PIZZA
PAPA JOHN'S
Better Ingredients.
Better Pizza.

America Discovers A Better Pizza!

Papa John's International, Inc. 1998 Annual Report

To Our Shareholders, Team Members and Franchisees

In 1985, when I was serving pizza out of a broom closet in my dad's tavern, one thought kept me going: I believed I could make a better pizza than the big chains. The problem was, in 1985 I was the only person who believed that. Not anymore. Fourteen years later, America has discovered a better pizza!

For the third consecutive year, consumers have awarded Papa John's top honors among national delivery pizza chains in the prestigious *Restaurants and Institutions'* Choice in Chains survey. With nearly 2,000 restaurants throughout the U.S. and in four international markets, more and more people every day are discovering why better ingredients really do make a better pizza.

Once again, our operating results were outstanding. In 1998 we surpassed $1 billion in systemwide restaurant sales. Revenues grew 32% to a record $669.8 million and net income grew 41% to $37.8 million (before the cumulative effect of a change in accounting for pre-opening costs). We ended the year with the strongest balance sheet in our history, including stockholder's equity of $262.7 million (with only $1.3 million in long-term debt) and more than $81 million in cash and investments to fuel our continued growth.

Our passion for quality and increasing market share generated a great deal of interest in the national media last year. Papa John's was featured in *Time*, *Fortune*, *The New York Times*, *The Los Angeles Times*, *The Dallas Morning News* and *Investor's Business Daily*, among others.

Also during 1998:

- Nearly 10% of restaurants in our system at the beginning of 1998 averaged more than $1 million in annual sales.
- Our system experienced 9.8% positive same-store sales growth, our best in the last three years.

- And we maintained our methodical development program, opening a record 372 restaurants, including our first international units in Mexico and Puerto Rico.

At Papa John's, our goal is to build the strongest brand loyalty of all pizzerias in the world. We've been told by a nationally recognized research firm that 80% of customer loyalty comes from the customer experience. So the responsibility for consistently delivering a great customer experience falls on the capable shoulders of our restaurant-level ambassadors. It's because of their focus on people, product and service that we continue to differentiate our brand from the competition.

Fourteen years ago, I made a decision to focus on making one thing – traditional, superior-quality pizza – and making it better than anybody else. It was a long shot, but then again, most dreams are. Today, thanks to the passion and hard work of more than 60,000 franchise and corporate team members, and the support of our shareholders and loyal customers, that dream has become a reality.

Thanks for your support and partnership as we continue to build the Papa John's brand throughout America and the rest of the world.

Sincerely,

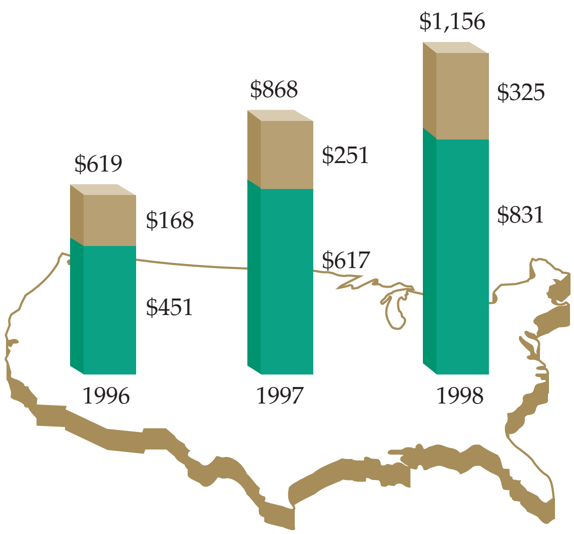
John H. Schnatter

Founder and Chief Executive Officer

Financial Highlights

	1996	1997	1998
Systemwide restaurant sales	$ 619.2	$ 867.7	$ 1,156.3
Total revenues	360.1	508.8	669.8
Income before cumulative effect of a change in accounting principle	18.6	26.9	37.8
Income per share before cumulative effect of a change in accounting principle:			
Basic	.66	.93	1.28
Diluted	.65	.91	1.25
Percentage increase in comparable restaurant sales:			
Company-owned	11.9%	9.3%	8.6%
Franchised	5.9%	7.4%	10.3%
Systemwide	6.7%	7.9%	9.8%

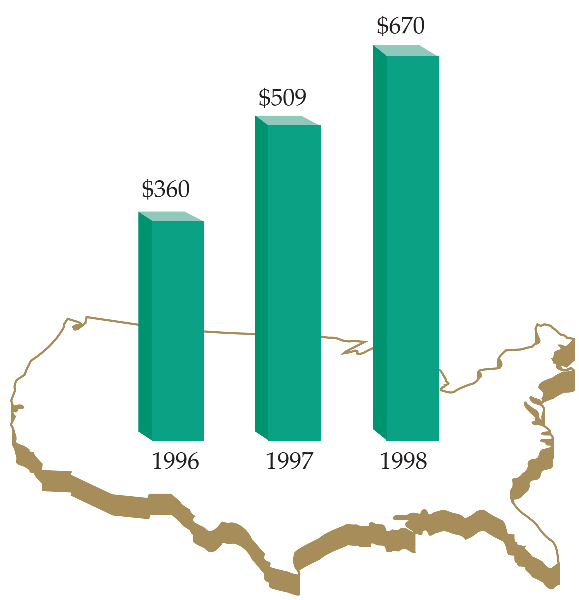
(Dollars in millions, except per share amounts)



Systemwide Restaurant Sales

Company

Franchise



Total Revenues

America Discovers A Better Pizza!

"Can anyone stoppa the Papa?" asked *Time* magazine in a three-page retrospective of Papa John's growth appearing in the October 26, 1998, issue. The article goes on to say, "In the $22 billion pizza industry, in which the thickness of tomato sauce and the texture of dough can be all-consuming passions, the truth these days is that Papa John's has been eating everyone else's lunch."

Similarly, an in-depth examination of the pizza industry in the November 9 issue of *Fortune* magazine proclaimed, "This Ain't No Pizza Party." How right they were.

1998 saw an escalation of the "Pizza Wars" between Papa John's and the world's largest pizza chain. Despite shots fired by both sides, the battle is ultimately won or lost in the marketplace. Consumers – not the courts – will decide… and as demonstrated by our increasing market share, more and more consumers continue to choose Papa John's every day.

With two national ad campaigns in 1998, and three to four planned for 1999, we continue to tell the Papa John's story to an increasing number of consumers. Our "Taste Preference" campaign told the world in a compelling way what we already knew – that pizza eaters prefer Papa John's traditional crust pizza over the comparable product of our largest competitor. Future campaigns will continue to focus on our commitment to quality by telling the world our "Better Ingredients. Better Pizza." story.

1999 R&I Choice In Chains

Papa John's Named Gold Winner
in *Restaurants and Institutions'* Choice in Chains Survey

National Home Delivery Pizza Chains	Food Quality	Value	Convenience	Overall
Papa John's	**59**	**41**	**41**	**38**
Pizza Hut	57	30	37	36
Domino's	39	27	40	28
Little Caesars	37	39	30	27

From *Restaurants and Institutions'* 19th Annual Choice in Chains Survey, March 1, 1999

1998 Recognition

- Ranked #1 in customer satisfaction among national pizza chains for three years running in the prestigious *Restaurants and Institutions'* Choice in Chains survey
- *The Dallas Morning News* – "Fast-Growing Papa John's Chain Takes on Pizza Hut" (February 1, 1998)
- *Wall Street Journal* – "Taste Test Wars Heat Up Among Rivals" (March 30, 1998)
- *The New York Times* – "What Companies Need to Know is in the Pizza Dough" (July 26, 1998)
- CNBC *Squawk Box*– (August 14, 1998)
- *Time* – "Slice, Dice and Devour" (October 26, 1998)
- *The Los Angeles Times* – "Pizza Maker Reaches for Its Slice" (October 29, 1998)
- Founder and CEO John Schnatter named 1998 National Ernst & Young Retail/ Consumer Entrepreneur of the Year (November 1998)
- *Fortune* – "This Ain't No Pizza Party" (November 9, 1998)
- Ranked #1 Pizza Franchise in *Entrepreneur* magazine's 20th Annual Franchise 500 (January 1999)

A Record-Breaking Year!

1998 was a year of unprecedented growth as we opened a record 372 new restaurants (60 corporate and 312 franchised) – more than one per day! Our growth included a record 106 restaurants in the fourth quarter alone, beating the previous record of 97 restaurants in 2Q 1997. On the corporate side, we acquired 21 restaurants in 1998 compared with 23 the previous year.

In January, we celebrated the opening of Papa John's 1,500th restaurant systemwide in the Dallas metropolitan area. We ended the year with 1,885 restaurants and a target date for opening Store 2,000 early in 2Q 1999 – ahead of our long-stated goal of 2,000 restaurants by the year 2000!

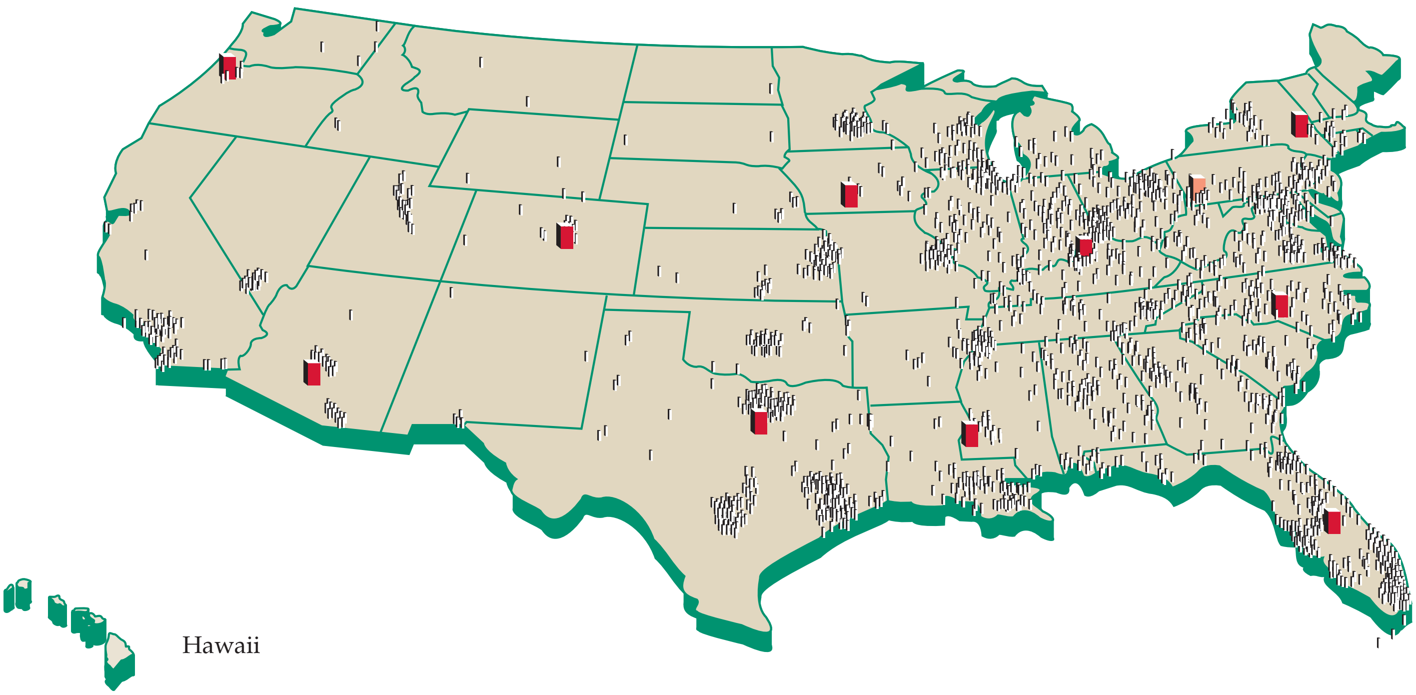
In addition to opening restaurants in five new states, finishing the year in 46 states plus the District of Columbia, 1998 was the year Papa John's went international, opening four franchised restaurants in Mexico City and two in Puerto Rico. Plans for 1999 call for continued development in those countries as well as Venezuela and Central America.

Team members celebrate the opening of Papa John's first international restaurant in Mexico City

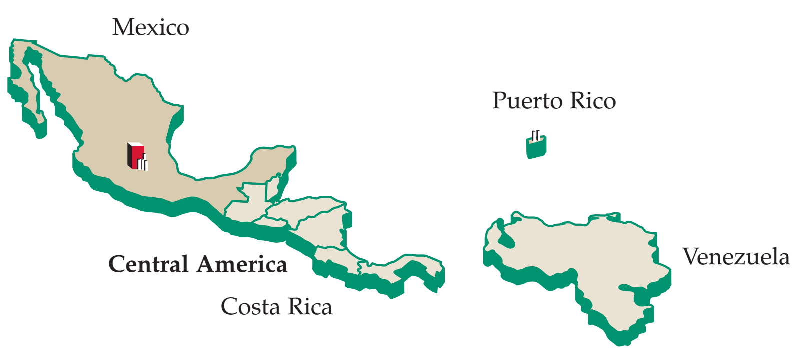
Our commissaries/regional kitchens are an integral part of our commitment to provide Better Ingredients for a Better Pizza. We opened a new regional kitchen in Portland, Oregon, in the second quarter of 1998 and a new, state-of-the-art Louisville facility in early 1999. The Raleigh, North Carolina facility was expanded to accommodate more restaurants and a silo system added to enhance dough production capabilities.

