PAPA JOHNS INTERNATIONAL INC
Form 10-K/A
April 16, 2013

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

FORM 10-K/A
Amendment No. 1

(Mark One)
[X] Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 25, 2011

or

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

For the transition period from ____________________ to ______________________

Commission File Number: 0-21660

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

Delaware (State or other jurisdiction of incorporation or organization)	61-1203323 (I.R.S. Employer Identification No.)
2002 Papa Johns Boulevard Louisville, Kentucky (Address of principal executive offices)	40299-2367 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

(Title of Each Class)	(Name of each exchange on which registered)
Common Stock, $.01 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes [X]   No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes [ ]   No [X]

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
[X]

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

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [ ]

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

The aggregate market value of the common stock held by non-affiliates of the Registrant, computed by reference to the closing sale price on The NASDAQ Stock Market as of the last business day of the Registrant's most recently completed second fiscal quarter, June 26, 2011, was approximately $633,919,944.

As of February 14, 2012, there were 24,242,254 shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Part III are incorporated by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held April 26, 2012.

TABLE OF CONTENTS

EXPLANATORY NOTE

As described in Papa John's International, Inc.'s (the "Company") Current Report on Form 8-K filed on February 26, 2013 and Form 10-K for the fiscal year ended December 30, 2012 filed on February 28, 2013, in connection with the evaluation of the accounting for newly formed joint ventures, the Company reviewed the accounting for its previously existing joint venture arrangements. As a result of the review, the Company determined an error occurred in the accounting for one joint venture agreement, which contained a mandatorily redeemable feature added through a contract amendment in the third quarter of 2009. This provision contained in the 2009 contract amendment was not previously considered in determining the classification and measurement of the noncontrolling interest. In addition, the Company determined that an additional redeemable noncontrolling interest was incorrectly classified in shareholders' equity and should be classified as temporary equity. As a result, the Company is filing this amendment to its Form 10-K for the fiscal year ended December 25, 2011, to amend and restate the financial statements and other financial information contained herein to correct the errors.

This Form 10-K/A amends the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 2011 as originally filed with the Securities and Exchange Commission (the "SEC") on February 21, 2012 (the "Original Filing"). This Form 10-K/A amends the Original Filing solely to correct the Company's accounting for noncontrolling interests related to our joint ventures as more fully described in Note 1 to the consolidated financial statements. Revisions to the Original Filing have been made to the following items solely as a result of and to reflect the restatements and no other information in the Original Filing is amended herein:

- Item 6–Selected Financial Data
- Item 7–Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 8–Financial Statements and Supplementary Data
- Item 9A–Controls and Procedures
- Item 15–Exhibits, Financial Statement Schedules

The restatements resulted in decreases in diluted earnings per share of $0.04 and $0.13 for the fiscal years ended December 25, 2011 and December 27, 2009, respectively, and an increase in diluted earnings per share of $0.03 for the fiscal year ended December 26, 2010. The corrections had no impact on total revenues, operating income or operating cash flows and had no impact on the Company's compliance with debt covenants in any period presented.

The Company has also determined that a control deficiency related to the process of accounting for certain redemption features of the noncontrolling interests of our joint venture agreements, which gave rise to these restatements, constituted a material weakness in its internal controls over financial reporting. As a result, the Company has reviewed all existing joint venture agreements to ensure the accounting for any such redemption features was in compliance with U.S. generally accepted accounting principles. In addition, we are in the process of developing enhanced control procedures designed to ensure proper accounting for any future non-routine contracts or contract amendments. The material weakness cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. See "Item 9A–Controls and Procedures."

Except for the amended information referred to above, no other information in the Original Filing is amended, and is therefore not included herein. This Form 10-K/A continues to describe conditions as of the date of the Original Filing and the Company has not modified or updated other disclosures presented in the Original Filing. This Form 10-K/A does not reflect events occurring after the date of the Original Filing nor does it modify or update disclosures affected by subsequent events. Accordingly, this Form 10-K/A should be read in conjunction with the Company's Form 10-K for the fiscal year ended December 30, 2012, and subsequent filings made with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934.

