



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 31, 2002

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 40299-2334**
(Address of principal executive offices)

(502) 261-7272

(Registrant's telephone number, including area code)

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

Yes ☒

No ☐

At May 10, 2002, there were outstanding 20,628,173 shares of the registrant's common stock, par value \$.01 per share.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

Papa John's International, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

| (In thousands) | March 31, 2002 (Unaudited) | December 30, 2001 (Note) |
|---|-------------------------------|-----------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 13,370 | \$ 17,609 |
| Accounts receivable | 21,129 | 23,238 |
| Inventories | 14,199 | 12,659 |
| Prepaid expenses and other current assets | 10,966 | 8,986 |
| Deferred income taxes | 2,489 | 2,639 |
| Total current assets | 62,153 | 65,131 |
| Investments | 4,214 | 3,424 |
| Net property and equipment | 236,521 | 238,945 |
| Notes receivable from franchisees and affiliates | 16,106 | 17,574 |
| Goodwill | 48,239 | 48,274 |
| Other assets | 14,375 | 14,091 |
| Total assets | <u>\$ 381,608</u> | <u>\$ 387,439</u> |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 20,713 | \$ 23,808 |
| Income and other taxes | 20,395 | 15,628 |
| Accrued expenses | 30,753 | 26,773 |
| Short-term debt | 111,335 | 225 |
| Total current liabilities | 183,196 | 66,434 |
| Unearned franchise and development fees | 3,252 | 3,292 |
| Long-term debt, net of current portion | 250 | 105,085 |
| Deferred income taxes | 4,341 | 3,467 |
| Other long-term liabilities | 13,950 | 13,529 |
| Stockholders' equity: | | |
| Preferred stock | — | — |
| Common stock | 311 | 310 |
| Additional paid-in capital | 204,584 | 201,797 |
| Accumulated other comprehensive loss | (2,389) | (2,934) |
| Retained earnings | 226,432 | 213,561 |
| Treasury stock | (252,319) | (217,102) |
| Total stockholders' equity | 176,619 | 195,632 |
| Total liabilities and stockholders' equity | <u>\$ 381,608</u> | <u>\$ 387,439</u> |

Note: The balance sheet at December 30, 2001 has been derived from the audited consolidated financial statements at that date but does not include all information and footnotes required by accounting principles generally accepted in the United States for a complete set of financial statements.

See accompanying notes.

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

| (In thousands, except per share amounts) | Three Months Ended | |
|--|--------------------|------------------|
| | March 31, 2002 | April 1, 2001 |
| Domestic revenues: | | |
| Restaurant sales | \$ 112,549 | \$ 117,357 |
| Franchise royalties | 13,050 | 13,109 |
| Franchise and development fees | 534 | 810 |
| Commissary sales | 100,021 | 96,653 |
| Equipment and other sales | 11,801 | 14,063 |
| International revenues: | | |
| Royalties and franchise and development fees | 1,410 | 1,349 |
| Restaurant and commissary sales | 6,300 | 5,933 |
| Total revenues | 245,665 | 249,274 |
| Costs and expenses: | | |
| Domestic restaurant expenses: | | |
| Cost of sales | 26,511 | 27,677 |
| Salaries and benefits | 31,882 | 35,118 |
| Advertising and related costs | 9,437 | 9,484 |
| Occupancy costs | 5,802 | 6,347 |
| Other operating expenses | 14,277 | 16,594 |
| | 87,909 | 95,220 |
| Domestic commissary, equipment and other expenses: | | |
| Cost of sales | 81,464 | 79,426 |
| Salaries and benefits | 7,582 | 7,883 |
| Other operating expenses | 12,226 | 11,055 |
| | 101,272 | 98,364 |
| International operating expenses | 5,327 | 5,251 |
| General and administrative expenses | 18,310 | 19,327 |
| Provision for uncollectible notes receivable | 713 | — |
| Pre-opening and other general expenses | 2,161 | 133 |
| Depreciation and amortization | 7,849 | 8,527 |
| Total costs and expenses | 223,541 | 226,822 |
| Operating income | 22,124 | 22,452 |
| Other income (expense): | | |
| Investment income | 344 | 583 |
| Interest expense | (1,875) | (2,551) |
| Income before income taxes | 20,593 | 20,484 |
| Income tax expense | 7,722 | 7,731 |
| Net income | \$ 12,871 | \$ 12,753 |
| Basic earnings per common share | \$.60 | \$.56 |
| Earnings per common share - assuming dilution | \$.60 | \$.56 |
| Basic weighted average shares outstanding | 21,361 | 22,807 |
| Diluted weighted average shares outstanding | 21,542 | 22,901 |

Note: Certain 2001 amounts have been reclassified to conform to the 2002 presentation.

See accompanying notes.

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

| (Dollars in thousands) | Common Stock | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Treasury Stock | Total Stockholders' Equity |
|--|-----------------|----------------------------------|--|----------------------|---------------------|----------------------------------|
| Balance at December 31, 2000 | \$ 307 | \$ 193,029 | \$ (277) | \$ 166,316 | \$ (193,054) | \$ 166,321 |
| Comprehensive income: | | | | | | |
| Net income | — | — | — | 12,753 | — | 12,753 |
| Cumulative effect of accounting change, net of tax of \$646 (see Note 2) | — | — | (1,053) | — | — | (1,053) |
| Change in valuation of interest rate collar, net of tax of \$593 | — | — | (969) | — | — | (969) |
| Other, net | — | — | (161) | — | — | (161) |
| Comprehensive income | | | | | | 10,570 |
| Exercise of stock options | 1 | 1,119 | — | — | — | 1,120 |
| Tax benefit related to exercise of non-qualified stock options | — | 94 | — | — | — | 94 |
| Acquisition of treasury stock (637,000 shares) | — | — | — | — | (14,093) | (14,093) |
| Common equity put options | — | — | — | — | 2,749 | 2,749 |
| Other | — | (278) | — | — | — | (278) |
| Balance at April 1, 2001 | <u>\$ 308</u> | <u>\$ 193,964</u> | <u>\$ (2,460)</u> | <u>\$ 179,069</u> | <u>\$ (204,398)</u> | <u>\$ 166,483</u> |
| Balance at December 30, 2001 | \$ 310 | \$ 201,797 | \$ (2,934) | \$ 213,561 | \$ (217,102) | \$ 195,632 |
| Comprehensive income: | | | | | | |
| Net income | — | — | — | 12,871 | — | 12,871 |
| Change in valuation of interest rate collar and swap agreements, net of tax of \$374 | — | — | 608 | — | — | 608 |
| Other, net | — | — | (63) | — | — | (63) |
| Comprehensive income | | | | | | 13,416 |
| Exercise of stock options | 1 | 2,655 | — | — | — | 2,656 |
| Tax benefit related to exercise of non-qualified stock options | — | 112 | — | — | — | 112 |
| Acquisition of treasury stock (1,307,500 shares) | — | — | — | — | (35,217) | (35,217) |
| Other | — | 20 | — | — | — | 20 |
| Balance at March 31, 2002 | <u>\$ 311</u> | <u>\$ 204,584</u> | <u>\$ (2,389)</u> | <u>\$ 226,432</u> | <u>\$ (252,319)</u> | <u>\$ 176,619</u> |

At March 31, 2002, the accumulated other comprehensive loss of \$2,389 was comprised of net unrealized loss on the interest rate collar and swap agreements of \$1,769 and unrealized foreign currency translation losses of \$620.

