



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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 25, 2017

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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

At July 27, 2017, there were outstanding 36,416,998 shares of the registrant's common stock, par value \$0.01 per share.

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**PART I. FINANCIAL INFORMATION**
**Item 1. Financial Statements**
**Papa John's International, Inc. and Subsidiaries  
Condensed Consolidated Balance Sheets**

(In thousands, except per share amounts)	June 25, 2017 (Unaudited)	December 25, 2016
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 22,247	\$ 15,563
Accounts receivable, net	59,882	59,691
Notes receivable, net	3,680	3,417
Income taxes receivable	2,417	2,372
Inventories	24,586	25,132
Prepaid expenses	21,142	24,105
Other current assets	9,363	9,038
Assets held for sale	6,272	6,257
<b>Total current assets</b>	<b>149,589</b>	<b>145,575</b>
Property and equipment, net	234,524	230,473
Notes receivable, less current portion net	10,709	10,141
Goodwill	85,922	85,529
Deferred income taxes	315	769
Other assets	44,583	40,078
<b>Total assets</b>	<b>\$ 525,642</b>	<b>\$ 512,565</b>
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 38,653	\$ 42,701
Income and other taxes payable	9,815	8,540
Accrued expenses and other current liabilities	67,772	76,789
<b>Total current liabilities</b>	<b>116,240</b>	<b>128,030</b>
Deferred revenue	3,060	3,313
Long-term debt, net	305,149	299,820
Deferred income taxes	9,416	10,047
Other long-term liabilities	60,179	53,093
<b>Total liabilities</b>	<b>494,044</b>	<b>494,303</b>
<b>Redeemable noncontrolling interests</b>	<b>8,819</b>	<b>8,461</b>
<b>Stockholders' equity:</b>		
Preferred stock (\$0.01 par value per share; no shares issued)	—	—
Common stock (\$0.01 par value per share; issued 44,197 at June 25, 2017 and 44,066 at December 25, 2016)	442	441
Additional paid-in capital	179,180	172,573
Accumulated other comprehensive loss	(6,457)	(5,887)
Retained earnings	257,742	219,278
Treasury stock (7,757 shares at June 25, 2017 and 7,383 shares at December 25, 2016, at cost)	(421,828)	(390,316)
Total stockholders' equity (deficit), net of noncontrolling interests	9,079	(3,911)
Noncontrolling interests in subsidiaries	13,700	13,712
<b>Total stockholders' equity</b>	<b>22,779</b>	<b>9,801</b>
<b>Total liabilities, redeemable noncontrolling interests and stockholders' equity</b>	<b>\$ 525,642</b>	<b>\$ 512,565</b>

See accompanying notes.

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

(In thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	June 25, 2017	June 26, 2016	June 25, 2017	June 26, 2016
<b>Revenues:</b>				
Domestic Company-owned restaurant sales	\$ 202,756	\$ 204,248	\$ 409,652	\$ 409,927
North America franchise royalties and fees	26,588	25,302	54,195	51,778
North America commissary and other sales	175,204	164,954	361,449	333,939
International	30,230	28,460	58,748	55,915
<b>Total revenues</b>	<b>434,778</b>	<b>422,964</b>	<b>884,044</b>	<b>851,559</b>
<b>Costs and expenses:</b>				
Operating costs (excluding depreciation and amortization shown separately below):				
Domestic Company-owned restaurant expenses	162,433	163,469	327,852	324,779
North America commissary and other expenses	162,989	152,258	336,701	309,064
International expenses	19,482	17,752	37,472	35,342
General and administrative expenses	42,003	42,623	80,010	82,870
Depreciation and amortization	10,654	10,031	21,111	19,775
<b>Total costs and expenses</b>	<b>397,561</b>	<b>386,133</b>	<b>803,146</b>	<b>771,830</b>
<b>Operating income</b>	<b>37,217</b>	<b>36,831</b>	<b>80,898</b>	<b>79,729</b>
Net interest expense	(1,759)	(1,631)	(3,569)	(3,120)
<b>Income before income taxes</b>	<b>35,458</b>	<b>35,200</b>	<b>77,329</b>	<b>76,609</b>
Income tax expense	10,476	11,088	22,448	24,446
<b>Net income before attribution to noncontrolling interests</b>	<b>24,982</b>	<b>24,112</b>	<b>54,881</b>	<b>52,163</b>
Income attributable to noncontrolling interests	(1,444)	(1,571)	(2,915)	(3,440)
<b>Net income attributable to the Company</b>	<b>\$ 23,538</b>	<b>\$ 22,541</b>	<b>\$ 51,966</b>	<b>\$ 48,723</b>
<b>Calculation of income for earnings per share:</b>				
Net income attributable to the Company	\$ 23,538	\$ 22,541	\$ 51,966	\$ 48,723
Change in noncontrolling interest redemption value	662	279	1,182	499
Net income attributable to participating securities	(99)	(91)	(216)	(201)
Net income attributable to common shareholders	<b>\$ 24,101</b>	<b>\$ 22,729</b>	<b>\$ 52,932</b>	<b>\$ 49,021</b>
Basic earnings per common share	<b>\$ 0.66</b>	<b>\$ 0.61</b>	<b>\$ 1.44</b>	<b>\$ 1.30</b>
Diluted earnings per common share	<b>\$ 0.65</b>	<b>\$ 0.61</b>	<b>\$ 1.42</b>	<b>\$ 1.29</b>
Basic weighted average common shares outstanding	36,732	37,203	36,771	37,567
Diluted weighted average common shares outstanding	37,217	37,507	37,283	37,904
Dividends declared per common share	<b>\$ 0.20</b>	<b>\$ 0.175</b>	<b>\$ 0.40</b>	<b>\$ 0.35</b>

See accompanying notes.