2

PART II

Item 6. Selected Financial Data

The selected financial data presented for each of the fiscal years in the five-year period ended December 25, 2011, 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 in Item 7 and Item 8, respectively, of this Form 10-K/A. See "Note 1" of "Notes to Consolidated Financial Statements" for information concerning the restatement of certain financial data to correct errors in our accounting for noncontrolling interests related to our joint ventures.

(In thousands, except per share data)	Year Ended (1)				
	Dec. 25, 2011 (As Restated)	Dec. 26, 2010 (As Restated)	Dec. 27, 2009 (As Restated)	Dec. 28, 2008	Dec. 30, 2007
Income Statement Data					
North America revenues:					
Domestic Company-owned restaurant sales	$525,841	$503,272	$503,818	$533,255	$504,330
Franchise royalties (2) (3)	73,694	69,631	62,083	60,592	56,278
Franchise and development fees (2)	722	610	912	1,722	4,767
Domestic commissary sales	508,155	454,506	417,689	431,650	401,081
Other sales	50,912	51,951	54,045	61,415	61,820
International revenues:					
Royalties and franchise and development fees (2) (4)	16,327	13,265	11,780	11,858	9,310
Restaurant and commissary sales (5)	42,231	33,162	28,223	25,849	20,860
Total revenues	1,217,882	1,126,397	1,078,550	1,126,341	1,058,446
Operating income (6)	87,017	86,744	95,218	65,486	53,072
Investment income	755	875	629	848	1,446
Interest expense	(2,981)	(4,309)	(11,660)	(7,536)	(7,465)
Income before income taxes	84,791	83,310	84,187	58,798	47,053
Income tax expense	26,324	27,247	26,702	19,980	13,293
Net income, including redeemable noncontrolling interests	58,467	56,063	57,485	38,818	33,760
Income attributable to redeemable noncontrolling interests (7)	(3,732)	(3,485)	(3,756)	(2,022)	(1,025)
Net income, net of redeemable noncontrolling interests	$54,735	$52,578	$53,729	$36,796	$32,735
Basic earnings per common share	$2.19	$2.00	$1.94	$1.31	$1.10
Earnings per common share - assuming dilution	$2.16	$1.99	$1.93	$1.30	$1.09
Basic weighted average shares outstanding	25,043	26,328	27,738	28,124	29,666
Diluted weighted average shares outstanding	25,310	26,468	27,909	28,264	30,017
Balance Sheet Data					
Total assets	$390,382	$417,492	$396,009	$385,464	$400,885
Total debt	51,489	99,017	99,050	130,654	142,706
	11,065	9,972	10,960	-	-

Mandatorily redeemable noncontrolling interest (8)					
Redeemable noncontrolling interests	3,965	3,512	3,215	3,414	2,885
Total stockholders' equity	205,647	195,608	173,145	134,824	132,053

(1) We operate on a 52-53 week fiscal year ending on the last Sunday of December of each year. All fiscal years presented consisted of 52 weeks.

(2) Prior years' financial data has been adjusted to reclassify revenues for restaurants operating in Hawaii, Alaska and Canada from international to North America franchising in order to conform to the current year presentation.

(3) North America franchise royalties were derived from franchised restaurant sales of $1.71 billion in 2011, $1.62 billion in 2010, $1.58 billion in 2009, $1.53 billion in 2008 and $1.49 billion in 2007.

(4) International royalties were derived from franchised restaurant sales of $320.0 million in 2011, $258.8 million in 2010, $222.2 million in 2009, $196.5 million in 2008 and $152.5 million in 2007.

