PAPA JOHNS INTERNATIONAL INC
Form 10-K
February 25, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(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 29, 2013

or

o **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, $0.01 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 o

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 o 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 o

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 o

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 o
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o 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 30, 2013, was $1,042,454,017.

As of February 18, 2014, there were 41,888,411 shares of the Registrant s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Part III of this annual report are incorporated by reference to the Registrant s Proxy Statement for the Annual Meeting of Stockholders to be held April 29, 2014.

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PART I

Item 1. Business

General

Papa John s International, Inc., a Delaware corporation (referred to as the Company , Papa John s or in the first person notations of we , us and operates and franchises pizza delivery and carryout restaurants and, in certain international markets, dine-in and delivery restaurants under the trademark Papa John s . Papa John s began operations in 1984. At December 29, 2013, there were 4,428 Papa John s restaurants in operation, consisting of 723 Company-owned and 3,705 franchised restaurants operating domestically in all 50 states and in 34 countries. Our Company-owned restaurants include 191 restaurants operated under four joint venture arrangements and 58 units in Beijing and North China.

Papa John s has defined five reportable segments: domestic Company-owned restaurants, domestic commissaries (Quality Control Centers), North America franchising, international operations, and all other business units. North America is defined as the United States and Canada. Domestic is defined as the contiguous United States. International franchisees are defined as all franchise operations outside of the United States and Canada. See Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 20 of Notes to Consolidated Financial Statements for financial information about our segments.

All of our periodic and current reports filed with the Securities and Exchange Commission (the SEC) pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended (the Exchange Act), are available, free of charge, through our website located at www.papajohns.com, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports. Those documents are available through our website as soon as reasonably practicable after we electronically file them with the SEC. We also make available free of charge on our website our Corporate Governance Guidelines, Board Committee Charters, and our Code of Ethics, which applies to Papa John s directors, officers and employees. Printed copies of such documents are also available free of charge upon written request to Investor Relations, Papa John s International, Inc., P.O. Box 99900, Louisville, KY 40269-0900. You may read and copy any materials filed with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. This information is also available at www.sec.gov. The references to these website addresses do not constitute incorporation by reference of the information contained on the websites, which should not be considered part of this document.

Strategy

Our goal is to build the strongest brand loyalty in the pizza industry. The key elements of our strategy include:

High Quality Menu Offerings. Domestic Papa John s restaurants offer a menu of high-quality pizza along with side items, including breadsticks, cheesesticks, chicken poppers and wings, dessert items and canned or bottled beverages. Papa John s traditional crust pizza is prepared using fresh dough (never frozen). Papa John s pizzas are made from a proprietary blend of wheat flour, cheese made from 100% real mozzarella, fresh-packed pizza sauce made from vine-ripened tomatoes (not from concentrate) and a proprietary mix of savory spices, and a choice of high-quality meat (100% beef and pork with no fillers) and vegetable toppings. Domestically, all ingredients and toppings can be purchased from our Quality Control Center (QC Center) system, which delivers to individual restaurants twice weekly. To ensure consistent food quality, each domestic franchisee is required to purchase dough and tomato sauce from

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our QC Centers and to purchase all other supplies from our QC Centers or other approved suppliers. Internationally, the menu may be more diverse than in our domestic operations to meet local tastes and customs. QC Centers outside the U.S. may be operated by franchisees pursuant to license agreements or by other third parties. International QC Centers are required to meet food safety and quality standards and to be in compliance with all applicable laws. We provide significant assistance to licensed international QC Centers in sourcing approved quality suppliers.

In addition to our fresh dough traditional crust pizza, we offer a thin crust pizza, which is a par-baked product produced by a third-party vendor. Our traditional crust pizza offers a container of our special garlic sauce and a pepperoncini pepper. Each thin crust pizza is served with a packet of special seasonings and a pepperoncini pepper.

We continue to test new product offerings both domestically and internationally. The new products can become a part of the permanent menu if they meet certain established guidelines.

Efficient Operating System. We believe our operating and distribution systems, restaurant layout and designated delivery areas result in lower restaurant operating costs and improved food quality, and promote superior customer service. Our QC Center system takes advantage of volume purchasing of food and supplies, and provides consistency and efficiencies of scale in fresh dough production. This eliminates the need for each restaurant to order food from multiple vendors and commit substantial labor and other resources to dough preparation.

Commitment to Team Member Training and Development. We are committed to the development and motivation of our team members through training programs, incentive and recognition programs and opportunities for advancement. Team member training programs are conducted for corporate restaurant team members, and offered to our franchisees electronically and at training locations across the United States and internationally. We offer performance-based financial incentives to corporate and restaurant team members at various levels.

Marketing. Our domestic marketing strategy consists of both national and local components. Our national strategy includes national advertising via television, print, direct mail, digital, mobile marketing and social media channels. Our online and digital marketing activities have increased significantly over the past several years in response to increasing consumer use of online and mobile web technology. Local advertising programs include television, radio, and print materials.

In international markets, we target customers who live or work within a small radius of a Papa John s restaurant. Our international markets use a combination of advertising strategies, including television, radio, digital, and print depending on the size of the local market.

Strong Franchise System. We are committed to developing and maintaining a strong franchise system by attracting experienced operators, supporting them to expand and grow their business and monitoring their compliance with our high standards. We seek to attract franchisees with experience in restaurant or retail operations and with the financial resources and management capability to open single or multiple locations. We devote significant resources to provide Papa John s franchisees with assistance in restaurant operations, management training, team member training, marketing, site selection and restaurant design.

Unit Sales and Investment Costs

We are committed to maintaining strong unit economics. In 2013, the 633 domestic Company-owned restaurants included in the full year s comparable restaurant base generated average unit sales of $988,000. North America franchise sales per unit on average are lower than Company-owned restaurants as a higher percentage of our Company-owned restaurants are located in more heavily penetrated markets.

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The average cash investment for the 13 domestic traditional Company-owned restaurants opened during the 2013 fiscal year, exclusive of land, was approximately $280,000 per unit, excluding tenant allowances that we received. With few exceptions, domestic restaurants do not offer a dine-in area, which reduces our restaurant capital investment. We also opened 11 Company-owned restaurants in China, with an average investment cost of approximately $225,000.

We define a traditional domestic Papa John s restaurant as a delivery and carryout unit that services a defined trade area. We consider the location of a traditional restaurant to be important and therefore devote significant resources to the investigation and evaluation of potential sites. The site selection process includes a review of trade area demographics, target population density and competitive factors. A member of our development team inspects each potential domestic Company-owned restaurant location and substantially all franchised restaurant locations before a site is approved. Our restaurants are typically located in strip shopping centers or freestanding buildings that provide visibility, curb appeal and accessibility. Our restaurant design can be configured to fit a wide variety of building shapes and sizes, which increases the number of suitable locations for our restaurants. A typical domestic inline or end cap Papa John s restaurant averages 1,100 to 1,500 square feet with visible exterior signage.

Non-traditional Papa John s restaurants generally do not provide delivery service but rather provide walk-up or carry-out service to a captive customer group within a designated facility, such as a food court at an airport, university or military base or an event-driven service at facilities such as sports stadiums or entertainment venues. Non-traditional units are designed to fit the unique requirements of the venue.

Most of our international Papa John s restaurants are slightly smaller and average between 900 and 1,400 square feet; however, in order to meet certain local customer preferences, some international restaurants have been opened in larger spaces to accommodate both dine-in and restaurant-based delivery service, typically with 35 to 100 seats.

Development

A total of 386 Papa John s restaurants were opened during 2013, consisting of 30 Company-owned (19 in North America and 11 in Beijing and North China) and 356 franchised restaurants (152 in North America and 204 international), while 121 Papa John s restaurants closed during 2013, consisting of three Company-owned (two in North America and one in Beijing) and 118 franchised restaurants (87 in North America and 31 international).

During 2014, we expect net unit growth of approximately 220 to 250 units, approximately 70% of which will open in international markets. International franchised unit expansion includes an emphasis on markets in the Americas, the United Kingdom, the Middle East and Asia.

Although most of our domestic Company-owned markets are well-penetrated, our Company-owned growth strategy is to continue to open domestic restaurants in existing markets as appropriate, thereby increasing consumer awareness and enabling us to take advantage of operational and marketing efficiencies. Our experience in developing markets indicates that market penetration through the opening of multiple restaurants in a particular market results in increased average restaurant sales in that market over time. We have co-developed domestic markets with some franchisees or divided markets among franchisees, and will continue to utilize market co-development in the future, where appropriate.