See accompanying notes.

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

| (In thousands) | Three Months Ended | |
|--|--------------------|-----------------|
| | March 31, 2002 | April 1, 2001 |
| Operating activities | | |
| Net cash provided by operating activities | \$ 26,924 | \$ 21,267 |
| Investing activities | | |
| Purchase of property and equipment | (6,058) | (9,892) |
| Purchase of investments | (790) | — |
| Proceeds from sale or maturity of investments | — | 5,397 |
| Loans to franchisees and affiliates | (377) | (3,902) |
| Loan repayments from franchisees and affiliates | 2,131 | 1,260 |
| Proceeds from divestitures of restaurants | 130 | 3,010 |
| Other | 89 | 68 |
| Net cash used in investing activities | (4,875) | (4,059) |
| Financing activities | | |
| Net proceeds (repayments) from line of credit facility | 6,500 | (1,000) |
| Payments on long-term debt | (225) | (565) |
| Proceeds from exercise of stock options | 2,656 | 1,120 |
| Acquisition of treasury stock | (35,217) | (14,093) |
| Other | 61 | (278) |
| Net cash used in financing activities | (26,225) | (14,816) |
| Effect of exchange rate changes on cash and cash equivalents | (63) | (161) |
| Change in cash and cash equivalents | (4,239) | 2,231 |
| Cash and cash equivalents at beginning of period | 17,609 | 6,141 |
| Cash and cash equivalents at end of period | <u>\$ 13,370</u> | <u>\$ 8,372</u> |

See accompanying notes.

Papa John's International, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2002

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2002, are not necessarily indicative of the results that may be expected for the year ended December 29, 2002. 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 30, 2001.

2. Significant Accounting Policies

Financial Instruments

Effective January 1, 2001, we adopted Financial Accounting Standards Board Statement No. 133 (SFAS 133), *Accounting for Derivative Instruments and Hedging Activities*, as amended by Statements No. 137 and 138 (SFAS 137 and 138). SFAS 133, as amended by SFAS 137 and 138, requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative meets the hedge criteria of SFAS 133, as amended by SFAS 137 and 138, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of assets, liabilities, or firm commitments through earnings or recognized in accumulated other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value, if any, is immediately recognized in earnings.

In connection with the line of credit facility, in March 2000, Papa John's entered into a no-fee interest rate collar ("Collar") with a notional amount of \$100.0 million, a 30-day LIBOR rate range of 6.36% (floor) to 9.50% (ceiling) and an expiration date of March 2003. The purpose of the Collar is to provide a hedge against the effects of rising interest rates. The adoption of SFAS 133, as amended by SFAS 137 and 138, resulted in the cumulative effect of an accounting change of \$1.7 million (\$1.1 million after tax) charged against accumulated other comprehensive income to reflect the fair value of our interest rate collar as of the date of adoption. The adoption of SFAS 133, as amended by SFAS 137 and 138, had no impact on earnings.

During November 2001, we entered into an interest rate swap agreement ("Swap") that provides for a fixed rate of 5.31%, as compared to LIBOR, on \$100.0 million of floating rate debt from March 2003 to March 2004, reducing to a notional value of \$80.0 million from March 2004 to March 2005, and reducing to a notional value of \$60.0 million in March 2005 with an expiration date of March 2006. The purpose of the Swap is to provide a hedge against the effects of rising interest rates on forecasted future borrowings.

We recognized a gain of \$982,000 (\$608,000 after tax) and a charge of \$1.6 million (\$969,000 after tax) in accumulated other comprehensive income for the three months ended March 31, 2002 and April 1, 2001, respectively, in connection with our Collar and Swap agreements.

Accounting Changes

We adopted Statement of Financial Accounting Standards No. 141 (SFAS 141), *Business Combinations*, on July 1, 2001. SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. SFAS 141 also specifies criteria for the recognition of identifiable intangible assets separately from goodwill. No significant impact occurred with the adoption of SFAS 141.

We adopted Statement of Financial Accounting Standards No. 142 (SFAS 142), *Goodwill and Other Intangible Assets*, on December 31, 2001. In accordance with SFAS 142, we no longer amortize goodwill and intangible assets with indefinite useful lives. Instead, goodwill and intangible assets with indefinite useful lives are subject to an annual review for impairment. Other intangible assets continue to be amortized over their useful lives and are also reviewed for impairment. We completed our impairment review during the first quarter of 2002, which indicated no impairment existed.

Our balance sheet included \$48.2 million and \$48.3 million of goodwill at March 31, 2002 and December 30, 2001, respectively, net of accumulated amortization of \$8.2 million for both periods. The changes in the carrying amount of goodwill by reportable segment for the three months ended March 31, 2002 are as follows (in thousands):

| | Domestic Restaurants | International | All Others | Total |
|---|-------------------------|---------------|---------------|-----------|
| Balance as of December 30, 2001 | \$ 20,228 | \$ 27,610 | \$ 436 | \$ 48,274 |
| Goodwill written off related to sale of restaurants | (35) | — | — | (35) |
| Balance as of March 31, 2002 | \$ 20,193 | \$ 27,610 | \$ 436 | \$ 48,239 |

We expect to reduce amortization expense by approximately \$2.8 million (\$1.7 million, net of tax) or \$0.07 per common share on a fully diluted basis in 2002 due to the adoption of SFAS 141 and 142. The following reconciles earnings for the three months ended April 1, 2001, reported in the accompanying condensed consolidated statements of income to earnings as adjusted for the impact of the elimination of goodwill amortization:

| | Three Months Ended | |
|--|--------------------|---------------|
| | March 31, 2002 | April 1, 2001 |
| Net Income (in thousands): | | |
| Reported net income | \$ 12,871 | \$ 12,753 |
| Goodwill amortization, net of tax | — | 438 |
| Adjusted net income | \$ 12,871 | \$ 13,191 |
| Basic earnings per share: | | |
| Reported earnings per share | \$ 0.60 | \$ 0.56 |
| Goodwill amortization, net of tax | — | 0.02 |
| Adjusted earnings per share | \$ 0.60 | \$ 0.58 |
| Earnings per common share - assuming dilution | | |
| Reported earnings per share | \$ 0.60 | \$ 0.56 |
| Goodwill amortization, net of tax | — | 0.02 |
| Adjusted earnings per share | \$ 0.60 | \$ 0.58 |

We adopted Statement of Financial Accounting Standards No. 144 (SFAS 144), *Accounting for the Impairment or Disposal of Long-Lived Assets*, beginning in fiscal year 2002. SFAS 144 supercedes Statement of Financial Accounting Standards No. 121 (SFAS 121), *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, *Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*. SFAS 144 requires one accounting model to be used for long-lived assets to be disposed of by sale, whether previously held or used or newly acquired, and it broadens the presentation of discontinued operations to include more disposal transactions.