We also purchased a new facility in Dallas, allowing us to convert that distribution center into a full-service regional kitchen which will open in spring 1999. A full-service regional kitchen in Pittsburgh, Pennsylvania is scheduled to open in 1Q 2000 to further support our Northeast development.

These regional kitchens will give us the infrastructure to support up to 3,500 traditional restaurants in the U.S. as well as non-traditional units and some international restaurants.



Existing Development Areas
Committed Development Areas
Restaurant Locations
Commissary Locations
Future Commissary Locations



UNITED STATES

Alabama
Franchised Restaurants . . 51

Arizona
Franchised Restaurants . . 30

Arkansas
Franchised Restaurants . . 12

California
Franchised Restaurants . . 54

Colorado
Franchised Restaurants . . . 4
Corporate Restaurants . . . 43
Total 47

Connecticut
Franchised Restaurants . . . 3

Delaware
Corporate Restaurants . . . 10

District of Columbia
Franchised Restaurants 1
Corporate Restaurants . . . 4
Total 5

Florida
Franchised Restaurants . .149
Corporate Restaurants . . 45
Total 194

Georgia
Franchised Restaurants . . 41
Corporate Restaurants . . . 65
Total 106

Idaho
Franchised Restaurants 4

Illinois
Franchised Restaurants . . .58
Corporate Restaurants . . . 3
Total 61

Indiana
Franchised Restaurants . . 74
Corporate Restaurants . . . 29
Total 103

Iowa
Franchised Restaurants . . 13

Kansas
Franchised Restaurants . . 18

Kentucky
Franchised Restaurants . . 51
Corporate Restaurants . . . 30
Total 81

Louisiana
Franchised Restaurants . . 39

Maryland
Franchised Restaurants . . 17
Corporate Restaurants . . . 49
Total 66

Massachusetts
Franchised Restaurants . . . 8

Michigan
Franchised Restaurants . . 32

Minnesota
Franchised Restaurants . . 37

Mississippi
Franchised Restaurants . . 17

Missouri
Franchised Restaurants . . 23
Corporate Restaurants . . . 20
Total 43

Montana
Franchised Restaurants . . . 2

Nebraska
Franchised Restaurants . . . 9

Nevada
Franchised Restaurants . . 10

New Hampshire
Franchised Restaurants . . . 6

New Jersey
Franchised Restaurants . . 21

New Mexico
Franchised Restaurants . . . 2
Corporate Restaurants 9
Total 11

New York
Franchised Restaurants . . 26

North Carolina
Franchised Restaurants . . 45
Corporate Restaurants . . . 47
Total 92

North Dakota
Franchised Restaurants . . . 2

Ohio
Franchised Restaurants . .143

Oklahoma
Franchised Restaurants . . 16

Oregon
Franchised Restaurants . . . 4

Pennsylvania
Franchised Restaurants . . 50
Corporate Restaurants . . . 1
Total 51

Rhode Island
Franchised Restaurants . . . 5

South Carolina
Franchised Restaurants . . 36
Corporate Restaurants . . . 2
Total 38

South Dakota
Franchised Restaurants . . . 2

Tennessee
Franchised Restaurants . . 50
Corporate Restaurants . . . 24
Total 74

Texas
Franchised Restaurants . . .96
Corporate Restaurants . . 80
Total 176

Utah
Franchised Restaurants . . 14

Virginia
Franchised Restaurants . . .78
Corporate Restaurants . . . 17
Total 95

Washington
Franchised Restaurants . . . 3

West Virginia
Franchised Restaurants . . 16

Wisconsin
Franchised Restaurants . . 25

Wyoming
Franchised Restaurants . . . 4

INTERNATIONAL

Mexico
Franchised Restaurants . . . 4

Puerto Rico
Franchised Restaurants . . . 2

Total Domestic Franchised	*1401*
Total Domestic Corporate	*478*
Total Domestic	*1,879*
Total International	*6*
Total Stores Open *(as of 12/27/98)*	***1,885***

People. Product. Service.

Papa John's 1998 International Pizza Games winners, from left, Tony Samuels, Bill Ferguson (coach) and Rick Brown, Team Corporate Orlando

At Papa John's we have a simple formula for success: Focus on one thing and do it better than anyone else. In 1998 this laser-like focus resulted in our best year ever in achieving operational excellence – from record per restaurant sales averages, to record annual sales, to a record number of million-dollar restaurants – all records that have been broken for five years in a row!

We continue to emphasize People, Product and Service as our mission critical priorities.

What do we mean by "mission critical?"

People: Recruiting and keeping the ones who will make a difference. Most important, supporting their efforts through ongoing team member training and development.

Product: Only "8"s or above (on our 10-Point Perfect Pizza Scale). Delivering a superior-quality Papa John's pizza – every pizza, every time.

Service: Legendary. To the customer's door in a reasonable amount of time with a smile on our face and in our voice.

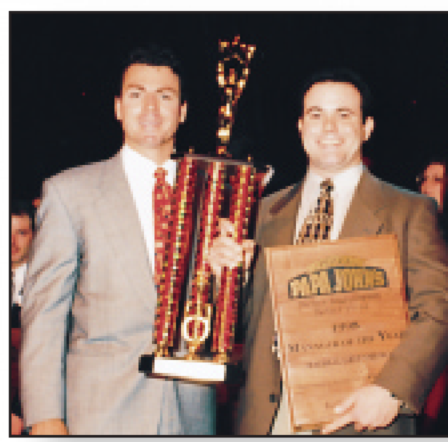
1998 Franchisee of the Year Dan Dorsch, Jordan Nicholas Elliot, Inc.

While we have achieved many successes, we challenge ourselves every day to find opportunities to continue to improve customer service and raise the bar on a higher level of execution. The bigger a company gets, the more average it tends to become. Accordingly, as we continue to grow we must vigilantly guard against mediocrity at Papa John's. Creating a distinctive, clear and meaningful brand distinguishes and distances us from the competition.

Our simple focus of delivering a superior-quality, traditional pizza was enhanced in 1997-98 with the restructuring of corporate and franchise operations under one operational entity. This combined effort helped full-year comparable sales for both corporate and franchised restaurants to trend closer together than ever – 8.6% corporate and 10.3% franchised for a combined comp sales average of 9.8%.

1998 also introduced our first integrated annual Operators' Conference, "OPCON '98: Assault on the Summit," which brought together more than 1,500 corporate and franchise team members. The conference included presentations by guest speakers on relevant industry topics, operational best practices in leadership, training and recruiting and recognition of outstanding restaurants, franchisees and supply partners.

Looking ahead, we view our biggest competition as ourselves. Continuing to focus on operational excellence in every restaurant, every day is where we have the opportunity to succeed – and to distance ourselves even further from the competition.



Founder and CEO John Schnatter with 1998 Manager of the Year Kelly Summey, Raleigh/Greensboro

Superior Quality Begins Here!

Our commitment to quality begins with the crust of every Papa John's traditional pizza, made with fresh dough (never frozen) prepared with clear-filtered water in our regional kitchens. We use only fresh-packed tomato sauce made from vine-ripened tomatoes, cheese made with 100% mozzarella and other high-quality toppings.

In 1998, as in every year, we continued to look for ways to improve our ingredients. This process resulted in several upgrades, and one ingredient change based on consumer preference – fresh mushrooms, officially introduced in the fall after a lengthy test period. As the "Better Ingredients. Better Pizza." pizza company, consumers told us they expected us to use fresh mushrooms. So we listened.

Sharing our "Better Ingredients. Better Pizza." story with our customers begins with educating our team members about what makes us special. Our team members are the "ambassadors" of our brand – and we believe customer loyalty is directly related to the customer's experience with these ambassadors.

So in 1998, we introduced a series of educational narratives about our ingredients – explaining where they come from and how they get "from the farm gate to the dinner plate." As an example, new ingredients labels were created to better describe our world-class pizza sauce and premium olives. Brochures explaining the painstaking processes we use to make our fresh dough and fresh-packed tomato sauce were also distributed to our system. One example we are proud to share with you in this Annual Report is the Papa John's Tomato Story.

So now when our customers ask what we mean by "Better Ingredients" – our team members are better educated and informed to tell them.

The Papa John's Tomato Story

Tomato

Superior-quality pizza sauce begins with superior-tasting, fresh tomatoes. That's why the tomatoes used in Papa John's sauce are grown only in the rich, fertile valley of central California and harvested only once a year at the peak of their summer ripeness (after all, tomatoes are only ripe once a year)!

Our sauce is fresh-packed by only one company – the most quality-focused tomato packer in the world – who processes our tomatoes within an average of six hours of harvest to maximize the fresh flavor of the fruit. Facts about our pizza sauce:

- Papa John's sauce contains only natural ingredients - vine-ripened fresh tomatoes, a canola oil/extra virgin olive oil blend, salt, oregano, spices and citric acid.
- Once harvested, tomatoes fight two enemies – time and temperature. Our tomatoes are processed to the ideal sauce thickness using minimal cooking time and temperature.
- Most other leading pizza chains re-manufacture their pizza sauce from tomato concentrate and water. Papa John's sauce contains no added water and goes on our pizza with the same perfect consistency as when it was fresh-packed at the cannery. It may cost us more, but it's worth every penny!

We believe in using the finest-quality pizza sauce in the world!

A Winning Team!

> "There are only two kinds of job positions at Papa John's: Those who make and sell pizza, and those who help those who make and sell pizza."
>
> *John H. Schnatter*

During 1998, we enhanced programs throughout our system to provide better service to our team members. Some examples:

Finance, Human Resources and Information Systems – Introduced PeopleSoft, integrating benefits and payroll in one system to improve reporting options, reduce operating costs for weekly payroll processing and check production and improve service levels for restaurant-level team members.

Education and Training – Created new team member training materials to better support operations, including a series of illustrated training laminates for each restaurant station, new product guides, a dough management video and a new portion cup system, and revamped our train-the-trainer class in a minimum seven-week program. In early 1999 the department merged with Human Resources to become the Papa John's People Department.

Papa John's Core Values

Focus
Accountability
Superiority
PAPA (People Are Priority #1 Always)
Attitude
Constant Improvement

Concept Research – Introduced the "A.S.C. Your Customer" customer satisfaction tool to help restaurants understand how well they are executing against three key core values (Accountability, Superiority and Constant Improvement), and to continuously measure and improve product and service.

Corporate Communications – Introduced *The Main Thing* and *The Front Lines* newsletters to better tell the Papa John's story to corporate and franchise team members throughout the system.

Support Services – Restructured the Promotions and Print Services teams into a single Support Services entity and created teams for customer relations and print and promotions order processing.

PJ Food Service – Introduced the Circle of Perfection Ambassador program recognizing leadership development opportunities for past Circle of Perfection recipients throughout the system. Ambassadors will serve in various roles during the year sharing examples of PJFS culture and mentoring new circle recipients.

Delivering Our Best!

The communities where we live and work are an integral part of who we are at Papa John's. Beginning with our restaurants and continuing with our regional markets, Papa John's is committed to giving back to the communities where our pizzerias are located. We try to forge relationships with schools, youth and community programs and charitable organizations by sharing not only our product but also our time, talent and treasure.

On a national basis, in 1998 college basketball commentator Dick Vitale and Papa John's joined forces to create an "awesome" partnership. In addition to radio and print promotions, Vitale visited cancer centers with Papa John's team members in several markets to increase awareness of The V Foundation for Cancer Research, named for renowned basketball coach Jim Valvano.

Basketball commentator Dick Vitale

Valvano, a close friend of Vitale's, bravely fought but lost a battle with cancer in 1993. Serving on the Board of The V Foundation, Vitale helped five markets promote their fundraising efforts by talking with the media about his partnership with Papa John's. During his personal appearances, each market donated funds to The V Foundation on behalf of Papa John's.

For the last two years Papa John's has encouraged high school students to continue their education through a program called "Papa John's Scholars," which rewards deserving high school seniors with a $1,000 college scholarship to the college of their choice. During the 1998 school year, as a system Papa John's awarded more than $300,000 in scholarships across the country – a number that will more than triple to $1 million in 1999.