(5) Restaurant sales for international Company-owned restaurants were $12.4 million in 2011, $11.0 million in 2010, $10.3 million in 2009, $8.1 million in 2008 and $4.0 million in 2007.
(6) The operating results include the consolidation of BIBP, which increased operating income approximately $21.4 million in 2010 (including a reduction in BIBP's cost of sales of $14.2 million associated with PJFS's agreement to pay to BIBP for past cheese purchases an amount equal to its accumulated deficit). BIBP increased operating income by $23.3 million in 2009 and reduced operating income by $8.6 million in 2008 and $31.0 million in 2007 (breakeven results in 2011). Operating income includes domestic and international restaurant closure, impairment and disposition gains of $86,000 in 2011 and losses of $253,000 in 2010, $657,000 in 2009, $8.8 million in 2008 and $1.8 million in 2007. See "Notes 3 and 6" of "Notes to Consolidated Financial Statements" for additional information.
(7) Represents the redeemable noncontrolling interests' allocation of income for our joint venture arrangements.
(8) Manditorily redeemable noncontrolling interest is included in other long-term liabilities in the consolidated balance sheets.

Item 7. 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" a "our") began operations in 1985 with the opening of the first Papa John's restaurant in Jeffersonville, Indiana. At December 25, 2011, there were 3,883 Papa John's restaurants in operation, consisting of 628 Company-owned and 3,255 franchised restaurants. Our revenues are principally derived from retail sales of pizza and other food and beverage products to the general public by Company-owned restaurants, franchise royalties, sales of franchise and development rights, sales to franchisees of food and paper products, printing and promotional items, risk management services, and information systems and related services used in their operations.

New unit openings in 2011 were 321 as compared to 325 in 2010 and 216 in 2009 and unit closings in 2011 were 84 as compared to 148 in 2010 and 127 in 2009. We expect net unit growth of approximately 240 to 280 units during 2012.

We have continued to produce strong average sales from our domestic Company-owned restaurants even in a very competitive market environment. 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. Average annual Company-owned sales for our most recent comparable restaurant base were $897,000 for 2011, compared to $863,000 for 2010 and $869,000 for 2009. Average sales volumes in new markets are generally lower than in those markets in which we have established a significant market position. The comparable sales for domestic Company-owned restaurants increased 4.1% in 2011, decreased 0.6% in 2010, and decreased 0.5% in 2009. The comparable sales for North America franchised units increased 3.1% in 2011, 0.3% in 2010 and 0.1% in 2009. "Comparable sales" represents sales generated by restaurants open for the entire twelve-month period reported.

We strive to obtain high-quality restaurant sites with good access and visibility, and to enhance the appearance and quality of our restaurants. We believe that these factors improve our image and brand awareness. The average cash investment for the eight domestic Company-owned restaurants opened during 2011 was approximately $260,000, compared to the $250,000 investment for the five units opened in 2010, exclusive of land and any tenant improvement allowances that we received in both years.

Approximately 47% of our revenues for 2011, compared to 45% of our revenues for 2010 and 40% of our revenues for 2009, were derived from the sale to our domestic and international franchisees of food and paper products, printing and promotional items, risk management services and information systems equipment and software and related services by us. We believe that, in addition to supporting both Company and franchised growth, these activities contribute to product quality and consistency and restaurant profitability throughout the Papa John's system.

Critical Accounting Policies and Estimates

The results of operations are based on our consolidated financial statements, which were prepared in conformity with accounting principles generally accepted in the United States. The preparation of consolidated financial statements requires management to select accounting policies for critical accounting areas as well as estimates and assumptions that affect the amounts reported in the consolidated financial statements. The Company's significant accounting policies are more fully described in "Note 2" of "Notes to Consolidated Financial Statements." Significant changes in assumptions and/or conditions in our critical accounting policies could materially impact the operating results. We have identified the following accounting policies and related judgments as critical to understanding the results of our operations.

Accounting Policies

Allowance for Doubtful Accounts and Notes Receivable

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

Intangible Assets - Goodwill

In September 2011, the Financial Accounting Standards Board ("FASB") approved Accounting Standards Update 2011-08, "Testing Goodwill for Impairment," ("ASU 2011-08") which is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, however, early adoption is permitted. We elected to early adopt the provisions of ASU 2011-08 in 2011.