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Of the total 3,286 North American restaurants open as of December 29, 2013, 665 or 20% were Company-owned (including 191 units owned in joint venture arrangements with franchisees in which the Company has a majority ownership position). The Company expects the percentage of domestic Company-owned units to decline over the next several years because future net openings will be more heavily weighted toward franchise units. From time to time, the Company evaluates the purchase or sale of significant markets, which could change the percentage of Company-owned units. Each is evaluated on its individual merits.

Of the 1,142 international restaurants open as of December 29, 2013, 58 or 5% were Company-owned (located in Beijing and North China). We plan to continue to grow our international units during the next several years, substantially all of which will be franchised.

QC Center System and Supply Chain Management

Our domestic QC Centers, comprised of ten full-service regional production and distribution centers, supply pizza dough, food products, paper products, smallwares and cleaning supplies twice weekly to each restaurant throughout the contiguous United States. This system enables us to monitor and control product quality and consistency, while lowering food and other costs. We evaluate the QC Center system capacity in relation to planned restaurant growth, and facilities are developed or upgraded as operational or economic conditions warrant.

We own full-service international QC Centers in the United Kingdom, Mexico City, Mexico and Beijing, China. Other international full-service QC Centers are licensed to franchisees or non-franchisee third parties and are generally located in the markets where our franchisees have restaurants.

We set quality standards for all products used in our restaurants and designate approved outside suppliers of food and paper products that meet our quality standards. In order to ensure product quality and consistency, all Papa John s restaurants are required to purchase tomato sauce and dough from QC Centers. Franchisees may purchase other goods directly from our QC Centers or other approved suppliers. National purchasing agreements with most of our suppliers generally result in volume discounts to us, allowing us to sell products to our restaurants at prices we believe are below those generally available in the marketplace. Within our domestic QC Center system, products are distributed to restaurants by refrigerated trucks leased and operated by us or transported by a dedicated logistics company.

Marketing Programs

Our local restaurant-level marketing programs target consumers within the delivery area of each restaurant through the use of local television, radio, print materials, targeted direct mail, store-to-door flyers, digital display advertising, email marketing, text messages and local social media. Local marketing efforts also include a variety of community-oriented activities within schools, sports venues and other organizations supported with some of the same advertising vehicles mentioned above.

Domestic Company-owned and franchised Papa John s restaurants within a defined market are required to join an area advertising cooperative (Co-op). Each member restaurant contributes a percentage of sales to the Co-op for market-wide programs, such as television, radio, digital and print advertising, and sports sponsorships. The rate of contribution and uses of the monies collected are determined by a majority vote of the

Co-op s members. The contribution rate for Co-ops may generally not be below 2.0% of sales without approval from Papa John s.

The restaurant-level and Co-op marketing efforts are supported by media, print, digital and electronic advertising materials that are produced by Papa John s Marketing Fund, Inc. (PJMF). PJMF is an unconsolidated nonstock corporation designed to operate at break-even for the purpose of designing and

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administering advertising and promotional programs for all participating domestic restaurants. PJMF produces and buys air time for Papa John s national television commercials, buys digital media such as banner advertising, paid search-engine advertising, mobile marketing, social media advertising and marketing, and SMS text and email, in addition to other brand-building activities, such as consumer research and public relations activities. Domestic Company-owned and franchised Papa John s restaurants are required to contribute a certain minimum percentage of sales to PJMF. The contribution rate to PJMF can be increased above the required minimum contribution rate if approved by the governing board of PJMF up to 3% of sales, and beyond those levels if approved by a supermajority of domestic restaurants. The contribution rate has been 4.0% since 2011.

We provide both Company-owned and franchised restaurants with pre-approved marketing materials and catalogs for the purchase of uniforms and promotional items. We also provide direct marketing services to Company-owned and franchised restaurants using customer information gathered by our proprietary point-of-sale technology (see Company Operations *Domestic Point-of-Sale Technology*). In addition, we provide database tools, templates and training for operators to facilitate local email marketing and text messaging through our approved tools.

Our proprietary digital ordering platform allows customers to order online. Our eCommerce platforms include plan ahead ordering, Spanish-language ordering capability, and enhanced mobile web ordering for our customers, including Papa John s iPhone® and Android® applications. We also have a Papa Rewards® program, which is an eCommerce customer loyalty program designed to increase loyalty and frequency of consumer use of our eCommerce ordering platform. We receive a percentage-based fee from U.S. franchisees for online sales, in addition to royalties, to defray development and operating costs associated with our eCommerce ordering platform.

Our domestic restaurants offer customers the opportunity to purchase a reloadable gift card marketed as the Papa Card. The Papa Card is sold as either a plastic gift card purchased in our restaurants, or an online digital card purchased at our web site. We sell Papa Cards to consumers through third-party retailers and bulk orders of cards to business entities and organizations. We continue to explore other Papa Card distribution opportunities. The Papa Card may be redeemed for delivery, carryout, and eCommerce orders and is accepted at all Papa John s traditional domestic restaurants.

In international markets, we target customers who live or work within a small radius of a Papa John s restaurant. Certain markets can effectively use television and radio as part of their marketing strategies. The majority of the marketing efforts include using print materials such as flyers, newspaper inserts, in-store marketing materials, and to a growing extent, digital marketing such as display, search engine marketing, social media, mobile marketing, email, and SMS text. Local marketing efforts, such as sponsoring or participating in community events, sporting events and school programs, are also used to build customer awareness.

Company Operations

Domestic Restaurant Personnel. A typical Papa John s Company-owned domestic restaurant employs a restaurant manager and approximately 20 to 25 hourly team members, many of whom work part-time. The manager is responsible for the day-to-day operation of the restaurant and maintaining Company-established operating standards. We seek to hire experienced restaurant managers and staff and provide comprehensive training programs in areas such as operations and managerial skills. We also employ directors of operations who are responsible for overseeing an average of seven Company-owned restaurants. Additional levels of operations senior management and corporate staff also support the field teams in many areas, including, but not limited to, quality assurance, food safety, training, marketing and technology. We seek to motivate and retain personnel by providing opportunities for advancement and performance-based financial incentives.

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Training and Education. The Global Operations Support and Training (GOST) department is responsible for creating tools and materials for the training and development of both corporate and franchise team members. We believe training is very important to delivering consistent operational execution. Operations personnel complete our management training program and ongoing development programs, including multi-unit training, in which instruction is given on all aspects of our systems and operations.

Domestic Point-of-Sale Technology. Our proprietary PROFIT SystemTM, point-of-sale technology (POS), is in place in all North America traditional Papa John s restaurants. We believe this technology facilitates fast and accurate order-taking and pricing, reduces paperwork and allows the restaurant manager to better monitor and control food and labor costs, including food inventory management and order placement from the domestic QC Centers. We believe the PROFIT System also enhances restaurant-level marketing capabilities. Polling capabilities allow us to obtain restaurant operating information, providing us with timely access to sales and customer information. The PROFIT System is also closely integrated with our digital ordering solutions in all domestic traditional Papa John s restaurants, enabling Papa John s to offer nationwide digital ordering to our customers. We plan to roll out our next generation POS system, which we refer to as FOCUS, to substantially all of our domestic restaurants beginning in 2014. We expect FOCUS will add efficiencies to our operations. The cost of the system will vary depending on the current equipment, including hardware and wiring, located at each restaurant. Our franchisees will have the option of obtaining financing for the new system from a designated lender.

Domestic Hours of Operation. Our domestic restaurants are open seven days a week, typically from 11:00 a.m. to 12:30 a.m. Monday through Thursday, 11:00 a.m. to 1:30 a.m. on Friday and Saturday and 12:00 noon to 11:30 p.m. on Sunday. Carryout hours are generally more limited for late night, for security purposes.

Franchise Program

General. We continue to attract franchisees with significant restaurant and retail experience. We consider our franchisees to be a vital part of our system s continued growth and believe our relationship with our franchisees is good. As of December 29, 2013, there were 3,705 franchised Papa John s restaurants operating in all 50 states and 34 countries. During 2013, 356 (152 North America and 204 international) franchised Papa John s restaurants were opened. As of December 29, 2013, we have development agreements with our franchisees for approximately 200 additional North America restaurants, the majority of which are committed to open over the next two to three years, and agreements for approximately 1,000 additional international franchised restaurants, the majority of which are scheduled to open over the next six years. There can be no assurance that all of these restaurants will be opened or that the development schedule set forth in the development agreements will be achieved.

