

PAPA JOHNS INTERNATIONAL INC

FORM 10-K (Annual Report)

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

Annual report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the fiscal year ended December 28, 1997

OR

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

Commission File Number: 0-21660

PAPA JOHN'S INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

61-1203323
(I.R.S. Employer
Identification Number)

11492 Bluegrass Parkway, Suite 175
Louisville, Kentucky 40299-2370
(Address of principal executive offices)

(502) 266-5200
(Registrant's telephone number, including area code)

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

(Name of each exchange
(Title of Each Class) on which registered)

None None

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

Common Stock, \$.01 par value The Nasdaq Stock Market

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

Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

As of March 17, 1998, there were 29,199,131 shares of the Registrant's Common Stock outstanding. The aggregate market value of the shares of Registrant's Common Stock held by non-affiliates of the Registrant at such date was \$785,395,747 based on the last sale price of the Common Stock on March 17, 1998 as reported by The Nasdaq Stock Market. For purposes of the foregoing calculation only, all directors and executive officers of the Registrant have been deemed affiliates.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Part III are incorporated by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held May 21, 1998.

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PART I

Item 1. Business

General

Papa John's International, Inc. (the "Company") operates and franchises pizza delivery and carry-out restaurants under the trademark "Papa John's" in 41 states and the District of Columbia, encompassing substantially all of the continental United States except the Northwest and upper Northeast region. The first Company-owned restaurant opened in 1985 and the first franchised restaurant opened in 1986. At December 28, 1997, there were 1,517 Papa John's restaurants in operation, consisting of 401 Company-owned and 1,116 franchised restaurants.

Strategy

The Company's objective is to become the leading chain of pizza delivery restaurants in each of its targeted markets. To accomplish this objective, the Company has developed a strategy designed to achieve high levels of customer satisfaction and repeat business, as well as to establish recognition and acceptance of the Papa John's brand. The key elements of the Company's strategy include:

Focused, High Quality Menu. Papa John's restaurants offer a focused menu of high quality pizza, breadsticks and cheesesticks. Papa John's original crust pizza is prepared using fresh dough (not frozen), 100% real mozzarella cheese, pizza sauce made from vine-ripened, fresh-packed tomatoes (not concentrate) and proprietary mix of savory spices, and a choice of high quality meat and vegetable toppings in generous portions. A thin crust pizza, introduced in 1996, is made with a prepared crust and the same high quality toppings as Papa John's original crust pizza. The Company believes its focused menu creates a strong identity in the marketplace and simplifies operations.

Efficient Operating System. The Company believes that its operating and distribution systems, restaurant layout and designated delivery areas result in lower restaurant operating costs, improved food quality and superior customer service. The Company's commissary system takes advantage of volume purchasing of food and supplies, and provides consistency and efficiencies of scale in 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. Because Papa John's restaurants have a focused menu and specialize in delivery and carry-out services, each team member can concentrate on a well-defined function in preparing and delivering the customer's order.

Commitment to Employee Training and Development. The Company is committed to the development and motivation of its team members through on-going training programs, incentive compensation and opportunities for advancement. Team member training programs for the Company and its franchisees are conducted at training centers across the United States. The Company offers financial and stock incentives to restaurant team members at various levels based on the achievement of performance goals. The Company's growth also provides significant opportunities for advancement. The Company believes these factors create an entrepreneurial spirit throughout the organization, resulting in a positive work environment and motivated, customer-oriented team members.

Targeted, Cost-Effective Marketing. The Company's restaurant-level marketing programs target the delivery area of each restaurant, making extensive use of distinctive print materials in direct mail and store-to-door couponing. Local marketing efforts also include a variety of community-oriented activities with schools, sports teams and other organizations. In markets in which the Company or its franchisees have a significant presence,

local marketing efforts are supplemented with radio and television advertising. The first national television commercial aired in the Fall of 1997.

Franchise System. The Company is committed to developing a strong franchise system by attracting experienced operators, expanding in a controlled manner and ensuring that each franchisee adheres to the Company's high standards. In 1997, the Company began developing an international franchise department and expects to open the first franchised restaurants outside the U.S. in late 1998 or 1999. The Company seeks to attract franchisees with experience in multi-unit restaurant operations and with the financial resources and management capability to open multiple locations. To ensure consistent food quality, each domestic franchisee is required to purchase dough and spice mix from the Company and all other supplies either from the Company or its approved suppliers. Commissaries outside the U.S. may be operated by franchisees pursuant to license agreements. The Company devotes significant resources to provide its franchisees with assistance in restaurant operations, team member training, marketing, site selection and restaurant design.