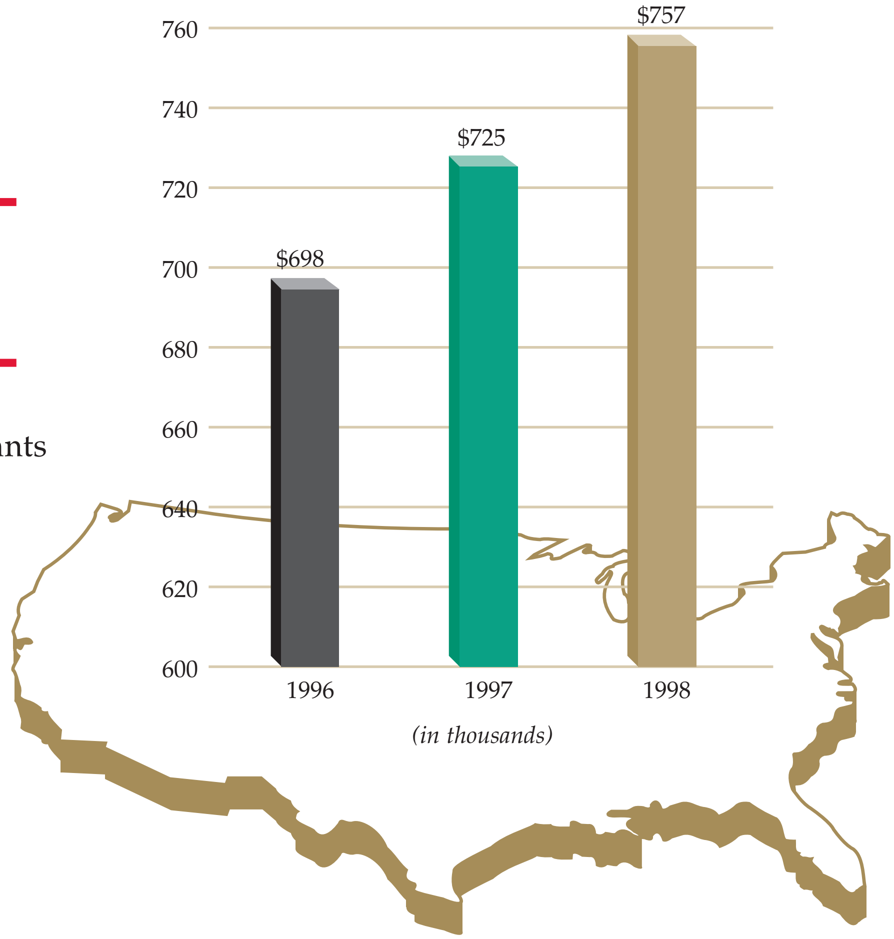
Papa John's Founder John Schnatter accepts the coin for the opening game toss in Papa John's Cardinal Stadium as his wife, Annette, looks on

In September all eyes were on Louisville and the opening of the new Papa John's Cardinal Stadium on the University of Louisville campus. Papa John's and its Founder and CEO John Schnatter made a significant financial contribution toward construction of the 42,000 seat facility – the new home for the UofL Cardinals football team.

With our operational focus on superior-quality ingredients, we continually seek new ways to partner with farmers and ranchers where our better ingredients story begins. In November, Papa John's sponsored the Future Farmers of America Creed Speaking Career Development Event at the national FFA convention in St. Louis. For decades, FFA members have recited the creed at statewide conventions in a competition that recognizes students who make significant accomplishments in the area of leadership. Papa John's will be the exclusive sponsor of the creed speaking event when the FFA national convention moves to Louisville in 1999, bringing with it more than 60,000 FFA members from all across the United States.

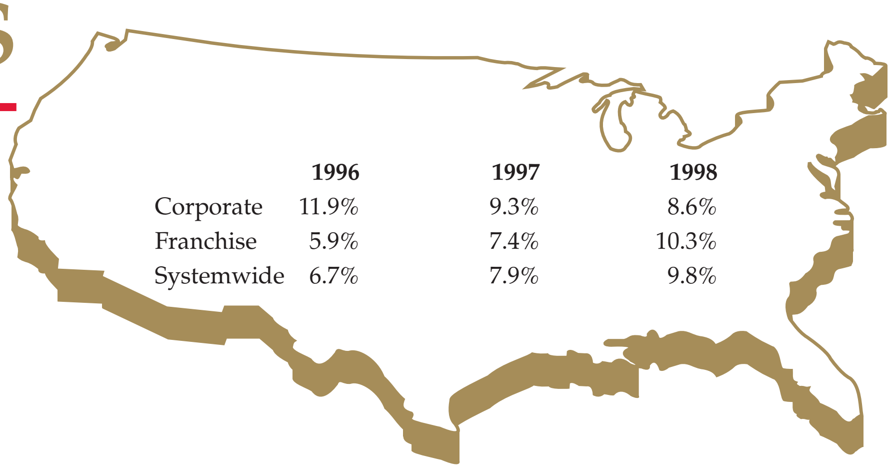
Sales

Average Annual Sales –
Company-owned Restaurants



Comps

Comparable Sales
Increases



	1996	1997	1998
Corporate	11.9%	9.3%	8.6%
Franchise	5.9%	7.4%	10.3%
Systemwide	6.7%	7.9%	9.8%

Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

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 1985 with the opening of the first Papa John's restaurant in Jeffersonville, Indiana. At December 27, 1998, there were 1,885 Papa John's restaurants in operation, consisting of 478 Company-owned and 1,407 franchised restaurants. Our revenues are principally derived from retail sales of pizza to the general public by Company-owned restaurants, franchise royalties, sales of franchise and development rights, sales to franchisees of food and paper products, restaurant equipment, printing and promotional items, risk management services, and information systems and related services used in their operations.

We intend to continue to expand the number of Company-owned and franchised restaurants. Our expansion strategy is to cluster restaurants in targeted markets, thereby increasing consumer awareness and enabling us to take advantage of operational, distribution and advertising efficiencies. We believe that our expansion strategy has contributed to increases in comparable annual sales for Company-owned restaurants of 8.6% in 1998, 9.3% in 1997, and 11.9% in 1996. We anticipate that future comparable sales increases, if any, will be at a lesser rate than in recent years. Average sales for the Company's most recent comparable base restaurants increased to $757,000 for 1998 from $725,000 for 1997. This increase is attributable to continuing strong sales of maturing restaurants. Average sales volumes in new markets are generally lower than in those markets in which we have established a significant market position, although trends indicate that new markets are opening with stronger than historical sales volumes.

Approximately 46% of our revenues for 1998 and 45% for 1997 were derived from the sale to franchisees of food and paper products, restaurant equipment, printing and promotional items, risk management services and information systems equipment and software and related services by us, our commissary subsidiary, PJ Food Service, Inc., and our support services subsidiary, Papa John's Support Services. We believe that, in addition to supporting both Company and franchised growth, these subsidiaries contribute to product quality and consistency throughout the Papa John's system.

We continually strive to obtain high quality sites with greater access and visibility, and to enhance the appearance and quality of our restaurants. We believe that these factors improve our image and brand awareness. During 1998 and 1997, we pursued a greater number of free-standing conversion and prototype locations. As of December 28, 1998, free-standing units represented approximately 27% of the total Company-owned restaurants. We expect this ratio to remain fairly consistent in future years.

The average cash investment for the 60 Company-owned restaurants opened during 1998, exclusive of land, increased to approximately $261,000 from $257,000 for the 76 units opened in 1997. This increase was primarily due to an overall increase in the equipment and building costs per store, principally for the free-standing buildings. We expect the average cash investment for restaurants opening in 1999 not to exceed the 1998 amount.

We defer certain costs incurred in connection with the development of our information systems and amortize such costs over periods of up to five years from the date of completion.

Our fiscal year ends on the last Sunday in December of each year. All fiscal years presented consist of 52 weeks.

The Board of Directors approved a 3-for-2 stock split in February 1996 and an additional 3-for-2 stock split in October 1996, each of which was effected in the form of a 50% stock dividend. All share data included in this Annual Report have been restated to reflect these stock splits.

Results of Operations

The following tables set forth the percentage relationship to total revenues, unless otherwise indicated, of certain income statement data, and certain restaurant data for the years indicated:

	Year Ended		
	Dec. 27, 1998	Dec. 28, 1997	Dec. 29, 1996
Income Statement Data:			
Revenues:			
Restaurant sales	48.5%	49.4%	46.7%
Franchise royalties	4.9	4.7	4.9
Franchise and development fees	0.8	1.0	1.2
Commissary sales	39.0	37.0	39.7
Equipment and other sales	6.8	7.9	7.5
Total revenues	100.0	100.0	100.0
Costs and expenses:			
Restaurant cost of sales (1)	26.9	26.4	28.0
Restaurant operating expenses (1)	53.5	54.9	54.9
Commissary, equipment and other expenses (2)	91.5	91.5	91.1
General and administrative expenses (3)	7.5	7.3	7.4
Pre-opening and other general expenses (3)	0.4	0.2	(0.1)
Depreciation and amortization (3)	2.9	3.9	3.8
Total costs and expenses	91.7	92.5	92.8
Operating income	8.3	7.5	7.2
Investment income	0.6	0.9	1.0
Income before income taxes and cumulative effect of a change in accounting principle	8.9	8.4	8.2
Income tax expense	3.3	3.1	3.0
Income before cumulative effect of a change in accounting principle	5.6	5.3	5.2
Cumulative effect of accounting change, net of tax (3)	(0.4)	–	–
Net income	5.2%	5.3%	5.2%

(1) As a percentage of Restaurant sales.

(2) As a percentage of Commissary sales and Equipment and other sales on a combined basis.

(3) The 1998 operating results reflect the adoption of a new accounting standard (see “Note 2” of “Notes to Consolidated Financial Statements”) which impacts the amount of depreciation and amortization, general and administrative expenses, and pre-opening and other general expenses reflected above.

	Year Ended		
	December 27, 1998	December 28, 1997	December 29, 1996
Restaurant Data:			
Percentage increase in comparable Company-owned restaurant sales (4)	8.6%	9.3%	11.9%
Number of Company-owned restaurants included in the respective years' most recent comparable restaurant base	383	266	182
Average sales for Company-owned restaurants included in the respective years' most recent comparable restaurant base	$ 757,000	$ 725,000	$ 698,000
Number of Company-owned restaurants:			
Beginning of period	401	303	217
Opened	60	76	66
Closed	(1)	(1)	(2)
Acquired from franchisees	21	23	22
Sold to franchisees	(3)	–	–
End of period	478	401	303
Number of U.S. franchised restaurants:			
Beginning of period	1,116	857	661
Opened	306	288	224
Closed	(3)	(6)	(6)
Sold to Company	(21)	(23)	(22)
Acquired from Company	3	–	–
End of period	1,401	1,116	857
Number of international franchised restaurants:			
Beginning of period	–	–	–
Opened	6	–	–
Closed	–	–	–
Sold to Company	–	–	–
Acquired from Company	–	–	–
End of period	6	–	–
Total restaurants – end of period	1,885	1,517	1,160

(4) Includes only Company-owned restaurants open throughout the periods being compared.

1998 Compared to 1997

Revenues. Total revenues increased 31.6% to $669.8 million in 1998, from $508.8 million in 1997.

Restaurant sales increased 29.4% to $324.9 million in 1998, from $251.2 million in 1997. This increase was primarily due to a 22.5% increase in the number of equivalent Company-owned restaurants open during 1998 as compared to 1997. "Equivalent restaurants" represents the number of restaurants open at the beginning of a given period, adjusted for restaurants opened or acquired during the period on a weighted average basis. Also, comparable sales increased 8.6% in 1998 over 1997 for Company-owned restaurants open throughout both years.

Franchise royalties increased 35.3% to $32.9 million in 1998, from $24.3 million in 1997. This increase was primarily due to a 27.4% increase in the number of equivalent franchised restaurants open during 1998 as compared to 1997. Also, comparable sales increased 10.3% in 1998 over 1997 for franchised restaurants open throughout both years.

Franchise and development fees increased 5.2% to $5.6 million in 1998, from $5.3 million in 1997. This increase was primarily due to the 312 franchised restaurants opened during 1998, as compared to 288 opened during 1997, an increase of 8.3%. The average dollar amount of fees per franchised restaurant may vary from period to period, depending on the mix of restaurants opened pursuant to older development agreements including "Hometown restaurants" which generally had lower required fees than traditional restaurants opened pursuant to standard development agreements. Hometown restaurants are located in smaller markets, generally with less than 9,000 households. Hometown restaurant development agreements entered into subsequent to March 1998, generally provide for fees equivalent to those under standard development agreements.

Commissary sales increased 38.8% to $261.0 million in 1998, from $188.0 million in 1997. This increase was primarily due to the increases in equivalent franchised restaurants and comparable sales for franchised restaurants noted above. There was an additional impact of higher cheese prices in 1998 compared to 1997 in response to increased cheese costs during 1998.

Equipment and other sales increased 13.6% to $45.4 million in 1998, from $40.0 million in 1997. This increase was primarily due to ongoing equipment and smallwares orders related to the increase in equivalent franchised restaurants open during 1998 as compared to 1997, and the increase in the number of new restaurant equipment packages sold to franchisees that opened restaurants in 1998 as compared to 1997. A portion of the equipment and other sales increase was also attributable to an increase in sales of the Papa John's PROFIT System, a proprietary point of sale system.

Costs and Expenses. Restaurant cost of sales, which consists of food, beverage and paper costs, increased as a percentage of restaurant sales to 26.9% in 1998, from 26.4% in 1997. The primary reason for the increase is attributable to increases in the average cheese block market prices, partially offset by a decrease in the average cost of certain other commodities. The cost of cheese, representing approximately 40% of food cost, and other commodities are subject to seasonal fluctuations, weather, demand and other factors. Most of the factors affecting the cost of cheese are beyond our control.

Restaurant salaries and benefits decreased as a percentage of restaurant sales to 26.8% in 1998, from 27.0% in 1997. The decrease is primarily due to increased efficiencies in relation to higher sales volumes, partially offset by the 1998 full year impact of increases in the federal minimum wage in September 1997. Occupancy costs decreased as a percentage of restaurant sales to 4.9% in 1998 from 5.1% in 1997 as a result of leveraging against a higher sales base.