During the three months ended March 31, 2002, we sold nine domestic restaurants with a net book value of \$1.1 million to franchisees for total consideration of \$595,000 (cash proceeds of \$130,000 and notes receivable of \$465,000), resulting in a net loss of \$477,000. Additionally, we recorded a loss of \$460,000 associated with the planned closure and disposal of certain assets related to domestic restaurants and \$804,000 for other asset disposals and valuation allowances. The total loss of \$1.7 million associated with these activities was recorded in pre-opening and other general expenses in the accompanying condensed consolidated statements of income and are included in the domestic restaurant (\$979,000), international (\$265,000) and unallocated corporate (\$497,000) segments in Note 3.

3. Segment Information

We have defined four reportable segments: domestic restaurants, domestic commissaries, domestic franchising and international operations.

The domestic restaurant segment consists of the operations of all domestic ("domestic" is defined as contiguous United States) Company-owned restaurants and derives its revenues from retail sales of pizza, breadsticks, cheesesticks and soft drinks to the general public. The domestic commissary segment consists of the operations of our regional dough production and product distribution centers and derives its revenues from the sale and distribution of food and paper products to domestic Company-owned and franchised restaurants. The domestic franchising segment consists of our franchise sales and support activities and derives its revenues from sales of franchise and development rights and collection of royalties from our domestic franchisees. The international operations segment principally consists of our Company-owned restaurants located in the United Kingdom, our Company-owned commissary operation located in the United Kingdom, and our franchise sales and support activities, which derive revenues from sales of franchise and development rights and the collection of royalties from our international franchisees. All other business units that do not meet the quantitative thresholds for determining reportable segments consist of operations that derive revenues from the sale, principally to Company-owned and franchised restaurants, of restaurant equipment, printing and promotional items, risk management services, and information systems and related services used in restaurant operations.

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

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

| (In thousands) | Three Months Ended | |
|---|--------------------|-------------------|
| | March 31, 2002 | April 1, 2001 |
| Revenues from external customers: | | |
| Domestic restaurants | \$ 112,549 | \$ 117,357 |
| Domestic commissaries | 100,021 | 96,653 |
| Domestic franchising | 13,584 | 13,919 |
| International | 7,710 | 7,282 |
| All others | 11,801 | 14,063 |
| Total revenues from external customers | \$ 245,665 | \$ 249,274 |
| Intersegment revenues: | | |
| Domestic commissaries | \$ 32,847 | \$ 33,641 |
| Domestic franchising | 155 | — |
| International | 565 | 545 |
| All others | 5,145 | 4,953 |
| Total intersegment revenues | \$ 38,712 | \$ 39,139 |
| Income (loss) before income taxes: | | |
| Domestic restaurants | \$ 5,756 | \$ 5,018 |
| Domestic commissaries | 5,723 | 7,278 |
| Domestic franchising | 13,003 | 12,402 |
| International | 232 | (290) |
| All others | 579 | 788 |
| Unallocated corporate expenses | (4,705) | (4,646) |
| Elimination of intersegment profits | 5 | (66) |
| Total income before income taxes | \$ 20,593 | \$ 20,484 |
| Fixed assets: | | |
| Domestic restaurants | \$ 153,694 | |
| Domestic commissaries | 66,738 | |
| International | 4,567 | |
| All others | 11,361 | |
| Unallocated corporate assets | 108,065 | |
| Accumulated depreciation and amortization | (107,904) | |
| Net fixed assets | \$ 236,521 | |

Note: Certain 2001 amounts have been reclassified to conform to the 2002 presentation.

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

Results of Operations and Critical Accounting Policies and Estimates

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

We establish reserves for uncollectible accounts and notes receivable based on overall receivable aging levels and a specific evaluation of accounts and notes for franchisees with known financial difficulties.

The recoverability of long-lived assets (other than intangibles and goodwill) is evaluated annually or more frequently if an impairment indicator exists. We consider several indicators in assessing if impairment has occurred, including historical financial performance, operating trends and our future operating plans. If impairment indicators exist, we evaluate on an operating unit basis (e.g. an individual restaurant) whether impairment exists on the basis of undiscounted expected future cash flows before interest for the expected remaining life of the operating unit. Recorded values that are not expected to be recovered through undiscounted cash flows are written down to current value, which is generally determined from estimated discounted future cash flows for assets held for use or net realizable value for assets held for sale. If these estimates or their related assumptions change in the future, we may be required to record initial or increased impairment charges for these assets. Goodwill and intangible assets with indefinite useful lives are subject to an annual review for impairment.

The Company's insurance programs for worker's compensation, general liability, owned and non-owned automobiles and health insurance coverage provided to our employees, and the captive insurance program provided to our franchisees are self-insured up to certain individual and aggregate reinsurance levels. Claims in excess of self-insurance levels are fully insured. Losses are accrued based upon estimates of the aggregate retained liability for claims incurred using certain actuarial projections and our claims loss experience. Estimated insurance claims losses could be significantly affected should the frequency or ultimate cost of claims significantly differ from historical trends.

Restaurant Progression:

| | Three Months Ended | |
|--|--------------------|---------------|
| | March 31, 2002 | April 1, 2001 |
| Papa John's Restaurant Progression: | | |
| U.S. Company-owned: | | |
| Beginning of period | 601 | 631 |
| Opened | 2 | 6 |
| Closed | (10) | (3) |
| Acquired from franchisees | — | 10 |
| Sold to franchisees | (9) | (12) |
| End of period | 584 | 632 |
| International Company-owned: | | |
| Beginning of period | 10 | 10 |
| Converted | 1 | — |
| Sold to franchisees | (2) | — |
| End of period | 9 | 10 |
| U.S. franchised: | | |
| Beginning of period | 1,988 | 1,902 |
| Opened | 20 | 36 |
| Closed | (13) | (12) |
| Acquired from Company | 9 | 12 |
| Sold to Company | — | (10) |
| Reclassification (1) | — | (14) |
| End of period | 2,004 | 1,914 |
| International franchised: | | |
| Beginning of period | 130 | 69 |
| Opened | 4 | 7 |
| Opened - UK | 2 | 2 |
| Closed | (1) | — |
| Converted | 8 | 5 |
| Acquired from Company | 2 | — |
| Reclassification (1) | — | 14 |
| End of period | 145 | 97 |
| Total restaurants — end of period | 2,742 | 2,653 |
| Perfect Pizza Restaurant Progression: | | |
| Company-owned | | |
| Beginning of period | 3 | 3 |
| Opened | — | 1 |
| Converted | (1) | — |
| Sold to franchisees | — | (1) |
| End of period | 2 | 3 |
| Franchised | | |
| Beginning of period | 190 | 202 |
| Converted | (8) | (5) |
| Closed | (1) | — |
| Acquired from Company | — | 1 |
| End of period | 181 | 198 |
| Total restaurants - end of period | 183 | 201 |

- (1) Represents the reclassification of 11 Hawaii units and 3 Alaska units opened prior to 2001 from domestic franchising to international franchising. Effective January 1, 2001, for restaurant unit purposes, “domestic” operations includes only those units located in the contiguous United States.

