



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 March 29, 2015

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)

2002 Papa Johns Boulevard
Louisville, Kentucky 40299-2367
(Address of principal executive offices)

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

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

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

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

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

At April 28, 2015, there were outstanding 39,783,131 shares of the registrant's common stock, par value \$0.01 per share.

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Item 1. Financial Statements
Papa John’s International, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

<u>(In thousands, except per share amounts)</u>	<u>March 29, 2015 (Unaudited)</u>	<u>December 28, 2014</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 23,524	\$ 20,122
Accounts receivable, net	56,187	56,047
Notes receivable, net	6,103	6,106
Income taxes receivable	3,628	9,527
Inventories	26,354	27,394
Deferred income taxes	7,576	8,248
Prepaid expenses	15,982	18,736
Other current assets	10,132	9,828
Total current assets	149,486	156,008
Property and equipment, net	216,080	219,457
Notes receivable, less current portion, net	12,482	12,801
Goodwill	81,421	82,007
Deferred income taxes	3,914	3,914
Other assets	38,594	38,616
Total assets	\$ 501,977	\$ 512,803
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	\$ 35,009	\$ 38,832
Income and other taxes payable	9,804	9,637
Accrued expenses and other current liabilities	55,521	58,293
Total current liabilities	100,334	106,762
Deferred revenue	3,906	4,257
Long-term debt	231,000	230,451
Deferred income taxes	20,508	22,188
Other long-term liabilities	44,130	41,875
Total liabilities	399,878	405,533
Redeemable noncontrolling interests	8,798	8,555
Stockholders’ equity:		
Preferred stock (\$0.01 par value per share; no shares issued)	—	—
Common stock (\$0.01 par value per share; issued 43,523 at March 29, 2015 and 43,331 at December 28, 2014)	435	433
Additional paid-in capital	148,981	147,912
Accumulated other comprehensive (loss) income	(982)	671
Retained earnings	109,616	92,876
Treasury stock (3,879 shares at March 29, 2015 and 3,549 shares at December 28, 2014, at cost)	(177,216)	(155,659)
Total stockholders’ equity, net of noncontrolling interests	80,834	86,233
Noncontrolling interests in subsidiaries	12,467	12,482
Total stockholders’ equity	93,301	98,715
Total liabilities, redeemable noncontrolling interests and stockholders’ equity	\$ 501,977	\$ 512,803

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

(In thousands, except per share amounts)	Three Months Ended	
	March 29, 2015	March 30, 2014
North America revenues:		
Domestic Company-owned restaurant sales	\$ 197,287	\$ 178,193
Franchise royalties	25,359	22,614
Franchise and development fees	265	144
Domestic commissary sales	162,333	164,047
Other sales	21,614	12,750
International revenues:		
Royalties and franchise and development fees	6,498	5,779
Restaurant and commissary sales	18,928	17,850
Total revenues	432,284	401,377
Costs and expenses:		
Domestic Company-owned restaurant expenses:		
Cost of sales	47,504	45,156
Salaries and benefits	53,658	47,583
Advertising and related costs	16,770	16,256
Occupancy costs and other restaurant operating expenses	37,100	34,598
Total domestic Company-owned restaurant expenses	155,032	143,593
Domestic commissary expenses:		
Cost of sales	125,126	128,924
Salaries and benefits and other commissary operating expenses	24,610	22,879
Total domestic commissary expenses	149,736	151,803
Other operating expenses	20,603	11,431
International restaurant and commissary expenses	15,478	14,885
General and administrative expenses	41,933	36,966
Other general expenses	1,816	1,533
Depreciation and amortization	10,041	9,164
Total costs and expenses	394,639	369,375
Operating income	37,645	32,002
Net interest (expense) income	(1,209)	(592)
Income before income taxes	36,436	31,410
Income tax expense	12,197	10,869
Net income before attribution to noncontrolling interests	24,239	20,541
Income attributable to noncontrolling interests	(2,003)	(1,230)
Net income attributable to the Company	\$ 22,236	\$ 19,311
Calculation of income for earnings per share:		
Net income attributable to the Company	\$ 22,236	\$ 19,311
Decrease (increase) in noncontrolling interest redemption value	70	(8)
Net income attributable to participating securities	(100)	(137)
Net income attributable to common shareholders	\$ 22,206	\$ 19,166
Basic earnings per common share	\$ 0.56	\$ 0.46
Diluted earnings per common share	\$ 0.55	\$ 0.45
Basic weighted average common shares outstanding	39,827	41,778
Diluted weighted average common shares outstanding	40,510	42,696
Dividends declared per common share	\$ 0.14	\$ 0.125

See accompanying notes.

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

(In thousands)	Three Months Ended	
	March 29, 2015	March 30, 2014
Net income before attribution to noncontrolling interests	\$ 24,239	\$ 20,541

Other comprehensive income (loss), before tax:		
Foreign currency translation adjustments	(1,541)	(33)
Interest rate swaps (1)	(1,084)	(43)
Other comprehensive income (loss), before tax	(2,625)	(76)
Income tax effect:		
Foreign currency translation adjustments	570	12
Interest rate swaps (2)	401	16
Income tax effect	971	28
Other comprehensive income (loss), net of tax	(1,654)	(48)
Comprehensive income before attribution to noncontrolling interests	22,585	20,493
Comprehensive (income) loss, redeemable noncontrolling interests	(1,313)	(1,255)
Comprehensive (income) loss, nonredeemable noncontrolling interests	(690)	25
Comprehensive income attributable to the Company	\$ 20,582	\$ 19,263

(1) Amounts reclassified out of accumulated other comprehensive income (“AOCI”) into net interest (expense) income included \$394 and \$249 for the three months ended March 29, 2015 and March 30, 2014, respectively.

(2) The income tax effects of amounts reclassified out of AOCI into net interest (expense) income were \$146 and \$92 for the three months ended March 29, 2015 and March 30, 2014, respectively.

See accompanying notes.