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

(In thousands)	Three Months Ended		Six Months Ended	
	June 25, 2017	June 26, 2016	June 25, 2017	June 26, 2016
Net income before attribution to noncontrolling interests	\$ 24,982	\$ 24,112	\$ 54,881	\$ 52,163
Other comprehensive income (loss), before tax:				
Foreign currency income (loss) adjustments	808	(1,441)	1,421	(3,513)
Interest rate swaps (1)	(1,857)	(2,760)	(2,325)	(6,049)
Other comprehensive loss, before tax	(1,049)	(4,201)	(904)	(9,562)
Income tax effect:				
Foreign currency translation adjustments	(299)	533	(526)	1,300
Interest rate swaps (2)	687	1,021	860	2,238
Income tax effect	388	1,554	334	3,538
Other comprehensive loss, net of tax	(661)	(2,647)	(570)	(6,024)
Comprehensive income before attribution to noncontrolling interests	24,321	21,465	54,311	46,139
Comprehensive loss, redeemable noncontrolling interests	(745)	(881)	(1,539)	(2,125)
Comprehensive loss, nonredeemable noncontrolling interests	(699)	(690)	(1,376)	(1,315)
Comprehensive income attributable to the Company	\$ 22,877	\$ 19,894	\$ 51,396	\$ 42,699

- (1) Amounts reclassified out of accumulated other comprehensive loss into net interest expense included \$126 and \$324 for the three and six months ended June 25, 2017, respectively, and \$311 and \$628 for the three and six months ended June 26, 2016, respectively.
- (2) The income tax effects of amounts reclassified out of accumulated other comprehensive loss into net interest expense were \$47 and \$120 for the three and six months ended June 25, 2017, respectively, and \$115 and \$232 for the three and six months ended June 26, 2016, respectively.

*See accompanying notes.*

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

(In thousands)	Six Months Ended	
	June 25, 2017	June 26, 2016
<b>Operating activities</b>		
Net income before attribution to noncontrolling interests	\$ 54,881	\$ 52,163
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for uncollectible accounts and notes receivable	(1,091)	247
Depreciation and amortization	21,111	19,775
Deferred income taxes	158	3,786
Stock-based compensation expense	5,571	4,893
Other	1,978	1,883
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(355)	6,680
Income taxes receivable	(45)	4,018
Inventories	550	(877)
Prepaid expenses	2,966	2,548
Other current assets	(372)	1,269
Other assets and liabilities	(1,559)	(1,724)
Accounts payable	(3,950)	(8,654)
Income and other taxes payable	1,275	3,703
Accrued expenses and other current liabilities	(3,002)	(11,425)
Deferred revenue	(253)	1,328
Net cash provided by operating activities	77,863	79,613
<b>Investing activities</b>		
Purchases of property and equipment	(30,457)	(24,001)
Loans issued	(1,476)	(1,630)
Repayments of loans issued	2,125	5,382
Acquisitions, net of cash acquired	(21)	(11,202)
Other	25	165
Net cash used in investing activities	(29,804)	(31,286)
<b>Financing activities</b>		
Net proceeds from issuance of long-term debt	5,156	61,375
Cash dividends paid	(14,703)	(13,130)
Tax payments for equity award issuances	(2,282)	(5,831)
Proceeds from exercise of stock options	5,218	2,812
Acquisition of Company common stock	(33,968)	(96,355)
Distributions to noncontrolling interest holders	(1,389)	(3,200)
Other	494	391
Net cash used in financing activities	(41,474)	(53,938)
Effect of exchange rate changes on cash and cash equivalents	99	(129)
Change in cash and cash equivalents	6,684	(5,740)
Cash and cash equivalents at beginning of period	15,563	21,006
Cash and cash equivalents at end of period	\$ 22,247	\$ 15,266

See accompanying notes.

**Papa John's International, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Unaudited)**

June 25, 2017

**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 annual 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 25, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ended December 31, 2017. 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 25, 2016.

**2. Significant Accounting Policies**Noncontrolling Interests

Papa John's has five joint venture arrangements in which there are noncontrolling interests held by third parties. These joint ventures include 223 restaurants at June 25, 2017 and 215 restaurants at June 26, 2016. We are required to report the 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.

The income before income taxes attributable to these joint ventures for the three and six months ended June 25, 2017 and June 26, 2016 was as follows (in thousands):

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 25, 2017</u>	<u>June 26, 2016</u>	<u>June 25, 2017</u>	<u>June 26, 2016</u>
Papa John's International, Inc.	\$ 2,341	\$ 2,529	\$ 4,703	\$ 5,289
Noncontrolling interests	1,444	1,571	2,915	3,440
<b>Total income before income taxes</b>	<b>\$ 3,785</b>	<b>\$ 4,100</b>	<b>\$ 7,618</b>	<b>\$ 8,729</b>

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The following summarizes the redemption feature, location and related accounting within the condensed consolidated balance sheets for these joint venture arrangements:

<u>Type of Joint Venture Arrangement</u>	<u>Location within the Balance Sheets</u>	<u>Recorded Value</u>
Joint venture with no redemption feature	Permanent equity	Carrying value
Option to require the Company to purchase the noncontrolling interest - currently redeemable	Temporary equity	Redemption value*
Option to require the Company to purchase the noncontrolling interest - not currently redeemable	Temporary equity	Carrying value

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\*The change in redemption value is recorded as an adjustment to “Redeemable noncontrolling interests” and “Retained earnings” in the condensed consolidated balance sheets.

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 June 25, 2017, we had a net deferred tax liability of approximately \$9.1 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 carrying value of our notes receivable net of allowances also approximates fair 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.