Results of Operations

Revenues. Total revenues decreased 1.4% to \$245.7 million in 2002, from \$249.3 million in 2001.

Domestic Company-owned restaurant sales decreased 4.1% to \$112.5 million in 2002 from \$117.4 million for the same period in 2001. This decrease was primarily due to a 5.4% decrease in the number of equivalent Company-owned domestic restaurants open in the 2002 period as compared to the 2001 period, coupled with a 1.3% decrease in comparable sales for the 2002 quarter. "Equivalent restaurants" represents the number of restaurants open at the beginning of a period, adjusted for restaurants opened or acquired during the period on a weighted average basis.

Domestic franchise sales increased 2.4% to \$340.3 million from \$332.2 million for the same period in 2001, primarily resulting from a 4.2% increase in the number of equivalent franchised domestic restaurants open in the 2002 period compared to the 2001 period, partially offset by a 2.2% decrease in comparable sales for the 2002 quarter. Domestic franchise royalties were \$13.1 million in both the first quarter of 2002 and 2001 as the increase in franchise sales noted above was offset by a slight decrease in the effective royalty rate.

The comparable sales base and average weekly sales for 2002 and 2001 for domestic Company-owned and domestic franchised restaurants consisted of the following:

| | Three Months Ended March 31, 2002 | | Three Months Ended April 1, 2001 | |
|---|--------------------------------------|-----------|-------------------------------------|-----------|
| | Company | Franchise | Company | Franchise |
| Total domestic units (end of period) | 584 | 2,004 | 632 | 1,914 |
| Equivalent units | 585 | 1,976 | 618 | 1,897 |
| Comparable sales base units | 560 | 1,809 | 562 | 1,596 |
| Comparable sales base percentage | 95.7% | 91.6% | 90.9% | 84.1% |
| Average weekly sales - comparable units | \$ 14,985 | \$ 13,462 | \$ 15,007 | \$ 14,000 |
| Average weekly sales - other units | \$ 10,714 | \$ 10,915 | \$ 10,581 | \$ 10,650 |
| Average weekly sales - all units | \$ 14,801 | \$ 13,247 | \$ 14,605 | \$ 13,469 |

Domestic franchise and development fees were \$534,000 compared to \$810,000 for the same period in 2001 due to 20 domestic franchise openings in 2002 compared to 36 in 2001.

Domestic commissary and equipment and other sales increased 1.0% to \$111.8 million in the first quarter of 2002 from \$110.7 million for the same period in 2001, primarily resulting from increased commissary sales due to higher cheese prices, partially offset by lower equipment sales due to fewer unit openings in 2002 compared to 2001.

International revenues, which include the Papa John's U.K. operations, denominated in British Pounds Sterling and converted to U.S. dollars, increased 5.9% to \$7.7 million during the quarter compared to \$7.3 million for the same period in 2001 (7.9% increase prior to the unfavorable impact of exchange rates), due primarily to increased commissary sales.

Costs and Expenses. The restaurant operating margin at domestic Company-owned units was 21.9% in the first quarter of 2002 compared to 18.9% for the same period in 2001, consisting of the following differences:

- Cost of sales was relatively flat in 2002 as a higher cheese price was offset by lower prices for certain other commodities and a higher average sales price point.
- Salaries and benefits were 1.6% lower in 2002 due to labor efficiencies and the higher average price point, partially offset by continued wage rate increases.
- Advertising and related costs were 0.3% higher as a percentage of lower sales in 2002, but were relatively flat in dollars.
- Occupancy costs were 0.3% lower in 2002 due primarily to lower utilities.
- Other operating expenses were 1.4% lower in 2002 due to improved controls over mileage reimbursement and the various components of cash losses, and reduced travel costs.

Domestic commissary, equipment and other margin was 9.4% in the first quarter of 2002 compared to 11.2% for the same period in 2001. Cost of sales was 72.9% of revenues in 2002 compared to 71.7% in 2001 with the increase due primarily to higher cheese costs in 2002, which have a fixed dollar mark-up, partially offset by cost efficiencies achieved on print materials as a result of bringing web press production capabilities in-house during the second quarter of 2001. Salaries and benefits and other operating costs increased to 17.7% in 2002 from 17.1% in 2001, primarily as a result of expanded insurance-related services provided to franchisees.

International operating margin increased to 15.4% in 2002 from 11.5% in 2001 due primarily to improved commissary and Company-owned restaurant operating margins.

General and administrative expenses were \$18.3 million or 7.5% of revenues in the first quarter of 2002 compared to \$19.3 million or 7.8% of revenues in the same period in 2001. The decrease reflects the Company's efforts to control G&A costs primarily through organizational efficiencies resulting from the Company's management restructuring that was still in process during the first quarter of 2001.

A provision for uncollectible notes receivable of \$713,000 was recorded in the first quarter of 2002 based on our evaluation of our franchise loan portfolio.

Pre-opening and other general expenses were \$2.2 million in the first quarter of 2002 compared to \$133,000 for the comparable period in 2001. Pre-opening costs of \$12,000 and relocation costs of \$408,000 were included in the 2002 amount as compared to pre-opening costs of \$60,000 and relocation costs of \$151,000 in the 2001 amount. The 2002 amount also includes \$1.7 million related to disposition or valuation losses for restaurants and other assets, while the 2001 amount included net gains on dispositions which were substantially offset by costs related to certain franchisee support initiatives undertaken during the quarter.

Depreciation and amortization was \$7.8 million (3.2% of revenues) for the first quarter of 2002 as compared to \$8.5 million (3.4% of revenues) for the same period in 2001, including goodwill amortization of \$703,000 for 2001. There is no goodwill amortization in 2002 with the adoption of SFAS No. 142. On a pro forma basis, depreciation and amortization for the first quarter of 2001 would have been \$7.8 million (3.1% of revenues) had SFAS No. 142 been adopted at that time (see Note 2 of Notes to Condensed Consolidated Financial Statements for additional information).

Net interest. Net interest expense was \$1.5 million in the first quarter of 2002 compared to \$2.0 million for the same period in 2001 due to both a lower average debt balance and lower effective interest rates in 2002.

Income Tax Expense. The effective income tax rate was 37.5% in the first quarter of 2002 compared to 37.7% for the comparable period in 2001.

Operating Income and Earnings Per Common Share. Operating income for the three months ended March 31, 2002 was \$22.1 million as compared to \$22.5 million or 9.0% of revenues for both years.

Diluted earnings per share were \$0.60 in 2002 compared to \$0.56 in 2001 (\$0.58 in 2001 on a pro forma basis with the elimination of goodwill amortization). In December 1999, we began a share repurchase program of our common stock. Through March 31, 2002, a total of 10.2 million shares were repurchased under the program. The repurchase of our common shares resulted in an increase in diluted earnings per share of approximately \$0.03 for the three months ended March 31, 2002 in comparison to the same period for 2001.