ASU 2011-08 permits us to first assess qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step quantitative goodwill impairment test. Under the two-step quantitative goodwill impairment test, the fair value of the reporting unit is compared to its respective carrying amount including goodwill. If the fair value exceeds the carrying amount, then no impairment exists. If the carrying amount exceeds the fair value, further analysis is performed to assess impairment. Because market prices of our reporting units are not readily available, we make various estimates and assumptions in determining the estimated fair values of our reporting units. The estimated fair value is based on an income approach, with an appropriate risk adjusted discount rate, and a market approach where appropriate. Significant assumptions inherent in the methodologies are employed and include such estimates as discount rates, growth rates and certain market transaction multiples.

In accordance with ASU 2011-08, we evaluate goodwill annually in the fourth quarter or whenever we identify certain triggering events or circumstances that would more-likely-than-not reduce the fair value of a reporting unit below its carrying amount. Such tests are completed separately with respect to the goodwill of each of our reporting units. Events or circumstances that might indicate an interim evaluation is warranted include, among other factors, unexpected adverse business conditions, macro and reporting unit specific economic factors (for example, worsening results in comparison to projections, commodity inflation, or loss of key personnel), unanticipated competitive activities, and acts by governments or courts.

As defined in the authoritative guidance, a reporting unit is an operating segment, or one level below an operating segment. During 2011, in connection with a restructuring of our components in our domestic Company-owned restaurant segment, changes were made in the discrete financial information that was made available to the segment manager of our domestic Company-owned restaurant segment, which resulted in the identification of new components in 2011. Additionally, because components meet the aggregation provision of Accounting Standards Codification 280, "Segment Reporting," we now aggregate the components of our domestic Company-owned restaurant segment into one reporting unit. Prior to 2011, the components were treated as individual reporting units.

Under ASU 2011-08, companies can bypass the qualitative assessment and move directly to the quantitative assessment for any reporting unit in any period if management believes that it is more efficient or there is a risk of impairment. All companies can elect to resume performing the qualitative assessment in any subsequent period. We applied the qualitative assessment for our domestic Company-owned restaurants and China reporting units, which is included in our international reporting segment. As a result of our qualitative analysis, we determined that it was more-likely-than-not that the fair value of our domestic Company-owned restaurants and China reporting units was greater than the carrying amounts.

With respect to our PJUK reporting unit (which represents $14.8 million of goodwill as of December 25, 2011), we bypassed the qualitative assessment and performed the two-step quantitative goodwill impairment test, which indicated the fair value exceeded the carrying amount by 7%. The fair value was calculated using an income approach that projected net cash flow over a 10-year discrete period and a terminal value, which were discounted using appropriate rates. The selected discount rate considers the risk and nature of our PJUK reporting unit's cash flow and the rates of return market participants would require to invest their capital in the PJUK reporting unit. We believe our PJUK reporting unit will continue to improve its operating results through ongoing growth initiatives, by increasing Papa John's brand awareness in the United Kingdom, improving sales and profitability for individual franchised restaurants and increasing PJUK franchised net unit openings over the next several years. Future impairment charges could be required if adverse economic events occur in the United Kingdom.

Subsequent to completing our annual qualitative and quantitative goodwill impairment tests, no indications of impairment were identified.

Insurance Reserves

Our insurance programs for workers' compensation, general liability, owned and non-owned automobiles and health insurance coverage provided to our employees are funded by the Company up to certain retention levels. Losses are accrued based upon undiscounted estimates of the aggregate retained liability for claims incurred using certain third-party actuarial projections and our claims loss experience. The estimated insurance claims losses could be significantly affected should the frequency or ultimate cost of claims significantly differ from historical trends used to estimate the insurance reserves recorded by the Company.

Deferred Income Tax Accounts and Tax Reserves

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

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities, and are measured using enacted tax rates and laws that are expected to be in effect when the differences reverse. Deferred tax assets are also recognized for the estimated future effects of tax loss carryforwards. The effect on deferred taxes of changes in tax rates is recognized in the period in which the new tax rate is enacted. As a result, our effective tax rate may fluctuate. Valuation allowances are established when necessary on a jurisdictional basis to reduce deferred tax assets to the amounts we expect to realize. As of December 25, 2011, we had a net deferred income tax asset of $944,000.