Our financial assets and liabilities that were measured at fair value on a recurring basis as of June 25, 2017 and December 25, 2016 are as follows (in thousands):

	Carrying Value	Fair Value Measurements		
		Level 1	Level 2	Level 3
<b>June 25, 2017</b>				
Financial assets:				
Cash surrender value of life insurance policies (a)	\$ 25,396	\$ 25,396	\$ —	\$ —
Financial liabilities:				
Interest rate swaps (b)	3,095	—	3,095	—
<b>December 25, 2016</b>				
Financial assets:				
Cash surrender value of life insurance policies (a)	\$ 21,690	\$ 21,690	\$ —	\$ —
Financial liabilities:				
Interest rate swaps (b)	770	—	770	—

(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”).

Our assets and liabilities that were measured at fair value on a non-recurring basis as of June 25, 2017 and December 25, 2016 include assets held for sale. The fair value was determined using a discounted cash flow model with unobservable inputs (Level 3) less estimated selling costs. No impairment loss was recorded for these assets held for sale for the three and six months ended June 25, 2017.

There were no transfers among levels within the fair value hierarchy during the six months ended June 25, 2017.

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, consolidation of PJMF is not appropriate.

Accounting Standards Adopted

*Employee Share-Based Payments*

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, “Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”). The guidance simplified the accounting and financial reporting of the income tax impact of stock-based compensation arrangements. This guidance requires excess tax benefits to be recorded as a discrete item within income tax expense rather than additional paid-in capital. In addition, excess tax benefits are required to be classified as cash from operating activities rather than cash from financing activities.

The Company adopted this guidance as of the beginning of fiscal 2017. The Company elected to apply the cash flow guidance of ASU 2016-09 retrospectively to all prior periods. The impact of retrospectively applying this guidance to the consolidated statement of cash flows for the six months ended June 26, 2016 was a \$4.5 million increase in net cash

provided by operating activities and a corresponding increase in net cash used in financing activities. The Company elected to continue to estimate forfeitures, as permitted by ASU 2016-09, rather than electing to account for forfeitures as they occur.

#### Accounting Standards to be Adopted in Future Periods

##### *Leases*

In February 2016, the FASB issued ASU 2016-02, "Leases," ("ASU 2016-02") which amends leasing guidance by requiring companies to recognize a right-of-use asset and a lease liability for all operating and capital leases (financing) with lease terms greater than twelve months. The lease liability will be equal to the present value of lease payments. The lease asset will be based on the lease liability, subject to adjustment, such as for initial direct costs. For income statement purposes, leases will continue to be classified as operating or capital (financing) with lease expense in both cases calculated substantially the same as under the prior leasing guidance. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018 (fiscal 2019 for the Company), and early adoption is permitted. The Company has not yet determined the effect of the adoption on its condensed consolidated financial statements.

##### *Revenue from Contracts with Customers*

In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers" ("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 existing guidance. Such areas 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. In March and April 2016, the FASB issued the following amendments to clarify the implementation guidance: ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)" and ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing".

We are required to adopt ASU 2014-09 in the first quarter of 2018. We do not expect the adoption will significantly impact our recognition of revenue from Company-owned restaurants, commissary sales or our continuing royalties or other fees from franchisees that are based on a percentage of the franchise sales. We are continuing to evaluate the impact on other less significant transactions including our loyalty program (including a change to a deferred revenue approach from the incremental cost accrual model), the impact on local cooperative advertising funds (including a change to gross revenue and expense presentation from net presentation), and the timing of recognizing franchise and development fees. We preliminarily expect to use the modified retrospective method of adoption. However, the adoption method is subject to change as we continue to evaluate the impact of the standard.

### **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, the change in the redemption value for the noncontrolling interest of one of our joint ventures 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		Six Months Ended	
	June 25, 2017	June 26, 2016	June 25, 2017	June 26, 2016
<b>Basic earnings per common share:</b>				
Net income attributable to the Company	\$ 23,538	\$ 22,541	\$ 51,966	\$ 48,723
Change in noncontrolling interest redemption value	662	279	1,182	499
Net income attributable to participating securities	(99)	(91)	(216)	(201)
Net income attributable to common shareholders	\$ 24,101	\$ 22,729	\$ 52,932	\$ 49,021
Weighted average common shares outstanding	36,732	37,203	36,771	37,567
Basic earnings per common share	\$ 0.66	\$ 0.61	\$ 1.44	\$ 1.30
<b>Diluted earnings per common share:</b>				
Net income attributable to common shareholders	\$ 24,101	\$ 22,729	\$ 52,932	\$ 49,021
Weighted average common shares outstanding	36,732	37,203	36,771	37,567
Dilutive effect of outstanding equity awards (a)	485	304	512	337
Diluted weighted average common shares outstanding	37,217	37,507	37,283	37,904
Diluted earnings per common share	\$ 0.65	\$ 0.61	\$ 1.42	\$ 1.29

(a) Excludes 325 and 215 awards for the three and six months ended June 25, 2017, respectively, and 689 and 566 awards for the three and six months ended June 26, 2016, respectively, as the effect of including such awards would have been antidilutive.

#### 4. Acquisition of Restaurants

In the first quarter of 2016, we completed the acquisition of 20 franchised Papa John's restaurants located in Alabama, Florida and Kentucky in two separate transactions with an aggregate purchase price of \$11.2 million. These acquisitions were accounted for by the purchase method of accounting, whereby operating results subsequent to the acquisition date are included in our consolidated financial results.

The aggregate final purchase price of the 2016 acquisitions has been allocated as follows (in thousands):

Property and equipment	\$ 1,028
Franchise rights	1,230
Goodwill	8,837
Other	107
Total purchase price	\$ 11,202

The excess of the purchase price over the aggregate fair value of net assets acquired was allocated to goodwill for the domestic Company-owned restaurants segment and is eligible for deduction over 15 years under U.S. tax regulations.