Restaurant advertising and related costs decreased as a percentage of restaurant sales to 8.7% in 1998, from 9.3% in 1997. The decrease in 1998 was primarily the result of efficiencies related to increased market penetration and higher sales volume. Also, restaurant level advertising is intentionally managed to higher levels for new restaurants; therefore, as the ratio of new Company-owned restaurant openings to existing Company-owned restaurants decreases, the overall advertising cost percentage also decreases. Our advertising often varies based on the timing of national or market-level promotions.

Other restaurant operating expenses decreased as a percentage of restaurant sales to 13.2% for 1998 from 13.5% for 1997. Other operating expenses include an allocation of commissary operating expenses equal to 3% of Company-owned restaurant sales in order to assess a portion of the costs of dough production and food and equipment purchasing and storage to Company-owned restaurants. The decrease in other operating expenses as a percentage of restaurant sales was primarily due to a reduction in worker's compensation costs.

Commissary, equipment and other expenses include cost of sales, salaries and benefits, and other operating expenses associated with sales of food, paper, equipment, information systems and printing and promotional items to franchisees and other customers. These costs were consistent as a percentage of combined commissary sales and equipment and other sales at 91.5% in 1998 and 1997. Cost of sales as a percentage of combined commissary sales and equipment and other sales increased to 78.6% in 1998 from 77.8% in 1997, due to the timing of certain unfavorable commodity price changes (primarily cheese). The increase was offset by a decrease in salaries and benefits and other operating expenses to 12.9% in 1998 compared to 13.7% in 1997, due primarily to efficiencies related to an increased number of restaurants serviced by the overall commissary system without significant expansion in 1998.

General and administrative expenses increased slightly as a percentage of total revenues to 7.5% in 1998 from 7.3% in 1997. This increase is primarily due to the adoption of the AICPA Statement of Position 98-5 (“SOP”) which required the expensing of certain start-up costs effective in 1998 (see “Note 2” of “Notes to Consolidated Financial Statements”). Certain of these costs had previously been deferred and, accordingly, were not previously included in general and administrative costs. Even though the adoption resulted in significant changes to the amounts reported on individual line items (general and administrative expenses, pre-opening and other general expenses, and depreciation and amortization), the effect of the adoption of the SOP did not have a material impact on 1998 consolidated net income, excluding the one time cumulative effect adjustment of $2.6 million, net of taxes of $1.5 million. This increase was partially offset by the recognition of $2.0 million in incentives under the Kentucky Jobs Development Act (the “KJDA incentives”) related to the development of a new corporate headquarters facility and associated employment increases.

Pre-opening and other general expenses increased to $2.7 million in 1998, compared to $1.1 million in 1997. Pre-opening and other general expenses consisted primarily of relocation costs in 1997 and of both relocation costs and pre-opening expenses in 1998 as a result of the adoption of the SOP (see “Note 2” of “Notes to Consolidated Financial Statements”).

Depreciation and amortization decreased as a percentage of total revenues to 2.9% in 1998, from 3.9% in 1997. This decrease was due to the elimination of pre-opening deferrals and related amortization in 1998 as a result of the adoption of the SOP (see “Note 2” of “Notes to Consolidated Financial Statements”).

Investment Income. Investment income remained relatively consistent at $4.4 million in 1998 and $4.5 million in 1997 as average invested and loaned balances and yields were also fairly consistent between years.

Income Tax Expense. Income tax expense reflects a combined federal, state and local effective income tax rate of 37.0% in 1998 and 1997. The combined federal, state and local effective income tax rate for 1999 is expected to increase to 37.5% as a result of a relative decrease in the level of tax-exempt investment income to total pre-tax income.

1997 Compared to 1996

Revenues. Total revenues increased 41.3% to $508.8 million in 1997, from $360.1 million in 1996.

Restaurant sales increased 49.5% to $251.2 million in 1997, from $168.0 million in 1996. This increase was primarily due to a 42.0% increase in the number of equivalent Company-owned restaurants open during 1997 as compared to 1996. Also, comparable sales increased 9.3% in 1997 over 1996 for Company-owned restaurants open throughout both years.

Franchise royalties increased 36.4% to $24.3 million in 1997, from $17.8 million in 1996. This increase was primarily due to a 30.5% increase in the number of equivalent franchised restaurants open during 1997 as compared to 1996. Also, comparable sales increased 7.4% in 1997 over 1996 for franchised restaurants open throughout both years.

Franchise and development fees increased 24.3% to $5.3 million in 1997, from $4.3 million in 1996. This increase was primarily due to the 288 franchised restaurants opened during 1997, as compared to 224 opened during 1996, an increase of 28.6%, partially offset by the lower per unit franchise and development fees collected on certain non-traditional restaurant units opened in 1997.

Commissary sales increased 31.5% to $188.0 million in 1997, from $143.0 million in 1996. This increase was primarily due to the increases in equivalent franchised restaurants and comparable sales for franchised restaurants noted above, partially offset by the impact of lower average cheese prices in 1997.

Equipment and other sales increased 48.2% to $40.0 million in 1997, from $27.0 million in 1996. This increase was primarily due to the increase in equivalent franchised restaurants open during 1997 as compared to 1996, and the increase in franchised restaurants opened during 1997 as compared to 1996. A portion of the equipment and other sales increase was also attributable to the increase in sales of the Papa John's PROFIT System, a proprietary point of sale system, and related PROFIT support services to the franchisees, as well as increasing insurance commissions from franchisees. We initiated an insurance agency function for franchisees during the fourth quarter of 1996.

Costs and Expenses. Restaurant cost of sales, which consists of food, beverage and paper costs, decreased as a percentage of restaurants sales to 26.4% in 1997, from 28.0% in 1996. The primary reason for the decrease is attributable to lower average cheese prices for the year and increased efficiencies at both mature and newly-opened stores.

Restaurant salaries and benefits increased as a percentage of restaurant sales to 27.0% in 1997, from 26.7% in 1996. The increase is primarily due to the impact of increases in the federal minimum wage in October 1996 and September 1997, and increased staffing levels during the second quarter of 1997 to ensure quality customer service was delivered during the 12th Anniversary Promotion.

Restaurant advertising and related costs decreased as a percentage of restaurant sales to 9.3% in 1997, from 9.6% in 1996. The decrease in 1997 was primarily the result of higher 1996 costs related to the fourth quarter rollout of a new thin crust product. Also, restaurant level advertising is intentionally managed to higher levels for new restaurants; therefore, as the percentage of new Company-owned restaurant openings to existing Company-owned restaurants decreases, the overall advertising cost percentage also decreases.

Other restaurant operating expenses were relatively consistent as a percentage of restaurant sales at 13.5% for 1997, and 13.6% for 1996.

Commissary, equipment and other expenses include cost of sales and operating expenses associated with sales of food, paper, equipment, information systems and printing and promotional items to franchisees and other customers. These costs increased as a percentage of combined commissary sales and equipment and other sales to 91.5% in 1997, from 91.1% in 1996. Cost of sales as a percentage of combined commissary sales and equipment and other sales decreased to 77.8% in 1997 from 79.3% in 1996, due to the timing of certain favorable commodity price changes. The decrease was offset by an increase in salaries and benefits and other operating expenses to 13.7% in 1997 compared to 11.8% in 1996, due primarily to increased delivery costs resulting from larger commissary service areas and staffing and other costs related to the opening of three commissary facilities in 1997.

General and administrative expenses declined slightly as a percentage of total revenues to 7.3% in 1997 from 7.4% in 1996.

Pre-opening and other general expenses increased $1.5 million in 1997. This increase was primarily attributable to equipment and leasehold write-offs resulting from an increased number of restaurant relocations during the year.

Depreciation and amortization increased as a percentage of total revenues to 3.9% in 1997, from 3.8% in 1996. This increase was primarily due to additional capital expenditures, intangibles related to acquisitions, deferred pre-opening costs for newly-opened restaurants and commissaries and other deferred expenses, primarily systems development costs.

Investment Income. Investment income increased to $4.5 million in 1997, from $3.5 million in 1996. The increase was the result of higher average amounts outstanding under the franchise loan program which earn higher average rates of interest in comparison to the securities held in the investment portfolio. Amounts receivable under the program increased from $5.1 million at December 1996, to $15.1 million at December 1997.

Income Tax Expense. Income tax expense reflects a combined federal, state and local effective income tax rate of 37.0% in 1997 and 1996.

Liquidity and Capital Resources

We require capital primarily for the development and acquisition of restaurants, the addition of new commissary and support services facilities and equipment, the enhancement of corporate systems and facilities and the funding of franchisee loans. Capital expenditures of $69.2 million, acquisitions of $1.9 million, and loans to franchisees of $4.8 million for 1998, were primarily funded by cash flow from operations and cash generated from the exercise of stock options.

Total 1999 capital expenditures are expected to be approximately $69.0 million, primarily for the development or relocation of restaurants and construction of commissary facilities and completion of the Louisville commissary and corporate offices. During 1999, we plan to open approximately 35 new Company-owned restaurants, acquire approximately 60 franchised Papa John's restaurants, and relocate an additional 17 restaurants.

We plan to open a full service commissary in Dallas, Texas, by mid 1999. We also plan to open a 247,000 square foot facility in Louisville, Kentucky, of which approximately 30-40% will accommodate relocation and expansion of the Louisville commissary operations and Support Services promotional division, and the remainder of which will accommodate relocation and consolidation of corporate offices.

We have been approved to receive up to $21.0 million in incentives under the Kentucky Jobs Development Act in connection with the relocation of the corporate offices. Based upon the expected timing of completion of the facility, we expect to earn approximately $14.0 million of such incentives through 2007.

Additionally, during 1999 we expect to fund up to $1.1 million in additional loans under existing franchisee loan program commitments. Approximately $12.5 million was outstanding under this program as of December 27, 1998. At this time, we do not expect to significantly expand the program beyond existing commitments.

Capital resources available at December 27, 1998, include $34.0 million of cash and cash equivalents, $47.4 million of investments and $9.6 million under a line of credit expiring in June 1999. We expect to fund planned capital expenditures, acquisitions of franchised restaurants and disbursements under the franchise loan program for the next twelve months from these resources and operating cash flows.

Impact of Year 2000

Some of our older purchased software programs were written using two digits rather than four to define the applicable year. As a result, time-sensitive software or hardware recognizes a date using "00" as the year 1900 rather than the year 2000. This could cause a system failure or miscalculations resulting in disruptions of important administrative processes, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

Our year 2000 evaluation has been ongoing since late 1997 and became more formalized in January 1999 with the formation of a committee comprised of senior management from various departments within the Company. The primary goal of the committee is to assess and mitigate risk associated with year 2000 issues by September 1999. The committee developed a three phased approach to accomplish this goal consisting of the following: (1) identifying and documenting the business components impacted by the year 2000, both internally and externally, assigning priority to those components identified based on the level of risk, and determining year 2000 compliance; (2) performing tests for year 2000 compliance; and (3) developing contingency plans based upon the results of the risk analysis and testing phases. We are currently in the first phase and expect this phase to be complete by April 1999. The second and third phases are targeted for completion in July 1999 and September 1999, respectively.

As part of phase I, we have substantially completed an assessment of our internal information technology and will have to modify or replace certain software and hardware so that they will function properly in the year 2000 and thereafter. Based on our assessment or representations from software suppliers, or both, we believe the total year 2000 project cost is immaterial to our financial position, net income and liquidity. Much of the cost related to year 2000 coincides with existing management plans to replace certain systems which include the financial accounting and payroll/human resource systems in order to accommodate our planned growth. About 70% of the new financial accounting system has been implemented and the remaining portion is expected to be implemented by June 1999. The payroll/human resource system implementation was complete in January 1999. Based upon the representations from the manufacturers of both systems, we believe the systems are year 2000 compliant. The timing of implementation was not materially affected by year 2000 concerns.

We have taken action to ensure that our restaurant system is year 2000 compliant by implementing a single point of sale operating system (Papa John's PROFIT System) in all of our Company-owned and substantially all of our franchised-owned restaurants. Additionally, we have notified our franchisees of our year 2000 process and have requested their assistance in ensuring year 2000 compliance with regard to their business.

We believe that with the planned modifications to existing software and/or conversions to new software and hardware as described above, the year 2000 issue will not pose significant operational problems. However, if such modifications and conversions are not made, or are not completed timely, the year 2000 issue could have a material impact on certain administrative processes.

We are in the process of querying our significant vendors with respect to year 2000 issues. Based on the responses received from approximately 75% of the vendors, including our cheese and tomato sauce vendors, we are not aware of any vendors with a year 2000 issue that would materially impact results of operations, liquidity, or capital resources. However, we have no means of ensuring that vendors will be year 2000 ready. The inability of vendors to complete their year 2000 resolution process in a timely fashion could materially impact us, although the actual impact of non-compliance by vendors is not determinable.

There can be no assurance that we will be completely successful in our efforts to address year 2000 issues. We have no contingency plans in place in the event we do not complete all phases of the year 2000 program. We plan to evaluate the status of completion in July 1999 to determine whether such contingency plans are necessary, although at this time we know of no reason our year 2000 program will not be completed in a timely manner.

Impact of Inflation

We do not believe inflation has materially affected earnings during the past three years. Substantial increases in costs, particularly labor, employee benefits or food costs, could have a significant impact on us.