Tax authorities periodically audit the Company. We record reserves for identified exposures. We evaluate these issues on a quarterly basis to adjust for events, such as court rulings or audit settlements, which may impact our ultimate payment for such exposures. We recognized reductions of $1.9 million, $550,000 and $1.2 million in our income tax expense associated with the finalization of certain income tax issues in 2011, 2010 and 2009, respectively (see "Note 13" of "Notes to Consolidated Financial Statements").

Consolidation of BIBP Commodities, Inc. ("BIBP") as a Variable Interest Entity

BIBP was a franchisee-owned corporation that conducted a cheese-purchasing program on behalf of Company-owned and franchised restaurants operating in the United States through February 2011. As the primary beneficiary, we consolidated the operating results of BIBP. BIBP operated at breakeven for the first two months of 2011 and recognized income before income taxes of $21.0 million in 2010 and $22.5 million in 2009. Income before income taxes in 2010 included a reduction in BIBP's cost of sales of $14.2 million associated with PJFS's agreement to pay to BIBP for past cheese purchases an amount equal to its accumulated deficit ("BIBP Settlement"). Accordingly, BIBP recorded a decrease of $14.2 million in cost of sales and PJFS recorded a corresponding increase in cost of sales in 2010. This transaction did not have any impact on the Company's 2010 consolidated income statement results since both PJFS and BIBP are fully consolidated.

Consolidation accounting required the net impact from the consolidation of BIBP to be reflected primarily in three separate components of our statement of income. The first component was the portion of BIBP operating income or loss attributable to the amount of cheese purchased by Company-owned restaurants during the period. This portion of BIBP operating income was reflected as a reduction in the "Domestic Company-owned restaurant expenses - cost of sales" line item. This approach effectively reported cost of sales for Company-owned restaurants as if the purchasing agreement with BIBP did not exist and such restaurants were purchasing cheese at the spot market prices (i.e., the impact of BIBP is eliminated in consolidation).

The second component of the net impact from the consolidation of BIBP was reflected in the caption "Loss (income) from the franchise cheese-purchasing program, net of noncontrolling interest." This line item represented BIBP's income or loss from purchasing cheese at the spot market price and selling to franchised restaurants at a fixed monthly price, net of any income or loss attributable to the noncontrolling interest BIBP shareholders. The amount of income or loss attributable to the BIBP shareholders depended on its cumulative shareholders' equity balance and the change in such balance during the reporting period. The third component was reflected as interest expense, when BIBP was in a net borrowing position during the reporting period.

In February 2011, we terminated the purchasing arrangement with BIBP and BIBP no longer has operating activities. Over 99% of our domestic franchisees have entered into a cheese purchasing agreement with PJFS. The cheese purchasing agreement requires participating domestic franchisees to purchase cheese through PJFS, or to pay the franchisee's portion of any accumulated cheese liability upon ceasing to purchase cheese from PJFS when a liability exists. The cheese purchasing agreement specifies that PJFS will charge the franchisees a predetermined price for cheese on a monthly basis. Any difference between the amount charged to franchisees and the actual price paid by PJFS for cheese will be recorded as a receivable from or a payable to the franchisees, to be repaid based upon a predetermined formula outlined in the agreement.

