

PAPA JOHNS INTERNATIONAL INC
Form 10-Q
August 02, 2011

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

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 26, 2011

OR

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

Commission File Number: 0-21660

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

Delaware 61-1203323
(State or other jurisdiction (I.R.S. Employer
of Identification
incorporation or
organization) number)

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

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

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 Exchange Act).

Yes No

At July 27, 2011, there were outstanding 25,308,455 shares of the registrant’s common stock, par value \$0.01 per share.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

| (In thousands) | June 26, 2011 (Unaudited) | December 26, 2010 (Note) |
|---|------------------------------|-----------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 20,106 | \$ 46,225 |
| Accounts receivable, net | 26,471 | 25,357 |
| Inventories | 15,583 | 17,402 |
| Prepaid expenses | 10,277 | 10,009 |
| Other current assets | 3,710 | 3,732 |
| Deferred income taxes | 7,626 | 9,647 |
| Total current assets | 83,773 | 112,372 |
| Investments | 1,714 | 1,604 |
| Net property and equipment | 182,788 | 186,594 |
| Notes receivable, net | 15,281 | 17,354 |
| Goodwill | 74,746 | 74,697 |
| Other assets | 22,393 | 23,320 |
| Total assets | \$ 380,695 | \$ 415,941 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 29,599 | \$ 31,569 |
| Income and other taxes payable | 6,868 | 6,140 |
| Accrued expenses | 49,813 | 52,978 |
| Total current liabilities | 86,280 | 90,687 |
| Unearned franchise and development fees | 6,651 | 6,596 |
| Long-term debt | 48,000 | 99,017 |
| Other long-term liabilities | 12,478 | 12,100 |
| Deferred income taxes | 3,485 | 341 |
| Stockholders' equity: | | |
| Preferred stock | - | - |
| Common stock | 365 | 361 |
| Additional paid-in capital | 256,705 | 245,380 |
| Accumulated other comprehensive loss | 1,608 | 849 |
| Retained earnings | 271,703 | 243,152 |
| Treasury stock | (315,108) | (291,048) |
| Total stockholders' equity, net of noncontrolling interests | 215,273 | 198,694 |
| Noncontrolling interests in subsidiaries | 8,528 | 8,506 |
| Total stockholders' equity | 223,801 | 207,200 |
| Total liabilities and stockholders' equity | \$ 380,695 | \$ 415,941 |

Note: The balance sheet at December 26, 2010 has been derived from the audited consolidated financial statements at that date, but does not include all information and footnotes required by accounting principles generally accepted in

the United States for a complete set of financial statements.

See accompanying notes.

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

| (In thousands, except per share amounts) | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------------|------------------|------------------|
| | June 26, 2011 | June 27, 2010 | June 26, 2011 | June 27, 2010 |
| North America revenues: | | | | |
| Domestic Company-owned restaurant sales | \$127,641 | \$124,594 | \$266,312 | \$254,238 |
| Franchise royalties | 18,103 | 17,440 | 37,834 | 35,485 |
| Franchise and development fees | 124 | 106 | 309 | 311 |
| Domestic commissary sales | 121,027 | 113,936 | 248,699 | 226,576 |
| Other sales | 12,370 | 13,023 | 25,817 | 27,536 |
| International revenues: | | | | |
| Royalties and franchise and development fees | 4,049 | 3,153 | 7,811 | 6,319 |
| Restaurant and commissary sales | 10,220 | 8,395 | 19,219 | 15,968 |
| Total revenues | 293,534 | 280,647 | 606,001 | 566,433 |
| Costs and expenses: | | | | |
| Domestic Company-owned restaurant expenses: | | | | |
| Cost of sales | 30,162 | 27,020 | 62,262 | 54,306 |
| Salaries and benefits | 34,367 | 34,192 | 72,016 | 69,595 |
| Advertising and related costs | 11,898 | 11,149 | 24,687 | 22,553 |
| Occupancy costs | 7,939 | 7,930 | 15,808 | 15,770 |
| Other operating expenses | 18,492 | 17,844 | 38,407 | 36,034 |
| Total domestic Company-owned restaurant expenses | 102,858 | 98,135 | 213,180 | 198,258 |
| Domestic commissary and other expenses: | | | | |
| Cost of sales | 103,529 | 95,195 | 209,972 | 190,487 |
| Salaries and benefits | 8,651 | 8,568 | 17,662 | 17,300 |
| Other operating expenses | 13,084 | 11,841 | 26,669 | 23,541 |
| Total domestic commissary and other expenses | 125,264 | 115,604 | 254,303 | 231,328 |
| Income from the franchise cheese-purchasing program, net of noncontrolling interest | - | (2,173) | - | (4,982) |
| International operating expenses | 8,756 | 7,430 | 16,484 | 14,206 |
| General and administrative expenses | 27,617 | 28,990 | 56,691 | 56,850 |
| Other general expenses | 1,459 | 1,687 | 2,240 | 3,977 |
| Depreciation and amortization | 8,425 | 8,175 | 16,737 | 16,055 |
| Total costs and expenses | 274,379 | 257,848 | 559,635 | 515,692 |
| Operating income | 19,155 | 22,799 | 46,366 | 50,741 |
| Investment income | 205 | 197 | 382 | 428 |
| Interest expense | (293) | (1,333) | (901) | (2,577) |
| Income before income taxes | 19,067 | 21,663 | 45,847 | 48,592 |
| Income tax expense | 6,014 | 7,560 | 15,245 | 16,525 |
| Net income, including noncontrolling interests | 13,053 | 14,103 | 30,602 | 32,067 |
| Less: income attributable to noncontrolling interests | (929) | (911) | (2,051) | (2,000) |
| Net income, net of noncontrolling interests | \$12,124 | \$13,192 | \$28,551 | \$30,067 |
| Basic earnings per common share | \$0.48 | \$0.49 | \$1.12 | \$1.12 |