Approval. Franchisees are approved on the basis of the applicant s business background, restaurant operating experience and financial resources. We seek franchisees to enter into development agreements for single or multiple restaurants. We require each franchisee to complete our training program or to hire a full-time operator who completes the training and has either an equity interest or the right to acquire an equity interest in the franchise operation. Outside the United States, we will allow an approved operator bonus plan to substitute for the equity interest.

North America Development and Franchise Agreements. We enter into development agreements with our franchisees in North America for the opening of a specified number of restaurants within a defined period of time and specified geographic area. Substantially all existing franchise agreements have an initial 10-year term with a 10-year renewal option. We have the right to terminate a franchise agreement for a

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variety of reasons, including a franchisee s failure to make payments when due or failure to adhere to our policies and standards. Many state franchise laws limit the ability of a franchisor to terminate or refuse to renew a franchise.

We provide assistance to Papa John s franchisees in selecting sites, developing restaurants and evaluating the physical specifications for typical restaurants. We provide layout and design services and recommendations for subcontractors, signage installers and telephone systems to Papa John s franchisees. Our franchisees can purchase complete new store equipment packages through an approved third-party supplier. In addition, we sell replacement smallwares and related items to our franchisees. Each franchisee is responsible for selecting the location for its restaurants but must obtain our approval of restaurant design and location based on accessibility and visibility of the site and targeted demographic factors, including population density, income, age and traffic.

Under our standard domestic development agreement, the franchisee is required to pay, at the time of signing the agreement, a non-refundable fee of $25,000 for the first restaurant and $5,000 for any additional restaurants. The non-refundable fee is credited against the standard $25,000 franchise fee payable to us upon signing the franchise agreement for a specific location. Generally, a franchise agreement is executed when a franchisee secures a location. Our current standard development agreement requires the franchisee to pay a royalty fee of 5% of sales and the majority of our existing franchised restaurants also have a 5% royalty rate in effect.

Domestic Franchise Development Incentives. Over the past few years, we have offered various development incentive programs for domestic franchisees to increase unit openings. Such incentives included the following for 2013 traditional openings: (1) no franchise fee if the unit opens on time in accordance with the agreed upon development schedule, $5,000 if the unit opens late (standard fee is $25,000); (2) the waiver of some or all of the 5% royalty fee for a period of time; (3) a credit for a portion of the purchase of certain equipment; and (4) a credit to be applied toward a future food purchase, under certain circumstances. We believe the development incentive programs have accelerated unit openings and expect they will continue to do so in 2014.

Marketing Fund Incentives. In 2013, domestic franchisees could earn up to a 45 basis point royalty rebate (against our standard 5.0% royalty rate) by meeting certain sales growth targets.

Domestic Franchise Support Initiatives. From time to time, we offer additional discretionary support initiatives to our domestic franchisees, including:

- Food cost relief by lowering the commissary margin on certain commodities sold by PJ Food Service, Inc. (PJFS) to the franchise system and by providing incentive rebate opportunities;
- Targeted royalty relief and local marketing support to assist certain identified franchisees or markets;
- Restaurant opening incentives; and
- Reduced cost direct mail campaigns from Preferred Marketing Solutions (Preferred, our wholly-owned print and promotions subsidiary).

In 2014, we plan to continue domestic franchise support initiatives. We believe the support programs have mitigated potential unit closures and strengthened our brand.

International Development and Franchise Agreements. We opened our first franchised restaurant outside the United States in 1998. We define international as all markets outside the United States and Canada. In international markets, we have either a development agreement or a master franchise agreement with a franchisee for the opening of a specified number of restaurants within a defined period of time and specified geographic area. Under a master franchise agreement, the franchisee has the right to subfranchise a portion of the development to one or more subfranchisees approved by us. Under our current standard international development agreement, the franchisee is required to pay total fees of $25,000 per restaurant: $5,000 at the time of signing the agreement and $20,000 when the restaurant opens or on the agreed-upon development date, whichever comes first. Under our current standard master franchise agreement, the master franchisee is required to pay total fees of $25,000 per restaurant owned and operated by the master franchisee, under the same terms as the standard development agreement, and $15,000 for each subfranchised restaurant $5,000 at the time of signing the agreement and $10,000 when the restaurant opens or on the agreed-upon development date, whichever comes first.

Our current standard international master franchise and development agreements provide for payment to us of a royalty fee of 5% of sales. For international markets with subfranchise agreements, the effective subfranchise royalty received by the Company is generally 3%. The remaining terms applicable to the operation of individual restaurants are substantially equivalent to the terms of our domestic franchise agreement. From time to time, development agreements will be negotiated at other-than-standard terms for fees and royalties. We also offer various development incentives to help drive net unit growth.

Non-traditional Restaurant Development. We had approximately 250 non-traditional restaurants at December 29, 2013. These agreements generally cover venues or areas not originally targeted for traditional unit development and have terms differing from the standard agreements.

Franchisee Loans. Selected franchisees have borrowed funds from us, principally for the purchase of restaurants from us or other franchisees or for construction and development of new restaurants. Loans made to franchisees typically bear interest at fixed or floating rates and in most cases are secured by the fixtures, equipment and signage of the restaurant and/or are guaranteed by the franchise owners. At December 29, 2013, net loans outstanding totaled $16.8 million. See Note 11 of Notes to Consolidated Financial Statements for additional information.

Domestic Franchise Insurance Program. Our franchisees may elect to purchase various insurance policies, such as health insurance, non-owned automobile and workers compensation, through our wholly-owned insurance agency, Risk Services Corp. (Risk Services). Various third-party commercial insurance companies provide fully-insured coverage for these lines of business to franchisees participating in the franchise insurance program offered by Risk Services.

Domestic Franchise Training and Support. Our domestic field support structure consists of franchise business directors, each of whom is responsible for serving an average of 130 franchised units. Our franchise business directors maintain open communication with the franchise community, relaying operating and marketing information and new initiatives between franchisees and us. Franchise business directors report to division vice presidents, who report to the Senior Vice President, Global Operations & Global Operations Support and Training.

Every franchisee is required to have a principal operator approved by us who satisfactorily completes our required training program. Principal operators for traditional restaurants are required to devote their full business time and efforts to the operation of the franchisee s traditional restaurants. Each franchised restaurant manager is also required to complete our Company-certified management training program. Ongoing supervision of training is monitored by the GOST team. Multi-unit franchisees are encouraged to appoint training store general managers or hire a full-time training coordinator certified to deliver Company-approved training programs.

International Franchise Operations Support. We employ or contract with international business directors who are responsible for supporting one or more franchisees. The international business directors report to regional vice presidents. Additional levels of senior management and corporate staff also support the

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international field teams in many areas, including but not limited to food safety, quality assurance, training, marketing and technology.

Franchise Operations. All franchisees are required to operate their Papa John s restaurants in compliance with our policies, standards and specifications, including matters such as menu items, ingredients, and restaurant design. Franchisees generally have full discretion to determine the prices to be charged to customers, but we have the authority to set maximum price points for nationally advertised promotions.

Franchise Advisory Council. We have a Franchise Advisory Council (FAC) that consists of Company and franchisee representatives of domestic restaurants. We also have a franchise advisory council in the United Kingdom (UK FAC). The FAC and UK FAC and subcommittees hold regular meetings to discuss new product and marketing ideas, operations, growth and other business issues. Certain domestic franchisees have also formed a separate franchise association for the purpose of communicating and addressing issues, needs and opportunities among its members.

We currently communicate with, and receive input from, our franchisees in several forms, including through the FAC, UK FAC, annual operations conferences, system communications, national conference calls, various regional meetings conducted with franchisees throughout the year and ongoing communications from franchise business directors and international business directors in the field. Monthly webcasts are also conducted by the Company to discuss current operational, marketing or other issues affecting the franchisees business. We are committed to communicating with our franchisees and receiving input from them.

Industry and Competition

The United States Quick Service Restaurant pizza industry (QSR Pizza) is mature and highly competitive with respect to price, service, location, food quality and variety. There are well-established competitors with substantially greater financial and other resources than Papa John s. The category is largely fragmented and competitors include international, national and regional chains, as well as a large number of local independent pizza operators. Some of our competitors have been in existence for substantially longer periods than Papa John s and can have higher levels of restaurant penetration and stronger, more developed brand awareness in markets where we compete. According to industry sources, domestic QSR Pizza category sales, which includes dine-in, carry-out and delivery, totaled approximately $32.5 billion in 2013, or a decrease of 0.2% from the prior year.

With respect to the sale of franchises, we compete with many franchisors of restaurants and other business concepts. In general, there is also active competition for management personnel and attractive commercial real estate sites suitable for our restaurants.