Unit Economics

The Company believes its unit economics are exceptional. The 302 Company-owned restaurants that were open throughout the entire 1997 fiscal year generated average sales of \$713,000, average cash flow (operating income plus depreciation) of \$142,000 and average restaurant operating income of \$119,000 (or 16.7% of average sales). A significant number of these restaurants were operating in newer markets. Historically, in the initial months of operations, particularly in new markets, sales have been lower and costs higher than for mature restaurants. However, recent trends indicate that new markets are opening with higher than historical sales volumes.

The average cash investment for the 76 Company-owned restaurants opened during the 1997 fiscal year, exclusive of land and pre-opening costs, was approximately \$257,000. The Company expects the average cash investment for restaurants to be opened in 1998 to approximate \$260,000.

Expansion

A total of 364 restaurants were opened during 1997, consisting of 76 Company-owned and 288 franchised restaurants. The Company plans to open approximately 70 restaurants in 1998 and expects its franchisees to open approximately 300 restaurants in 1998. Newer market expansion is planned for the Upper Northeast Coast, West Coast and Rocky Mountain regions, in addition to building out existing markets throughout the country. As part of its growth strategy, the Company will continue to consider acquiring restaurants from its franchisees. The Company acquired 23 restaurants from its franchisees during the 1997 fiscal year. See "Note 3" of "Notes to Consolidated Financial Statements."

The ability of the Company and its franchisees to open new restaurants is affected by a number of factors, many of which are beyond the control of the Company and its franchisees. These factors include, among other things, selection and availability of suitable restaurant and commissary locations, negotiation of suitable lease or financing terms, constraints on permitting and construction of restaurants and the hiring, training and retention of management and other personnel. Accordingly, there can be no assurance that the Company or its franchisees will be able to meet planned growth targets or open restaurants in markets now targeted for expansion.

The Company's expansion strategy is to cluster restaurants in targeted markets, thereby increasing consumer awareness and enabling the Company to take advantage of operational, distribution and advertising efficiencies. The Company's experience in developing markets indicates that market penetration through the opening of multiple restaurants within a particular market results in increased average restaurant sales in that market. The Company has co-developed markets with franchisees or divided markets among franchisees, and will

continue to utilize market co-development in the future. In determining which new markets to develop, the Company considers many factors, including the size of the market, demographics and population trends, competition, and availability and costs of real estate. Before entering a new market, the Company analyzes detailed information of these factors and each market is toured and evaluated by senior management.

Menu

Papa John's restaurants offer a focused menu of high quality pizza, breadsticks and cheesesticks, as well as canned soft drinks. Papa John's original crust pizza is prepared using fresh dough (not frozen). The Company's thin crust pizza is made with a prepared crust which simplifies store-level operations. All Papa John's pizzas are made from high protein wheat flour, 100% real mozzarella cheese, pizza sauce made with vine-ripened, fresh-packed tomatoes (not concentrate) and a proprietary mix of savory spices, and a choice of high quality meat and vegetable toppings in generous portions. Fresh onions and green peppers are purchased from local produce suppliers. Each original crust pizza is served with a container of Papa John's special garlic sauce and two pepperoncinis, and each thin crust pizza is served with a container of special seasonings and two pepperoncinis. The Company believes its limited menu helps create a strong identity among consumers and simplifies operations, resulting in lower restaurant operating costs, improved food quality and superior customer service.

Restaurant Design and Site Selection

The exterior of most Papa John's restaurants is characterized by backlit awnings, neon window designs and other visible signage. A typical Papa John's restaurant ranges from 1,200 to 1,500 square feet and is designed to facilitate a smooth flow of food orders through the restaurant. The layout includes specific areas for order taking, pizza preparation and routing, resulting in simplified operations, lower training and labor costs, increased efficiency and improved consistency and quality of food products. The typical interior of a Papa John's restaurant has a vibrant red and white color scheme with green striping, and includes a bright menu board, custom counters and a carry-out customer area. The counters are designed to allow customers to watch the team members slap out the dough and put sauce and toppings on pizzas.

The Company considers the location of a restaurant to be important and therefore devotes significant resources to the investigation and evaluation of potential sites. The site selection process includes trade area demographics, target population density, household income levels and competitive factors. A member of the Company's development team inspects each potential Company-owned or franchised restaurant location and the surrounding market before a site is approved. Papa John's restaurants are typically located in strip shopping centers or free-standing buildings that provide visibility, curb appeal and accessibility. The Company's restaurant design may be configured to fit a wide variety of building shapes and sizes, thereby increasing the number of suitable locations for Papa John's restaurants.