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| | | | | |
|---|--------|--------|--------|--------|
| Earnings per common share - assuming dilution | \$0.47 | \$0.49 | \$1.11 | \$1.11 |
| Basic weighted average shares outstanding | 25,464 | 26,760 | 25,474 | 26,901 |
| Diluted weighted average shares outstanding | 25,685 | 26,971 | 25,713 | 27,036 |

See accompanying notes.

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

| (In thousands) | Papa John's International, Inc. | | | | | | | |
|---|--|-----------------|----------------------------------|---|----------------------|-------------------|---|----------------------------------|
| | Common Stock Shares Outstanding | Common Stock | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Treasury Stock | Noncontrolling Interests in Subsidiaries | Total Stockholders' Equity |
| Balance at December 27, 2009 | 26,930 | \$ 358 | \$ 231,720 | \$ (1,084) | \$ 191,212 | \$ (245,337) | \$ 8,168 | \$ 185,037 |
| Comprehensive income: | | | | | | | | |
| Net income | - | - | - | - | 30,067 | - | 2,000 | 32,067 |
| Change in valuation of interest rate swap agreements, net of tax of \$646 | - | - | - | 1,149 | - | - | - | 1,149 |
| Foreign currency translation | - | - | - | (1,437) | - | - | - | (1,437) |
| Comprehensive income | | | | | | | | 31,779 |
| Exercise of stock options | 273 | 2 | 4,838 | - | - | 285 | - | 5,125 |
| Tax effect of non-qualified stock options | - | - | 179 | - | - | - | - | 179 |
| Acquisition of Company common stock | (975) | - | - | - | - | (24,417) | - | (24,417) |
| Net contributions (distributions) | | | | | | | | |
| - noncontrolling interests | - | - | - | - | - | - | (870) | (870) |
| Stock-based compensation expense | - | - | 3,549 | - | - | - | - | 3,549 |
| Issuance of restricted stock | 30 | - | (854) | - | - | 817 | - | (37) |
| Other | - | - | 2,153 | - | - | - | - | 2,153 |
| Balance at June 27, 2010 | 26,258 | \$ 360 | \$ 241,585 | \$ (1,372) | \$ 221,279 | \$ (268,652) | \$ 9,298 | \$ 202,498 |
| Balance at December 26, 2010 | 25,439 | \$ 361 | \$ 245,380 | \$ 849 | \$ 243,152 | \$ (291,048) | \$ 8,506 | \$ 207,200 |
| Comprehensive income: | | | | | | | | |
| Net income | - | - | - | - | 28,551 | - | 2,051 | 30,602 |

Change in valuation of interest
rate

| | | | | | | | | |
|--------------------|---|---|---|-----|---|---|---|-----|
| swap | | | | | | | | |
| agreements, net of | | | | | | | | |
| tax of \$89 | - | - | - | 159 | - | - | - | 159 |
| Foreign currency | | | | | | | | |
| translation | - | - | - | | | | | |