## 5. Debt

Long-term debt, net consists of the following (in thousands):

	June 25, 2017	December 25, 2016
Outstanding debt	\$ 305,731	\$ 300,575
Debt issuance costs	(582)	(755)
Total long-term debt, net	<u>\$ 305,149</u>	<u>\$ 299,820</u>

Our outstanding debt is comprised entirely of a \$500 million unsecured revolving line of credit (“Credit Facility”) with an expiration date of October 31, 2019. Including outstanding letters of credit, the remaining availability under the Credit Facility was approximately \$164.2 million as of June 25, 2017.

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 Credit Facility contains customary affirmative and negative covenants, including financial covenants requiring the maintenance of specified fixed charges and leverage ratios. At June 25, 2017, we were in compliance with these covenants.

We attempt to minimize interest risk exposure by fixing our rate 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 our existing debt and the anticipated critical terms of future debt. By using a derivative instrument to hedge exposures to changes in interest rates, we expose ourselves to credit risk. Credit risk is due to the possible failure of the counterparty to perform under the terms of the derivative contract.

As of June 25, 2017, we have the following interest rate swap agreements, including three forward starting swaps executed in 2015 that become effective in 2018 upon expiration of the two existing swaps for \$125 million:

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 %
April 30, 2018 through April 30, 2023	\$ 55 million	2.33 %
April 30, 2018 through April 30, 2023	\$ 35 million	2.36 %
April 30, 2018 through April 30, 2023	\$ 35 million	2.34 %

The weighted average interest rates on the Credit Facility, including the impact of the interest rate swap agreements, were 2.3% and 2.1% for the three and six months ended June 25, 2017 and June 26, 2016, respectively. Interest paid, including payments made or received under the swaps, was \$2.1 million and \$1.8 million for the three months ended June 25, 2017 and June 26, 2016, respectively, and \$3.9 million and \$3.4 million for the six months ended June 25, 2017 and June 26, 2016, respectively. As of June 25, 2017, the portion of the aggregate \$3.1 million interest rate swap liability that would be reclassified into earnings during the next twelve months as interest expense approximates \$200,000.

## 6. Segment Information

We have five reportable segments: domestic Company-owned restaurants, North America 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, including breadsticks, cheesesticks, chicken poppers and wings, dessert items and canned or bottled beverages. The North America 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 in the United States and Canada. 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, 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.

Our segment information is as follows (in thousands):

(In thousands)

	Three Months Ended		Six Months Ended	
	June 25, 2017	June 26, 2016	June 25, 2017	June 26, 2016
<b>Revenues from external customers:</b>				
Domestic Company-owned restaurants	\$ 202,756	\$ 204,248	\$ 409,652	\$ 409,927
North America commissaries	160,059	150,895	331,399	306,849
North America franchising	26,588	25,302	54,195	51,778
International	30,230	28,460	58,748	55,915
All others	15,145	14,059	30,050	27,090
<b>Total revenues from external customers</b>	<b>\$ 434,778</b>	<b>\$ 422,964</b>	<b>\$ 884,044</b>	<b>\$ 851,559</b>
<b>Intersegment revenues:</b>				
North America commissaries	\$ 59,202	\$ 57,722	\$ 120,938	\$ 116,048
North America franchising	751	739	1,515	1,452
International	68	67	131	132
All others	4,084	4,075	9,110	8,172
<b>Total intersegment revenues</b>	<b>\$ 64,105</b>	<b>\$ 62,603</b>	<b>\$ 131,694</b>	<b>\$ 125,804</b>
<b>Income (loss) before income taxes:</b>				
Domestic Company-owned restaurants	\$ 15,550	\$ 15,325	\$ 31,037	\$ 35,512
North America commissaries	12,088	11,682	24,331	23,228
North America franchising	23,999	22,445	48,874	46,025
International	3,265	2,875	7,609	5,913
All others	22	425	(144)	476
Unallocated corporate expenses	(18,203)	(17,079)	(33,958)	(33,411)
Elimination of intersegment profit and losses	(1,263)	(473)	(420)	(1,134)
<b>Total income before income taxes</b>	<b>\$ 35,458</b>	<b>\$ 35,200</b>	<b>\$ 77,329</b>	<b>\$ 76,609</b>
<b>Property and equipment:</b>				
Domestic Company-owned restaurants	\$ 227,191			
North America commissaries	133,607			
International	17,411			
All others	57,264			
Unallocated corporate assets	197,720			
Accumulated depreciation and amortization	(398,669)			
<b>Net property and equipment</b>	<b>\$ 234,524</b>			

## 7. Subsequent Event

Subsequent to the second quarter on July 27, 2017, our Board of Directors approved a \$500 million increase in the Company's share repurchase authorization and extended the program to February 27, 2019. This approval increased the Company's authorization for the repurchase of common stock from \$1.575 billion to \$2.075 billion. As of July 27, 2017, \$590.2 million was available for repurchase of common stock under this authorization.