Government Regulation

We, along with our franchisees, are subject to various federal, state and local laws affecting the operation of our respective businesses. Each Papa John s restaurant is subject to licensing and regulation by a number of governmental authorities, which include zoning, health, safety, sanitation, building and fire agencies in the state or municipality in which the restaurant is located. Difficulties in obtaining, or the failure to obtain, required licenses or approvals could delay or prevent the opening of a new restaurant in a particular area. Our QC Centers are licensed and subject to regulation by state and local health and fire codes, and the operation of our trucks is subject to Department of Transportation regulations. We are also subject to federal and state environmental regulations. In addition, our domestic system-wide restaurant operations are subject to various federal and state laws governing such matters as minimum wage requirements, benefits, working conditions, citizenship requirements, and overtime.

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We are subject to Federal Trade Commission (FTC) regulation and various state laws regulating the offer and sale of franchises. The laws of several states also regulate substantive aspects of the franchisor-franchisee relationship. The FTC requires us to furnish to prospective franchisees a franchise disclosure document containing prescribed information. State laws that regulate the franchisor-franchisee relationship presently exist in a significant number of states and bills have been introduced in Congress from time to time that would provide for federal regulation of the U.S. franchisor-franchisee relationship in certain respects if such bills were enacted. The state laws often limit, among other things, the duration and scope of non-competition provisions and the ability of a franchisor to terminate or refuse to renew a franchise. Some foreign countries also have disclosure requirements and other laws regulating franchising and the franchisor-franchisee relationship. Further, national, state and local government regulations or initiatives, including health care legislation, living wage, menu labeling, or other current or proposed regulations and increases in minimum wage rates affect Papa John s as well as others within the restaurant industry. As we expand internationally, we are subject to applicable laws in each jurisdiction where franchised units are established.

Trademarks, Copyrights and Domain Names

Our rights in our principal trademarks and service marks are a significant part of our business. We own the federal registration of the trademark Papa John s. We have also registered Pizza Papa John s and design (our logo), Better Ingredients. Better Pizza. , Pizza Papa John s Better Ingredients. Better Pizza. and design and Papa Rewards as trademarks and service marks. We also own federal registrations for several ancillary marks, principally advertising slogans. We have also applied to register our primary trademark, Pizza Papa John s and design, in more than 100 foreign countries and the European Community. We are aware of the use by other persons in certain geographical areas of names and marks that are the same as or similar to our marks. It is our policy to pursue registration of our marks whenever possible and to vigorously oppose any infringement of our marks.

We hold copyrights in certain packaging, training and promotional materials used in our business. In addition, we have registered and maintain Internet domain names, including Papajohns.com.

Employees

As of December 29, 2013, we employed approximately 20,700 persons, of whom approximately 18,000 were restaurant team members, approximately 900 were restaurant management personnel, approximately 700 were corporate personnel and approximately 1,100 were QC Center and Preferred personnel. Most restaurant team members work part-time and are paid on an hourly basis. None of our team members is covered by a collective bargaining agreement. We consider our team member relations to be good.

Item 1A. Risk Factors

We are subject to various risks that could have a negative effect on our business, financial condition and results of operations. These risks could cause actual operating results to differ from those expressed in certain forward looking statements contained in this Form 10-K as well as in other Company communications. Although we believe our expectations are based on reasonable assumptions, actual results may differ materially from those in the forward-looking statements as a result of various factors:

We face competition from other food industry competitors, and our results of operations can be negatively impacted by the actions of one or more of our competitors.

The QSR Pizza category and the restaurant industry in general are intensely competitive, and there are many well-established competitors with substantially greater financial and other resources than the Papa John s system. Some of these competitors have been in existence for a substantially longer period than

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Papa John s and may be better established in the markets where restaurants operated by us or our franchisees are, or may be, located. Demographic trends, traffic patterns, the type, number and location of competing restaurants, and changes in pricing or other marketing initiatives or promotional strategies, including new product and concept developments, by one or more of our major competitors can have a rapid and adverse impact on our sales and earnings and our system-wide restaurant operations. Such an adverse impact could also be caused or exacerbated if our marketing incentives or new product offerings are not effective in driving sales or if we have insufficient funds to support effective advertising programs for our system.

Changes in consumer preferences or discretionary consumer spending could adversely impact our results.

Changes in consumer preferences and trends (for example, changes in dietary preferences that could cause consumers to avoid pizza in favor of foods that are perceived as healthier, lower-calorie or otherwise based on their nutritional content) could adversely affect our restaurant business. Also, our success depends to a significant extent on numerous factors affecting consumer confidence and discretionary consumer income, including higher tax rates domestically or in international markets, and adverse economic conditions such as continued high levels of unemployment, high fuel and energy costs and reduced access to credit. Such factors could cause consumers to spend less on food or shift to lower-priced products. Further adverse changes in these factors could reduce sales or inhibit our ability to increase pricing, either of which could materially adversely affect our results of operations.

Food safety and quality concerns may negatively impact our business and profitability.

Incidents or reports of food- or water-borne illness or other food safety issues, food contamination or tampering, employee hygiene and cleanliness failures or improper employee conduct at our restaurants could lead to product liability or other claims. Such incidents or reports could negatively affect our brand and reputation and a decrease in customer traffic resulting from these reports could negatively impact our revenues and profits. Similar incidents or reports occurring at quick service restaurants unrelated to us could likewise create negative publicity, which could negatively impact consumer behavior towards us.

In addition, we rely on our domestic and international suppliers, as do our franchisees, to provide quality ingredients and to comply with applicable laws and industry standards. A failure of one of our domestic or international suppliers to meet our quality standards, or meet domestic or international food industry standards, could result in a disruption in our supply chain and negatively impact our brand and our business and profitability.

Our success depends on the differentiation of our brand and maintaining the value and quality reputation of our brand, and any damage to consumers perception of our brand may negatively impact our business and profitability.

Our results depend upon our ability to differentiate our brand and our reputation for quality. Our brand has been highly rated in U.S. surveys and we strive to build the value of our brand as we develop international markets. The value of our brand and demand for our products could be damaged by incidents that harm consumer perceptions of the Company and our brand, such as product recalls, food safety issues, privacy breaches, and related negative publicity. Social media can be used to promote adverse consumer perceptions with significantly greater speed and scope than traditional media outlets. As a result, the value of our brand and the demand for our products could be damaged and have an adverse effect on our financial results.

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We may not be able to execute our strategy or achieve our planned growth targets, which could negatively impact our business and our financial results.

Our growth strategy depends on the Company s and our franchisees ability to open new restaurants and to operate them on a profitable basis. We may fail to attract new qualified franchisees or existing franchisees may close underperforming locations. Planned growth targets and the ability to operate new and existing restaurants profitably are affected by economic, regulatory and competitive conditions and consumer buying habits. Increased commodity or operating costs, including, but not limited to, employee compensation and benefits or insurance costs, could slow the rate of new store openings or increase the number of store closings. Our business is susceptible to adverse changes in local, national and global economic conditions, which could make it difficult for us to meet our growth targets. Additionally, we or our franchisees may face challenges securing financing, finding suitable store locations at acceptable terms or securing required domestic or foreign government permits and approvals.

Our franchisees remain dependent on the availability of financing to remodel or renovate existing locations or construct and open new restaurants. The reduced availability of credit has required, and may continue to require, the Company to provide financing to certain franchisees and prospective franchisees in order to mitigate store closings or allow new units to open. If we are unable or unwilling to provide such financing, we may experience slower than expected new restaurant openings and our results of operations may be adversely impacted. To the extent we provide financing to franchisees in domestic and international markets, our results could be negatively impacted by the credit performance of our franchisee loans, particularly if our franchisees encounter worsening economic or political conditions in their markets.

If we do not meet our growth targets or the expectations of the market for net restaurant openings, our stock price could decline.

Our results of operations and the operating results of our franchisees may be adversely impacted by increases in the cost of food ingredients and other commodities.

We are exposed to ongoing commodity volatility, and an increase in the cost, or sustained high levels of the cost, of cheese or other commodities could adversely affect the profitability of our system-wide restaurant operations, particularly if we are unable to increase the selling price of our products to offset costs. Cheese, historically representing 35% to 40% of our food cost, and other commodities can be subject to significant cost fluctuations due to weather, availability, global demand and other factors that are beyond our control. Additionally, increases in fuel, utility, and insurance costs could adversely affect the profitability of our restaurant and QC Center businesses. Most of the factors affecting costs are beyond our control, and we may not be able to pass along these costs to our customers or franchisees Our domestic franchisees buy substantially all of their food products from our QC Center business.