Since 1994, the Company has opened a greater number of free-standing restaurants. The Company seeks either existing buildings suitable for conversion, or locations suitable for the construction of its prototype restaurant. Free-standing buildings generally provide more signage and better visibility, accessibility and parking. The Company believes that these locations improve Papa John's image and brand awareness and expects that, over time, free-standing and prototype units will approximate 25% of total Company-owned restaurants. During 1997, the Company constructed its first multi-bay unit, housing a Company-owned restaurant in addition to third party tenants. Management believes that improved site selection may result from the Company maintaining control of the multi-bay development process. This strategy will continue to be evaluated as operational and financial results for these types of units become available for analysis.

Commissary System; Purchasing

The Company's commissary system supplies pizza dough, food products, paper products, smallwares and cleaning supplies twice weekly to each Papa John's restaurant in the U.S. This commissary system enables the Company to closely monitor and control product quality and consistency, while lowering food costs. The Company opened a distribution facility in Phoenix, Arizona in the first quarter of 1997 and full-service commissaries in Rotterdam, New York in the first quarter and Des Moines, Iowa in the third quarter of 1997. A full-service commissary in Portland, Oregon is planned for mid-1998 and a new, expanded and modernized Louisville commissary is planned for late-1998 to support restaurant expansion plans. The Company's other full-service commissaries are in Orlando, Florida; Raleigh, North Carolina; Jackson, Mississippi; and Denver, Colorado. The Company also operates a distribution center in Dallas, Texas. The commissary system capacity is continually evaluated in relation to planned restaurant growth, and additional facilities developed as operational or economic conditions warrant.

The Company sets quality standards for all products used in Papa John's restaurants and designates approved outside suppliers of food and paper products which must meet the Company's quality standards. In order to ensure product quality and consistency, all Papa John's restaurants are required to purchase proprietary spice mix and dough from the Company's commissaries. Franchisees may purchase other goods directly from approved suppliers or the Company's commissaries. The Company has negotiated national purchasing agreements with most of its suppliers. These agreements generally result in volume discounts to the Company, allowing it to sell the products to franchisees at prices which the Company believes are below those franchisees could normally obtain independently. Products are distributed to restaurants by refrigerated trucks leased and operated by the Company or transported by dedicated logistics companies.

All of the equipment, fixtures and smallwares needed to open a Papa John's restaurant are available for purchase through the Company. The Company also provides layout and design services and recommends subcontractors, signage installers and telephone systems to its franchisees. Although not required to do so, substantially all of the Company's franchisees purchase most of their equipment from the Company.

Marketing Programs

The Company's restaurant-level marketing programs target the delivery area of each restaurant, making extensive use of distinctive print materials in direct mail and store-to-door couponing. The local marketing efforts also include a variety of community-oriented activities with schools, sports teams and other organizations. In markets in which the Company or its franchisees have a significant presence, local marketing efforts are supplemented with radio and television advertising.

In addition to extensive local store marketing, all Company-owned and franchised Papa John's restaurants within a developed market are required to join an advertising cooperative ("Co-op"). Each member restaurant contributes a percentage of sales to the Co-op for market wide programs, such as radio, television and billboards. The rate of contribution and uses of the monies collected are determined by a majority vote of the Co-op's members. The restaurant-level and Co-op marketing efforts are supported by print and electronic advertising materials that are produced by the Papa John's Marketing Fund, Inc., a non-profit corporation (the "Marketing Fund"), for use by both the Company and its franchisees. The Marketing Fund produced and aired the systems first national television commercial in 1997. Additional national television buys are planned for 1998. The required Marketing Fund contribution can be up to 1.5% of sales, as established from time to time by the governing board of the Marketing Fund (currently 1.0%). The required contribution can be increased above 1.5% only upon approval of not less than 60% of Marketing Fund members.

The Company also provides both Company-owned and franchised restaurants with catalogs for uniforms and promotional items and pre-approved, print marketing materials. These items can be ordered through toll-free "800" numbers.

Company Operations

Restaurant Personnel. A typical Papa John's restaurant employs a restaurant manager, two assistant managers and approximately 20 - 25 hourly team members, most of whom work part-time. The manager is responsible for the day-to-day operation of the restaurant and for maintaining Company-established operating standards. The Company seeks to hire experienced restaurant managers and staff and motivate and retain them by providing opportunities for advancement and performance-based financial and stock incentives. The Company has a relatively low managerial turnover rate which it believes results in decreased training costs and higher productivity.

The Company employs area supervisors, each of whom has responsibility for overseeing three to five Company-owned restaurants. The Company also employs regional vice presidents and district managers who oversee area supervisors and managers within their respective markets. These team members are also eligible to earn performance-based financial and stock incentives.