Restatement of Previously Issued Financial Statements

In connection with the evaluation of the accounting for newly formed joint ventures, we reviewed our accounting for our previously existing joint venture arrangements. As a result of our review, we determined an error occurred in the accounting for one joint venture agreement, which contained a mandatorily redeemable feature added through a contract amendment in the third quarter of 2009. This provision contained in the 2009 contract amendment was not previously considered in determining the classification and measurement of the noncontrolling interest. In addition, we determined an additional redeemable noncontrolling interest was incorrectly classified in shareholders' equity and should be classified as temporary equity, which impacted the consolidated balance sheets and statements of stockholders' equity. As such, we are restating our previously issued consolidated financial statements for the fiscal years 2011, 2010, and 2009. The correction of the error related to the mandatorily redeemable noncontrolling interest had an impact on our Consolidated Statements of Income, interest expense, income tax expense, and net income. The restatements resulted in decreases in diluted earnings per share of $0.04 and $0.13 for the fiscal years ended December 25, 2011 and December 27, 2009, respectively, and an increase in diluted earnings per share of $0.03 for the fiscal year ended December 26, 2010. The corrections were recorded to our "Unallocated Corporate Expenses" segment. The corrections had no impact on total revenues, operating income, or operating cash flows and had no impact on our compliance with debt covenants in any periods presented. See "Note 1" and "Note 2" of "Notes to Consolidated Financial Statements" for additional information.

Non-GAAP Measures

The financial measures we present in this report excluding the impact of the consolidation of BIBP are not measures defined within accounting principles generally accepted in the United States ("GAAP"). These non-GAAP measures should not be construed as a substitute for or a better indicator of the Company's performance than the Company's GAAP measures. We believe the financial information excluding the impact of the consolidation of BIBP is important for purposes of comparison to prior periods and development of future projections and earnings growth prospects. We analyze our business performance and trends excluding the impact of the consolidation of BIBP because the results of BIBP are not indicative of the principal operating activities of the Company. In addition, annual cash bonuses and certain long-term incentive programs for various levels of management were based on financial measures that exclude BIBP. The presentation of the non-GAAP measures in this report is made alongside the most directly comparable GAAP measures.

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

Segment Reporting Change

In 2011, we realigned management responsibility and financial reporting for Hawaii, Alaska and Canada from our international business segment to our domestic franchising segment in order to better leverage existing infrastructure and systems. As a result, we renamed the domestic franchising segment "North America franchising" in the first quarter of 2011. Certain prior year amounts have been reclassified in our consolidated statements of income, segment information, and restaurant unit progression to conform to the current year presentation.

Fiscal Year

The Company follows a fiscal year ending on the last Sunday of December, generally consisting of 52 weeks made up of four 13-week quarters. The 13-week quarters consist of two four-week periods followed by one five-week period.

Percentage Relationships and Restaurant Data and Unit Progression

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 (1)		
	Dec. 25, 2011 (As Restated)	Dec. 26, 2010 (As Restated)	Dec. 27, 2009 (As Restated)
Income Statement Data:			
North America revenues:			
Domestic Company-owned restaurant sales	43.2 %	44.7 %	46.7 %
Franchise royalties	6.1	6.2	5.8
Franchise and development fees	0.1	0.0	0.1
Domestic commissary sales	41.7	40.4	38.7
Other sales	4.2	4.6	5.0
International revenues:			
Royalties and franchise and development fees	1.3	1.2	1.1
Restaurant and commissary sales	3.4	2.9	2.6
Total revenues	100.0	100.0	100.0
Costs and expenses:			
Domestic Company-owned restaurant cost of sales (2)	24.1	22.1	20.0
Domestic Company-owned restaurant operating expenses (2)	56.9	57.7	58.2
Domestic commissary and other expenses (3)	92.2	91.4	90.2
Income from the franchise cheese purchasing program, net of minority interest (4)	0.0	(0.5)	(1.7)
International operating expenses (5)	84.5	88.7	86.3
General and administrative expenses	9.2	9.8	10.3
Other general expenses	0.8	0.8	1.3
Depreciation and amortization	2.7	2.9	2.9
Total costs and expenses	92.9	92.3	91.2
Operating income	7.1	7.7	8.8
Net interest expense	(0.1)	(0.3)	(1.0)
Income before income taxes	7.0	7.4	7.8
Income tax expense	2.2	2.4	2.5
Net income, including redeemable noncontrolling interests	4.8	5.0	5.3
Income attributable to redeemable noncontrolling interests	(0.3)	(0.3)	(0.3)
Net income, net of redeemable noncontrolling interests	4.5 %	4.7 %	5.0 %