Forward Looking Statements

Certain information contained in this annual 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; risks inherent to international development; and factors associated with the Year 2000 evaluation and modifications.

Quantitative and Qualitative Disclosures about Market Risk

We had no holdings of derivative financial or commodity instruments at December 27, 1998. Our principal exposure to financial market risks is the impact that interest rate changes could have on the income from our investment portfolio. All borrowings under our revolving credit agreement (none at December 27, 1998) bear interest at a variable rate based on the prime rate, the London Interbank Offered Rate, or certain alternative short-term rates. A change in interest rates of 100 basis points would not significantly affect our net income. Substantially all of our business is transacted in U.S. dollars. Accordingly, foreign exchange rate fluctuations have never had a significant impact on us, and are not expected to in the foreseeable future.

Selected Consolidated Financial Data

The selected financial data presented below for each of the years in the five-year period ended December 27, 1998, was derived from our audited consolidated financial statements. The selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and Notes thereto included elsewhere in this annual report.

Selected Consolidated Financial Data *(continued)*

(In thousands, except per share data)

	Year Ended (1)				
	Dec. 27, 1998	Dec. 28, 1997	Dec. 29, 1996	Dec. 31, 1995	Dec. 25, 1994
Systemwide Restaurant Sales					
Company-owned	$ 324,894	$ 251,153	$ 167,982	$ 111,747	$ 66,267
Franchised	831,377	616,456	451,214	347,003	231,343
Total	$1,156,271	$ 867,609	$ 619,196	$ 458,750	$297,610
Income Statement Data					
Revenues:					
Restaurant sales	$ 324,894	$ 251,153	$ 167,982	$ 111,747	$ 66,267
Franchise royalties	32,894	24,318	17,827	13,561	9,163
Franchise and development fees	5,605	5,327	4,286	3,508	3,274
Commissary sales	261,009	188,034	142,998	105,874	67,515
Equipment and other sales	45,404	39,952	26,959	18,665	15,316
Total revenues	669,806	508,784	360,052	253,355	161,535
Operating income (2)	55,517	38,120	26,062	16,070	10,226
Investment income (2)	4,432	4,505	3,484	1,659	1,156
Income before income taxes and cumulative effect of a change in accounting principle	59,949	42,625	29,546	17,729	11,382
Income tax expense	22,181	15,772	10,932	6,525	4,182
Income before cumulative effect of a change in accounting principle	37,768	26,853	18,614	11,204	7,200
Cumulative effect of accounting change, net of tax (3)	(2,603)	–	–	–	–
Net income	$ 35,165	$ 26,853	$ 18,614	$ 11,204	$ 7,200
Basic earnings per share:					
Income before cumulative effect of a change in accounting principle	$ 1.28	$ .93	$ .66	$ .45	$ .31
Cumulative effect of accounting change, net of tax (3)	(.09)	–	–	–	–
Basic earnings per share	$ 1.19	$ .93	$ .66	$ .45	$ .31
Diluted earnings per share:					
Income before cumulative effect of a change in accounting principle	$ 1.25	$ .91	$ .65	$ .44	$ .30
Cumulative effect of accounting change, net of tax (3)	(.09)	–	–	–	–
Diluted earnings per share	$ 1.16	$ .91	$ .65	$ .44	$ .30
Basic weighted average shares outstanding	29,409	28,916	28,010	25,139	23,525
Diluted weighted average shares outstanding	30,327	29,592	28,670	25,552	24,033
Balance Sheet Data					
Total assets	$ 319,297	$ 253,243	$ 212,061	$ 128,819	$ 76,173
Long-term debt	1,320	1,505	1,680	2,510	1,279
Stockholders' equity	262,711	212,733	180,643	106,282	62,609

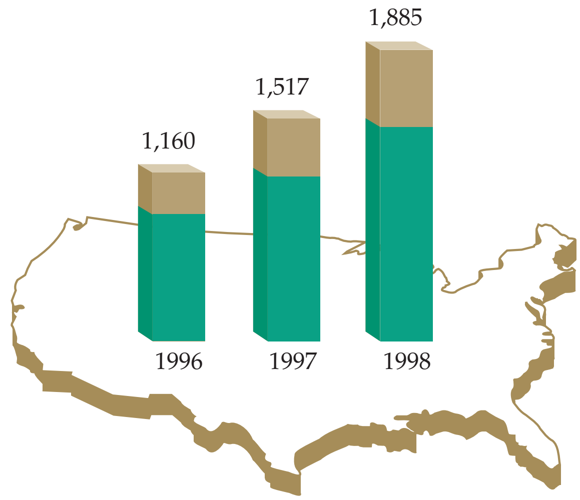
(1) We operate on a 52-53 week fiscal year ending on the last Sunday of December of each year. The 1998, 1997, 1996, and 1994 fiscal years consisted of 52 weeks and the 1995 fiscal year consisted of 53 weeks.
(2) Certain financial data for 1997-1994 has been reclassified to conform with the current year's presentation.
(3) Reflects the cumulative effect on income and earnings per share of a change in accounting principle, net of tax, as required by Statement of Position 98-5 "Reporting the Costs of Start-Up Activities." See "Note 2" of "Notes to Consolidated Financial Statements."

Counts

Restaurant Counts

	1996	1997	1998
Company-owned restaurants	303	401	478
Franchised restaurants	857	1,116	1,407
Total	1,160	1,517	1,885

Number at End of Year

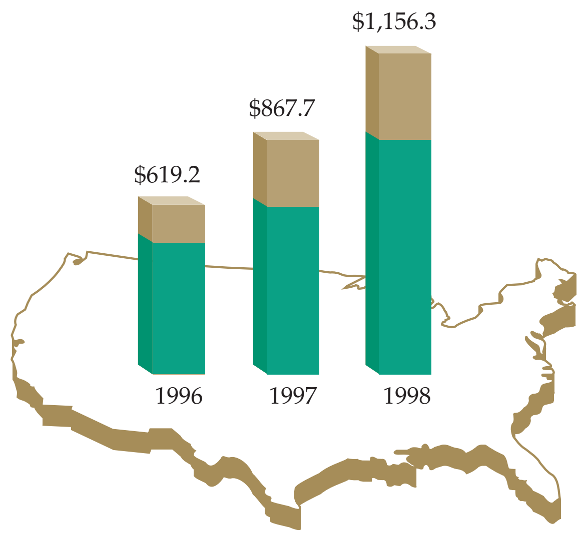


Sales

Systemwide Restaurant Sales

	1996	1997	1998
Company-owned restaurants	$ 168.0	$ 251.2	$ 324.9
Franchised restaurants	451.2	616.5	831.4
Total	$ 619.2	$ 867.7	$1,156.3

Millions

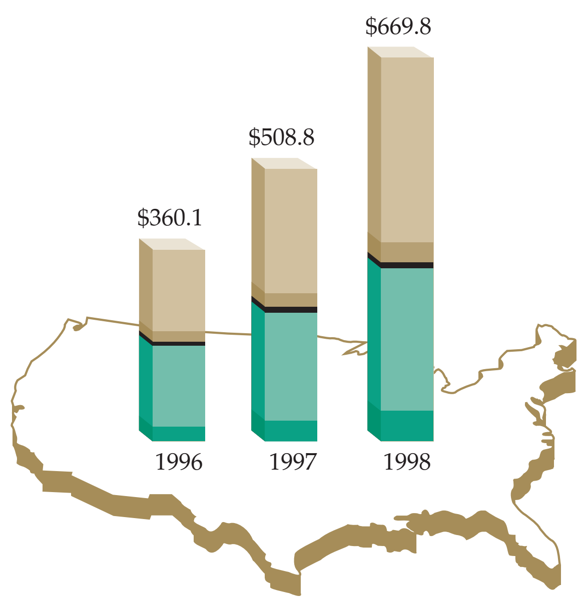


Revenues

Total Revenues

	1996	1997	1998
Restaurant sales	$ 168.0	$ 251.2	$ 324.9
Franchise royalties	17.8	24.3	32.9
Franchise and development fees	4.3	5.3	5.6
Commissary sales	143.0	188.0	261.0
Equipment and other sales	27.0	40.0	45.4
Total	$ 360.1	$ 508.8	$ 669.8

Millions



Papa John's International, Inc. and Subsidiaries
Consolidated Statements of Income

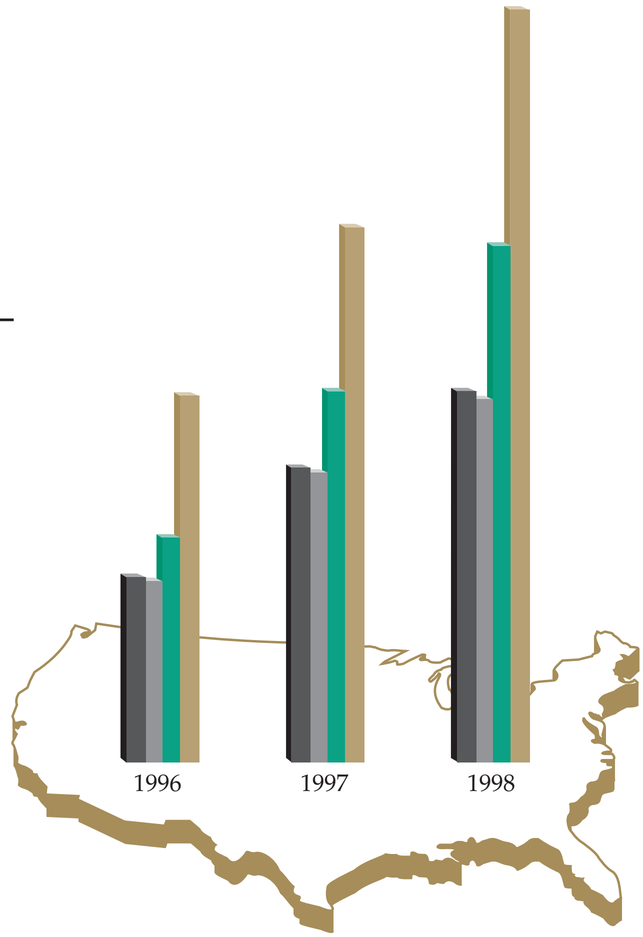
(In thousands, except per share amounts)		Year Ended	
	December 27, 1998	**December 28, 1997**	**December 29, 1996**
Revenues:			
Restaurant sales	$ 324,894	$ 251,153	$ 167,982
Franchise royalties	32,894	24,318	17,827
Franchise and development fees	5,605	5,327	4,286
Commissary sales	261,009	188,034	142,998
Equipment and other sales	45,404	39,952	26,959
Total revenues	669,806	508,784	360,052
Costs and expenses:			
Restaurant expenses:			
Cost of sales	87,487	66,417	47,092
Salaries and benefits	86,992	67,830	44,774
Advertising and related costs	28,358	23,298	16,074
Occupancy costs	15,765	12,785	8,527
Other operating expenses	42,759	33,882	22,801
	261,361	204,212	139,268
Commissary, equipment and other expenses:			
Cost of sales	240,717	177,263	134,771
Salaries and benefits	16,981	13,091	9,023
Other operating expenses	22,560	18,181	11,009
	280,258	208,535	154,803
General and administrative expenses	50,537	37,051	26,694
Pre-opening and other general expenses (income)	2,729	1,074	(433)
Depreciation and amortization	19,404	19,792	13,658
Total costs and expenses	614,289	470,664	333,990
Operating income	55,517	38,120	26,062
Investment income	4,432	4,505	3,484
Income before income taxes and cumulative effect of a change in accounting principle	59,949	42,625	29,546
Income tax expense	22,181	15,772	10,932
Income before cumulative effect of a change in accounting principle	37,768	26,853	18,614
Cumulative effect of accounting change, net of tax	(2,603)	–	–
Net income	$ 35,165	$ 26,853	$ 18,614
Basic earnings per share:			
Income before cumulative effect of a change in accounting principle	$ 1.28	$ .93	$ .66
Cumulative effect of accounting change, net of tax	(.09)	–	–
Basic earnings per share	$ 1.19	$ .93	$ .66
Diluted earnings per share:			
Income before cumulative effect of a change in accounting principle	$ 1.25	$ .91	$ .65
Cumulative effect of accounting change, net of tax	(.09)	–	–
Diluted earnings per share	$ 1.16	$ .91	$ .65
Basic weighted average shares outstanding	29,409	28,916	28,010
Diluted weighted average shares outstanding	30,327	29,592	28,670
Supplemental data:			
Revenues-affiliates	$ 85,137	$ 62,986	$ 47,012
Other income-affiliates	570	514	85

See accompanying notes.