Training and Education. The Company has team members dedicated to training and overseeing new restaurant openings, including a full-time coordinator in each of its markets. The Company provides an on-site training team three days before and three days after the opening of each Company-owned and franchise restaurant. Each regional vice president, district manager, area supervisor and restaurant manager is required to complete the Company's management training program and on-going development programs in which instruction is given on all aspects of the Company's systems and operations. The programs include classroom instruction and hands-on training at an operating Papa John's restaurant. The programs are conducted at the Company's training centers located within Company-owned and franchised restaurants. The Company's training also includes an education and safety program for its delivery drivers.

Point of Sale Technology. Point of sale technology (the Company's proprietary PROFIT System™) was in place in all Company-owned restaurants and substantially all franchised restaurants at the end of 1997. The Company believes this technology increases speed and accuracy in order taking and pricing, reduces paper work and allows the restaurant manager to better monitor and control food and labor costs. The Company believes the PROFIT System enhances restaurant-level marketing capabilities through the development of a data base containing information on customers and their buying habits with respect to the Company's products. Polling capabilities allow the Company to obtain current restaurant operating information, thereby improving the speed, accuracy and efficiency of restaurant-level reporting.

Reporting. Managers at Company-owned restaurants utilize daily reports of sales, cash deposits and operating costs. Physical inventories of all food and beverage items are taken weekly. The Company's area supervisors prepare weekly operating projections for each of the restaurants under their supervision.

Hours of Operations. Papa John's 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.

Franchise Program

General. The Company continues to attract many franchisees with significant restaurant experience. The Company considers its franchisees to be a vital part of the system's continued growth and believes its relationship

with its franchisees is excellent. At December 28, 1997, there were 1,116 franchised restaurants operating in 40 states and the District of Columbia and the Company had development agreements for approximately 715 additional franchised restaurants committed to open through 2001. 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. During the 1997 fiscal year, 288 franchised restaurants were opened.

Approval. Franchisees are approved on the basis of the applicant's business background, restaurant operating experience and financial resources. The Company generally seeks franchisees who will enter into development agreements for multiple restaurants. The Company seeks franchisees who have restaurant experience or, in the case of franchisees who do not have restaurant experience, the Company requires the franchisee to hire a full-time operator who has either an equity interest or the right to acquire an equity interest in the franchise operation.

Development and Franchise Agreements. The Company enters into development agreements with its domestic franchisees for the opening of a specified number of restaurants within a defined period of time within a specified geographic area. Under the Company's current standard development agreement, the franchisee is required to pay, at the time of signing the agreement, a non-refundable fee of \$5,000 per restaurant covered by the development agreement. This amount is credited against the standard \$20,000 franchise fee payable to the Company upon signing the franchise agreement for a specific location. Generally, a franchise agreement is executed when a franchisee secures a location. In 1997, the Company began developing an international franchise department and expects to open the first franchised restaurants outside the U.S. in late 1998 or 1999.

The Company's current standard franchise agreement provides for a term of 10 years (with one ten-year renewal option) and payment to the Company of a royalty fee of 4% of sales. The current standard franchise agreement, as well as substantially all existing franchise agreements, permit the Company to increase the royalty fee up to 5% of sales after the agreement has been in effect for three years. However, the royalty fee cannot be increased to an amount greater than the percentage royalty fee then in effect for new franchisees.

The Company has the right to terminate a franchise agreement for a variety of reasons, including a franchisee's failure to make payments when due or failure to adhere to the Company's policies and standards. Many state franchise laws limit the ability of a franchisor to terminate or refuse to renew a franchise.

The Company has entered into a limited number of development and franchise agreements for non-traditional restaurant units. These agreements generally cover venues or areas not originally targeted for development and have terms differing from the standard agreement. The Company does not believe these contracts have a significant impact on revenues or profits.

Franchise Restaurant Development. The Company provides assistance to its franchisees in selecting sites and developing restaurants and the physical specifications for typical restaurants. Each franchisee is responsible for selecting the location for its restaurants but must obtain Company 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. The Company provides design plans, fixtures and equipment for most franchisee locations at competitive prices.

Franchisee Loan Program. At the beginning of the third quarter of 1996, the Company established a program under which selected franchisees developing ten or more Papa John's restaurants may borrow funds for use in the construction and development of their restaurants. Loans made under the program typically bear interest at fixed or floating rates (ranging from 5.5% to 10.0% at December 28, 1997), and are secured by the fixtures, equipment and signage (and where applicable, the land) of the restaurant and the ownership interests in the franchisee. In limited cases, the Company has obtained a purchase option with respect to the financed restaurants.

A franchisee utilizing the loan program must open at least 20% of the restaurants covered by the franchisee's development agreement with its own equity capital prior to receiving funds from the Company under the program.