Liquidity and Capital Resources

The Company's debt, which has been incurred primarily to fund the stock repurchase program, was \$111.6 million at March 31, 2002 compared to \$105.3 million at December 30, 2001. The line of credit expires in March 2003 and thus the debt associated with the line of credit is included as a current liability as of March 31, 2002. We do not anticipate any problems in renewing the line of credit for periods subsequent to March 2003.

Cash flow from operations increased to \$26.9 million for the three months ended March 31, 2002, from \$21.3 million for the comparable period in 2001, due primarily to changes in components of working capital and an increase in non-cash charges, which includes the \$713,000 provision for uncollectible notes receivable and \$1.7 million charge related to disposition or valuation losses for restaurants and other assets.

We require capital primarily for the development, acquisition and maintenance of restaurants, new or replacement quality control centers and support services facilities and equipment, the enhancement of corporate systems and facilities, and the funding of franchisee loans. Additionally, we began a common stock repurchase program in December 1999. During the three months ended March 31, 2002, common stock repurchases of \$35.2 million and capital expenditures of \$6.1 million were funded primarily by cash flow from operations, net proceeds from the line of credit facility, net loan repayments from franchisees and affiliates, proceeds from stock option exercises and available cash and cash equivalents.

The Board of Directors has authorized the repurchase of up to an aggregate \$275.0 million for the share repurchase program through December 29, 2002. During the three months ended March 31, 2002, the Company repurchased 1.3 million shares for \$35.2 million at an average price of \$26.94 per share. A total of 10.2 million shares have been repurchased for \$252.5 million at an average price of \$24.85 since the repurchase program started in 1999. Subsequent to March 31, 2002, through May 10, 2002, we repurchased an additional 431,000 shares at an aggregate cost of \$12.9 million.

We have agreed to fund up to \$7.6 million to BIBP Commodities, Inc. ("BIBP"), an independent franchisee-owned corporation through which we purchase cheese, under an existing loan commitment. No amounts were advanced under this loan facility to BIBP as of March 31, 2002.

At March 31, 2002, we guaranteed up to \$3.0 million of bank borrowings by the Papa John's Marketing Fund, Inc., a non-profit corporation that produces electronic advertising materials and produces and buys air-time for Papa John's national television commercials.

Capital resources available at March 31, 2002, include \$13.4 million of cash and cash equivalents and \$81.3 million remaining borrowing capacity, reduced for outstanding letters of credit of \$7.6 million, under a \$200.0 million, three-year, unsecured revolving line of credit agreement expiring in March 2003. We expect to fund planned capital expenditures and additional discretionary repurchases of our common stock, if any, for the remainder of 2002 from these resources and operating cash flows.

Forward Looking Statements

Certain information contained in this quarterly report, particularly information regarding future financial performance and plans and objectives of management, is forward-looking. Certain factors could cause actual results to differ materially from those expressed in forward-looking statements. These factors include, but are not limited to, our ability and the ability of our franchisees to obtain suitable locations and financing for new restaurant development; the hiring, training, and retention of management and other personnel; competition in the industry with respect to price, service, location, and food quality; an increase in food cost due to seasonal fluctuations, weather, and demand; changes in consumer tastes and demographic trends; changes in federal and state laws, such as increases in minimum wage; and risks inherent to international development, including operational or market risks associated with the planned conversion of Perfect Pizza restaurants to Papa John's in the United Kingdom. See "Part I. Item 1. — Business Section - Forward Looking Statements" of the Annual Report on Form 10-K for the fiscal year ended December 30, 2001 for additional factors.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 6. Exhibits and Reports on Form 8-K.

a. Exhibits

| Exhibit Number | Description |
|----------------|--|
| 10 | Papa John's International, Inc. Management Incentive Plan |
| 11 | Calculation of Earnings per Share |
| 99.1 | Cautionary Statements. Exhibit 99.1 to our Annual Report on Form 10K for the fiscal year ended December 30, 2001 (Commission File No. 0-21660 is incorporated herein by reference.) |

b. Current Reports on Form 8-K.

There were no Reports on Form 8-K filed during the last fiscal quarter of the period covered by this report.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company's debt at March 31, 2002 is principally comprised of a \$111.1 million outstanding principal balance on the \$200.0 million unsecured revolving line of credit. The interest rate on the revolving line of credit is variable and is based on the London Interbank Offered Rate (LIBOR). The interest rate on the revolving line of credit was 2.38% as of March 31, 2002. In March 2000, we entered into a \$100.0 million interest rate collar, which is effective until March 2003. The collar establishes a 6.36% floor and a 9.50% ceiling on the LIBOR base rate on a no-fee basis. As a result of the collar, the effective interest rate on the line of credit was 6.41% as of March 31, 2002. An increase in the interest rate of 100 basis points on the debt balance outstanding as of March 31, 2002, which would be mitigated by the interest rate collar based on present interest rates, would increase interest expense approximately \$111,000 annually.

During 2001, the Company entered into an interest rate swap agreement that provides for a fixed base rate of 5.31%, as compared to LIBOR, on \$100.0 million of floating rate debt from March 2003 to March 2004, reducing to a notional value of \$80.0 million from March 2004 to March 2005, and reducing to a notional value of \$60.0 million in March 2005 with an expiration date of March 2006.

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

Cheese, representing approximately 35% to 40% of our food cost, is subject to seasonal fluctuations, weather, availability, demand and other factors that are beyond our control. We have entered into a purchasing arrangement with a third-party entity formed at the direction of the Franchise Advisory Council for the sole purpose of reducing cheese price volatility. Under this arrangement, we are able to purchase cheese at a fixed price per pound throughout a given quarter, based in part on historical average cheese prices. Gains and losses incurred by the selling entity are used as a factor in determining adjustments to the selling price over time. As a result, for any given quarter, the established price paid by the Company may be less than or greater than the prevailing average market price. Over the long term, we expect to purchase cheese at a price approximating the actual average market price, with less short-term volatility. The Company does not generally make use of financial instruments to hedge commodity prices, partly because of the purchasing arrangement with this third-party entity.

SIGNATURES

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

PAPA JOHN'S INTERNATIONAL, INC.
(Registrant)

Date: May 15, 2002

/s/ J. David Flanery
J. David Flanery, Vice President of Finance and Corporate
Controller

**Papa John's International, Inc.
Management Incentive Plan**

(Effective January 1, 2001)

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Papa John's International, Inc.
Management Incentive Plan

1. Purpose and Effective Date. The Plan was adopted by the Compensation Committee effective January 1, 2001, for the purpose of assisting the Company in rewarding those team members who are in a position to make a significant contribution to the growth and profitability of the Company and its Affiliates. The Plan provides a reward for performance and incentive for future endeavor to those team members who contribute to the Company's success with their ability, industry and exceptional service and makes them participants in that success by providing them with the opportunity to earn competitive compensation directly linked to performance.