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

(In thousands)	Three Months Ended	
	March 29, 2015	March 30, 2014
Operating activities		
Net income before attribution to noncontrolling interests	\$ 24,239	\$ 20,541
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for uncollectible accounts and notes receivable	659	145
Depreciation and amortization	10,041	9,164
Deferred income taxes	5,055	6,170
Stock-based compensation expense	2,264	2,190
Excess tax benefit on equity awards	(5,091)	(4,900)
Other	1,180	1,110
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(1,312)	(854)
Income taxes receivable	5,899	—
Inventories	1,043	(3,210)
Prepaid expenses	2,755	1,919
Other current assets	(303)	(204)
Other assets and liabilities	(154)	(795)
Accounts payable	(3,828)	(1,311)
Income and other taxes payable	167	3,268
Accrued expenses and other current liabilities	(2,291)	(6,958)
Deferred revenue	(74)	403
Net cash provided by operating activities	40,249	26,678
Investing activities		
Purchases of property and equipment	(7,558)	(11,137)
Loans issued	(506)	(1,758)
Repayments of loans issued	1,083	1,164
Acquisitions, net of cash acquired	(341)	—
Other	20	7
Net cash used in investing activities	(7,302)	(11,724)
Financing activities		
Net proceeds on line of credit facility	549	19,267
Cash dividends paid	(5,545)	(5,240)
Excess tax benefit on equity awards	5,091	4,900
Tax payments for equity award issuances	(5,557)	(3,233)
Proceeds from exercise of stock options	2,210	2,989
Acquisition of Company common stock	(24,765)	(32,800)
Distributions to noncontrolling interest holders	(1,705)	(300)
Other	253	223
Net cash used in financing activities	(29,469)	(14,194)
Effect of exchange rate changes on cash and cash equivalents	(76)	(42)
Change in cash and cash equivalents	3,402	718
Cash and cash equivalents at beginning of period	20,122	13,670
Cash and cash equivalents at end of period	\$ 23,524	\$ 14,388

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Notes to Condensed Consolidated Financial Statements (Unaudited)

March 29, 2015

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 ("GAAP") 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 GAAP 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 months ended March 29, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ended December 27, 2015. 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, 2014.

2. Significant Accounting PoliciesNoncontrolling Interests

Papa John's has joint ventures in which there are noncontrolling interests, including the following as of March 29, 2015 and March 30, 2014:

	Number of Restaurants	Restaurant Locations	Papa John's Ownership	Noncontrolling Interest Ownership
March 29, 2015				
Star Papa, LP	84	Texas	51%	49%
Colonel's Limited, LLC	56	Maryland and Virginia	70%	30%
PJ Minnesota, LLC	35	Minnesota	70%	30%
PJ Denver, LLC	25	Colorado	60%	40%
March 30, 2014				
Star Papa, LP	80	Texas	51%	49%
Colonel's Limited, LLC	52	Maryland and Virginia	70%	30%
PJ Minnesota, LLC	34	Minnesota	80%	20%
PJ Denver, LLC	25	Colorado	60%	40%

We are required to report consolidated net income at amounts attributable to the Company and the noncontrolling interests. Additionally, disclosures are required to clearly identify and distinguish between the interests of the Company and the interests of the noncontrolling owners, including a disclosure on the face of the condensed consolidated statements of income attributable to the noncontrolling interest holder.

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The income before income taxes attributable to these joint ventures for the three months ended March 29, 2015 and March 30, 2014 was as follows (in thousands):

	March 29, 2015	March 30, 2014
Papa John's International, Inc.	\$ 3,010	\$ 1,848
Noncontrolling interests	2,003	1,230
Total income before income taxes	<u>\$ 5,013</u>	<u>\$ 3,078</u>

The following summarizes the redemption feature, location within the condensed consolidated balance sheets and the value at which the noncontrolling interests are recorded for each joint venture as of March 29, 2015:

Joint Venture	Redemption Feature	Location within the Condensed Consolidated Balance Sheets	Recorded Value
Star Papa, LP	Redeemable	Temporary equity	Carrying value
PJ Denver, LLC	Redeemable	Temporary equity	Redemption value
Colonel's Limited, LLC	No redemption feature	Permanent equity	Carrying value
PJ Minnesota, LLC	No redemption feature	Permanent equity	Carrying value

The noncontrolling interest holders of two joint ventures have the option to require the Company to purchase their interests. Since redemption of the noncontrolling interests is outside of the Company's control, the noncontrolling interests are presented in the caption "Redeemable noncontrolling interests" in the condensed consolidated balance sheets and include the following joint ventures:

- The Star Papa, LP agreement contains a redemption feature that is not currently redeemable, but it is probable to become redeemable in the future. Due to specific valuation provisions contained in the agreement, this noncontrolling interest has been recorded at its carrying value.

- The PJ Denver, LLC agreement contains a redemption feature that is currently redeemable and, therefore, this noncontrolling interest has been recorded at its current redemption value. The change in redemption value is recorded as an adjustment to “Redeemable noncontrolling interests” and “Retained earnings” in the condensed consolidated balance sheets.

The following summarizes changes in these redeemable noncontrolling interests (in thousands):

Balance at December 28, 2014	\$	8,555
Net income		1,313
Distributions		(1,000)
Change in redemption value		(70)
Balance at March 29, 2015	\$	<u>8,798</u>

The noncontrolling interests of our Colonel’s Limited, LLC and PJ Minnesota, LLC joint ventures are recorded at carrying value in “Stockholders’ equity” in the condensed consolidated balance sheets at both March 29, 2015 and December 28, 2014, as the noncontrolling interest holders’ agreements had no redemption features.

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Deferred Income Tax Accounts and Tax Reserves

We are subject to income taxes in the United States and several foreign jurisdictions. Significant judgment is required in determining our provision for income taxes and the related assets and liabilities. The provision for income taxes includes income taxes paid, currently payable or receivable and those deferred. We use an estimated annual effective rate based on expected annual income to determine our quarterly provision for income taxes. Discrete items are recorded in the quarter in which they occur.

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using enacted tax rates and laws that are expected to be in effect when the differences reverse. Deferred tax assets are also recognized for the estimated future effects of tax loss carryforwards. The effect on deferred taxes of changes in tax rates is recognized in the period in which the new tax rate is enacted. As a result, our effective tax rate may fluctuate. Valuation allowances are established when necessary on a jurisdictional basis to reduce deferred tax assets to the amounts we expect to realize. As of March 29, 2015, we had a net deferred tax liability of approximately \$9.0 million.

Tax authorities periodically audit the Company. We record reserves and related interest and penalties for identified exposures as income tax expense. We evaluate these issues on a quarterly basis to adjust for events, such as statute of limitations expirations, court rulings or audit settlements, which may impact our ultimate payment for such exposures.

Fair Value Measurements and Disclosures

The Company is required to determine the fair value of financial assets and liabilities based on the price that would be received to sell the asset or paid to transfer the liability to a market participant. Fair value is a market-based measurement, not an entity specific measurement. The fair value of certain assets and liabilities approximates carrying value because of the short-term nature of the accounts, including cash, accounts receivable and accounts payable. The fair value of our notes receivable net of allowances also approximates carrying value. The fair value of the amount outstanding under our revolving credit facility approximates its carrying value due to its variable market-based interest rate. These assets and liabilities are categorized as Level 1 as defined below.