At December 28, 1997, loans outstanding under the franchise loan program totaled \$15.1 million, with commitments to lend up to an additional \$4.5 million. The Company does not expect to significantly expand the franchise loan program beyond current commitment levels at this time.

Franchise Training and Support. Every franchisee is required to have a principal operator approved by the Company who satisfactorily completes the Company's two-week training program and who devotes his or her full business time and efforts to the operation of the franchisee's restaurants. Each franchised restaurant manager is also required to complete the Company's two-week training program. The Company provides an on-site training crew three days before and three days after the opening of a franchisee's first two restaurants and ongoing supervision thereafter. Multi-unit franchisees are encouraged to hire a full-time training coordinator to train new team members for their restaurants. The Company's franchise consultants, reporting to the Vice President of Franchise Operations, maintain open communication with the franchise community, relaying operating and marketing information and new ideas between the Company and franchisees.

Franchise Operations. All franchisees are required to operate their Papa John's restaurants in compliance with the Company's policies, standards and specifications, including matters such as menu items, ingredients, materials, supplies, services, fixtures, furnishings, decor and signs. Each franchisee has full discretion to determine the prices to be charged to its customers.

Franchise Advisory Board. The Company has a Franchise Advisory Board that consists of Company and franchisee representatives. The Advisory Board holds quarterly meetings to discuss new marketing ideas, operations, growth and other relevant issues.

Reporting. The Company collects weekly and monthly sales and other operating information from its franchisees. The Company has agreements with most of its franchisees permitting the Company to electronically debit the franchisees bank accounts for the payment of royalties, Marketing Fund contributions and purchases of commissary products from the Company. This system significantly reduces the resources needed to process receivables, improves cash flow and virtually eliminates past-due accounts related to these items. Franchisees generally are required to purchase and install the Papa John's PROFIT System in their restaurants. See "Company Operations -- Point of Sale Technology."

Competition

The restaurant industry is intensely competitive with respect to price, service, location and food quality, and there are many well established competitors with substantially greater financial and other resources than the Company. Competitors include a large number of national and regional restaurant chains, as well as local pizza operators. Some of the Company's competitors have been in existence for a substantially longer period than the Company and may be better established in the markets where the Company's restaurants are, or may be, located. Within the pizza segment of the restaurant industry, the Company believes that its primary competitors are the national pizza chains, including Pizza Hut, Domino's and Little Caesars. A change in the pricing or other marketing strategies of one or more of these competitors could have an adverse impact on the Company's sales and earnings.

The restaurant business is often affected by changes in consumer tastes, national, regional or local economic conditions, demographic trends, traffic patterns and the type, number and location of competing restaurants. In addition, factors such as inflation, increased food, labor and benefits costs and the lack of

experienced management and hourly team members may adversely affect the restaurant industry in general and the Company's restaurants in particular.

With respect to the sale of franchises, the Company competes with many franchisors of restaurants and other business concepts. In general, there is also active competition for management personnel, capital and attractive commercial real estate sites suitable for Papa John's restaurants.

Government Regulation

The Company and its franchisees are subject to various federal, state and local laws affecting the operation of their respective businesses. Each Papa John's restaurant is subject to licensing and regulation by a number of governmental authorities, which include 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 can delay or prevent the opening of a new restaurant in a particular area. The Company's commissary and distribution facilities are licensed and subject to regulation by state and local health and fire codes, and the operation of its trucks is subject to Department of Transportation regulations. The Company is also subject to federal and state environmental regulations.

The Company is subject to Federal Trade Commission ("FTC") regulation and various state laws regulating the offer and sale of franchises. Several state laws also regulate substantive aspects of the franchisor-franchisee relationship. The FTC requires the Company to furnish to prospective franchisees a franchise offering circular containing prescribed information. A number of states in which the Company might consider franchising also regulate the sale of franchises and require registration of the franchise offering circular with state authorities. Substantive state laws that regulate the franchisor- franchisee relationship presently exist in a substantial number of states, and bills have been introduced in Congress from time to time (some of which are now pending) which would provide for federal regulation of the franchisor-franchisee relationship in certain respects. 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.

The Company is also subject to the Americans With Disabilities Act of 1990, which, among other things, may require certain minor renovations to its restaurants to meet federally-mandated requirements. The cost of these renovations is not expected to be material to the Company. Further government initiatives, if enacted, including a proposed system of mandated health insurance, could adversely affect the Company and its franchisees as well as the restaurant industry in general.