Our dependence on a sole supplier or a limited number of suppliers for some ingredients could result in disruptions to our business.

Domestic restaurants purchase substantially all food and related products from our QC Centers. Domestically, we are dependent on sole suppliers for our cheese and flour products, and internationally we are dependent on a sole supplier for substantially all our cheese. Alternative sources may not be available on a timely basis to supply these key ingredients or be available on terms as favorable to us as under our current arrangements. Our corporate and franchised restaurants could also be harmed by a prolonged disruption in the supply of products from or to our QC Centers due to weather, crop disease, interruption of service by carriers and other events beyond our control. Insolvency of key suppliers could also cause similar business interruptions and negatively impact our business.

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Changes in purchasing practices by our domestic franchisees could harm our commissary business.

Although our domestic franchisees currently purchase substantially all food products from our QC Centers, they are only required to purchase tomato sauce, dough and other items we may designate as proprietary or integral to our system from our QC Centers. Any changes in purchasing practices by domestic franchisees, such as seeking alternative approved suppliers of ingredients or other food products, could adversely affect the financial results of our QC Centers and the Company.

Our international operations are subject to increased risks and other factors that may make it more difficult to achieve or maintain profitability or meet planned growth rates.

Our international operations could be negatively impacted by changes in international economic, political and health conditions in the countries in which the Company or our franchisees operate. In addition, there are risks associated with differing business and social cultures and consumer preferences, diverse and sometimes uncertain or unstable government regulations and structures, limited availability and high cost of suitable restaurant locations, and difficulties in sourcing and importing high-quality ingredients and other commodities in a cost-effective manner. In addition, our international operations are subject to additional factors, including compliance with anti-corruption and other foreign laws, and various currency regulations and fluctuations. Accordingly, there can be no assurance that our international operations will maintain profitability or meet planned growth rates.

We are subject to numerous laws and regulations governing our workforce and our operations. Changes in these laws, including health care legislation and minimum wage increases or additional laws could increase costs for our system-wide operations.

Domestic system-wide restaurant operations are subject to federal and state laws governing such matters as wages, benefits, working conditions, citizenship requirements and overtime. A significant number of hourly personnel are paid at rates closely related to the federal and state minimum wage requirements. Accordingly, further increases in the federal minimum wage or the enactment of additional state or local minimum wage increases above federal wage rates would increase labor costs for our domestic system-wide operations. Additionally, current conditions may make it easier for workers to form unions, potentially resulting in higher costs. Local government agencies have also implemented ordinances that restrict the sale of certain food or drink products. Compliance with additional government mandates, including menu labeling requirements, could increase costs and be harmful to system-wide restaurant sales.

The Affordable Care Act, enacted in 2010, requires employers such as us to provide health insurance for all qualifying employees or pay penalties for not providing coverage. We are evaluating the impact the law will have on our domestic operations, and although we cannot predict with certainty the financial impact of the legislation, we, like other industry competitors, expect that the requirement that we provide more extensive health benefits to employees than we currently provide, and/or fund a larger portion than previously funded, could negatively impact our results of operations once the legislation is fully implemented.

We operate in an increasingly complex regulatory environment, and the cost of regulatory compliance is increasing. Failure to comply with applicable U.S. and international labor, health care, food, anti-bribery and corruption, consumer and other laws, may result in civil and criminal liability, damages, fines and penalties. This could harm our reputation, limit our ability to grow and adversely affect our financial performance.

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Our expansion into emerging or under-penetrated domestic and international markets may present increased risks.

Any or all of the risks listed above could be even more harmful to the financial viability of our franchisees or could significantly impact the operating results of the Company in markets where we have a Company-owned presence, such as China. A decline in or failure to improve financial performance could lead to reduced new restaurant openings or unit closings at greater than anticipated levels and therefore adversely impact our ability to achieve our targets for growth and results of operations as well as have a negative impact on market share.

Our business and brand may be harmed should the services of our Founder, John Schnatter, as Chief Executive Officer, Chairman or brand spokesman terminate for any reason. Failure to effectively execute succession planning could harm our Company and brand.

John H. Schnatter, our Founder, Chairman and Chief Executive Officer, does not serve under an employment agreement and we do not maintain key man life insurance on Mr. Schnatter. We also depend on the continued availability of Mr. Schnatter s image and his services as spokesman in our advertising and promotion materials. While we have entered into a license agreement with Mr. Schnatter related to the use of certain intellectual property related to his name, likeness and image, our business and brand may be harmed if Mr. Schnatter s services were not available to the Company for any reason or the reputation of Mr. Schnatter were negatively impacted. In addition, failure to effectively execute succession planning could harm our Company and brand.

We may be required to resort to litigation to protect our intellectual property rights, which could negatively affect our results of operations.

We depend on our Papa John s brand name and rely on a combination of trademarks, copyrights, service marks and similar intellectual property rights to protect and promote our brand. We believe the success of our business depends on our continued ability to use our existing trademarks and service marks to increase brand awareness and further develop our brand, both domestically and abroad. We may not be able to adequately protect our intellectual property rights and we may be required to resort to litigation to enforce such rights. Litigation could result in high costs and diversion of resources, which could negatively affect our results of operations, regardless of the outcome.

Disruptions of our critical business or information technology systems could harm our ability to conduct normal business.

We rely heavily on information systems, including digital ordering solutions, through which over 45% of our domestic sales originate. We also rely heavily on point-of-sale processing in our restaurants for data collection and payment systems for the collection of cash, credit and debit card transactions, and other processes and procedures. Our ability to efficiently and effectively manage our business depends on the reliability and capacity of these technology systems. In addition, we anticipate that consumers will continue to have more options to place orders digitally, both domestically and internationally. Our failure to adequately invest in new technology, particularly our digital ordering capabilities, could cause us to lose our competitive advantage and have an adverse effect on our results.

Our systems could be damaged or interrupted by power loss through various technological failures or acts of God. In particular, we may experience occasional interruptions of our digital ordering solutions, which make online ordering unavailable or slow to respond, negatively impacting sales and the experience of our customers. If our digital ordering solutions do not perform with adequate speed, our customers may be less inclined to return to our digital ordering solutions, as frequently or at all. If our systems do not

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operate properly, we may need to upgrade or replace these systems, which could require material capital investment from us and our franchisees. Part of our technology infrastructure is specifically designed for us and our operational systems, which could cause unexpected costs, delays or inefficiencies when infrastructure upgrades are needed. If we experience prolonged and widespread technological difficulties with the planned rollout of our upgraded POS system, FOCUS, our domestic corporate and franchise operations could be disrupted, adversely impacting sales. Significant portions of our technology infrastructure are provided by third parties, and the performance of these systems is largely beyond our control. Failure of our third party systems, and backup systems, to adequately perform, particularly as our online sales grow, could harm our business and the satisfaction of our customers. In addition, we may not have or be able to obtain adequate protection or insurance to mitigate the risks of these events or compensate for losses related to these events, which could damage our business and reputation and be expensive and difficult to remedy or repair.

We may incur significant costs resulting from a security breach, including a breach of confidential customer information from our digital ordering business.

We are subject to a number of privacy and data protection laws and regulations. Our business requires the collection and retention of large volumes of internal and customer data, including credit card data and other personally identifiable information of our employees and customers housed in the various information systems we use. The integrity and protection of that customer, employee and Company data is critical to us. Although we take significant steps to prevent security breaches such as theft of customer and Company information, failure to prevent fraud or security breaches could harm our business and revenues due to the reputational damage to our brand. Such a breach could also result in litigation, penalties, and other significant costs to us and have a material adverse effect on our financial results.

We have been and will continue to be subject to various types of litigation, including collective and class action litigation, which could subject us to significant damages or other remedies.

We and our restaurant industry competitors are subject to the risk of litigation from various parties, including vendors, customers, franchisees and employees. We are involved in a number of lawsuits, claims, investigations, and proceedings consisting of intellectual property, employment, consumer, commercial and other matters arising in the ordinary course of business. We are currently a defendant in a case containing collective and class action allegations. Plaintiffs in these types of lawsuits often seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to such lawsuits may not be accurately estimated. We evaluate all of the claims and proceedings involving us to assess the expected outcome and where possible we estimate the amount of potential losses to us. In many cases, particularly collective and class action cases, we may not be able to estimate the amount of potential losses and/or our estimates may prove to be insufficient. These assessments are made by management based on the information available at the time made and require the use of a significant amount of judgment, and actual outcomes or losses may materially differ. Regardless of whether any claims against us are valid, or whether we are ultimately held liable, such litigation may be expensive to defend and may divert resources away from our operations and negatively impact earnings. Further, we may not be able to obtain adequate insurance to protect us from these types of litigation matters or extraordinary business losses.