Certain assets and liabilities are measured at fair value on a recurring basis and are required to be classified and disclosed in one of the following categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

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Our financial assets and liabilities that were measured at fair value on a recurring basis as of March 29, 2015 and December 28, 2014 are as follows (in thousands):

	Carrying Value	Fair Value Measurements		
		Level 1	Level 2	Level 3
March 29, 2015				
Financial assets:				
Cash surrender value of life insurance policies (a)	\$ 18,806	\$ 18,806	\$ —	\$ —
Financial liabilities:				
Interest rate swaps (b)	1,470	—	1,470	—
December 28, 2014				
Financial assets:				
Cash surrender value of life insurance policies (a)	\$ 18,238	\$ 18,238	\$ —	\$ —
Financial liabilities:				
Interest rate swaps (b)	376	—	376	—

(a) Represents life insurance policies held in our non-qualified deferred compensation plan.

(b) The fair value of our interest rate swaps are based on the sum of all future net present value cash flows. The future cash flows are derived based on the terms of our interest rate swaps, as well as considering published discount factors, and projected London Interbank Offered Rates (“LIBOR”).

There were no transfers among levels within the fair value hierarchy during the three months ended March 29, 2015.

Variable Interest Entity

Papa John's domestic restaurants, both Company-owned and franchised, participate in Papa John's Marketing Fund, Inc. ("PJMF"), a nonstock corporation designed to operate at break-even for the purpose of designing and administering advertising and promotional programs for all participating domestic restaurants. PJMF is a variable interest entity as it does not have sufficient equity to fund its operations without ongoing financial support and contributions from its members. Based on the ownership and governance structure and operating procedures of PJMF, we have determined that we do not have the power to direct the most significant activities of PJMF and therefore are not the primary beneficiary. Accordingly, we determined that consolidation of PJMF is not appropriate.

Revenue from Contract with Customers

In May 2014, the Financial Accounting Standards Board issued "Revenue from Contracts with Customers" (Accounting Standards Update ("ASU") 2014-09), a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under GAAP. This update requires companies to recognize revenue at amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services at the time of transfer. In doing so, companies will need to use more judgment and make more estimates than under today's guidance. Such estimates may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. Companies can either apply a full retrospective adoption or a modified retrospective adoption.

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We are required to adopt the new requirements in the first quarter of 2017; however, the Financial Accounting Standards Board recently issued a proposal to deter the effective date and thus the Company's adoption to the first quarter of 2018. We are evaluating the method of adoption and its impact of the new requirements on our consolidated financial statements. We currently do not believe the impact will be significant.

3. Calculation of Earnings Per Share

We compute earnings per share using the two-class method. The two-class method requires an earnings allocation formula that determines earnings per share for common shareholders and participating security holders according to dividends declared and participating rights in undistributed earnings. We consider time-based restricted stock awards to be participating securities because holders of such shares have non-forfeitable dividend rights. Under the two-class method, undistributed earnings allocated to participating securities are subtracted from net income attributable to the Company in determining net income attributable to common shareholders.

Additionally, in accordance with Accounting Standards Codification ("ASC") 480, *Distinguishing Liabilities from Equity*, the change in the redemption value for the noncontrolling interest of PJ Denver, LLC increases or decreases income attributable to common shareholders.

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

	Three Months Ended	
	March 29, 2015	March 30, 2014
Basic earnings per common share:		
Net income attributable to the Company	\$ 22,236	\$ 19,311
Decrease (increase) in noncontrolling interest redemption value	70	(8)
Net income attributable to participating securities	(100)	(137)
Net income attributable to common shareholders	\$ 22,206	\$ 19,166
Weighted average common shares outstanding	39,827	41,778
Basic earnings per common share	\$ 0.56	\$ 0.46
Diluted earnings per common share:		
Net income attributable to common shareholders	\$ 22,206	\$ 19,166
Weighted average common shares outstanding	39,827	41,778
Dilutive effect of outstanding equity awards (a)	683	918
Diluted weighted average common shares outstanding	40,510	42,696
Diluted earnings per common share	\$ 0.55	\$ 0.45

(a) Excludes 112 awards at March 29, 2015 and 102 awards at March 30, 2014, as the effect of including such awards would have been antidilutive.

4. Debt

Our debt is comprised entirely of an unsecured revolving line of credit ("Credit Facility"). The outstanding balance was \$231.0 million as of March 29, 2015 and \$230.5 million as of December 28, 2014. On October 31, 2014, we amended our Credit Facility to increase the amount available to \$400 million from the previous \$300 million availability and to extend the maturity date from April 30, 2018 to October 31, 2019. Additionally, we have the option to increase the Credit Facility an additional \$100 million. The interest rate charged on outstanding

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balances is LIBOR plus 75 to 175 basis points. The commitment fee on the unused balance ranges from 15 to 25 basis points. The remaining availability under the Credit Facility, reduced for outstanding letters of credit, was approximately \$147.7 million as of March 29, 2015.

The Credit Facility contains customary affirmative and negative covenants, including financial covenants requiring the maintenance of specified fixed charges and leverage ratios. At March 29, 2015, we were in compliance with these covenants.

We use interest rate swaps to hedge against the effects of potential interest rate increases on borrowings under our Credit Facility. We currently have the following interest rate swaps:

Effective Dates	Floating Rate Debt	Fixed Rates
July 30, 2013 through April 30, 2018	\$75 million	1.42%
December 30, 2014 through April 30, 2018	\$50 million	1.36%

Our swaps are derivative instruments that are designated as cash flow hedges because the swaps provide a hedge against the effects of rising interest rates on borrowings. The effective portion of the gain or loss on the swaps is reported as a component of accumulated other comprehensive income and reclassified into earnings in the same period or periods during which the swaps affect earnings. Gains or losses on the swaps representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. Amounts payable or receivable under the swaps are accounted for as adjustments to interest expense. As of March 29, 2015, the swaps are highly effective cash flow hedges with no ineffectiveness for the three month period ended March 29, 2015.

The weighted average interest rate for the Credit Facility, including the impact of the previously mentioned swaps, was 2.1% and 1.5% for the three months ended March 29, 2015 and March 30, 2014, respectively. Interest paid, including payments made or received under the swaps, was \$1.3 million and \$717,000 for the three months ended March 29, 2015 and March 30, 2014, respectively. As of March 29, 2015, the portion of the \$1.5 million interest rate swap liability that would be reclassified into earnings during the next twelve months as interest expense approximates \$477,000.

5. Litigation

The Company is involved in a number of lawsuits, claims, investigations and proceedings, including those specifically identified below, consisting of intellectual property, employment, consumer, commercial and other matters arising in the ordinary course of business. In accordance with ASC 450, *Contingencies*, the Company has made accruals with respect to these matters, where appropriate, which are reflected in the Company's financial statements. We review these provisions at least quarterly and adjust these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case.

Perrin v. Papa John's International, Inc. and Papa John's USA, Inc. is a conditionally certified collective action filed in August 2009 in the United States District Court, Eastern District of Missouri, alleging that delivery drivers were not reimbursed for mileage and expenses in accordance with the Fair Labor Standards Act. Approximately 3,900 drivers out of a potential class size of 28,800 have opted into the action. In late December 2013, the District Court granted a motion for class certification in five additional states, which added approximately 15,000 plaintiffs to the case. The trial is scheduled for August 2015.

