vote of 11,885,740 affirmative to 1,512,552 negative and 3,446 abstention votes;

(2) Amended the 1993 Stock Option Plan for Non-Employee Directors to provide for the annual award of options to non-employee directors who serve on the Executive Committee of the Board of Directors by a vote of 12,966,119 affirmative to 734,749 negative and 5,120 abstention votes; and

(3) Ratified the selection of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending December 29, 1996, by a vote of 13,720,111 affirmative to 914 negative and 14,047 abstention votes.

ITEM 6. EXHIBITS AND REPORTS ON 8-K.

(a) Exhibits.

Exhibit Number -----	Description -----
27	Financial Data Schedule which is submitted electronically to the Securities and Exchange Commission for information only and not deemed to be filed with the Commission.
99.1	Cautionary Statements. Exhibit 99.1 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995 (Commission File No. 0-21660) is incorporated herein by reference.

(b) Current Reports on Form 8-K.

There were no reports filed on Form 8-K during the quarterly period ended June 30, 1996.

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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.

Date: August 12, 1996

/s/ E. Drucilla Milby

-----  
E. Drucilla Milby, Senior Vice President -  
Chief Financial Officer and Treasurer  
(Principal Financial Officer)

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