We may be subject to impairment charges.

Impairment charges are possible if our subsidiaries located in the United Kingdom (PJUK) and China or previously acquired domestic restaurants perform below our expectations. This could result in a decrease in our reported asset value and reduction in our net income.

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Our results of operations could be materially impacted as a result of the credit risk of operators of leases for which we remain contingently liable.

We remain contingently liable for certain restaurant and commissary leases previously operated by us and subsequently sold or refranchised. We enter into these arrangements as part of the process of disposing of or refranchising our stores in the ordinary course of business. While the new operators are the primary obligors under such assigned leases, we could be liable in the event that one or more new operators are unwilling or unable to make any required lease payments. Continuing weakness in the economy and difficulty in credit markets could make it difficult for these operators to meet their contractual commitments. If these operators default on the leases and we are unable to sublease the properties for which we remain contingently liable, it could have a material impact on our results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 29, 2013, there were 4,428 Papa John s restaurants system-wide. The following tables provide the locations of our restaurants. We define North America as the United States and Canada and domestic as the contiguous United States.

North America Restaurants:

	Company	Franchised	Total
Alabama		79	79
Alaska		6	6
Arizona	39	36	75
Arkansas		24	24
California		210	210
Colorado	25	24	49
Connecticut		16	16
Delaware		15	15
District of Columbia		11	11
Florida	47	227	274
Georgia	89	62	151
Hawaii		14	14
Idaho		11	11
Illinois	6	116	122
Indiana	41	84	125
Iowa		25	25
Kansas	13	21	34

Kentucky	43	70	113
Louisiana		61	61
Maine		7	7
Maryland	60	40	100
Massachusetts		19	19
Michigan		45	45
Minnesota	33	17	50
Mississippi		32	32
Missouri	41	32	73
Montana		10	10
Nebraska		17	17

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North America Restaurants (continued):

	Company	Franchised	Total
Nevada		23	23
New Hampshire		2	2
New Jersey		79	79
New Mexico		16	16
New York		124	124
North Carolina	85	81	166
North Dakota		5	5
Ohio		157	157
Oklahoma		30	30
Oregon		14	14
Pennsylvania		97	97
Rhode Island		5	5
South Carolina	6	58	64
South Dakota		12	12
Tennessee	30	79	109
Texas	81	173	254
Utah		32	32
Vermont		1	1
Virginia	26	112	138
Washington		54	54
West Virginia		22	22
Wisconsin		27	27
Wyoming		8	8
Total U.S. Papa John s Restaurants	665	2,542	3,207
Canada		79	79
Total North America Papa John s Restaurants	665	2,621	3,286

International Restaurants:

Azerbaijan		2	2
Bahrain		19	19
Cayman Islands		2	2
Chile		23	23
China	58	144	202
Colombia		20	20
Costa Rica		18	18
Cyprus		8	8
Dominican Republic		11	11
Ecuador		14	14
Egypt		21	21
El Salvador		14	14
Guam		2	2
Guatemala		2	2
India		20	20
Ireland		53	53
Jordan		7	7
Kuwait		28	28
Lebanon		3	3

Malaysia	25	25

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International Restaurants (continued):

	Company	Franchised	Total
Mexico		67	67
Nicaragua		2	2
Oman		7	7
Panama		6	6
Peru		25	25
Philippines		15	15
Puerto Rico		16	16
Qatar		14	14
Russia		65	65
Saudi Arabia		14	14
South Korea		81	81
Trinidad		6	6
Turkey		16	16
United Arab Emirates		33	33
United Kingdom		246	246
Venezuela		35	35
Total International Papa John s Restaurants	58	1,084	1,142

Note: Company-owned Papa John s restaurants include restaurants owned by majority-owned subsidiaries. There were 191 such restaurants at December 29, 2013 (25 in Colorado, 26 in Maryland, 33 in Minnesota, 81 in Texas, and 26 in Virginia).

Most Papa John s Company-owned restaurants are located in leased space. The initial term of most domestic restaurant leases is generally five years with most leases providing for one or more options to renew for at least one additional term. Generally, the leases are triple net leases, which require us to pay all or a portion of the cost of insurance, taxes and utilities. Additionally, we lease our Company-owned restaurant sites in Beijing and North China. At December 29, 2013, we leased and subleased to franchisees in the United Kingdom 168 of the 246 franchised Papa John s restaurant sites. The initial lease terms on the franchised sites are generally 10 to 15 years. The initial lease terms of the franchisee subleases are generally five to ten years. In connection with the 2006 sale of our former Perfect Pizza operations in the United Kingdom, we remain contingently liable for payment under approximately 30 lease arrangements, primarily associated with Perfect Pizza restaurant sites.

Seven of our ten domestic QC Centers are located in leased space, including the following locations: Raleigh, NC; Denver, CO; Phoenix, AZ; Des Moines, IA; Portland, OR; Pittsburgh, PA; and Cranbury, NJ. Our remaining three locations are in buildings we own, located in: Orlando, FL; Dallas, TX; and Louisville, KY. Additionally, our corporate headquarters and our printing operations are located in Louisville, KY in buildings owned by us. Internationally, we own a full-service QC Center in the United Kingdom and lease office space near London. We also lease our QC Centers and office space in Beijing, China and Mexico City, Mexico.

Item 3. Legal Proceedings

The Company is involved in a number of lawsuits, claims, investigations and proceedings, including those specifically identified below, consisting of intellectual property, employment, consumer, commercial and other matters arising in the ordinary course of business. In accordance with Accounting Standards Codification (ASC) 450, Contingencies, the Company has made accruals with respect to these matters, where appropriate, which are reflected in the Company s financial statements. We review these provisions at least quarterly and adjust these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case.

Agne v. Papa John s International, Inc. et al. is a class action filed on May 28, 2010 in the United States District Court for the Western District of Washington seeking damages for violations of the Telephone Consumer Protection Act and Washington State telemarketing laws alleging, among other things that several Papa John s franchisees retained a vendor to send unsolicited commercial text message offers primarily in Washington and Oregon. The court granted plaintiff s motion for class certification in November 2012; we filed a petition for permission to appeal the court s ruling on class certification to the United States Court of Appeals for the Ninth Circuit.

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In February 2013, the parties tentatively agreed to the financial terms of a settlement of the litigation. The court preliminarily approved the terms in June 2013 and granted final approval of the settlement and fee award in October 2013, following the close of the claims period. The actual settlement cost was $2.9 million, and all settlement and fee payments were made in 2013.

Perrin v. Papa John s International, Inc. and Papa John s USA, Inc. is a conditionally certified collective action filed in August 2009 in the United States District Court, Eastern District of Missouri, alleging that delivery drivers were not reimbursed for mileage and expenses in accordance with the Fair Labor Standards Act. Approximately 3,900 drivers out of a potential class size of 28,800 have opted into the action. Additionally, in late December 2013, the District Court granted a motion for class certification in five additional states, which could add an additional 5,000 to 10,000 plaintiffs to the case.

We intend to vigorously defend against all claims in this lawsuit. However, given the inherent uncertainties of litigation, the outcome of this case cannot be predicted and the amount of any potential loss cannot be reasonably estimated. A negative outcome in this case could have a material adverse effect on the Company.

Item 4. Mine Safety Disclosures

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below are the current executive officers of Papa John s:

Name	Age (a)	Position	First Elected Executive Officer
John H. Schnatter	52	Founder, Chairman and Chief Executive Officer	1985
Anthony N. Thompson	47	President and Chief Operating Officer	2009
Robert C. Kraut	54	Senior Vice President and Chief Marketing Officer	2013
Timothy C. O Hern	50	Senior Vice President and Chief Development Officer	2005
Steve M. Ritchie	39	Senior Vice President, Global Operations & Global Operations Support and Training	2012
Lance F. Tucker	44	Senior Vice President, Chief Financial Officer, Chief Administrative Officer, and Treasurer	2011

(a) Ages are as of January 1, 2014.

John H. Schnatter created the Papa John s concept and started operations in 1984. He currently serves as Founder, Chairman and Chief Executive Officer. He previously served as Interim Chief Executive Officer from December 2008 to April 2009, Executive Chairman of the Company from 2005 until May 2007, as Chairman of the Board and Chief Executive Officer from 1990 until 2005, and as President from 1985 to 1990 and from 2001 until 2005.