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We intend to vigorously defend against all claims in this lawsuit. However, given the inherent uncertainties of this litigation, the outcome of this case cannot be predicted and the amount of any potential loss cannot be reasonably estimated. A negative outcome in this case could have a material adverse effect on the Company.

6. Segment Information

We have five reportable segments: domestic Company-owned restaurants, domestic commissaries, North America franchising, international operations, and "all other" units. The domestic Company-owned 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 poppers and wings, dessert items and canned or bottled beverages. 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 North America 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 franchisees located in the United States and Canada. The international operations segment principally consists of Company-owned restaurants in China and distribution sales to franchised Papa John's restaurants located in the United Kingdom, Mexico and China 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. International franchisees are defined as all franchise operations outside of the United States and Canada. All other business units that do not meet the quantitative thresholds for determining reportable segments, which are not operating segments, we refer to as our "all other" segment, which consists 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, including our point-of-sale system, online and other technology-based ordering platforms.

Generally, we evaluate performance and allocate resources based on profit or loss from operations before income taxes and intercompany 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 activity in consolidation.

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

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Our segment information is as follows (in thousands):

	Three Months Ended	
	March 29, 2015	March 30, 2014
Revenues from external customers:		
Domestic Company-owned restaurants	\$ 197,287	\$ 178,193
Domestic commissaries	162,333	164,047
North America franchising	25,624	22,758

International	25,426	23,629
All others	21,614	12,750
Total revenues from external customers	\$ 432,284	\$ 401,377
Intersegment revenues:		
Domestic commissaries	\$ 57,887	\$ 54,721
North America franchising	671	604
International	75	68
All others	3,932	3,730
Total intersegment revenues	\$ 62,565	\$ 59,123
Income (loss) before income taxes:		
Domestic Company-owned restaurants	\$ 18,480	\$ 13,285
Domestic commissaries	11,800	10,431
North America franchising	22,319	19,484
International	1,344	732
All others	443	590
Unallocated corporate expenses	(17,205)	(12,461)
Elimination of intersegment profit	(745)	(651)
Total income before income taxes	\$ 36,436	\$ 31,410
Property and equipment:		
Domestic Company-owned restaurants	\$ 210,463	
Domestic commissaries	109,062	
International	25,454	
All others	47,079	
Unallocated corporate assets	170,893	
Accumulated depreciation and amortization	(346,871)	
Net property and equipment	\$ 216,080	

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

Papa John’s International, Inc. (referred to as the “Company,” “Papa John’s” or in the first person notations of “we,” “us” and “our”) began operations in 1984. At March 29, 2015, there were 4,699 Papa John’s restaurants (739 Company-owned and 3,960 franchised) operating in all 50 states and 37 international countries and territories. Our revenues are principally derived from retail sales of pizza and other food and beverage products to the general public by Company-owned restaurants, franchise royalties, sales of franchise and development rights, sales to franchisees of food and paper products, printing and promotional items, risk management services, and information systems and related services used in their operations.

The results of operations are based on the preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”). The preparation of consolidated financial statements requires management to select accounting policies for critical accounting areas and make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Significant changes in assumptions and/or conditions in our critical accounting policies could materially impact our operating results. See “Notes 1 and 2” of “Notes to Condensed Consolidated Financial Statements” for a discussion of the basis of presentation and the significant accounting policies.

Restaurant Progression

	Three Months Ended	
	March 29, 2015	March 30, 2014
Papa John’s Restaurant Progression:		
North America Company-owned:		
Beginning of period	686	665
Opened	3	2
Closed	—	(1)
Acquired	2	—
End of period	691	666
International Company-owned:		
Beginning of period	49	58
Closed	(1)	—
End of period	48	58
North America franchised:		
Beginning of period	2,654	2,621
Opened	18	21
Closed	(20)	(27)
Divested	(2)	—
End of period	2,650	2,615
International franchised:		
Beginning of period	1,274	1,084
Opened	50	23
Closed	(14)	(6)
End of period	1,310	1,101
Total restaurants - end of period	4,699	4,440

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As of March 29, 2015, the Company had implemented its new, proprietary point-of-sale system (“FOCUS”) in substantially all domestic restaurants. FOCUS had the following impact on our condensed consolidated statements of income for the three months ended March 29, 2015 and March 30, 2014 (in thousands):

	Three Months Ended	
	Mar. 29, 2015	Mar. 30, 2014
Franchise royalties (a)	\$ (570)	\$ —
Other sales (b)	8,540	12
Other operating expenses (c)	(8,529)	(189)
Depreciation and amortization (d)	(1,237)	(50)
Net decrease in income before income taxes	<u>\$ (1,796)</u>	<u>\$ (227)</u>
Diluted earnings per common share	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>

- (a) Royalty incentive program tied to franchisee rollout of FOCUS.
(b) Represents revenues for equipment installed at domestic franchised restaurants.
(c) Includes cost of sales associated with equipment installed at franchised restaurants and other costs to support the rollout of the program.
(d) Includes depreciation expense for both the capitalized software and for equipment installed at Company-owned restaurants, which are being depreciated over five to seven years, respectively.

Results of Operations*Summary of Operating Results - Segment Review**Discussion of Revenues*

Consolidated revenues were \$432.3 million for the first quarter of 2015, an increase of \$30.9 million, or 7.7% over the corresponding 2014 period. The increase in revenues for the first quarter of 2015 was primarily due to the following:

- Domestic Company-owned restaurant sales increased \$19.1 million, or 10.7%, primarily due to an increase of 8.1% in comparable sales during the first quarter of 2015 and a 3.2% increase in equivalent units. “Comparable sales” represents the change in year-over-year sales for the same base of restaurants for the same fiscal periods.
- North America franchise royalty revenue increased approximately \$2.7 million, or 12.1%, primarily due to an increase of 6.0% in comparable sales and due to reduced levels of royalty incentives in the first quarter of 2015.
- Domestic commissary sales decreased \$1.7 million, or 1.0%, as lower revenues associated with lower cheese prices were somewhat offset by increases in sales volumes.
- Other sales increased \$8.9 million, or 69.5%, primarily due to FOCUS equipment sales to franchisees.

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- International royalties and franchise and development fees increased approximately \$700,000, or 12.4%, primarily due to an increase in units and comparable sales of 8.0%, calculated on a constant dollar basis. The increase was somewhat offset by the negative impact of foreign currency exchange rates.
- International restaurant and commissary sales increased \$1.1 million, or 6.0%, primarily due to an increase in commissary revenues from increases in units and higher comparable sales. This increase was partially offset by lower sales at China Company-owned restaurants due to the disposition of eleven restaurants in 2014. Additionally, sales were negatively impacted by foreign currency exchange rates.