Trademarks

The Company's rights in its trademarks and service marks are a significant part of its business. The Company is the owner of the federal registration of the trademark "Papa John's." The Company has also registered "Pizza Papa John's and design" as a trademark and a service mark. The Company owns federal registrations for the marks "Pizza Papa John's Delivering the Perfect Pizza! and design", "Call your Papa", "Perfect Pizza Perfect Price", "Delivering the Perfect Pizza!", "Pizza Papa John's Print Network", "The Pizza of Summer" and "We Deliver Perfection."

The Company has applied for the registration of "Pick 5", "Better Ingredients. Better Pizza.", "Pizza Papa John's. Better Ingredients. Better Pizza.", "Papa John's International Pizza Games", "Papa-size it" and "Perfect Original and design" as trademarks and service marks. The Company has also applied to register its principal trademark, "Pizza Papa John's and design" in 69 foreign countries and the European community. The mark has been registered in 17 countries. The Company is aware of the use by other persons in certain geographic areas of names and marks which are the same as or similar to the Company's marks. It is the Company's policy to pursue registration of its marks whenever possible and to vigorously oppose any infringement of its marks.

Employees

As of December 28, 1997, the Company employed 14,219 persons, of whom approximately 12,579 were restaurant team members, 525 were restaurant management and supervisory personnel, 453 were corporate personnel and 662 were commissary and support services personnel. Most restaurant team members work part-time and are paid on an hourly basis. None of the Company's team members is covered by a collective bargaining agreement. The Company considers its employee relations to be excellent.

Forward Looking Statements

This Form 10-K contains forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"), including information within Management's Discussion and Analysis of Financial Condition and Results of Operation. The following cautionary statements are being made pursuant to the provisions of the Act and with the intention of obtaining the benefits of the "safe harbor" provisions of the Act. Although the Company believes that its expectations are based on reasonable assumptions, actual results may differ materially from those in the forward looking statements as a result of various factors, including but not limited to, the following:

1. The ability of the Company and its franchisees to continue to expand through the opening of new restaurants is affected by a number of factors, many of which are beyond the control of the Company and its franchisees. These factors include, among other things, selection and availability of suitable restaurant locations, negotiation of suitable lease or financing terms, constraints on permitting and construction of other restaurants, higher than anticipated construction costs, and the hiring, training and retention of management and other personnel. Accordingly, there can be no assurance that the Company or its franchisees will be able to meet planned growth targets or open restaurants in markets now targeted for expansion.
2. The restaurant industry is intensely competitive with respect to price, service, location and food quality, and there are many well established competitors with substantially greater financial and other resources than the Company and its franchisees. Some of these competitors have been in existence for a substantially longer period than the Company or its franchisees and may be better established in the markets where restaurants operated by the Company or its franchisees are, or may be, located. A change in the pricing or other marketing or promotional strategies of one or more of the Company's major competitors could have an adverse impact on sales and earnings at restaurants operated by the Company and its franchisees.
3. Changes in consumer taste, demographic trends, traffic patterns and the type, number and location of competing restaurants as well as increased food and other costs could adversely affect the Company's restaurant business.
4. The Company's restaurant operations are subject to federal and state laws governing such matters as wages, working conditions, citizenship requirements and overtime. A significant number of hourly personnel employed by the Company and its franchisees are paid at rates related to the federal minimum wage. Accordingly, further increases in the minimum wage will increase labor costs for the Company and its franchisees.

Item 2. Properties

As of December 28, 1997, the Company and its franchisees operated 1,517 Papa John's restaurants.

Company-owned Restaurants

	Number of Restaurants

Colorado.....	23
Delaware.....	8
Florida.....	44
Georgia.....	59
Illinois.....	2
Indiana.....	28
Kentucky.....	28
Maryland.....	45
Missouri.....	12
New Mexico.....	7
North Carolina.....	42
South Carolina.....	2
Tennessee.....	26
Texas.....	56
Virginia.....	16
Washington, D.C.....	3

Total Company-owned Restaurants.....	401
	===

Franchised Restaurants

	Number of Restaurants

Alabama.....	43
Arkansas.....	13
Arizona.....	14
California.....	14
Colorado.....	9
Connecticut.....	3
Florida.....	133
Georgia.....	38
Illinois.....	52
Indiana.....	63
Iowa.....	8
Kansas.....	11
Kentucky.....	46
Louisiana.....	33
Maryland.....	12
Massachusetts.....	6
Michigan.....	23
Minnesota.....	26
Mississippi.....	15
Missouri.....	24
Nebraska.....	7
Nevada.....	5
New Hampshire.....	3
New Jersey.....	11
New Mexico.....	1
New York.....	14
North Carolina.....	33
North Dakota.....	2
Ohio.....	134
Oklahoma.....	12
Pennsylvania.....	35
South Carolina.....	33
South Dakota.....	1
Tennessee.....	42
Texas.....	82
Utah.....	8
Virginia.....	68
West Virginia.....	15
Wisconsin.....	19
Wyoming.....	4
Washington, D.C.....	1