Results

Operating Results

	1996	1997	1998
■ **Income per share before cumulative effect of a change in accounting principle:**			
Basic	$ 0.66	$ 0.93	$ 1.28
Diluted	$ 0.65	$ 0.91	$ 1.25
■ **Income before cumulative effect of a change in accounting principle** *(millions)*	$ 18.6	$ 26.9	$ 37.8
■ **Operating income** *(millions)*	$ 26.1	$ 38.1	$ 55.5

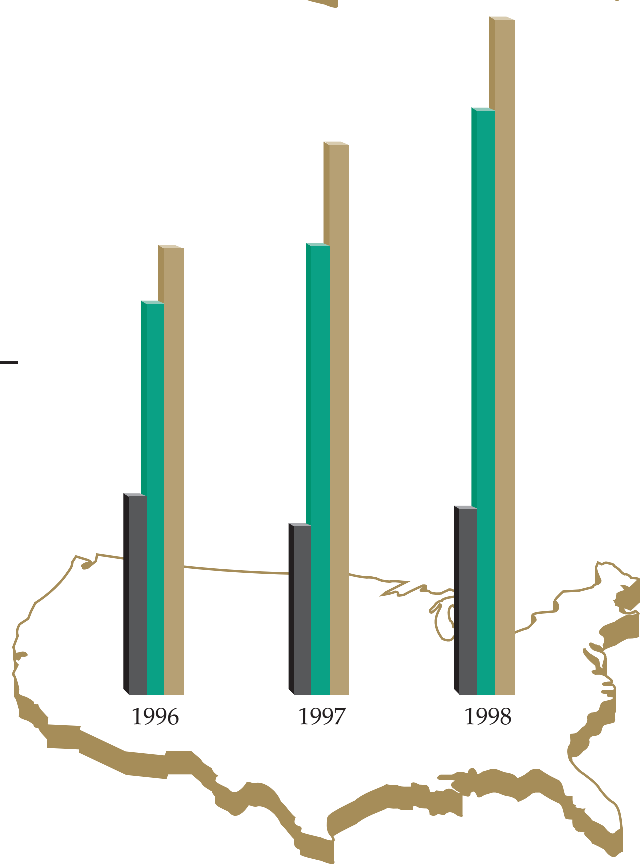


Highlights

Balance Sheet Highlights

	1996	1997	1998
■ **Cash and investments**	$ 89.1	$ 76.6	$ 81.3
■ **Stockholders' equity**	$180.6	$212.7	$262.7
■ **Total assets**	$212.1	$253.2	$319.3

(millions)



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

(Dollars in thousands, except per share amounts)	**December 27, 1998**	**December 28, 1997**
Assets		
Current assets:		
Cash and cash equivalents	$ 33,984	$ 18,692
Accounts receivable	15,019	12,678
Accounts receivable-affiliates	2,273	2,454
Inventories	9,653	9,091
Deferred pre-opening costs	–	3,827
Prepaid expenses and other current assets	4,815	2,434
Deferred income taxes	2,090	–
Total current assets	67,834	49,176
Investments	47,355	57,933
Net property and equipment	169,203	112,601
Notes receivable-franchisees	7,749	7,083
Notes receivable-affiliates	4,741	7,997
Other assets	22,415	18,453
Total assets	$ 319,297	$ 253,243
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 18,149	$ 15,148
Accrued expenses	25,477	15,132
Deferred income taxes	–	102
Total current liabilities	43,626	30,382
Unearned franchise and development fees	6,561	4,613
Deferred income taxes	5,066	3,987
Other long-term liabilities	1,333	1,528
Stockholders' equity:		
Preferred stock ($.01 par value per share; authorized 5,000,000 shares, no shares issued)	–	–
Common stock ($.01 par value per share; authorized 50,000,000 shares, issued 29,738,713 in 1998 and 29,127,717 in 1997)	297	291
Additional paid-in capital	164,710	149,850
Accumulated other comprehensive income (unrealized gain on investments, net of tax)	688	321
Retained earnings	97,497	62,752
Treasury stock (36,572 shares in 1998 and 36,644 shares in 1997, at cost)	(481)	(481)
Total stockholders' equity	262,711	212,733
Total liabilities and stockholders' equity	$ 319,297	$ 253,243

See accompanying notes.

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

(In thousands)	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance at December 31, 1995	$ 268	$ 88,043	$ (263)	$ 18,838	$ (604)	$ 106,282
Comprehensive income:						
Net income	–	–	–	18,614	–	18,614
Unrealized gain on investments, net of tax of $714	–	–	1,240	–	–	1,240
Comprehensive income						19,854
Issuance of common stock	17	50,534	–	–	–	50,551
Exercise of stock options	2	1,429	–	–	–	1,431
Tax benefit related to exercise of non-qualified stock options	–	1,315	–	–	–	1,315
Acquisitions	1	2,602	–	(1,542)	–	1,061
Other	–	55	–	(28)	122	149
Balance at December 29, 1996	288	143,978	977	35,882	(482)	180,643
Comprehensive income:						
Net income	–	–	–	26,853	–	26,853
Unrealized loss on investments, net of tax of $424	–	–	(656)	–	–	(656)
Comprehensive income						26,197
Exercise of stock options	3	3,533	–	–	1	3,537
Tax benefit related to exercise of non-qualified stock options	–	2,339	–	–	–	2,339
Other	–	–	–	17	–	17
Balance at December 28, 1997	291	149,850	321	62,752	(481)	212,733
Comprehensive income:						
Net income	–	–	–	35,165	–	35,165
Unrealized gain on investments, net of tax of $354	–	–	367	–	–	367
Comprehensive income						35,532
Exercise of stock options	5	11,668	–	–	–	11,673
Tax benefit related to exercise of non-qualified stock options	–	2,953	–	–	–	2,953
Other	1	239	–	(420)	–	(180)
Balance at December 27, 1998	$ 297	$ 164,710	$ 688	$ 97,497	$ (481)	$ 262,711

See accompanying notes.

Papa John's International, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

(In thousands)	Year Ended		
	December 27, 1998	**December 28, 1997**	**December 29, 1996**
Operating activities			
Net income	$ 35,165	$ 26,853	$ 18,614
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	19,925	20,522	14,304
Deferred income taxes	(1,443)	528	1,956
Other	903	(601)	430
Changes in operating assets and liabilities:			
Accounts receivable	(2,218)	(2,017)	(2,903)
Inventories	(507)	(2,234)	(1,651)
Deferred pre-opening costs	3,827	(5,823)	(4,247)
Prepaid expenses and other current assets	(2,356)	(817)	(499)
Other assets	(1,259)	(827)	(3,253)
Accounts payable	2,861	2,043	3,717
Accrued expenses	6,674	5,885	2,630
Unearned franchise and development fees	1,873	1,195	700
Net cash provided by operating activities	63,445	44,707	29,798
Investing activities			
Purchase of property and equipment	(69,248)	(43,135)	(28,792)
Purchase of investments	(34,107)	(41,445)	(65,031)
Proceeds from sale or maturity of investments	44,289	46,696	26,572
Loans to franchisees	(4,834)	(12,348)	(7,823)
Loan repayments from franchisees	5,265	2,321	–
Deferred systems development costs	(1,208)	(1,989)	(2,614)
Acquisitions	(1,902)	(6,168)	(30)
Other	402	316	161
Net cash used in investing activities	(61,343)	(55,752)	(77,557)
Financing activities			
Payments on long-term debt	(1,430)	(175)	(1,367)
Proceeds from issuance of common stock	–	–	50,551
Proceeds from exercise of stock options	11,673	3,537	1,431
Tax benefit related to exercise of non-qualified stock options	2,953	2,339	1,315
Other	(6)	(27)	(12)
Net cash provided by financing activities	13,190	5,674	51,918
Net increase (decrease) in cash and cash equivalents	15,292	(5,371)	4,159
Cash and cash equivalents at beginning of year	18,692	24,063	19,904
Cash and cash equivalents at end of year	$ 33,984	$ 18,692	$ 24,063

See accompanying notes.

Papa John's International, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

1. Description of Business

Papa John's International, Inc. (referred to as the "Company," "Papa John's" or in the first person notations of "we," "us" and "our") operates and franchises pizza delivery and carry-out restaurants under the trademark "Papa John's," currently in 46 states, the District of Columbia, Mexico, and Puerto Rico. Substantially all revenues are derived from retail sales of pizza to the general public by Company-owned restaurants, franchise royalties, sales of franchise and development rights, and sales to franchisees of food and paper products, restaurant equipment, printing and promotional items, risk management services, and information systems and related services used in their operations.

2. Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Papa John's and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

Fiscal Year

Our fiscal year ends on the last Sunday in December of each year. All fiscal years presented consist of 52 weeks.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Revenue Recognition

Franchise fees are recognized when a franchised restaurant begins operations, at which time we have performed our obligations related to such fees. Fees received pursuant to development agreements which grant the right to develop franchised restaurants in future periods in specific geographic areas are deferred and recognized on a pro rata basis as the franchised restaurants subject to the development agreements begin operations. Both franchise and development fees are nonrefundable. Franchise royalties, which are based on a percentage of franchised restaurants' sales, are recognized as earned.

Cash Equivalents

Cash equivalents consist of all highly liquid investments with a maturity of three months or less at date of purchase. These investments are carried at cost which approximates fair value.

Accounts Receivable

Substantially all accounts receivable are due from franchisees for purchases of food and paper products, restaurant equipment, printing and promotional items, risk management services, information systems and related services, and for royalties from December sales. Credit is extended based on an evaluation of the franchisee's financial condition and, generally, collateral is not required. We consider substantially all amounts to be collectible.

Inventories

Inventories, which consist of food products, paper goods and supplies, smallwares, store equipment and printing and promotional items, are stated at the lower of cost, determined under the first-in, first-out (FIFO) method, or market.

Deferred Pre-Opening Costs

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5, "Reporting the Costs of Start-Up Activities" (the "SOP"), which requires that costs related to start-up activities be expensed as incurred. Prior to 1998, we capitalized our start-up costs incurred primarily in connection with opening new restaurant and commissary locations and amortized these costs on a straight line basis over a period of one year from the facility's opening date. We adopted the provisions of the SOP in our financial statements for the year ended December 27, 1998. The adoption resulted in a charge in the first quarter of 1998 for the cumulative effect of an accounting change of $2.6 million, net of taxes of $1.5 million, to expense costs that had been previously capitalized prior to 1998. Excluding the one-time cumulative effect, the adoption of the new accounting standard did not have a material impact on 1998 operating results.

Investments

We determine the appropriate classification of investment securities at the time of purchase and reevaluate such designation as of each balance sheet date. All investment securities held at December 27, 1998, have been classified as available-for-sale. Available-for-sale securities are stated at fair value as determined primarily through quoted market prices. Unrealized gains and losses, net of tax, are reported as a separate component of stockholders' equity and are included in comprehensive income (see the discussion of comprehensive income below). The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion, along with interest and dividends earned and realized gains and losses, are included in investment income. The cost of securities sold is based on the specific identification method.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets (generally five to ten years for restaurant, commissary and other equipment, and 20 to 40 years for buildings and improvements). Leasehold improvements are amortized over the terms of the respective leases, including the first renewal period (generally five to ten years).

Depreciation expense was $17.5 million in 1998, $13.3 million in 1997 and $9.1 million in 1996.

Impairment of Long-lived Assets

Impairment losses are recorded on long-lived assets used in operations when impairment indicators are present and the undiscounted cash flows estimated to be generated by those assets are less than the carrying value of such assets.

Systems Development Costs

We defer certain systems development and related costs which meet established criteria. Amounts deferred are amortized over periods not exceeding five years beginning in the month subsequent to completion of the related systems project. Total costs deferred were approximately $1.2 million in 1998, $2.0 million in 1997, and $2.6 million in 1996. Unamortized deferred systems development costs were $4.3 million at December 27, 1998, and December 28, 1997, and are reported in other assets in the accompanying consolidated balance sheets.

Notes to Consolidated Financial Statements *(continued)*

Advertising and Related Costs

Advertising and related costs include the costs of Company-owned restaurant activities such as mail coupons, door hangers and promotional items and contributions to the Papa John's Marketing Fund, Inc. (the "Marketing Fund") and local market cooperative advertising funds. Through December 28, 1997, Company-owned restaurant contributions to the Marketing Fund and local market cooperative advertising funds were expensed as incurred. Contributions by Company-owned and franchised restaurants to the Marketing Fund and the cooperative advertising funds are based on an established percentage of monthly restaurant revenues. The Marketing Fund is responsible for developing and conducting marketing and advertising for the Papa John's system. The local market cooperative advertising funds are responsible for developing and conducting advertising activities in a specific market, including the placement of electronic and print materials developed by the Marketing Fund. Such funds are accounted for separately and are not included in our consolidated financial statements, except as described below beginning with the first quarter of 1998.

Effective December 29, 1997, we began recognizing Company-owned restaurant contributions to the Marketing Fund and to those local market cooperative advertising funds deemed to be controlled by us (collectively, the "Controlled Funds"), as advertising and related costs at the time the Controlled Funds actually incurred such expenses. Through December 28, 1997, the Controlled Funds generally incurred expenses as contributions were received; therefore, the impact of this change was not material.

Earnings per Share

The calculations of basic and diluted earnings per share before the cumulative effect of a change in accounting principle for the years ended December 27, 1998, December 28, 1997, and December 29, 1996, are as follows (in thousands, except per share data):

	1998	1997	1996
Basic earnings per share:			
Income before cumulative effect of a change in accounting principle	$ 37,768	$ 26,853	$ 18,614
Weighted average shares outstanding	29,409	28,916	28,010
Basic earnings per share	$ 1.28	$ .93	$ .66
Diluted earnings per share:			
Income before cumulative effect of a change in accounting principle	$ 37,768	$ 26,853	$ 18,614
Weighted average shares outstanding	29,409	28,916	28,010
Dilutive effect of outstanding common stock options	918	676	660
Diluted weighted average shares outstanding	30,327	29,592	28,670
Diluted earnings per share	$ 1.25	$ .91	$ .65

Options to purchase common stock with an exercise price greater than the average market price were not included in the computation of the dilutive effect of common stock options because the effect would have been antidilutive. The number of antidilutive options was 213,000 in 1998, 695,000 in 1997, and 217,000 in 1996.