**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 June 25, 2017, there were 5,088 Papa John’s restaurants (744 Company-owned and 4,344 franchised) operating in all 50 states and 44 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, 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**

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 25, 2017</u>	<u>June 26, 2016</u>	<u>June 25, 2017</u>	<u>June 26, 2016</u>
<b>North America Company-owned:</b>				
Beginning of period	705	729	702	707
Opened	—	5	2	7
Acquired	—	—	1	20
End of period	<u>705</u>	<u>734</u>	<u>705</u>	<u>734</u>
<b>International Company-owned:</b>				
Beginning of period	41	44	42	45
Closed	(2)	(2)	(3)	(3)
End of period	<u>39</u>	<u>42</u>	<u>39</u>	<u>42</u>
<b>North America franchised:</b>				
Beginning of period	2,723	2,661	2,739	2,681
Opened	28	23	43	41
Closed	(28)	(16)	(58)	(34)
Divested	—	—	(1)	(20)
End of period	<u>2,723</u>	<u>2,668</u>	<u>2,723</u>	<u>2,668</u>
<b>International franchised:</b>				
Beginning of period	1,613	1,469	1,614	1,460
Opened	49	46	87	70
Closed	(41)	(24)	(80)	(39)
End of period	<u>1,621</u>	<u>1,491</u>	<u>1,621</u>	<u>1,491</u>
<b>Total restaurants - end of period</b>	<u><b>5,088</b></u>	<u><b>4,935</b></u>	<u><b>5,088</b></u>	<u><b>4,935</b></u>

## Results of Operations

### Review of Consolidated Operating Results

**Revenues.** Domestic Company-owned restaurant sales decreased \$1.5 million, or 0.7% and \$300,000, or 0.1% for the three and six months ended June 25, 2017, respectively. These decreases were primarily due to a reduction of 3.6% and 3.0% in equivalent units for the three and six month periods primarily due to the refranchising of 42 restaurants in the fourth quarter of 2016. This was somewhat offset by increases of 2.3% and 2.7% in comparable sales for the three and six month periods, respectively. “Comparable sales” represents the change in year-over-year sales for the same base of restaurants for the same fiscal periods. “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 and fees increased \$1.3 million, or 5.1% and \$2.4 million, or 4.7% for the three and six months ended June 25, 2017, respectively, primarily due to comparable sales increases of 1.1% and 1.4% for the three and six months, respectively, and equivalent units increases of 2.4% and 2.5% for the three and six month periods, respectively. North America franchise restaurant sales increased 3.7% to \$566.0 million and 3.9% to \$1.2 billion for the three and six months ended June 25, 2017, respectively. The increases are primarily due to the increases in comparable sales and equivalent units noted above. Franchise restaurant sales are not included in Company revenues; however, our North America franchise royalties are derived from these sales.

North America commissary and other sales increased \$10.3 million or 6.2% and increased \$27.5 million, or 8.2% for the three and six months ended June 25, 2017, respectively. The increases were primarily due to higher commissary sales from an increase in volumes and the impact of higher commodity costs.

International revenues increased \$1.8 million, or 6.2% and increased \$2.8 million, or 5.1% for the three and six months ended June 25, 2017, respectively. The increases were primarily due to an increase in the number of franchised restaurants and increases of 3.9% and 4.9% in comparable sales for the three and six month periods, respectively, calculated on a constant dollar basis. These increases were partially offset by lower China Company-owned restaurant revenues primarily due to negative comparable sales and fewer restaurants. The negative impact of foreign currency exchange rates was approximately \$2.5 million and \$5.6 million on international revenues for the three and six months ended June 25, 2017, respectively, which was primarily attributable to our operations in the United Kingdom.

International franchise restaurant sales increased 11.9% to \$181.1 million and 12.9% to \$357.0 million in the three and six months ended June 25, 2017, respectively. International franchise restaurant sales are not included in Company revenues; however, our international royalty revenue is derived from these sales.

**Costs and expenses.** The operating margin for domestic Company-owned restaurants was 19.9% and 20.0% for the three and six months ended June 25, 2017, respectively, compared to 20.0% and 20.8% in the corresponding 2016 periods, and consisted of the following (dollars in thousands):

	Three months ended				Six months ended			
	June 25, 2017		June 26, 2016		June 25, 2017		June 26, 2016	
Restaurant sales	\$	202,756	\$	204,248	\$	409,652	\$	409,927
Cost of sales		46,202		46,329		93,114		93,530
		22.8%		22.7%		22.7%		22.8%
Other operating expenses		116,231		117,140		234,738		231,249
		57.3%		57.3%		57.3%		56.4%
Total expenses	\$	162,433	\$	163,469	\$	327,852	\$	324,779
		80.1%		80.0%		80.0%		79.2%
Margin	\$	40,323	\$	40,779	\$	81,800	\$	85,148
		19.9%		20.0%		20.0%		20.8%

Domestic Company-owned restaurants margin, as a percentage of restaurant sales decreased 0.1% and 0.8% for the three and six months ended June 25, 2017, respectively. The decrease for the three month period was primarily due to a slight increase in cost of sales and increased mileage reimbursement costs from higher fuel prices, partially offset by decreased



advertising costs. The decrease for the six month period was primarily due to higher non-owned automobile insurance claims costs and increased mileage reimbursement costs.

North America commissary and other operating margins were 7.0% and 6.8% for the three and six months ended June 25, 2017, respectively, compared to 7.7% and 7.4% in the corresponding 2016 periods and consisted of the following (dollars in thousands):

	Three months ended							
	June 25, 2017				June 26, 2016			
	Revenues	Expenses	Margin \$	Margin %	Revenues	Expenses	Margin \$	Margin %
North America commissary	\$ 160,059	\$ 149,472	\$ 10,587	6.6%	\$ 150,895	\$ 139,616	\$ 11,279	7.5%
All others	15,145	13,517	1,628	10.7%	14,059	12,642	1,417	10.1%
North America commissary and other	<u>\$ 175,204</u>	<u>\$ 162,989</u>	<u>\$ 12,215</u>	7.0%	<u>\$ 164,954</u>	<u>\$ 152,258</u>	<u>\$ 12,696</u>	7.7%

  

	Six months ended							
	June 25, 2017				June 26, 2016			
	Revenues	Expenses	Margin \$	Margin %	Revenues	Expenses	Margin \$	Margin %
North America commissary	\$ 331,399	\$ 309,429	\$ 21,970	6.6%	\$ 306,849	\$ 284,189	\$ 22,660	7.4%
All others	30,050	27,272	2,778	9.2%	27,090	24,875	2,215	8.2%
North America commissary and other	<u>\$ 361,449</u>	<u>\$ 336,701</u>	<u>\$ 24,748</u>	6.8%	<u>\$ 333,939</u>	<u>\$ 309,064</u>	<u>\$ 24,875</u>	7.4%

North America commissary operating margins were 0.9% and 0.8% lower for the three and six months ended June 25, 2017, respectively, primarily due to start-up costs related to our new commissary in Georgia. The “All others” operating margin was 1.0% higher for the six month period primarily due to improved operating results for our online and mobile ordering business.