2. Definitions.

A. "Adjusted Award Unit" means the number of Award Units assigned to the Participant for the Award Period, calculated in accordance with 6.A and 6.B.

B. "Affiliates" means the following affiliates of the Company: Papa John's USA, Inc., PJ Food Service, Inc., Papa John's Support Services, Inc., PJFS of Mississippi, Inc., Risk Services Corp. and Capital Delivery, Ltd.

C. "Award Period" means the Quarter for quarterly awards described in Section 6.A and means the Plan Year for annual awards described in Section 6.B.

D. "Award Unit" means a bookkeeping measure used in calculating quarterly and annual awards under the Plan.

E. "Award Unit Value" means the dollar value obtained by dividing the award pool for the Award Period by the total Adjusted Award Units allocated to all Participants for such Award Period.

F. "Base Salary" means the gross rate of aggregate base annualized compensation before deductions (including but not limited to deductions for salary deferred pursuant to Section 7.B and pretax contributions to a Code Section 401(k) plan or Code Section 125 cafeteria plan, taxes or other payroll deductions), excluding relocation allowances, expense reimbursements, commissions or other actual or imputed income from any Employer-provided benefit, incentive and bonus compensation, overtime pay and other supplemental payments.

G. "Board" means the Company's Board of Directors.

H. "Business Criteria" means any one or any combination of financial goals or other objective goals, which may be Company-wide, on an individual basis or otherwise, and (1) with respect to financial goals, may be expressed, for example, in terms of net income, earnings per share, cash flow, return on equity, return on assets or other return ratios, or price of the Company's common stock, and (2) with respect to objective goals, may include the attainment of various productivity and long term growth objectives, including for example, reductions in the Company's overhead ratio and expenses to sales ratios.

- I. “Code” means the Internal Revenue Code of 1986, as amended.
- J. “Committee” means the Compensation Committee of the Board.
- K. “Company” means Papa John’s International, Inc., with its principal place of business at 2002 Papa John’s Boulevard, Louisville, Kentucky 40299-2333.
- L. “Earnings Per Share” means the Company’s consolidated net income for the Award Period minus amounts allocated to the award pool described in Section 5 divided by the total number of outstanding shares of the Company’s common stock taking into consideration the dilutive effect of the Company’s outstanding stock options, determined in accordance with generally accepted accounting principles.
- M. “Eligible Team Member” means a team member employed by the Employer and who is: (1) customarily scheduled to work at least thirty-two (32) hours weekly; and (2) classified as a team member at the director level or above (salary band levels BD1, BD2, BD3, FL1, FL2, FL3, SL1, SL2), but excludes: [i] team members employed in the Employer’s field operations other than the Senior Vice President of Operations who shall be an Eligible Team Member subject to the special terms of participation set forth in Section 6.D; [ii] individuals classified by the Employer as temporary employees; [iii] team members whose customary weekly employment is less than thirty-two (32) hours; [iv] seasonal team members whose customary annual employment is less than nine (9) months; [v] team members who have entered into an agreement with the Employer providing that they are not eligible to participate in the Plan; [vi] individuals classified by the Employer as independent contractors or other self-employed individuals; [vii] leased employees; and [viii] individuals who do not receive one hundred percent (100%) of their Base Compensation for the Award Period from the Company or an Affiliate.
- N. “Employer” means the Company and the Affiliates.
- O. “Net Debt” means total consolidated debt of the Company less the sum of consolidated cash and investments.
- P. “Participant” means an Eligible Team Member who participates in the Plan in accordance with Section 4.
- Q. “Performance Targets” means the specific financial or objective goal or goals (which may be cumulative or alternative) with respect to any one or more of the Business Criteria that are timely adopted by the Committee and set forth in writing on Exhibit I for the Award Period in accordance with Section 5, and until changed by the Committee, shall be based on targeted Earnings Per Share as set forth in Section 5.B.
- R. “Plan” means the Papa John’s International, Inc. Management Incentive Plan, as set forth herein and as amended from time to time.
- S. “Plan Year” means the Company’s fifty-two (52) week fiscal year ending on the last Sunday in December of each year.
- T. “Quarter” means a Plan Year quarter.

U. “Target Award Percentage” means the targeted percentage of Base Salary for the salary band level, as established by the Committee and set forth on Exhibit II, used to calculate the amount of the Participant’s incentive compensation award in accordance with Sections 6.A and 6.B.

3. Plan Administration. The Committee shall establish performance and award targets and shall otherwise be responsible for the operation and administration of the Plan. The Committee shall have discretionary authority to make factual determinations and construe and interpret the Plan and any agreement or other document relating to the incentive compensation payable under the Plan, may adopt rules and regulations governing the administration of the Plan, and shall exercise all other duties and powers conferred on it by the Plan, or which are incidental or ancillary thereto, and may designate agents to assist it in administration of the Plan. The Committee may at any time establish such additional conditions and terms of payment of awards (including but not limited to the achievement of other financial, strategic or individual goals, which may be objective or subjective) as it may deem desirable in carrying out the purposes of the Plan and may take into account such other factors as it deems appropriate in administering any aspect of the Plan.

4. Participation. An Eligible Team Member shall become a Participant in the Plan on the later of: (1) the first day of the second full Quarter after date of hire; or (2) the first day of the Quarter after becoming an Eligible Team Member due to change in employment classification; or (3) the first day of the second full Quarter after the date of a final and nonappealable determination by a court of competent jurisdiction, the Internal Revenue Service or other administrative agency or governmental entity reclassifying an individual as an employee of the Employer even though not previously so classified by the Employer (even though the reclassification otherwise has an earlier effective date) provided such individual otherwise satisfies the definition of “Eligible Team Member” at such time.

5. Award Pool.

A. Established By Committee. The total amount available for incentive compensation awards to Participants for the Award Period shall be based on the attainment by the Company of the Performance Targets established by the Committee. The Performance Targets and the amount available, or method of determining the amount available, for incentive compensation awards for the Award Period shall be established by the Committee and set forth on Exhibit I before the beginning of the Award Period or as soon as administratively practicable thereafter. The Committee shall notify Participants of the Performance Targets for an Award Period as soon as administratively practical after such targets have been established by the Committee.

B. Targeted Earnings Per Share. Until changed by the Committee, the total amount available for incentive compensation awards to Participants for the Award Period shall be a percentage of Earnings Per Share in excess of the targeted Earnings Per Share established by the Committee for the Award Period, subject to such other limitations deemed appropriate by the Committee, as set forth on Exhibit I. Repurchases of the Company’s outstanding common stock shall be disregarded for purposes of computing Earnings Per Share to the extent such repurchases cause an increase in Earnings Per Share and allocation to the award pool and also cause an increase in Net Debt for the Award Period compared to Net Debt at the end of the previous Plan Year. Unless expressly approved by the Committee, upon recommendation of management, the impact of accounting changes, acquisitions, dispositions and similar

extraordinary items shall be eliminated from the calculation of the award pool in accordance with Section 6.H.