Comprehensive Income

We adopted Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income," in our 1998 interim financial reporting as required by the Financial Accounting Standards Board. SFAS No. 130 established new rules for the reporting of comprehensive income and its components. The adoption of this statement had no impact on our net income or stockholders' equity and was therefore not material to our 1998 financial statements. SFAS No. 130 requires the unrealized gains and losses on our available-for-sale securities to be included in other comprehensive income.

Prior Year Data

Certain prior year data has been reclassified to conform to the 1998 presentation.

3. Investments

A summary of our available-for-sale securities as of December 27, 1998, and December 28, 1997, follows (in thousands):

December 27, 1998	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate debt securities	$ 500	$ –	$ (1)	$ 499
Municipal bonds	32,011	158	–	32,169
Mortgage-backed securities	239	8	–	247
Fixed income mutual funds	10,822	–	(375)	10,447
Equity securities	1,998	1,549	–	3,547
Interest receivable	446	–	–	446
Total	$ 46,016	$1,715	$ (376)	$ 47,355

December 28, 1997	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government securities	$ 1,001	$ –	$ (4)	$ 997
Corporate debt securities	500	–	(1)	499
Municipal bonds	40,073	125	(1)	40,197
Mortgage-backed securities	556	5	–	561
Fixed income mutual funds	10,822	–	(217)	10,605
Equity securities	3,320	736	–	4,056
Interest receivable	1,018	–	–	1,018
Total	$ 57,290	$ 866	$ (223)	$ 57,933

The amortized cost and estimated fair value of securities at December 27, 1998, by contractual maturity, are shown below (in thousands). Expected maturities will differ from contractual maturities because the issuers of securities may have the right to prepay obligations without prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$18,463	$18,577
Due after one year through three years	14,048	14,091
Mortgage-backed securities	239	247
Fixed income mutual funds	10,822	10,447
Equity securities	1,998	3,547
Interest receivable	446	446
Total	$46,016	$47,355

4. Net Property and Equipment

Net property and equipment consists of the following (in thousands):

	1998	1997
Land	$ 17,891	$ 14,219
Buildings and improvements	18,871	13,478
Leasehold improvements	47,322	35,406
Equipment and other	86,893	70,419
Construction in progress	46,430	11,790
	217,407	145,312
Less accumulated depreciation and amortization	(48,204)	(32,711)
Net property and equipment	$ 169,203	$ 112,601

5. Franchisee Loan Program

During 1996, we established a program under which selected franchisees may borrow funds for use in the construction and development of their restaurants. Loans outstanding to franchisees were approximately $12.5 million as of December 27, 1998, and $15.1 million as of December 28, 1997. As of December 27, 1998, commitments to lend up to an additional $1.1 million had been made. Such loans bear interest at fixed or floating rates (ranging from 5.5% to 9.8% at December 27, 1998), and are generally secured by the fixtures, equipment, signage and, where applicable, land of each restaurant and the ownership interests in the franchisee. Interest earned on franchisee loans was approximately $1.3 million in 1998, $1.1 million in 1997 and $153,000 in 1996, and is reported in investment income in the accompanying consolidated statements of income. Approximately $4.7 million of the loans outstanding as of December 27, 1998 and $8.0 million as of December 28, 1997, were to franchisees in which we or certain of our directors or officers had an ownership interest.

6. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	1998	1997
Salaries, wages and bonuses	$ 2,556	$ 2,124
Taxes other than income	4,946	4,045
Insurance	3,727	3,520
Income taxes	5,027	2,495
Facility costs	3,494	–
Other	5,727	2,948
Total	$ 25,477	$ 15,132

7. Long-Term Debt and Credit Arrangements

Long-term debt consists of a $2.0 million economic development loan (the "Loan") from the State of Mississippi in connection with the opening of a commissary in Jackson, Mississippi. The balance of the loan was $1.3 million as of December 27, 1998, and $1.5 million as of December 28, 1997, and is classified in accrued expenses and other long-term liabilities in the accompanying consolidated balance sheets.

We have a $10.0 million revolving credit agreement that expires on June 29, 1999. Outstanding balances accrue interest at 1% below the prime rate or at rates tied to other interest indices at our election. In the event of any default, the lender has a security interest in our cash account balances maintained with the lender. Letters of credit in the amount of $400,000 have been issued under the agreement on our behalf, reducing the remaining borrowing capacity to $9.6 million at December 27, 1998.

8. Income Taxes

A summary of the provision for income taxes (exclusive of the tax effect related to the cumulative effect of accounting change) follows (in thousands):

	1998	1997	1996
Current			
Federal	$ 18,849	$ 13,061	$ 7,658
State and local	3,247	2,183	1,318
Deferred (federal and state)	85	528	1,956
Total	$ 22,181	$ 15,772	$ 10,932

Significant deferred tax assets (liabilities) follow (in thousands):

	1998	1997
Unearned development fees	$ 2,387	$ 1,630
Unrealized loss on investments	142	82
Accrued expenses	2,485	1,405
Other	304	270
Total deferred tax assets	5,318	3,387
Valuation allowance related to unrealized loss on investments	(142)	(82)
Net deferred tax asset	5,176	3,305
Deferred expenses	(1,976)	(3,158)
Accelerated depreciation	(5,101)	(3,833)
Unrealized gain on warrant	(588)	(270)
Other	(487)	(133)
Total deferred tax liabilities	(8,152)	(7,394)
Net deferred tax liability	$ (2,976)	$ (4,089)

The reconciliation of income tax computed at the U.S. federal statutory rate to income tax expense (exclusive of the tax effect related to the cumulative effect of accounting change) for the years ended December 27, 1998, December 28, 1997, and December 29, 1996, is as follows (in thousands):

	1998	1997	1996
Tax at U.S. federal statutory rate	$ 20,982	$ 14,919	$ 10,341
State and local income taxes	1,901	1,459	1,011
Tax exempt investment income	(761)	(783)	(788)
Other	59	177	368
Total	$ 22,181	$ 15,772	$ 10,932

Income taxes paid were $15.9 million in 1998, $11.0 million in 1997 and $6.5 million in 1996.

9. PJ America, Inc. Stock Warrant

PJ America, Inc. ("PJ America"), a franchisee of Papa John's, completed an initial public offering ("IPO") of its common stock effective October 25, 1996. In connection with the IPO, PJ America issued a warrant to us to purchase 225,000 shares of its common stock. The warrant is exercisable in whole or in part at any time within five years from the closing date of the IPO, and the purchase price of each share of common stock pursuant to the warrant is $11.25 per share (90% of the IPO price of $12.50 per share). The warrant was issued by PJ America to Papa John's in consideration for the grant of rights to enter into development agreements for certain specified territories and the waiver by us of certain market transfer fees. Our agreement with PJ America anticipates that PJ America will pay standard development and franchise fees in connection with opening restaurants in the specified territories.

We did not recognize income in connection with receipt of the warrant. The warrant is classified as an available-for-sale security, and accordingly, is stated at fair value in the consolidated balance sheets, with unrealized gains, net of tax, reported within comprehensive income.

The fair value of the warrant was $1.5 million on December 27, 1998, and $731,250 on December 28, 1997, based upon the closing price per share of $18.13 and $14.50 for PJ America common stock on those respective dates, and is reported in investments in the accompanying consolidated balance sheets. The intrinsic value of the warrant (market value of PJ America common stock less the exercise price of the warrant) is considered a reasonable approximation of the fair value of the warrant.

Certain of our officers and/or directors are also officers and/or directors of PJ America.

10. Related Party Transactions

Certain of our officers and directors own equity interests in entities that operate and/or have rights to develop franchised restaurants. Certain of these affiliated entities have agreements to acquire area development rights at reduced development fees and also pay reduced initial franchise fees when restaurants are opened. All such entities pay royalties at the same rate as other franchisees. Following is a summary of transactions and balances with affiliated entities (in thousands):

	1998	1997	1996
Revenues from affiliates:			
Commissary sales	$ 64,977	$ 47,153	$ 35,972
Equipment and other sales	10,721	8,187	5,628
Franchise royalties	8,067	6,265	4,512
Franchise and development fees	1,372	1,381	900
Total	$ 85,137	$ 62,986	$ 47,012
Other income from affiliates	$ 570	$ 514	$ 85
Accounts receivable-affiliates	$ 2,273	$ 2,454	$ 2,932
Notes receivable-affiliates	$ 4,741	$ 7,997	$ 2,407

We paid $966,000 in 1998, $689,000 in 1997, and $515,000 in 1996 for charter aircraft services provided by entities owned by certain directors and officers, including the Chief Executive Officer of Papa John's.

We advanced $183,000 in 1998, $197,000 in 1997 and $384,000 in 1996, in premiums for split-dollar life insurance coverage on the Chief Executive Officer for the purpose of funding estate tax obligations. Papa John's and the officer share the cost of the premiums. The premiums advanced by us will be repaid out of the cash value or proceeds of the policies.

During the fourth quarter of 1997, we acquired a 49% equity ownership interest in Mountain Pizza Group, L.L.C. ("MPG"), for $150,000 in cash. In July 1998, we acquired the remaining 51% for $565,000 in cash. In connection with the 1998 acquisition, we also assumed $2.4 million in MPG debt. MPG, an entity which operates seven Papa John's restaurants in Denver, Colorado, was owned by our President. The operating results of MPG were accounted for by the equity method until the remaining 51% was acquired in 1998. Also during the fourth quarter of 1997, we acquired three Papa John's restaurants near Denver, Colorado, for $720,000 in cash. These restaurants were owned by the Chief Executive Officer of Papa John's and his wife.

During the second quarter of 1997, we acquired 16 Papa John's restaurants in North Carolina for $5.0 million (consisting of $4,960,000 in cash and a credit of $40,000 towards future development fees). A majority ownership interest in the franchisee of the North Carolina restaurants was held by certain of our directors and officers, including our Chief Executive Officer.

The above acquisitions were accounted for by the purchase method of accounting, whereby operating results subsequent to the acquisition date are included in our financial statements.

In December 1996, we sold our 10% ownership interest in L-N-W Pizza, Inc. ("L-N-W"), a franchisee that operates Papa John's restaurants in Florida, back to L-N-W. Our Chief Operating Officer was the 90% owner of L-N-W prior to the sale and is now the sole owner. We sold our 10% interest for total consideration of $411,000, which represented a gross value of approximately $400,000 per restaurant.

11. Lease Commitments

We lease office, retail and commissary space under operating leases with terms generally ranging from three to five years and providing for at least one renewal. Certain leases further provide that the lease payments may be increased annually based on the Consumer Price Index. We also lease certain equipment under operating leases with terms ranging from three to seven years. Future minimum lease payments are as follows: 1999 - $11.0 million; 2000 - $8.9 million; 2001 - $7.2 million; 2002 - $5.2 million; 2003 - $3.7 million; and thereafter - $8.0 million. Total rent expense was $10.3 million in 1998, $7.9 million in 1997, and $4.6 million in 1996.

12. Stock Options

In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," we have elected to follow Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations in accounting for our employee stock options because, as discussed below, the alternative fair value accounting provided for under SFAS No. 123 requires the use of option valuation models that were not developed for use in valuing employee stock options. Under APB No. 25, because the exercise price of our employee stock options equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is recognized.

We award stock options under the Papa John's International, Inc. 1993 Stock Ownership Incentive Plan (the "Incentive Plan") and the Papa John's International, Inc. 1993 Non-Employee Directors Stock Option Plan (the "Directors Plan"). Shares of common stock authorized for issuance are 6,000,000 under the Incentive Plan and 270,000 under the Directors Plan. On February 25, 1999, the Board of Directors amended the Incentive Plan to increase the number of shares available for issuance to 6,400,000 shares and amended the Directors Plan to increase the number of shares available for issuance to 370,000 shares. These amendments will be submitted for stockholder approval at the Annual Meeting of Stockholders scheduled for May 20, 1999. Options granted under both plans generally expire ten years from the date of grant and vest over one to five year periods, except for certain options awarded under a multi-year operations compensation program which vest immediately upon grant.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, which also requires that the information be determined as if we have accounted for our employee stock options granted subsequent to December 25, 1994, under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1998 and 1997, respectively: risk-free interest rates of 4.8% and 5.7%; a dividend yield of 0%; volatility factors of the expected market price of our common stock of .47; and a weighted-average expected life of the options of 4.0 and 3.6 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. Our pro forma information follows (in thousands, except per share amounts):

	1998	1997	1996
Pro forma net income before cumulative effect of a change in accounting principle	$ 29,011	$ 19,754	$ 14,772
Pro forma earnings per share:			
Basic	$ .99	$ .68	$ .53
Diluted	$ .96	$ .67	$ .52

Because SFAS No. 123 is applicable only to options granted subsequent to December 25, 1994, our pro forma effect will not be fully reflected until a complete five years of vesting occurs for 1995 option awards in 2000.