The international operating margins were 35.6% and 36.2% for the three and six months ended June 25, 2017, respectively, compared to 37.6% and 36.8% for the corresponding 2016 periods and consisted of the following (dollars in thousands):

	Three months ended							
	June 25, 2017				June 26, 2016			
	Revenues	Expenses	Margin \$	Margin %	Revenues	Expenses	Margin \$	Margin %
Franchise royalties and fees	\$ 8,195	\$ -	\$ 8,195		\$ 7,397	\$ -	\$ 7,397	
Restaurant, commissary and other	22,035	19,482	2,553	11.6%	21,063	17,752	3,311	15.7%
Total international	<u>\$ 30,230</u>	<u>\$ 19,482</u>	<u>\$ 10,748</u>	35.6%	<u>\$ 28,460</u>	<u>\$ 17,752</u>	<u>\$ 10,708</u>	37.6%

  

	Six months ended							
	June 25, 2017				June 26, 2016			
	Revenues	Expenses	Margin \$	Margin %	Revenues	Expenses	Margin \$	Margin %
Franchise royalties and fees	\$ 16,131	\$ -	\$ 16,131		\$ 14,265	\$ -	\$ 14,265	
Restaurant, commissary and other	42,617	37,472	5,145	12.1%	41,650	35,342	6,308	15.1%
Total international	<u>\$ 58,748</u>	<u>\$ 37,472</u>	<u>\$ 21,276</u>	36.2%	<u>\$ 55,915</u>	<u>\$ 35,342</u>	<u>\$ 20,573</u>	36.8%

The decrease in international operating margins of 2.0% and 0.6% for the three and six month periods, respectively, were primarily due to lower UK commissary margins in 2017 from higher commodity costs. These decreases were partially offset by increases in franchise royalties and fees due to an increase in the number of restaurants and comparable sales of 3.9% and 4.9% for the three and six month periods, respectively.

General and administrative (“G&A”) expenses were \$42.0 million, or 9.7% of revenues for the three months ended June 25, 2017 compared to \$42.6 million, or 10.1% of revenues for the same period in 2016. G&A expenses were \$80.0 million, or 9.1% of revenues for the six months ended June 25, 2017, compared to \$82.9 million, or 9.7% of revenues for the same period in 2016. The decreases of \$600,000 and \$2.9 million for the three and six month periods were primarily due to the following:

- Corporate G&A costs decreased primarily due to lower management incentive costs and a decrease in bad debt expense, partially offset by higher legal and professional fees.
- Domestic Company-owned restaurant supervisor bonuses decreased due to lower operating results.

In addition, for the six month period, International G&A costs decreased primarily due to the timing of advertising spend.

*Depreciation and amortization.* Depreciation and amortization was \$10.7 million, or 2.5% of revenues for the three months ended June 25, 2017, compared to \$10.0 million, or 2.4% of revenues for the same period in 2016, and \$21.1 million, or 2.4% of revenues for the six months ended June 25, 2017, compared to \$19.8 million, or 2.3% of revenues for the same period in 2016.

*Net interest expense.* Net interest expense increased approximately \$100,000 and \$400,000 for the three and six months ended June 25, 2017, respectively primarily due to higher interest rates and a decrease in interest income on lower notes receivable.

*Total income before income taxes.* Total income before income taxes increased approximately \$300,000, or 0.7% for the three months ended June 25, 2017 compared to the same period in 2016, and increased approximately \$700,000, or 0.9% for the six months ended June 25, 2017 as compared to the same period in 2016.

*Income tax expense.* The effective income tax rates were 29.5% and 29.0% for the three and six months ended June 25, 2017, respectively, representing decreases of 2.0% and 2.9% from the prior year comparable periods. These decreases were primarily due to the adoption of new accounting guidance for share-based compensation in the first quarter of 2017. This guidance requires excess tax benefits recognized on stock based awards to be recorded as a reduction of income tax expense rather than equity. The impact of this adoption decreased our effective tax rate by 1.1% and 2.2% for the three and six months ended June 25, 2017, respectively.

*Diluted earnings per share.* Diluted earnings per share increased 6.6% to \$0.65 for the three months ended June 25, 2017, compared to \$0.61 in the corresponding prior year period. Diluted earnings per share increased 10.1% to \$1.42 for the six months ended June 25, 2017, compared to \$1.29 in the corresponding prior year period. These increases were primarily due to an increase in net income attributable to common shareholders and a decrease in shares outstanding from share repurchases. Diluted earnings per share was also favorably impacted by approximately \$0.01 and \$0.04 for the three and six months ended June 25, 2017, respectively, due to the adoption of the new guidance for accounting for share-based compensation. Excluding the impact of this adoption, diluted earnings per share would have increased 4.9% and 7.0% for the three and six months ended June 25, 2017, respectively.