	Year Ended (1)		
	Dec. 25, 2011	Dec. 26, 2010	Dec. 27, 2009
Restaurant Data:			
Percentage increase (decrease) in comparable domestic Company-owned restaurant sales (6)	4.1 %	(0.6 %)	(0.5 %)
Number of Company-owned restaurants included in the most recent full year's comparable restaurant base	582	578	559
Average sales for Company-owned restaurants included in the most recent comparable restaurant base	$ 897,000	$ 863,000	$ 869,000
Papa John's Restaurant Progression:			
North America Company-owned:			
Beginning of period	591	588	592
Opened	8	5	5
Closed	(1)	(2)	(8)
Acquired from franchisees	-	-	11
Sold to franchisees	-	-	(12)
End of period	598	591	588
International Company-owned:			
Beginning of period	21	26	23
Opened	9	8	4
Closed	-	(2)	(1)
Acquired from franchisees	-	1	-
Sold to franchisees	-	(12)	-
End of period	30	21	26
North America franchised (7):			
Beginning of period	2,346	2,246	2,243
Opened	166	182	93
Closed	(49)	(82)	(91)
Acquired from Company	-	-	12
Sold to Company	-	-	(11)
End of period	2,463	2,346	2,246
International franchised (7):			
Beginning of period	688	609	522
Opened	138	130	114
Closed	(34)	(62)	(27)
Acquired from Company	-	12	-
Sold to Company	-	(1)	-
End of period	792	688	609
Total Papa John's restaurants - end of period	3,883	3,646	3,469

(1) We operate on a fiscal year ending on the last Sunday of December of each year.
(2) As a percentage of domestic Company-owned restaurant sales.
(3) As a percentage of domestic commissary sales and other sales on a combined basis.

(4) As a percentage of total Company revenues; the income is a result of the consolidation of BIBP, a VIE. The sales reported by BIBP are eliminated in consolidation.
(5) As a percentage of international restaurant and commissary sales.
(6) Includes only Company-owned restaurants open throughout the periods being compared.
(7) Restaurant unit data for 2010 and 2009 has been adjusted to reflect the reclassification of restaurants operating in Hawaii, Alaska and Canada from international franchised to North America franchised in order to conform to the current year presentation.

Results of Operations

2011 Compared to 2010

Discussion of Revenues

Consolidated revenues increased 8.1% to $1.22 billion in 2011 compared to $1.13 billion in 2010, primarily consisting of the following:

- Domestic Company-owned restaurant sales increased $22.6 million, or 4.5%, in 2011 primarily due to an increase in comparable sales of 4.1%.
  - North America franchise royalty revenues increased approximately $4.1 million, or 5.8% in 2011 due to an increase in comparable sales of 3.1%, and an increase in the number of franchised restaurants.
- Domestic commissary sales increased $53.6 million, or 11.8% in 2011 primarily due to an increase in the prices of certain commodities, most notably cheese, and an increase in sales volumes.
- International revenues increased $12.1 million, or 26.1% in 2011, primarily due to an increase in the number of restaurants and an increase in comparable sales of 5.1%, calculated on a constant dollar basis. In 2010, the international segment included revenues from Company-owned restaurants located in the United Kingdom, which were sold in the third quarter of 2010.

Discussion of Operating Results

Our income before income taxes totaled $84.8 million in 2011, as compared to $83.3 million in 2010, an increase of approximately $1.5 million. Excluding the impact of BIBP (income before income taxes of $6.8 million, excluding the BIBP Settlement), our income before income taxes increased approximately $8.3 million, or 10.8%. Income before income taxes is summarized in the following table on an operating segment basis (in thousands):

	2011 (As Restated)	2010 (As Restated)	Increase (Decrease)
Domestic Company-owned restaurants	$ 28,980	$ 31,619	$ (2,639)
Domestic commissaries *	30,532	14,188	16,344
North America franchising	66,222	62,229	3,993
International	(165)	(4,771)	4,606
All others	(441		