Information pertaining to options for 1998, 1997 and 1996 is as follows (number of options in thousands):

	1998		1997		1996	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Outstanding-beginning of year	5,197	$ 25.28	3,532	$ 20.98	1,725	$ 12.01
Granted	1,535	37.90	2,259	29.30	2,108	27.31
Exercised	545	21.41	351	10.09	180	7.13
Cancelled	405	29.53	243	25.91	121	19.04
Outstanding-end of year	5,782	$ 28.54	5,197	$ 25.28	3,532	$ 20.98
Exercisable-end of year	2,232	$ 25.64	1,567	$ 21.96	870	$ 13.19
Weighted-average fair value of options granted during the year	$ 13.43		$ 10.22		$ 9.65	

The number, weighted-average exercise price and weighted-average remaining contractual life of options outstanding as of December 27, 1998, and the number and weighted average exercise price of options exercisable as of December 27, 1998, follow (number of options in thousands):

	Range of Exercise Prices	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Life
Outstanding options:	$ 5.78 - $ 9.99	143	$ 6.24	4.56
	10.00 - 19.99	916	16.17	6.67
	20.00 - 29.99	1,700	26.44	7.96
	30.00 - 44.00	3,023	34.53	9.08
Total		5,782	$ 28.54	8.26
Exercisable options:	$ 5.78 - $ 9.99	135	$ 6.06	
	10.00 - 19.99	604	16.12	
	20.00 - 29.99	552	27.19	
	30.00 - 44.00	941	33.65	
Total		2,232	$ 25.64	

As of December 27, 1998, contingent upon approval by our stockholders of the amendments to the Incentive Plan and Directors Plan described above, 50,000 shares were available for future issuance under the Incentive Plan, and 106,750 shares were available for future issuance under the Directors Plan.

13. Defined Contribution Benefit Plan

We have established the Papa John's International, Inc. 401(k) Plan (the "Plan"), as a defined contribution benefit plan, in accordance with Section 401(k) of the Internal Revenue Code. The Plan is open to all employees who meet certain eligibility requirements and allows participating employees to defer receipt of a portion of their compensation and contribute such amount to one or more investment funds. Administrative costs of the Plan are paid by us and are not significant.

14. Segment Information

Effective at the beginning of 1998 we adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which superseded SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise." SFAS No. 131 establishes standards for the way we report information about operating segments in our financial statements and for related disclosures about products and services, geographical areas, and major customers. The adoption did not affect our results of operations or financial position, but did affect the disclosure of segment information.

We have defined three reportable segments: restaurants, commissaries, and franchising. The restaurant segment consists of the operations of all Company-owned restaurants and derives its revenues from retail sales of pizza, breadsticks, cheesesticks and soft drinks to the general public. The 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 Company-owned and franchised restaurants. The 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. All other business units that do not meet the quantitative thresholds for determining reportable segments consist of operations that derive revenues from the sale of restaurant equipment, printing and promotional items, risk management services, and information systems and related services used in restaurant operations principally to Company-owned and franchised restaurants.

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. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. 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. Through December 27, 1998, substantially all revenues for each business segment were derived from business activities conducted with customers located in the United States. No single external customer accounted for 10% or more of our consolidated revenues.

Segment information is as follows:

(In thousands)	**1998**	**1997**	**1996**
Revenues from external customers:			
Restaurants	$ 324,894	$ 251,153	$ 167,982
Commissaries	261,009	188,034	142,998
Franchising	38,499	29,645	22,113
All others	45,404	39,952	26,959
Total revenues from external customers	$ 669,806	$ 508,784	$ 360,052
Intersegment revenues:			
Commissaries	$ 102,292	$ 77,596	$ 54,619
Franchising	128	107	183
All others	15,570	14,869	12,354
Total intersegment revenues	$ 117,990	$ 92,572	$ 67,156
Depreciation and amortization:			
Restaurants	$ 10,915	$ 8,294	$ 5,454
Commissaries	3,296	3,199	2,234
Franchising	44	26	–
All others	839	783	841
Unallocated corporate expenses	4,310	7,490	5,129
Total depreciation and amortization	$ 19,404	$ 19,792	$ 13,658
Income before income taxes:			
Restaurants	$ 11,430	$ 5,316	$ 2,427
Commissaries	17,893	14,260	8,598
Franchising	33,066	25,297	19,569
All others	5,033	3,422	426
Unallocated corporate expenses	(7,191)	(5,405)	(1,269)
Elimination of intersegment profits	(282)	(265)	(205)
Total income before income taxes	$ 59,949 (1)	$ 42,625	$ 29,546
Gross fixed assets:			
Restaurants	$ 118,939	$ 91,237	$ 60,625
Commissaries	42,503	27,673	19,854
All others	4,368	4,110	3,906
Unallocated corporate assets	51,597	22,292	17,128
Accumulated depreciation	(48,204)	(32,711)	(20,796)
Net fixed assets	$ 169,203	$ 112,601	$ 80,717
Expenditures for fixed assets:			
Restaurants	$ 28,788	$ 29,068	$ 20,740
Commissaries	14,873	7,877	4,470
All others	290	269	578
Corporate	25,297	5,921	3,004
Total expenditures for fixed assets	$ 69,248	$ 43,135	$ 28,792

(1) Excludes the cumulative effect of a change in accounting principle.

15. Quarterly Data (unaudited, in thousands, except per share data)

Year ended December 27, 1998	**Quarter**			
	1st	**2nd**	**3rd**	**4th**
Total revenues	$ 152,928	$ 162,273	$ 166,428	$ 188,177
Operating income:				
As previously reported	12,559	14,066	13,835	15,841
As restated	12,024	13,418	14,234	15,841
Income before cumulative effect of a change in accounting principle	8,243	9,197	9,675	10,653
Net income:				
As previously reported	8,280	9,392	9,591	10,653
As restated	5,640	9,197	9,675	10,653
Basic earnings per share:				
Income before cumulative effect of a change in accounting principle	$ .28	$ .31	$ .33	$ .36
Net income:				
As previously reported	.28	.32	.33	.36
As restated	.19	.31	.33	.36
Diluted earnings per share:				
Income before cumulative effect of a change in accounting principle	$ .28	$ .30	$ .32	$ .35
Net income:				
As previously reported	.28	.31	.32	.35
As restated	.19	.30	.32	.35

Year ended December 28, 1997	**Quarter**			
	1st	**2nd**	**3rd**	**4th**
Total revenues	$ 109,643	$ 126,212	$ 128,252	$ 144,677
Operating income:				
As previously reported	8,382	9,200	9,697	11,915
As restated	7,934	8,832	9,705	11,649
Income before cumulative effect of a change in accounting principle	5,693	6,271	6,854	8,035
Net income:				
As previously reported	5,693	6,271	6,854	8,035
As restated	5,693	6,271	6,854	8,035
Basic earnings per share:				
Income before cumulative effect of a change in accounting principle	$ .20	$ .22	$ .24	$ .28
Net income:				
As previously reported	.20	.22	.24	.28
As restated	.20	.22	.24	.28
Diluted earnings per share:				
Income before cumulative effect of a change in accounting principle	$ .19	$ .21	$ .23	$ .27
Net income:				
As previously reported	.19	.21	.23	.27
As restated	.19	.21	.23	.27

All quarterly information above is presented in 13 week periods. Quarterly amounts for 1998 previously reported have been restated to reflect the adoption of SOP 98-5. Operating income amounts for 1998 and 1997 previously reported have also been restated to conform with certain reclassifications made for 1998 year end presentation.

Report of Management

The consolidated financial statements appearing in this Annual Report have been prepared by management, which is responsible for their preparation, integrity and fair presentation. The statements have been prepared in accordance with generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgments.

Management is responsible for the system of internal controls over financial reporting at Papa John's International, Inc. and its subsidiaries, a system designed to provide reasonable assurance regarding the preparation of reliable published financial statements. This system is augmented by written policies and procedures and the selection and training of qualified personnel. Management believes that its system of internal controls over financial reporting provides reasonable assurance that the financial records are reliable for preparing financial statements.

The Audit Committee of the Board of Directors meets with the independent auditors and management periodically to discuss internal controls over financial reporting and other auditing and financial reporting matters. The Committee reviews with the independent auditors the scope and results of the audit effort. The Committee also meets with the independent auditors without management present to ensure that the independent auditors have free access to the Committee. The independent auditors are recommended by the Audit Committee of the Board of Directors and selected by the Board of Directors. Based upon their audit of the consolidated financial statements, the independent auditors, Ernst & Young LLP, have issued their Report of Independent Auditors, which follows.

Report of Independent Auditors

The Board of Directors and Stockholders
Papa John's International, Inc.

We have audited the accompanying consolidated balance sheets of Papa John's International, Inc. and subsidiaries (the "Company") as of December 27, 1998 and December 28, 1997, and the related consolidated statements of income, stockholders' equity and cash flows for the three years in the period ended December 27, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Papa John's International, Inc. and subsidiaries at December 27, 1998 and December 28, 1997, and the consolidated results of their operations and their cash flows for the three years in the period ended December 27, 1998, in conformity with generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, effective for the fiscal year 1998, the Company adopted SOP 98-5, "Reporting on the Costs of Start-Up Activities."

Ernst & Young LLP

Louisville, Kentucky
February 26, 1999

Annual Meeting of Stockholders

Thursday, May 20, 1999
11:00 a.m. Eastern Daylight Time
Hyatt Regency Hotel
320 West Jefferson Street
Louisville, Kentucky

Additional Publications and Inquiries

General information about Papa John's is available on the Company's Web site at www.papajohns.com.

Additional information about Papa John's, including copies of the Company's Form 10-K report filed with the Securities and Exchange Commission, may be obtained without charge from:

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Chief Financial Officer and Treasurer
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502/266-5200

Stock Transfer Agent
National City Bank
Corporate Trust Administration
P. O. Box 94915
Cleveland, Ohio 44101-4915
216/575-2494

Independent Auditors
Ernst & Young LLP
Louisville, Kentucky

Legal Counsel
Greenebaum Doll & McDonald, PLLC
Louisville, Kentucky

Corporate Office
Papa John's International, Inc.
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Telephone: 502/266-5200

This Annual Report was printed by Papa John's Print Services.

Market for Registrant's Common Equity and Related Stockholder Matters

Our common stock trades on the NASDAQ National Market tier of The NASDAQ Stock Market under the symbol PZZA. As of March 18, 1999, there were approximately 830 record holders of common stock. The following table sets forth for the quarters indicated the high and low sale prices of our common stock, as reported by The NASDAQ Stock Market.

1998	**High**	**Low**
First Quarter	$ 38.88	$ 31.25
Second Quarter	44.00	37.50
Third Quarter	39.91	26.50
Fourth Quarter	42.25	29.25

1997	**High**	**Low**
First Quarter	$ 35.13	$ 23.75
Second Quarter	37.50	22.63
Third Quarter	39.50	30.44
Fourth Quarter	37.75	28.00

Since our initial public offering of common stock in 1993, we have not paid dividends on our common stock, and have no plans to do so in the foreseeable future.

Officers

John H. Schnatter
Founder, Chairman and
Chief Executive Officer

Blaine E. Hurst
Vice Chairman and
President

Charles W. Schnatter
Senior Vice President,
General Counsel
and Secretary

E. Drucilla Milby
Senior Vice President,
Chief Financial Officer
and Treasurer

Wade S. Oney
Chief Operating Officer

Robert J. Wadell
President,
PJ Food Service

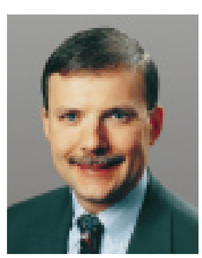
Richard J. Emmett
Senior Vice President
and Senior Counsel

Barry M. Barron
Senior Vice President,
International Division

Hart Boesel
Vice President,
Franchise Operations and Sales

Creed Branson
Regional Vice President,
Southwest Operations

Louis DiFazio, Jr.
Vice President,
Corporate Operations



J. David Flanery
Vice President and
Corporate Controller

Gary R. Glielmi
Regional Vice President,
Midwest Operations

Thomas C. Kish
Vice President,
Information and Support Services

Julie Larner
Vice President,
Finance and Administration,
PJ Food Service

Mary Ann Palmer
Vice President,
People Department

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Vice President,
U.S. Development

Jerry R. Owens
Vice President,
Commissary Operations,
PJ Food Service

Ross L. Peebles
Regional Vice President,
Northeast Operations

Larry Roberts
Regional Vice President,
Southeast Operations

Syl J. Sosnowski
Vice President,
Marketing

Christopher J. Sternberg
Vice President,
Corporate Communications
and Assistant
to the Chairman

Robert N. Thiess
Vice President,
International Development

Thomas R. Thompson
Vice President,
Risk Management

Board of Directors

From left

O. Wayne Gaunce
Principal, Gaunce Management

Richard F. Sherman
Chairman, PJ America
and Private Investor

Blaine E. Hurst
Vice Chairman
and President

John H. Schnatter
Founder, Chairman and
Chief Executive Officer

Charles W. Schnatter
Senior Vice President,
General Counsel and Secretary

Jack A. Laughery
Restaurant Investor and Consultant

Michael W. Pierce
President, Arkansas Pizza Group, Inc.

PIZZA
PAPA JOHN'S
Better Ingredients.
Better Pizza.