Discussion of Operating Results

First quarter 2015 income before income taxes was \$36.4 million, compared to \$31.4 million in the prior year comparable period, or a 16.0% increase as summarized in the following table on a reporting segment basis (in thousands):

	Three Months Ended		
	March 29, 2015	March 30, 2014	Increase (Decrease)
Domestic Company-owned restaurants	\$ 18,480	\$ 13,285	\$ 5,195
Domestic commissaries	11,800	10,431	1,369
North America franchising	22,319	19,484	2,835
International	1,344	732	612
All others	443	590	(147)
Unallocated corporate expenses	(17,205)	(12,461)	(4,744)
Elimination of intersegment profits	(745)	(651)	(94)
Total income before income taxes (a)	<u>\$ 36,436</u>	<u>\$ 31,410</u>	<u>\$ 5,026</u>

- (a) Includes FOCUS system rollout costs of approximately \$1.8 million and \$200,000 for the three months ended March 29, 2015 and March 30, 2014, respectively. See the Focus System section above for additional information.

The increase of \$5.0 million, or 16.0%, in income before income taxes was primarily due to the following:

- **Domestic Company-owned Restaurant Segment.** Domestic Company-owned restaurants' income before income taxes increased \$5.2 million in the first quarter of 2015. The increase was primarily due to the 8.1% increase in comparable sales and higher profits from lower commodity costs. The market price for cheese averaged \$1.54 per pound for the first quarter of 2015, compared to \$2.21 per pound in the prior year. This was slightly offset by higher depreciation expense associated with FOCUS equipment of approximately \$500,000.
- **Domestic Commissary Segment.** Domestic commissaries' income before income taxes increased approximately \$1.4 million primarily due to incremental profits from higher restaurant volumes.
- **North America Franchising Segment.** North America Franchising income before income taxes increased approximately \$2.8 million primarily due to higher royalties attributable to the 6.0% comparable sales increase and reduced levels of royalty incentives.
- **International Segment.** Income before income taxes increased approximately \$600,000 primarily due to the previously mentioned increase in units and comparable sales of 7.7%, which resulted in both higher

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royalties and contributed to an increase of approximately \$300,000 in United Kingdom profits. The increase was somewhat offset by the impact of negative foreign currency exchange rates.

- **All Others Segment.** The "All Others" reporting segment income before income taxes, which primarily includes our online and mobile ordering business and our wholly-owned print and promotions subsidiary, Preferred Marketing Solutions, was relatively consistent at \$443,000 in the first quarter of 2015, compared to \$590,000 in the prior year.
- **Unallocated Corporate Segment.** Unallocated corporate expenses increased approximately \$4.7 million for the first quarter of 2015, as compared to the corresponding quarter in 2014. The components of unallocated corporate expenses were as follows (in thousands):

	Three Months Ended		
	March 29, 2015	March 30, 2014	Increase (Decrease)
General and administrative (a)	\$ 13,953	\$ 10,329	\$ 3,624
Net interest expense (income) (b)	1,248	604	644
Depreciation	2,080	1,775	305
Other (income) expense	(760)	(392)	(368)
FOCUS system rollout costs (c)	684	145	539
Total unallocated corporate expenses	\$ 17,205	\$ 12,461	\$ 4,744

- (a) The increase in unallocated general and administrative costs was primarily due to higher legal, insurance and management incentive compensation costs.
- (b) The increase in net interest expense (income) was primarily due to a higher average outstanding debt balance with a higher effective interest rate.
- (c) Includes depreciation expense for capitalized FOCUS software development costs and other costs to support the rollout of the program.

Diluted earnings per share were \$0.55 in the first quarter of 2015, compared to \$0.45 in the first quarter of 2014. Diluted earnings per share increased \$0.03 due to the 5.1% reduction in weighted average shares outstanding.

Review of Consolidated Operating Results

Revenues. Domestic Company-owned restaurant sales were \$197.3 million for the first quarter of 2015, an increase of \$19.1 million, or 10.7%, compared to the first quarter of 2014, primarily due to the previously mentioned increase of 8.1% in comparable sales and a 3.2% increase in equivalent units. "Equivalent units" 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.

North America franchise royalties were \$25.4 million for the first quarter of 2015, an increase of \$2.7 million, or 12.1%, compared to the first quarter of 2014. The increase was primarily due to an increase in North America franchise sales and reduced levels of royalty incentives in the first quarter of 2015. North America franchise sales increased 6.2% to \$562.5 million in the first quarter of 2015, from \$529.7 million in the same quarter of 2014, primarily due to a 6.0% increase in comparable sales. Franchise restaurant sales are not included in Company revenues; however, our domestic royalty revenue is derived from these sales.

Average weekly sales for comparable units include restaurants that were open throughout the periods presented below. The comparable sales base for domestic Company-owned and North America franchised restaurants,

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respectively, includes restaurants acquired by the Company or divested to franchisees during the previous twelve months. Average weekly sales for non-comparable units include restaurants that were not open throughout the periods presented below and include non-traditional sites. Average weekly sales for non-traditional units not subject to continuous operations are calculated based upon actual days open.

The comparable sales base and average weekly sales for 2015 and 2014 for domestic Company-owned and North America franchised restaurants consisted of the following:

	Three Months Ended			
	March 29, 2015		March 30, 2014	
	Company	Franchised	Company	Franchised
Total domestic units (end of period)	691	2,650	666	2,615
Equivalent units	678	2,542	657	2,525

Comparable sales base units	663	2,341	639	2,300
Comparable sales base percentage	97.8%	92.1%	97.3%	91.1%
Average weekly sales - comparable units	\$ 22,570	\$ 17,566	\$ 21,087	\$ 16,678
Average weekly sales - total non-comparable units *	\$ 14,481	\$ 10,644	\$ 13,191	\$ 10,624
Average weekly sales - all units	\$ 22,390	\$ 17,019	\$ 20,875	\$ 16,138

* Includes 123 traditional units and 214 non-traditional units at March 29, 2015 and 152 traditional units and 190 non-traditional units at March 30, 2014.

Domestic commissary sales decreased 1.0% to \$162.3 million for the first quarter of 2015, from \$164.0 million in the comparable 2014 quarter, due to decreases in cheese prices, which were somewhat offset by increases in sales volumes. PJ Food Service ("PJFS") pricing for cheese is based on a fixed dollar markup; when cheese prices decrease, revenues will decrease with no overall impact on the related dollar margin.

Other sales increased \$8.9 million to \$21.6 million in the first quarter of 2015 primarily due to FOCUS equipment sales to franchisees. See the FOCUS System section above for additional information.

International royalties and franchise and development fees increased approximately \$700,000, or 12.4%, primarily due to a 19.0% increase in franchised units and a comparable sales increase of 8.0%, calculated on a constant dollar basis. This was somewhat offset by the negative impact of foreign currency exchange rates. International franchise restaurant sales were \$142.5 million in the first quarter of 2015, compared to \$130.8 million in the prior year. International franchise restaurant sales are not included in Company revenues; however, our international royalty revenue is derived from these sales.