C. Calculation of Award Pool and Awards. Calculation of the available award pool and the amounts of individual awards, as well as the achievement of Performance Targets, shall be in accordance with generally accepted accounting principles. Any disputes shall be reviewed and resolved by the certified public accountants regularly employed by the Company to conduct its annual audit and the findings of such review shall be conclusive and binding on all persons. No awards shall be payable under the Plan unless the Company achieves the Performance Targets.

6. Incentive Compensation Awards. If the Company achieves its Performance Targets for the Award Period as set forth on *Exhibit I*, the following incentive compensation awards shall be made to Participants based on the Participant's individual performance in accordance with Section 6.C.

A. Quarterly Award. A Participant who is employed as an Eligible Team Member on each day of the Quarter and who is still employed as an Eligible Team Member at the time award payment checks for the Quarter are issued, is eligible to receive a cash payment equal to the Award Unit Value multiplied by the Participant's Adjusted Award Units. The number of Adjusted Award Units assigned to the Participant shall be obtained by taking the Participant's Base Salary in effect on the last day of the Quarter multiplied by the Participant's Target Award Percentage divided by one thousand (1000), adjusted for individual performance as provided in Section 6.C, multiplied by eighty percent (80%).

B. Annual Award. A Participant who is employed as an Eligible Team Member on the last day of the Plan Year, and who is still employed as an Eligible Team Member at the time award payment checks for the Plan Year are issued, is eligible to receive a cash payment equal to the sum of the Participant's Adjusted Award Units multiplied by twenty percent (20%) multiplied by the Award Unit Value for each quarter that the Participant received a quarterly award pursuant to Section 6.A.

C. Individual Performance. The Participant's Award Units assigned to the Participant in accordance with Sections 6.A and 6.B may be adjusted downward based on the Participant's individual performance rating, as determined at the discretion of the Participant's manager, based on the Company's Performance Guide form. The assigned Award Units of the Company's Chief Executive Officer and a Participant who receives an overall performance rating of 4 or 5, shall not be reduced; assigned Award Units shall be reduced 15% if the Participant receives an overall performance rating of 3; shall be reduced 65% if the Participant receives an overall performance rating of 2; and shall be reduced 100% if the Participant receives an overall performance rating of less than 2. The Committee shall have final discretion in determining the Award Units assigned to the Participant based on recommendations from the Participant's manager.

D. Senior Vice President of Operations. Notwithstanding the foregoing, the maximum award payable to the Senior Vice President of Operations for any Plan Year is limited to: (1) four percent (4%) of his or her Base Salary for any Award Period; and (2) twenty percent (20%) of his or her Base Salary for such Plan Year.

E. Death, Disability or Retirement During the Award Period. Notwithstanding the foregoing, a Participant whose service with the Employer ends during an Award Period due to death, disability, or retirement under a tax-qualified retirement plan of the Employer or with the Board's consent, shall be entitled to receive a pro rated award based on the Participant's Base Salary in effect on the employment termination date and the number of full weeks worked by the Participant during the Award Period. Payments to a deceased Participant shall be made to the Participant's estate.

F. Leaves of Absence. Participants absent from work due to any paid or unpaid leave of absence during the Award Period shall be entitled to receive a pro rated award based on the Participant's Base Salary in effect on the last day of the Award Period and the number of full weeks worked by the Participant during the Award Period. A Participant shall not be eligible for an award if the Participant is on a leave of absence the entire Award Period. A leave of absence includes all personal leaves, medical leaves and leaves qualifying for workers' compensation, which may or may not qualify as protected leaves under the Family and Medical Leave Act.

G. Committee Discretion To Adjust Awards. The Committee may, in its sole discretion: (1) increase or decrease the Target Award Percentage; (2) make discretionary awards to Participants, notwithstanding that an award would not otherwise be payable under the Plan, to recognize extraordinary individual performance; (3) accelerate an award or waive restrictive conditions for an award (including forfeiture conditions), in such circumstances as the Committee deems appropriate; or (4) notwithstanding that the Performance Targets are achieved, pay an award that is less than the Target Award Percentage, or pay no awards, for any Award Period that the Committee finds that such action is in the Employer's best interests.

H. Changes Resulting From Acquisitions, Dispositions, Recapitalizations, Extraordinary Items and Accounting Changes. In the event of a change in accounting assumptions, principles or practices after targeted performance criteria have been established, and which materially impact Award Period results, or in the event of a recapitalization, restructuring, merger, combination, consolidation, change in capitalization or capital structure or other reorganization, or any extraordinary dividend or other extraordinary distribution (whether in the form of cash, securities or other property) or acquisition, disposition of assets, or other extraordinary event out of the ordinary course of business that materially affects the applicable target performance criteria, the Committee may, in the manner and to the extent, if any, it deems appropriate and equitable to the Participants and consistent with the terms of the Plan, proportionately adjust any or all of the Performance Targets, Target Award Percentages, the amount of the award pool or other factors relating to awards and the calculation thereof, based solely on objective criteria, so as to neutralize, in the Committee's best judgment, the effect of the change for the Award Period.

7. Payment of Awards.

A. Time and Method of Payment. Distribution of awards shall be made to Participants in a single sum cash payment as soon as administratively practicable after the end of the Award Period, but in no event later than the end of the Quarter following Award Period except as otherwise provided in Section 7.D.

B. Payment Deferral. A Participant may elect to defer payment of an award under this Plan pursuant to the terms and conditions of the Papa John's International, Inc. Deferred Compensation Plan.

C. Withholding. The Employer shall have the right to withhold from any award any income, employment or other taxes or amounts required by law to be withheld with respect to such payment.

D. \$1 Million Compensation Limit. No award shall be paid to a Participant to the extent the payment would cause the Participant to have compensation from the Company and its affiliated companies for any year in excess of \$1 million and which is nondeductible by the Company and its affiliated companies pursuant to Code Section 162(m). Any award, or portion thereof, not payable because of this limitation, shall be paid to the Participant in the first subsequent year in which the payment would not cause the loss of the Company's or its affiliated companies' compensation tax deduction.

8. Forfeiture of Awards. Any award payable to a Participant under the Plan shall be discontinued and forfeited, and the Employer shall have no further obligation to such Participant if the Committee finds, based upon any information or evidence persuasive to a majority of the Committee, that the Participant has: (1) engaged in competition with the Employer or its affiliates or interfered with the business relationships of the Employer or its affiliates; or (2) has disclosed any type of material confidential information or proprietary data of the Employer or its affiliates to any third party by any means; or (3) has willfully engaged in activities or conducted himself or herself in a manner seriously detrimental to the interests of the Employer or its affiliates (including but not limited to dishonesty, fraud or breach of trust).

9. Offsets. As a condition to eligibility for an award, each Participant consents to the deduction from the award of any amounts owed by the Participant to the Employer to the extent permitted by applicable law.

10. Nonassignability. Except as otherwise provided in Section 9, no award shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge before actual receipt by the Participant or the payee. Any attempt to so anticipate, alienate, sell, transfer, assign, pledge, encumber or charge before receipt shall be void.