Total Franchised Restaurants.....	1,116
	=====

Most Papa John's restaurants are located in leased space. The initial term of most restaurant leases is five years or less with most leases providing for one or more options to renew for at least one additional term. Virtually all of the Company's leases specify a fixed annual rent. Generally, the leases are triple net leases which require the Company to pay all or a portion of the cost of insurance, taxes and utilities. Certain leases further provide that the lease payments may be increased annually based on changes in the Consumer Price Index.

Information with respect to the Company's leased commissaries and other facilities is set forth below.

Facility -----	Square Footage -----
Louisville, KY Corporate Headquarters	58,000
Louisville, KY Commissary	38,000
Jackson, MS Commissary	30,000
Raleigh, NC Commissary	27,000
Dallas, TX Distribution Center	20,000
Denver, CO Commissary	21,000
Phoenix, AZ Distribution Center	26,000
Des Moines, IA Commissary	31,000
Rotterdam, NY Commissary	40,000

The Company owns approximately five acres in Orlando on which its 63,000 square foot full-service commissary is located. In addition, the Company owns approximately 37 acres in Louisville, Kentucky, and has built a 40,000 square foot building on the land consolidating its printing and promotional operations. The Company has begun construction of additional facilities on the land in 1998 of approximately 242,000 square feet, approximately 30-40% of which will accommodate relocation and expansion of the Louisville commissary operation and Novel Approach promotional division, and the remainder of which will accommodate relocation and consolidation of corporate offices. The facility is scheduled for completion in late-1998 or early-1999. The Company believes that it will continue to need additional office and commissary space.

Item 3. Legal Proceedings

The Company is subject to claims and legal actions in the ordinary course of its business. The Company believes that all such claims and actions currently pending against it are either adequately covered by insurance or would not have a material adverse effect on the Company if decided in a manner unfavorable to the Company.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below are the current executive officers of the Company, together with their ages, their positions with the Company and the year in which they first became an officer of the Company:

Name ----	Age ---	Position -----	First Elected Executive Officer -----
John H. Schnatter	36	Founder, Chairman and Chief Executive Officer	1985
Charles W. Schnatter	35	Senior Vice President, General Counsel and Secretary	1991
Blaine E. Hurst	41	President	1995
E. Drucilla Milby	44	Chief Financial Officer and Treasurer	1991
Wade S. Oney	37	Chief Operating Officer	1995
Robert J. Wadell	42	President - PJ Food Service, Inc.	1990
Richard J. Emmett	42	Senior Vice President - Senior Counsel	1992
J. David Flanery	41	Vice President and Corporate Controller	1994
Syl J. Sosnowski	56	Vice President -- Marketing and Support Services	1995

John Schnatter created the Papa John's concept and founded the Company in 1985. He has served as Chairman of the Board and Chief Executive Officer since 1990, and from 1985 to 1990, served as President. John Schnatter has also been a franchisee of the Company since 1986.

Charles Schnatter has served as General Counsel and Secretary since 1991 and has been a Senior Vice President of the Company since 1993. From 1988 to 1991, he was an attorney with Greenebaum Doll & McDonald PLLC, Louisville, Kentucky, a law firm which provides legal services to the Company. Charles Schnatter was a franchisee of the Company from 1989 to 1997.

Blaine Hurst has served as President since 1996. From 1995 to 1996, Mr. Hurst served as Chief Information Officer after having joined the Company in January 1995 as Vice President of Information Systems. From 1993 to 1995, Mr. Hurst was Vice President of Information Systems for Boston Chicken, Inc. From 1989 to 1993, Mr. Hurst was a consulting partner with Ernst & Young LLP. Mr. Hurst has been a franchisee of the Company since 1996.

Dru Milby has served as Chief Financial Officer since 1995 and Treasurer since 1993. Ms. Milby held the position of Vice President -- Finance from 1991 to 1995. From 1990 to 1991, Ms. Milby was Director of Financial Planning for American Air Filter. From 1987 to 1990, Ms. Milby was Manager of Financial Reporting and Systems Support for KFC International, the operator and franchisor of KFC restaurants. From 1983 to 1987, Ms. Milby held various positions with KFC International and KFC USA in the areas of general accounting, financial reporting and financial systems. Ms. Milby is a licensed Certified Public Accountant and Certified Management Accountant.