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Anthony N. Thompson was appointed President in August 2013 and Chief Operating Officer in July 2012, after previously serving as Executive Vice President, Global Operations since July 2011. Mr. Thompson has served as President, PJ Food Service since May 2010. Mr. Thompson joined Papa John s in 2006 and has held the positions of Executive Vice President, North American Operations from December 2010 to July 2011, Senior Vice President, PJ Food Service from 2009 to May 2010 and Vice President, QCC Operations from 2006 to 2009. Prior to joining Papa John s, Mr. Thompson worked for the Scotts Company for six years as Plant Manager, Director of Marysville Operations and Director of Lawn and Controls Operations. Before joining the Scotts Company, Mr. Thompson spent four years with Conagra Grocery Products Company and seven years in various roles with Gulf Coast Coca Cola.

Robert C. Kraut was appointed Senior Vice President and Chief Marketing Officer in October 2013. From 2010 until June 2013, Mr. Kraut served as Senior Vice President of Brand Marketing and Advertising at Arby s Restaurant Group. From 2006 until 2009, Mr. Kraut served as Vice President of Marketing Communications for Pizza Hut, Inc. Before joining Pizza Hut, Mr. Kraut held various marketing and advertising positions at General Motors.

Timothy C. O Hern was appointed Senior Vice President and Chief Development Officer in July 2012. He previously served as Senior Vice President, Development since June 2009, a position he previously held from 2005 until 2007. From 2002 until 2005 and from 2007 until 2009, he managed the operations of a Papa John s franchisee in which he has an ownership interest. Prior to his departure from Papa John s in 2002, Mr. O Hern held various positions, including Vice President of Global Development from February 2001 to 2002, Vice President of U.S. Development from March 1997 to February 2001, Director of Franchise Development from December 1996 to March 1997 and Construction Manager from November 1995 to December 1996. He has been a franchisee since 1993.

Steve M. Ritchie was appointed Senior Vice President, Global Operations & Global Operations Support and Training in May 2013. Mr. Ritchie is responsible for all aspects of restaurant operations, support and training for both Company-owned and franchised restaurants throughout the world. Mr. Ritchie has served in various capacities of increasing responsibility since joining Papa John s in 1996, including Senior Vice President, North and Latin American Operations & Global OST from July 2012 to May 2013, Senior Vice President, North American Operations & Global OST from August 2011 until July 2012, Senior Vice President, Operations and Global OST from December 2010 until August 2011 and Vice President, Operations & Global OST from July 2010 until December 2010. Since 2006, he also has served as a franchise owner and operator of multiple units in the Company s Midwest Division.

Lance F. Tucker was appointed Chief Administrative Officer in July 2012 and Chief Financial Officer and Treasurer in February 2011. Mr. Tucker previously held the positions of Chief of Staff and Senior Vice President, Strategic Planning from June 2010 to February 2011, after serving as Chief of Staff and Vice President, Strategic Planning since June 2009. Mr. Tucker was previously employed by the Company from 1994 to 1999 working in its finance department. From 2003 to 2009, Mr. Tucker served as Chief Financial Officer of Evergreen Real Estate, a company owned by John Schnatter. Mr. Tucker is a licensed Certified Public Accountant.

There are no family relationships among our executive officers and other key personnel.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock trades on The NASDAQ Global Select Market tier of The NASDAQ Stock Market under the symbol PZZA. As of February 18, 2014, there were 805 record holders of common stock. However, there are significantly more beneficial owners of our common stock than there are record holders. The following table sets forth, for the quarters indicated, the high and low sales prices of our common stock, as reported by The NASDAQ Stock Market, and dividends declared per common share. All sales prices have been adjusted to reflect a two-for-one split of the Company s outstanding shares of stock. The stock split was effected in the form of a stock dividend and entitled each shareholder of record at the close of business on December 12, 2013 to receive one additional share for every outstanding share of stock held on the record date. The stock dividend of approximately 21.0 million shares of stock was distributed on December 27, 2013.

2013	High	Low	Dividends Declared per Share
First Quarter	$ 31.16	$ 24.94	$
Second Quarter	33.61	29.50	
Third Quarter	36.20	32.78	0.125
Fourth Quarter	46.12	33.88	0.125

2012	High	Low	Dividends Declared per Share
First Quarter	$ 20.41	$ 18.13	$
Second Quarter	25.23	18.28	
Third Quarter	28.21	22.60	
Fourth Quarter	27.34	23.21	

Our Board of Directors declared a quarterly dividend of $0.125 per share on January 30, 2014 that was payable on February 21, 2014 to shareholders of record at the close of business on February 10, 2014.

We anticipate continuing the payment of quarterly cash dividends. The actual amount of such dividends is subject to declaration by our Board of Directors and will depend upon future earnings, results of operations, capital requirements, our financial condition and other relevant factors. There can be no assurance that the Company will continue to pay quarterly cash dividends.

Our Board of Directors has authorized the repurchase of up to $1.2 billion of common stock under a share repurchase program that began December 9, 1999, and expires December 31, 2014. Through December 29, 2013, a total of 103.0 million shares with an aggregate cost of $1.1 billion and an average price of $10.46 per share have been repurchased under this program. Subsequent to year-end, we acquired an additional 236,000 shares at an aggregate cost of $11.0 million. Approximately $110.9 million remained available under the Company s share repurchase program as of February 18, 2014.

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The following table summarizes our repurchase activity by fiscal period during the fourth quarter ended December 29, 2013, as adjusted for the two-for-one stock split, (in thousands, except per share amounts):

Fiscal Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
09/30/2013 - 10/27/2013	146	$ 35.33	101,913	$ 166,143
10/28/2013 - 11/24/2013	1,034	$ 38.59	102,947	$ 126,246
11/25/2013 - 12/29/2013	101	$ 43.47	103,048	$ 121,875

The Company retired all common stock shares held in treasury as of October 29, 2013 in connection with the stock split.

The Company utilizes a written trading plan under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, from time to time to facilitate the repurchase of shares of our common stock under this share repurchase program. There can be no assurance that we will repurchase shares of our common stock either through a Rule 10b5-1 trading plan or otherwise.

Stock Performance Graph

The following performance graph compares the cumulative shareholder return of the Company s common stock for the five-year period between December 28, 2008 and December 29, 2013 to (i) the NASDAQ Stock Market (U.S.) Index and (ii) a group of the Company s peers consisting of U.S. companies listed on NASDAQ with standard industry classification (SIC) codes 5800-5899 (eating and drinking places). Management believes the companies included in this peer group appropriately reflect the scope of the Company s operations and match the competitive market in which the Company operates. The graph assumes the value of the investments in the Company s common stock and in each index was $100 on December 28, 2008, and that all dividends were reinvested.

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Item 6. Selected Financial Data

The selected financial data presented for each of the fiscal years in the five-year period ended December 29, 2013, were derived from our audited consolidated financial statements. The selected financial data below 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.

(In thousands, except per share data)	Dec. 29, 2013 52 weeks	Dec. 30, 2012 53 weeks	Year Ended (1) Dec. 25, 2011 52 weeks	Dec. 26, 2010 52 weeks	Dec. 27, 2009 52 weeks
Income Statement Data					
North America revenues:					
Domestic Company-owned restaurant sales	$ 635,317	$ 592,203	$ 525,841	$ 503,272	$ 503,818
Franchise royalties (2)	81,692	79,567	73,694	69,631	62,083
Franchise and development fees	1,181	806	722	610	912
Domestic commissary sales	578,870	545,924	508,155	454,506	417,689
Other sales	53,322	51,223	50,912	51,951	54,045
International revenues:					
Royalties and franchise and development fees (3)	21,979	19,881	16,327	13,265	11,780
Restaurant and commissary sales (4)	66,661	53,049	42,231	33,162	28,223
Total revenues	1,439,022	1,342,653	1,217,882	1,126,397	1,078,550
Operating income (5)	106,503	99,807	87,017	86,744	95,218
Investment income	589	750	755	875	629
Interest expense	(983)	(2,162)	(2,981)	(4,309)	(11,660)
Income before income taxes	106,109	98,395	84,791	83,310	84,187
Income tax expense	33,130	32,393	26,324	27,247	26,702
Net income before attribution to noncontrolling interests	72,979	66,002	58,467	56,063	57,485
Income attributable to noncontrolling interests (6)	(3,442)	(4,342)	(3,732)	(3,485)	(3,756)
Net income attributable to the Company	$ 69,537	$ 61,660	$ 54,735	$ 52,578	$ 53,729
Net income attributable to common shareholders	$ 68,497	$ 61,660	$ 54,735	$ 52,578	$ 53,729
Basic earnings per common share (7)	$ 1.58	$ 1.31	$ 1.09	$ 1.00	$ 0.97
Earnings per common share - assuming dilution (7)	$ 1.55	$ 1.29	$ 1.08	$ 0.99	$ 0.96
Basic weighted average common shares outstanding (7)	43,387	46,916	50,086	52,656	55,476
Diluted weighted average common shares outstanding (7)	44,243	47,810	50,620	52,936	55,818
Dividends declared per common share	$ 0.25	$	$	$	$
Balance Sheet Data					
Total assets	$ 464,291	$ 438,408	$ 390,382	$ 417,492	$ 396,009
Total debt	157,900	88,258	51,489	99,017	99,050
Mandatorily redeemable noncontrolling interests (8)	10,786	11,837	11,065	9,972	10,960
Redeemable noncontrolling interests	7,024	6,380	3,965	3,512	3,215
Total stockholders equity	138,184	181,514	205,647	195,608	173,145