International restaurant and commissary sales increased \$1.1 million, or 6.0%, primarily due to an increase in commissary revenues from increases in units and higher comparable sales. This increase was partially offset by lower sales at China Company-owned restaurants due to the disposition of eleven restaurants in 2014. Additionally, sales were negatively impacted by foreign currency exchange rates.

Costs and expenses. The restaurant operating margin for domestic Company-owned units was 21.4% in the first quarter of 2015 compared to 19.4% in the first quarter of 2014. The restaurant operating margin increase of 2.0% consisted of the following differences:

- Cost of sales was 1.3% lower in the first quarter of 2015 due to lower commodity costs, primarily cheese.
- Salaries and benefits were 0.5% higher due to higher bonuses paid to general managers.
- Advertising and related costs were 0.6% lower primarily due to lower discretionary spending.

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- Occupancy costs and other restaurant operating costs were 0.6% lower primarily due to lower mileage reimbursement from lower gas prices.

Domestic commissary operating margin was 7.8% in the first quarter of 2015, compared to 7.5% for the same period in 2014, and consisted of the following differences:

- Cost of sales was 1.5% lower for the first quarter of 2015, primarily due to lower cheese costs which have a fixed-dollar markup. As cheese prices are lower, food cost as a percentage of sales is lower.
- Salaries and benefits and other commissary operating expenses were 1.2% higher as a percentage of sales primarily due to the lower overall PJFS pricing, as previously discussed. Domestic commissaries also had higher driver compensation and insurance costs that were somewhat offset by lower fuel costs.

Other operating expenses as a percentage of other sales were 95.3% in the first quarter of 2015, compared to 89.7% for the same period in 2014. The higher operating expenses were primarily due to the low margin associated with sales of FOCUS systems to franchisees, the impact of a reduced cost direct mail campaign offered to our domestic restaurants by Preferred Marketing Solutions in the first quarter of 2015, and higher infrastructure costs to support our online operations.

International restaurant and commissary expenses were 81.8% of international restaurant and commissary sales in the first quarter of 2015, as compared to 83.4% in the first quarter of 2014. The decrease as a percentage of sales was primarily due to the benefit of higher commissary sales volumes and a higher commissary margin.

General and administrative costs were \$41.9 million, or 9.7% of revenues in the first quarter of 2015, as compared to \$37.0 million, or 9.2% of revenues, in the same period of 2014. The increase was primarily due to higher legal, insurance and management incentive compensation costs. Additionally, international general and administrative costs were higher due to an increase in advertising spending to support our franchise operations.

Other general expenses were \$1.8 million in the first quarter of 2015 compared to \$1.5 million for the comparable period in 2014 as detailed below (in thousands):

	Three Months Ended		
	March 29, 2015	March 30, 2014	Increase (Decrease)
Franchise and development incentives (a)	\$ 1,344	\$ 1,303	\$ 41
Other	472	230	242
Total other general expenses	\$ 1,816	\$ 1,533	\$ 283

- (a) Primarily represents equipment incentives provided to domestic franchisees for opening new restaurants. The equipment is amortized over the term of the agreement, which is generally two to three years.

Depreciation and amortization was \$10.0 million (2.3% of revenues) for the first quarter of 2015 and \$9.2 million (2.3% of revenues) for the first quarter of 2014. The increase is primarily due to incremental depreciation from FOCUS capitalized software costs and equipment costs at Company-owned restaurants.

Net interest (expense) income. Net interest expense increased approximately \$600,000 primarily due to a higher average outstanding debt balance and a higher effective interest rate.

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Income tax expense. The effective income tax rate was 33.5% for the first quarter of 2015 and 34.6% for the same period in 2014. Our effective income tax rate may fluctuate from quarter to quarter for various reasons. The 2015 rate includes a higher benefit from various tax deductions, including the U.S. federal manufacturing deduction.

Other Items*Litigation Matters*

The Company is currently party to a conditionally certified collective action lawsuit (“Perrin”) that is scheduled for trial in August 2015. We intend to vigorously defend against all claims in this lawsuit. However, given the inherent uncertainties of this litigation, the outcome of this case cannot be predicted and the amount of any potential loss cannot be reasonably estimated. A negative outcome in this case could have a material adverse effect on the Company. For additional details see “Note 5” of “Notes to Condensed Consolidated Financial Statements.”

Liquidity and Capital Resources

Our debt is comprised entirely of an unsecured revolving credit facility (“Credit Facility”) with a maturity date of October 31, 2019. Outstanding balances under this \$400 million Credit Facility were \$231.0 million as of March 29, 2015 and \$230.5 million as of December 28, 2014.

The interest rate charged on outstanding balances is LIBOR plus 75 to 175 basis points. The commitment fee on the unused balance ranges from 15 to 25 basis points. The increment over LIBOR and the commitment fee are determined quarterly based upon the ratio of total indebtedness to earnings before interest, taxes, depreciation and amortization (“EBITDA”), as defined by the Credit Facility. The remaining availability under the Credit Facility, reduced for outstanding letters of credit, was approximately \$147.7 million as of March 29, 2015.

We use interest rate swaps to hedge against the effects of potential interest rate increases on borrowings under our Credit Facility. We currently have the following interest rate swaps as of March 29, 2015:

<u>Effective Dates</u>	<u>Floating Rate Debt</u>	<u>Fixed Rates</u>
July 30, 2013 through April 30, 2018	\$75 million	1.42%
December 30, 2014 through April 30, 2018	\$50 million	1.36%

Our Credit Facility contains affirmative and negative covenants, including the following financial covenants, as defined by the revolving credit facility:

	<u>Permitted Ratio</u>	<u>Actual Ratio for the Quarter Ended March 29, 2015</u>
Leverage Ratio	Not to exceed 3.0 to 1.0	1.5 to 1.0
Interest Coverage Ratio	Not less than 3.5 to 1.0	5.0 to 1.0

Our leverage ratio is defined as outstanding debt divided by EBITDA for the most recent four fiscal quarters. Our interest coverage ratio is defined as the sum of consolidated EBITDA and consolidated rental expense for the most recent four fiscal quarters divided by the sum of consolidated interest expense and consolidated rental expense for the most recent four fiscal quarters. We were in compliance with all covenants as of March 29, 2015.

Cash flow provided by operating activities was \$40.2 million for the three months ended March 29, 2015, compared to \$26.7 million for the same period in 2014. The increase of approximately \$13.6 million was primarily due to higher net income and favorable changes in working capital and other operating activities, including higher depreciation and amortization expense. The prior year included higher inventory levels of equipment to support the rollout of FOCUS to our domestic franchised restaurants.