## **Liquidity and Capital Resources**

### *Debt*

At June 25, 2017, our debt is comprised entirely of a \$500 million unsecured revolving line of credit (“Credit Facility”) with outstanding balances of \$305.7 million as of June 25, 2017 and \$300.6 million as of December 25, 2016. On July 27, 2017, our Board of Directors approved a \$500 million increase in the Company’s share repurchase authorization,

which will be funded via planned new debt facilities. These debt facilities are expected to be executed before the end of 2017.

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 spread 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 \$164.2 million as of June 25, 2017.

As of June 25, 2017, we have the following interest rate swap agreements, including three forward starting swaps executed in 2015 that become effective in 2018 upon expiration of the two existing swaps for \$125 million:

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 %
April 30, 2018 through April 30, 2023	\$ 55 million	2.33 %
April 30, 2018 through April 30, 2023	\$ 35 million	2.36 %
April 30, 2018 through April 30, 2023	\$ 35 million	2.34 %

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

	Permitted Ratio	Actual Ratio for the Quarter Ended June 25, 2017
Leverage Ratio	Not to exceed 3.0 to 1.0	1.6 to 1.0
Interest Coverage Ratio	Not less than 3.5 to 1.0	4.8 to 1.0

Our leverage ratio is defined as outstanding debt divided by consolidated 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 June 25, 2017.

#### Cash Flows

Cash flow provided by operating activities was \$77.9 million for the six months ended June 25, 2017, compared to \$79.6 million for the same period in 2016. The decrease of approximately \$1.7 million was primarily due to changes in working capital amounts.

Our free cash flow, a non-GAAP financial measure, was as follows for the six months ended June 25, 2017 and June 26, 2016 (in thousands):

	Six Months Ended	
	June 25, 2017	June 26, 2016
Net cash provided by operating activities	\$ 77,863	\$ 79,613
Purchases of property and equipment	(30,457)	(24,001)
Free cash flow (a)	\$ 47,406	\$ 55,612

- (a) 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 liquidity measure because it is one factor that management uses in determining the amount of cash available for investment, however, it does not represent residual cash flows available for discretionary expenditures. 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 liquidity than the Company's GAAP measures.

Cash flow used in investing activities was \$29.8 million for the six months ended June 25, 2017, compared to \$31.3 million for the same period in 2016, or a decrease of \$1.5 million. The decrease in cash flow used in investing activities was primarily due to the acquisition of 20 restaurants from franchisees in the first quarter of 2016 offset by construction costs for our new domestic commissary in Georgia, which opened in July 2017.

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 Credit Facility. We repurchased \$34.0 million and \$96.4 million of common stock for the six months ended June 25, 2017 and June 26, 2016, respectively. Subsequent to June 25, 2017, through July 27, 2017, we repurchased an additional \$13.2 million of common stock.

Subsequent to the second quarter on July 27, 2017, our Board of Directors approved a \$500 million increase in the Company's share repurchase authorization, which previously had \$90.2 million authorization remaining. The Company expects to repurchase the full amount of the increased authorization within approximately 12-18 months of the date of this approval, and plans to enter into new debt facilities to finance the increased capital return program. As of July 27, 2017, \$590.2 million remained available for repurchase under our Board of Directors' authorization.

We paid cash dividends of \$14.7 million (\$0.40 per common share) and \$13.1 million (\$0.35 per common share) for the six months ended June 25, 2017 and June 26, 2016, respectively. Subsequent to the second quarter on July 27, 2017, our Board of Directors approved a 12.5% increase in the company's dividend rate per common share, from \$0.80 on an annual basis to \$0.90 on an annual basis, and declared a third quarter dividend of \$0.225 per common share (approximately \$8.2 million based on current shareholders of record). The dividend will be paid on August 18, 2017 to shareholders of record as of the close of business on August 7, 2017. 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," "intend," "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, unit level performance, capital expenditures, other financial and operational measures and our plans to increase our existing credit facility or enter into new debt facilities to finance the increased capital return program. Such statements are not guarantees of future performance and involve certain risks, 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 profitability; and new product and concept developments by food industry competitors;
- changes in consumer preferences or consumer buying habits, including changes in general economic conditions or other factors that may affect consumer confidence and discretionary spending;
- changes in our liquidity or debt markets in general, which may adversely affect our ability to increase our existing credit facility or enter into a new credit facility on favorable terms;
- the adverse impact on the company or our results caused by product recalls, food quality or safety issues, incidences of foodborne illness, food contamination and other general public health concerns about our company-owned or franchised restaurants or others in the restaurant industry;
- failure to maintain our brand strength, quality reputation and consumer enthusiasm for our better ingredients marketing and advertising strategy;

- the ability of the company and its franchisees to meet planned growth targets and operate new and existing restaurants profitably, including difficulties finding qualified franchisees, store level employees or suitable sites;
- increases in food costs or sustained higher other operating costs. This could include increased employee compensation, benefits, insurance, tax rates, new regulatory requirements or increasing compliance costs;
- increases in insurance claims and related costs for programs funded by the company up to certain retention limits, including medical, owned and non-owned automobiles, workers' compensation, general liability and property;
- 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, natural disasters including drought, disease, or geopolitical or other disruptions beyond our control;
- increased risks associated with our international operations, including economic and political conditions, instability or uncertainty in our international markets, especially emerging markets, fluctuations in currency exchange rates, difficulty in meeting planned sales targets and new store growth;
- the impact of current or future claims and litigation, including labor and employment-related claims;
- current, proposed or future legislation that could impact our business;
- failure to effectively execute succession planning, and our reliance on the multiple roles of our founder, chairman and chief executive officer, who also serves as our brand spokesperson;
- disruption of critical business or information technology systems, or those of our suppliers, and risks associated with systems failures and data privacy and security breaches, including theft of confidential company, employee and customer information, including payment cards; and
- changes in GAAP, including new standards for accounting for share-based compensation that may result in changes to our net income. Based on recent share prices, the impact of the 2017 adoption of this guidance will be favorable throughout 2017.