(1) We operate on a 52-53 week fiscal year ending on the last Sunday of December of each year. The 2012 fiscal year consisted of 53 weeks and all other years above consisted of 52 weeks. The additional week resulted in additional revenues of approximately $21.5 million and additional income before income taxes of approximately $4.1 million, or $0.05 per diluted share for 2012.

(2) North America franchise royalties were derived from franchised restaurant sales of $1.91 billion in 2013, $1.85 billion in 2012 ($1.82 billion on a 52 week basis), $1.71 billion in 2011, $1.62 billion in 2010, and $1.58 billion in 2009.

(3) International royalties were derived from franchised restaurant sales of $460.0 million in 2013, $388.4 million in 2012 ($379.4 million on a 52 week basis), $320.0 million in 2011, $258.8 million in 2010, and $222.2 million in 2009.

(4) Restaurant sales for international Company-owned restaurants were $22.7 million in 2013, $16.2 million in 2012, $12.4 million in 2011, $11.0 million in 2010, and $10.3 million in 2009.

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(5) The operating results include the consolidation of BIBP Commodities, Inc. (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 BIBP for past cheese purchases an amount equal to its accumulated deficit). BIBP increased operating income by $23.3 million in 2009 (break-even results in 2011 prior to dissolution).

(6) Represents the noncontrolling interests allocation of income for our joint venture arrangements.

(7) Adjusted to reflect a two-for-one stock split effected in the form of a stock dividend to stockholders of record on December 12, 2013.

(8) Mandatorily 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 and our) began operations 1984. At December 29, 2013, there were 4,428 Papa John s restaurants in operation, consisting of 723 Company-owned and 3,705 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 2013 were 386 as compared to 368 in 2012 and 321 in 2011 and unit closings in 2013 were 121 as compared to 88 in 2012 and 84 in 2011. We expect net unit growth of approximately 220 to 250 units during 2014. 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 continue to generate strong sales in our domestic Company-owned restaurants even in a very competitive environment. Average annual Company-owned sales for our most recent comparable restaurant base were $988,000 for 2013 (52-week year), compared to $953,000 for 2012 (53-week year) and $897,000 for 2011 (52-week year). 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 6.6% in 2013, 5.6% in 2012, and 4.1% in 2011.

We continue to be pleased with the ongoing growth in both our domestic and international franchise restaurant sales. The comparable sales for North America franchised units increased 3.1% in 2013, 2.9% in 2012 and 3.1% in 2011. The comparable sales for International franchised units increased 7.5% in 2013, 7.1% in 2012 and 5.1% in 2011. 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 these factors improve our image and brand awareness. The average cash investment for the 13 domestic traditional Company-owned restaurants opened during 2013 was approximately $280,000, compared to the $260,000 investment for the eight units opened in 2012, exclusive of land and any tenant improvement allowances we received. We also opened 11 Company-owned restaurants in China, with an average investment cost of approximately $225,000 which compares to $240,000 for the 20 restaurants opened in 2012, on a constant dollar basis.

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Approximately 43% to 47% of our domestic revenues for the last three years were derived from sales to franchisees of various items including food and paper products, printing and promotional items, risk management services and information systems equipment and software and related services. We believe that in addition to supporting both Company and franchised profitability and growth, these activities contribute to product quality and consistency 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 (GAAP). 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:

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. Balances are charged off against the allowance after recovery efforts have ceased.

Noncontrolling Interests

The Company had the following four joint ventures in which there are noncontrolling interests as of December 29, 2013:

Joint Venture	Redemption Feature	Location within the Consolidated Balance Sheet	Recorded value
Colonel s Limited, LLC	Mandatorily redeemable	Other long-term liabilities	Redemption value
Star Papa, LP	Redeemable	Temporary equity	Carrying value
PJ Denver, LLC	Redeemable	Temporary equity	Redemption value
PJ Minnesota, LLC	No redemption feature	Permanent equity	Carrying value

Consolidated net income is required to be reported separately at amounts attributable to both to the parent and the noncontrolling interest. Disclosures are required to clearly identify and distinguish between the interests of the parent company and the interests of the noncontrolling owners, including a disclosure on the face of the consolidated statements of income attributable to the noncontrolling interest holder.

See Note 6 of Notes to Consolidated Financial Statements for additional information.

Stock Based Compensation

Compensation expense for equity grants is estimated on the grant date, net of projected forfeitures and is recognized over the vesting period (generally in equal installments over three years). Restricted stock is valued based on the market price of the Company s shares on the date of grant. Stock options are valued using a Black-Scholes option pricing model.

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Our specific assumptions for estimating the fair value of options include the following:

	2013	2012	2011
Assumptions (weighted average):			
Risk-free interest rate	1.1%	1.1%	1.5%
Expected dividend yield	0.1%	0.0%	0.0%
Expected volatility	37.5%	37.8%	41.2%
Expected term (in years)	6.0	6.0	3.7

The risk-free interest rate for the periods within the contractual life of an option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected dividend yield was estimated as the annual dividend divided by the market price of the Company s shares on the date of grant. Expected volatility was estimated by using the Company s historical share price volatility for a period similar to the expected life of the option. See Note 18 of Notes to Consolidated Financial Statements for additional information.

Intangible Assets Goodwill

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. We may perform a qualitative assessment or move directly to the quantitative assessment for any reporting unit in any period if we believe that it is more efficient or if impairment indicators exist.

We applied the qualitative assessment for our domestic Company-owned restaurants and China reporting unit, 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 unit were greater than their carrying amounts. With respect to the reporting unit for our subsidiary located in the United Kingdom (PJUK), which represents $15.7 million of goodwill as of December 29, 2013, we bypassed the qualitative assessment and performed the two-step quantitative goodwill impairment test, which indicated the fair value significantly exceeded the carrying amount. The fair value was calculated using an income approach that projected net cash flow, with various growth assumptions, 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. See Note 8 of Notes to Consolidated Financial Statements for additional information.

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, property, 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 differ significantly from historical trends used to estimate the insurance reserves recorded by the Company. See Note 12 of Notes to Consolidated Financial Statements for additional information.

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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.

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. 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 29, 2013, we had a net deferred income tax liability of approximately $6.7 million.

Tax authorities periodically audit the Company. We record reserves and related interest and penalties for identified exposures as income tax expense. We evaluate these issues and adjust for events, such as statute of limitations expirations, court rulings or audit settlements, which may impact our ultimate payment for such exposures. We recognized a decrease of $909,000 and $711,000 in income tax expense associated with the finalization of certain income tax issues in 2013 and 2011, respectively. In 2012, we recognized additional income tax expense of approximately $305,000. See Note 15 of Notes to Consolidated Financial Statements for additional information.

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. Our 2013 and 2011 fiscal years consisted of 52 weeks while our 2012 fiscal year consisted of 53 weeks, including a six-week period in the fourth quarter. The additional week in 2012 resulted in additional revenues of approximately $21.5 million and additional income before income taxes of $4.1 million, or $0.05 per diluted common share.

Two-for-One Stock Split

The Company completed a two-for-one stock split of the Company s outstanding shares of stock in December 2013 effected in the form of a stock dividend. Shareholders of record on December 12, 2013 received one additional share for each outstanding share of stock held on the record date. The stock dividend was distributed effective December 27, 2013. All share and per-share amounts have been adjusted to reflect the stock split.

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Items Impacting Comparability; Non-GAAP Measures

The following table reconciles our financial results as reported under GAAP to certain non-GAAP measures. We present these non-GAAP measures to adjust for certain items which we believe impact the comparability of our results of operations.