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Our free cash flow, a non-GAAP financial measure, for the three months ended March 29, 2015 and March 30, 2014 was as follows (in thousands):

	<u>Three Months Ended</u>	
	<u>March 29, 2015</u>	<u>March 30, 2014</u>
Net cash provided by operating activities	\$ 40,249	\$ 26,678
Purchases of property and equipment (a)	(7,558)	(11,137)
Free cash flow (b)	\$ 32,691	\$ 15,541

(a) We require capital primarily for the development, acquisition, renovation and maintenance of restaurants, the development, renovation and maintenance of commissary facilities and equipment and the enhancement of corporate systems and facilities, including technological enhancements such as our FOCUS system. The decrease of approximately \$3.6 million is primarily due to the prior year including FOCUS equipment costs for domestic Company-owned restaurants and FOCUS software development costs.

(b) Free cash flow, a non-GAAP measure, is defined as net cash provided by operating activities (from the consolidated statements of cash flows) less the purchases of property and equipment. We view free cash flow as an important measure because it is one factor that management uses in determining the amount of cash available for discretionary investment. Free cash flow is not a term defined by GAAP and as a result our measure of free cash flow might not be comparable to similarly titled measures used by other companies. Free cash flow should not be construed as a substitute for or a better indicator of our performance than the Company’s GAAP measures.

We also require capital for share repurchases and the payment of cash dividends, which are funded by cash flow from operations and borrowings on our revolving credit facility. We repurchased \$24.8 million and \$32.8 million of common stock for the three months ended March 29, 2015 and March 30, 2014, respectively. Subsequent to

March 29, 2015, through April 28, 2015, we repurchased an additional \$8.3 million of common stock. As of April 28, 2015, \$96.4 million remained available for repurchase under our Board of Directors' authorization.

We paid cash dividends of \$5.6 million (\$0.14 per common share) and \$5.2 million (\$0.125 per common share) in the first quarter of 2015 and 2014, respectively. Subsequent to the first quarter, on April 29, 2015, our Board of Directors declared a second quarter dividend of \$0.14 per common share (approximately \$5.6 million based on current shareholders of record). The dividend will be paid on May 22, 2015 to shareholders of record as of the close of business on May 11, 2015. The declaration and payment of any future dividends will be at the discretion of our Board of Directors, subject to the Company's financial results, cash requirements, and other factors deemed relevant by our Board of Directors.

Forward-Looking Statements

Certain matters discussed in this report, including information within Management's Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements within the meaning of the federal securities laws. Generally, the use of words such as "expect," "estimate," "believe," "anticipate," "will," "forecast," "plan," "project," or similar words identify forward-looking statements that we intend to be included within the safe harbor protections provided by the federal securities laws. Such forward-looking statements may relate to projections or guidance concerning business performance, revenue, earnings, contingent liabilities, resolution of litigation, commodity costs, profit margins, unit growth, capital expenditures, and other financial and operational measures. Such statements are not guarantees of future performance and involve certain risks,

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uncertainties and assumptions, which are difficult to predict and many of which are beyond our control. Therefore, actual outcomes and results may differ materially from those matters expressed or implied in such forward-looking statements. The risks, uncertainties and assumptions that are involved in our forward-looking statements include, but are not limited to:

- aggressive changes in pricing or other marketing or promotional strategies by competitors, which may adversely affect sales; and new product and concept developments by food industry competitors;
- changes in consumer preferences or consumer buying habits, including the impact of adverse economic conditions;
- the impact that product recalls, food quality or safety issues, incidences of foodborne illness, food contamination and other general public health concerns, including potential epidemics, could have system-wide on our restaurants or our results;
- failure to maintain our brand strength and quality reputation and risks related to our better ingredients marketing strategy;
- the ability of the Company and its franchisees to meet planned growth targets and operate new and existing restaurants profitably;
- increases in or sustained high costs of food ingredients or other restaurant costs. This could include increased employee compensation, benefits, insurance, tax rates, regulatory compliance and similar costs; including increased costs resulting from federal health care legislation;
- disruption of our supply chain or commissary operations which could be caused by our sole source of supply of cheese or limited source of suppliers for other key ingredients or more generally due to weather, drought, disease, geopolitical or other disruptions beyond our control;
- increased risks associated with our international operations, including economic and political conditions, instability in our international markets, fluctuations in currency exchange rates, and difficulty in meeting planned sales targets and new store growth. This could include our expansion into emerging or underpenetrated markets, such as China, where we have a Company-owned presence. Based on prior experience in underpenetrated markets, operating losses are likely to occur as the market is being established;
- the impact of changes in interest rates on the Company or our franchisees;
- the credit performance of our franchise loan or guarantee programs;
- the impact of the resolution of current or future claims and litigation, in particular the *Perrin* litigation that is scheduled for trial in August 2015 (see "Note 5" of "Notes to Condensed Consolidated Financial Statements" for additional information);
- current or proposed legislation impacting our business;
- failure to effectively execute succession planning, and our reliance on the multiple roles of our Founder, Chairman, President and Chief Executive Officer, who also serves as our brand spokesperson; and
- disruption of critical business or information technology systems, and risks associated with systems failures and data privacy and security breaches, including theft of Company, employee and customer information.

For a discussion of these and other risks that may cause actual results to differ from expectations, refer to "Part I. Item 1A. — Risk Factors" in our Annual Report on Form 10-K for the year ended December 28, 2014, as well as subsequent filings. We undertake no obligation to update publicly any forward-looking statements, whether as a result of future events, new information or otherwise, except as required by law.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our debt is comprised entirely of a revolving credit facility ("Credit Facility") with outstanding balances of \$231.0 million as of March 29, 2015 and \$230.5 million as of December 28, 2014. On October 31, 2014, we amended our Credit Facility to increase the amount available from \$300 million to \$400 million and extend the maturity date from April 30, 2018 to October 31, 2019. The amendment also allows for an additional \$100 million in borrowings. The interest rate charged on outstanding balances is LIBOR plus 75 to 175 basis points. The commitment fee on the unused balance ranges from 15 to 25 basis points.

We attempt to minimize interest risk exposure and to lower our overall long-term borrowing costs for changes in interest rates through the utilization of interest rate swaps, which are derivative financial instruments. Our swaps are entered into with financial institutions and have reset dates and critical terms that match those of the underlying debt. By using a derivative instrument to hedge exposures to changes in interest rates, we expose ourselves to credit risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. We minimize the credit risk by entering into transactions with high-quality counterparties whose credit rating is evaluated on a quarterly basis.

We currently have the following interest rate swaps outstanding as of March 29, 2015:

<u>Effective Dates</u>	<u>Floating Rate Debt</u>	<u>Fixed Rates</u>
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July 30, 2013 through April 30, 2018 \$75 million 1.42%

December 30, 2014 through April 30, 2018 \$50 million 1.36%

The effective interest rate on borrowings under the Credit Facility, including the impact of the interest rate swaps, was 2.1% as of March 29, 2015. An increase in the present interest rate of 100 basis points on the outstanding balance as of March 29, 2015, including the impact of the interest rate swaps, would increase interest expense by \$1.1 million.