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 25, 2016, 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.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk***Interest Rate Risk*

Our debt is comprised entirely of a \$500 million Credit Facility with outstanding balances of \$305.7 million as of June 25, 2017 and \$300.6 million as of December 25, 2016, and a maturity date of October 31, 2019. 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 by fixing our rate 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 our existing debt and the anticipated critical terms of future 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.

As of June 25, 2017, we have the following interest rate swap agreements, including three forward starting swaps executed in 2015 that become effective in 2018 upon expiration of the two existing swaps for \$125 million:

<b>Effective Dates</b>	<b>Floating Rate Debt</b>	<b>Fixed Rates</b>
July 30, 2013 through April 30, 2018	\$ 75 million	1.42 %
December 30, 2014 through April 30, 2018	\$ 50 million	1.36 %
April 30, 2018 through April 30, 2023	\$ 55 million	2.33 %
April 30, 2018 through April 30, 2023	\$ 35 million	2.36 %
April 30, 2018 through April 30, 2023	\$ 35 million	2.34 %

The weighted average interest rate on the Credit Facility, including the impact of the interest rate swap agreements, was 2.3% as of June 25, 2017. An increase in the present interest rate of 100 basis points on the Credit Facility balance outstanding as of June 25, 2017, including the impact of the interest rate swaps, would increase annual interest expense by \$1.8 million.

*Foreign Currency Exchange Rate Risk*

We are exposed to foreign currency exchange rate fluctuations from our operations outside of the United States, which can adversely impact our revenues, net income and cash flows. Our international operations principally consist 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. For each of the periods presented, between 6% and 7% of our revenues were derived from these operations.

We have not historically hedged our exposure to foreign currency fluctuations. Foreign currency exchange rate fluctuations had a negative impact on our revenues of approximately \$2.5 million and \$2.2 million for the three months ended June 25, 2017 and June 26, 2016, respectively, and \$5.6 million and \$4.0 million for the six months ended June 25, 2017 and June 26, 2016, respectively. Foreign currency exchange rate fluctuations had no significant impact in income before income taxes for the three and six month periods ended June 25, 2017. Foreign currency exchange rates had a negative impact on our income before income taxes of \$500,000 and \$1.2 million for the three and six months ended June 26, 2016, respectively.

The referendum in the United Kingdom, the outcome of which was a vote to leave the European Union known as Brexit, has resulted in exchange rate fluctuations. The future impact of Brexit on our franchise operations included in the European Union could also include but may not be limited to additional currency volatility and future trade, tariff, and regulatory changes. As of June 25, 2017, six of our 44 international country operations are included in the European Union.

### Commodity Price Risk

In the ordinary course of business, the food and paper products we purchase, including cheese (our largest individual food cost item), 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.

The following table presents the actual average block price for cheese by quarter through the first quarter of 2017 and the projected average block price for cheese by quarter through 2017 (based on the July 27, 2017 Chicago Mercantile Exchange cheese futures market prices):

	<u>2017</u> <u>Projected</u> <u>Block Price</u>	<u>2016</u> <u>Actual</u> <u>Block Price</u>
Quarter 1	\$ 1.613	\$ 1.473
Quarter 2	1.566	1.405
Quarter 3	1.647	1.691
Quarter 4	1.737	1.718
Full Year	<u>\$ 1.641</u> *	<u>\$ 1.572</u>

\*The full year estimate is based on futures prices and does not include the impact of forward pricing agreements we have for a portion of our cheese purchases for our domestic Company-owned restaurants. Additionally, the price charged to restaurants can vary somewhat by quarter from the actual block price based upon our monthly pricing mechanism.

#### 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 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 consolidated 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.

#### 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 25, 2016.

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

Our Board of Directors has authorized the repurchase of up to \$2.075 billion of common stock under a share repurchase program that began on December 9, 1999 and expires on February 27, 2019. This includes an additional \$500 million authorized on July 27, 2017. Through June 25, 2017, a total of 110.0 million shares with an aggregate cost of \$1.5 billion and an average price of \$13.38 per share have been repurchased under this program. Subsequent to June 25, 2017, through July 27, 2017, we acquired an additional 177,000 shares at an aggregate cost of \$13.2 million. As of July 27, 2017, approximately \$590.2 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 June 25, 2017 (in thousands, except per-share amounts):

<b>Fiscal Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</b>
3/27/2017 - 4/23/2017	44	\$ 78.79	109,804	\$ 120,737
4/24/2017 - 5/21/2017	76	\$ 80.39	109,880	\$ 114,647
5/22/2017 - 6/25/2017	142	\$ 79.84	110,022	\$ 103,333

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 the fiscal quarter ended June 25, 2017, the Company acquired approximately 400 shares of its common stock from employees to satisfy minimum tax withholding obligations that arose upon (i) vesting of restricted stock granted pursuant to approved plans and (ii) distribution of shares of common stock issued pursuant to deferred compensation obligations.

**Item 6. Exhibits**

<b>Exhibit Number</b>	<b>Description</b>
31.1	<a href="#">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.</a>
31.2	<a href="#">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.</a>
32.1	<a href="#">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.</a>
32.2	<a href="#">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.</a>



- 101 Financial statements from the quarterly report on Form 10-Q of Papa John's International, Inc. for the quarter ended June 25, 2017, filed on August 1, 2017, 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.

**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: August 1, 2017

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

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: August 1, 2017

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

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**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: August 1, 2017

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

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**SECTION 906  
CERTIFICATION**

I, John H. Schnatter, Founder, Chairman 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 June 25, 2017 (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: August 1, 2017

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

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**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 June 25, 2017 (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: August 1, 2017

/s/ Lance F. Tucker

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

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