11. No Rights to Continued Employment. Participation in the Plan does not create or constitute an express or implied employment contract between the Employer and the Participant nor limit the right of the Employer to discharge or otherwise deal with a Participant without regard to the existence of the Plan.

12. Unfunded Plan. The Plan shall at all times be an unfunded payroll practice and no provision shall at any time be made with respect to segregating assets of the Employer for payment of any award. No Participant or any other person shall have any interest in any particular assets of the Employer by reason of the right to receive an award under the Plan and any such Participant or any other person shall have only the rights of a general unsecured creditor of the Employer.

13. Severability. The invalidity or unenforceability of any provision of the Plan shall not affect the remaining provisions of the Plan and such invalid or unenforceable provision shall be stricken to the extent necessary to preserve the validity and enforceability of the Plan.

14. Plan Amendment and Termination. Although it is the present intention of the Company to continue the Plan in effect for an indefinite period of time, the Company reserves the right, by resolution of the Committee, to amend or terminate the Plan at any time, in its sole discretion, provided that no such action shall adversely affect any amount previously awarded.

15. Limitations Period For Claims. Any person who believes he or she is being denied any benefit or right under the Plan may file a written claim with the Committee. Any claim must be delivered to the Committee within forty-five (45) days of the later of the end of the Award Period to which the claim relates or the specific event giving rise to the claim. Untimely claims will not be processed and shall be deemed denied. The Committee, or its designated agent, will notify the Participant of its decision in writing as soon as administratively practicable. Claims not responded to by the Committee in writing within ninety (90) days of the date the written claim is delivered to the Committee shall be deemed denied. The Committee's decision is final and conclusive and binding on all persons. No lawsuit relating to the Plan may be filed before a written claim is filed with the Committee and is denied or deemed denied and any lawsuit must be filed within nine (9) months of such denial of deemed denial or be forever barred.

16. Governing Law; Jurisdiction. The Plan shall be governed and construed in accordance with the laws of the Commonwealth of Kentucky. As a condition to eligibility to receive an award under the Plan, each Participant irrevocably consents to the exclusive jurisdiction of the courts of the Commonwealth of Kentucky and of any federal court located in Jefferson County, Kentucky in connection with any action or proceeding arising out of or relating to this Plan, any document or instrument delivered pursuant to or in connection with this Plan, or any alleged breach of this Plan or any such document or instrument.

IN WITNESS WHEREOF, the parties have executed this Plan effective as of January 1, 2001.

PAPA JOHN'S INTERNATIONAL, INC.

By: /s/ Jack A. Laughery

Jack A. Laughery, Chairman

Compensation Committee of Board of Directors

PAPA JOHN'S INTERNATIONAL, INC.
MANAGEMENT INCENTIVE PLAN

Resolutions of the Compensation Committee of the Board of Directors
Papa John's International, Inc.

WHEREAS, the Company's continued growth and success is dependent upon its ability to attract and retain persons of outstanding abilities and the attached management incentive compensation plan is designed to assist the Company in rewarding those key team members who are in a position to make a significant contribution to the growth and profitability of the Company by providing a reward for performance and incentive for future endeavor to those individuals who contribute to the Company's success by their ability, industry and exceptional service by making them participants in that success,

NOW, THEREFORE, BE IT:

RESOLVED, that the Papa John's International, Inc. Management Incentive Plan, in the form attached hereto, is approved and adopted effective January 1, 2001.

FURTHER RESOLVED that the Company ratifies, approves and adopts the Performance Targets set forth on Exhibit I and the Target Award Percentages set forth on Exhibit II for the 2001 Plan Year.

FURTHER RESOLVED, that each of the officers of the Company is empowered, authorized and directed to take such further actions as in such officer's judgment shall be necessary, proper and advisable to fully carry out the intent and accomplish the purposes of the foregoing resolution.

CERTIFICATE OF CHAIRMAN

I, Jack A. Laughery, Chairman of the Compensation Committee of the Board of Directors of Papa John's International, Inc., certify that the foregoing resolutions were adopted by the Compensation Committee of the Board of Directors of the Company on this 15th day of July, 2001.

PAPA JOHN'S INTERNATIONAL, INC.

/s/ Jack A. Laughery

Jack A. Laughery, Chairman
Compensation Committee of Board of Directors

**Papa John's International, Inc.
Management Incentive Plan**

**Exhibit I
Performance Targets
(Targeted Earnings Per Share)**

For the 2001 Plan Year, no amount will be allocated to an award pool for distribution under the Plan for Earnings Per Share of less than \$2.15. For Earnings Per Share between \$2.15 to \$2.20, forty percent (40%) of the incremental Earnings Per Share in excess of \$2.15 shall be allocated to the award pool. For Earnings Per Share exceeding \$2.20, fifty percent (50%) of the incremental Earnings Per Share in excess of \$2.20 but not exceeding \$2.35 shall be allocated to the award pool.

Quarterly Earnings Per Share award pool funding targets will be calculated from the above annual targets based on the ratio of budgeted Earnings Per Share for each quarter to budgeted Earnings Per Share for the Plan Year. Quarterly and annual Earnings Per Share funding targets are stated net of award pool funding amounts.

PAPA JOHN'S INTERNATIONAL, INC.

By: /s/ Jack A. Laughery
Jack A. Laughery, Chairman,
Compensation Committee of Board of Directors

Date: 7/15/01

**Papa John's International, Inc.
Management Incentive Plan**

**Exhibit II
Target Award Percentage**

For the 2001 Plan Year, the following Target Award Percentages shall apply to the following salary band levels:

| Salary Band Level | Target Award Percentage |
|-------------------|-------------------------|
| BD1 | 20 % |
| BD2 | 20 % |
| BD3 | 25 % |
| FL1 | 30 % |
| FL2 | 35 % |
| FL3 | 40 % |
| SL1 | 50 % |
| SL2 | 60 % |

PAPA JOHN'S INTERNATIONAL, INC.

By: /s/ Jack A. Laughery
Jack A. Laughery, Chairman
Compensation Committee of Board of Directors

Date: 7/15/01

Exhibit 11 - Calculation of Earnings per Share

| <i>(In thousands, except per share amounts)</i> | Three Months Ended | |
|---|---------------------------|----------------------|
| | March 31, 2002 | April 1, 2001 |
| Basic Earnings per Share: | | |
| Net Income | \$ 12,871 | \$ 12,753 |
| Weighted average shares outstanding | 21,361 | 22,807 |
| Basic earnings per share | <u>\$ 0.60</u> | <u>\$ 0.56</u> |
| Diluted Earnings per Share: | | |
| Net Income | \$ 12,871 | \$ 12,753 |
| Weighted average shares outstanding | 21,361 | 22,807 |
| Dilutive effect of outstanding common stock options | 181 | 94 |
| Diluted weighted average shares outstanding | <u>21,542</u> | <u>22,901</u> |
| Diluted earnings per share | <u>\$ 0.60</u> | <u>\$ 0.56</u> |