Foreign Currency Exchange Rate Risk

We currently do not enter into financial instruments to manage foreign currency exchange rates. Sales to customers and royalties outside the United States represent approximately 6% of our total revenues.

Commodity Price Risk

In the ordinary course of business, the food and paper products we purchase, including cheese (historically representing 35% to 40% of our food cost), are subject to seasonal fluctuations, weather, availability, demand and other factors that are beyond our control. We have pricing agreements with some of our vendors, including forward pricing agreements for a portion of our cheese purchases for our domestic Company-owned restaurants, which are accounted for as normal purchases; however, we still remain exposed to on-going commodity volatility.

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The following table presents the actual average block price for cheese by quarter through the first quarter of 2015 and the projected average block price for cheese by quarter through 2015 (based on the April 28, 2015 Chicago Mercantile Exchange cheese futures market prices):

	<u>2015</u> Projected Block Price	<u>2014</u> Actual Block Price
Quarter 1	\$ 1.538	\$ 2.212
Quarter 2	1.643*	2.131
Quarter 3	1.773*	2.141
Quarter 4	1.798*	1.991
Full Year	<u>\$ 1.688*</u>	<u>\$ 2.119</u>

* Amounts are estimates based on futures prices.

Item 4. Controls and Procedures

Under the supervision and with the participation of the Company's management, including its chief executive officer and chief financial officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based upon this evaluation, the chief executive officer and chief financial officer have concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective.

During the most recently completed fiscal quarter, there was no change made in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in a number of lawsuits, claims, investigations and proceedings, including those specifically identified below, consisting of intellectual property, employment, consumer, commercial and other matters arising in the ordinary course of business. In accordance with Accounting Standards Codification 450, *Contingencies*, the Company has made accruals with respect to these matters, where appropriate, which are reflected in the Company's financial statements. We review these provisions at least quarterly and adjust these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case.

Perrin v. Papa John's International, Inc. and Papa John's USA, Inc. is a conditionally certified collective action filed in August 2009 in the United States District Court, Eastern District of Missouri, alleging that delivery drivers were not reimbursed for mileage and expenses in accordance with the Fair Labor Standards Act. Approximately 3,900 drivers out of a potential class size of 28,800 have opted into the action. In late December 2013, the District Court granted a motion for class certification in five additional states, which added approximately 15,000 plaintiffs to the case. The trial is scheduled for August 2015.

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We intend to vigorously defend against all claims in this lawsuit. However, given the inherent uncertainties of this litigation, the outcome of this case cannot be predicted and the amount of any potential loss cannot be reasonably estimated. A negative outcome in this case could have a material adverse effect on the Company.

Item 1A. Risk Factors

There have been no material changes in the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Our Board of Directors has authorized the repurchase of up to \$1.325 billion of common stock under a share repurchase program that began on December 9, 1999 and expires on December 31, 2015. Through March 29, 2015, a total of 106.0 million shares with an aggregate cost of \$1.2 billion and an average price of \$11.51 per share have been repurchased under this program. Subsequent to March 29, 2015, through April 28, 2015, we acquired an additional 135,000 shares at an aggregate cost of \$8.3 million. As of April 28, 2015, approximately \$96.4 million remained available for repurchase of common stock under this authorization.

The following table summarizes our repurchases by fiscal period during the three months ended March 28, 2015 (in thousands, except per-share amounts):

Fiscal Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
12/29/2014 - 01/25/2015	122	\$ 58.86	105,732	\$ 122,268
01/26/2015 - 02/22/2015	121	\$ 62.76	105,853	\$ 114,688
02/23/2015 - 03/29/2015	159	\$ 62.75	106,012	\$ 104,709

The Company utilizes a written trading plan under Rule 10b5-1 under the Exchange Act from time to time to facilitate the repurchase of shares of our common stock under this share repurchase program. There can be no assurance that we will repurchase shares of our common stock either through a Rule 10b5-1 trading plan or otherwise.

During fiscal quarter ended March 29, 2015, the Company acquired approximately 33,000 shares of its common stock from employees to satisfy minimum tax withholding obligations that arose upon vesting of restricted stock granted pursuant to approved plans.

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Item 6. Exhibits

Exhibit Number	Description
10.1	Employment Agreement between Papa John's International, Inc. and Steve M. Ritchie effective March 1, 2015. Exhibit 10.1 to our report on Form 10-K as filed on February 24, 2015 is incorporated herein by reference.
10.2	Employment Agreement between Papa John's International, Inc. and Lance F. Tucker effective March 1, 2015. Exhibit 10.2 to our report on Form 10-K as filed on February 24, 2015 is incorporated herein by reference.
10.3	Employment Agreement between Papa John's International, Inc. and Timothy C. O'Hern effective March 1, 2015. Exhibit 10.3 to our report on Form 10-K as filed on February 24, 2015 is incorporated herein by reference.
31.1	Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-15(e), As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-15(e), As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	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	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.
101	Financial statements from the quarterly report on Form 10-Q of Papa John's International, Inc. for the quarter ended March 29, 2015, filed on May 5, 2015, formatted in XBRL: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Condensed Consolidated Financial Statements.

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SIGNATURE

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: May 5, 2015

/s/ Lance F. Tucker
Lance F. Tucker
Senior Vice President, Chief Financial
Officer, Chief Administrative Officer
and Treasurer

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**SECTION 302
CERTIFICATION**

I, John H. Schnatter, 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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 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 the registrant's board of directors (or persons performing the equivalent functions):
 - 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: May 5, 2015

/s/ John H. Schnatter

John H. Schnatter
Founder, Chairman, President and
Chief Executive Officer

**SECTION 302
CERTIFICATION**

I, Lance F. Tucker, 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) 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
 - d) 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 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 the registrant's board of directors (or persons performing the equivalent functions):
 - 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: May 5, 2015

/s/ Lance F. Tucker

Lance F. Tucker

Senior Vice President, Chief Financial Officer, Chief Administrative Officer and
Treasurer

**SECTION 906
CERTIFICATION**

I, John H. Schnatter, Founder, Chairman, President and Chief Executive 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 March 29, 2015 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) 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: May 5, 2015

/s/ John H. Schnatter

John H. Schnatter
Founder, Chairman, President and
Chief Executive Officer

**SECTION 906
CERTIFICATION**

I, Lance F. Tucker, Senior Vice President, Chief Financial Officer, Chief Administrative Officer and Treasurer 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 March 29, 2015 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) 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: May 5, 2015

/s/ Lance F. Tucker

Lance F. Tucker

Senior Vice President, Chief Financial Officer, Chief Administrative Officer and
Treasurer