Wade Oney has served as Chief Operating Officer since 1995. From 1992 to 1995, Mr. Oney served as the Company's Regional Vice President of Southeast Operations. From 1989 to 1992, Mr. Oney held various positions with Domino's Pizza, Inc. as follows: from 1991 to 1992, Senior Vice President, Northeast; from 1990 to 1991 Senior Vice President, Product Implementation; and from 1989 to 1990, Vice President of Operations. Mr. Oney has been a franchisee of the Company since 1993.

Robert Wadell has served as President of PJ Food Service, Inc. since 1995, after having served as Vice President of Commissary Operations from 1990 to 1995. From 1988 to 1990, Mr. Wadell was employed with Mr. Gatti's in the position of Regional Franchise Director, responsible for overseeing the operations of 65 franchised restaurants in an eight-state area. From 1983 to 1988, Mr. Wadell was an Area Supervisor for Mr. Gatti's, and from 1979 to 1983, was a store operator for Mr. Gatti's.

Richard Emmett was appointed Senior Vice President and Senior Counsel in March 1997, after having served as Senior Vice President-Development from August 1996 to March 1997. From 1992 to 1996, Mr. Emmett held the position of Vice President and Senior Counsel. From 1983 to 1992, Mr. Emmett was an attorney with the law firm of Greenebaum Doll & McDonald PLLC, having become a partner of such firm in 1989. Mr. Emmett was a franchisee of the Company from 1992 to 1997.

David Flanery has served as Vice President since 1995 after having joined the Company in 1994 as Corporate Controller. From 1979 to 1994, Mr. Flanery was with Ernst & Young LLP in a variety of positions, most recently as Senior Audit Manager. Mr. Flanery is a licensed Certified Public Accountant.

Syl Sosnowski has served as Vice President of Marketing and Support Services since 1995. From 1990 to 1995, Mr. Sosnowski served as Vice President of Marketing and Sales for Carvel Corporation.

John and Charles Schnatter are brothers. There are no other family relationships among the Company's executive officers and other key personnel.

PART II

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters

The Company's common stock trades on the Nasdaq National Market tier of The Nasdaq Stock Market under the symbol PZZA. As of March 9, 1998, there were approximately 719 record holders of common stock. The following table sets forth for the quarters indicated the high and low sale prices of the Company's common stock, as reported by The Nasdaq Stock Market. All sale prices have been adjusted to reflect a 3-for-2 stock split to stockholders of record on March 12, 1996, and an additional 3-for-2 stock split to stockholders of record on November 8, 1996. Each stock split was effected in the form of a 50% stock dividend.

1997	High	Low
----	----	---
First Quarter	\$35.13	\$23.75
Second Quarter	37.50	22.63
Third Quarter	39.50	30.44
Fourth Quarter	37.75	28.00
1996		

First Quarter	\$29.83	\$16.80
Second Quarter	35.33	25.67
Third Quarter	35.00	26.00
Fourth Quarter	37.33	29.50

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

Item 6. Selected Consolidated Financial Data

The selected financial data presented below for each of the years in the five-year period ended December 28, 1997 was derived from the audited consolidated financial statements of the Company. The selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and Notes thereto included in Item 7 and Item 8, respectively, of this Form 10-K.

(In thousands, except per share data)

	Year Ended (1)				
	Dec. 28, 1997	Dec. 29, 1996	Dec. 31, 1995	Dec. 25, 1994	Dec. 26, 1993
System wide Restaurant Sales					
Company-owned	\$251,153	\$167,982	\$111,747	\$ 66,267	\$ 32,505
Franchised	616,456	451,214	347,003	231,343	133,846
Total	\$867,609	\$619,196	\$458,750	\$297,610	\$166,351
Income Statement Data					
Revenues:					
Restaurant sales	\$251,153	\$167,982	\$111,747	\$ 66,267	\$ 32,505
Franchise royalties	24,318	17,827	13,561	9,163	5,290
Franchise and development fees	5,327	4,286	3,508	3,274	2,379
Commissary sales	188,034	142,998	105,874	67,515	41,013
Equipment and other sales	39,952	26,959	18,665	15,316	8,046
Total revenues	508,784	360,052	253,355	161,535	89,233
Operating income(2)	39,194	25,629	15,819	10,064	6,221
Other income	3,431	3,917	1,910	1,318	247
Income before income taxes(2)	42,625	29,546	17,729	11,382	6,468
Income tax expense(2)	15,772	10,932	6,525	4,182	2,393
Net income(2)	\$ 26,853	\$ 18,614	\$ 11,204	\$ 7,200	\$ 4,075
Basic earnings per share(2)	\$.93	\$.66	\$.45	\$.31	\$.20
Diluted earnings per share(2)(3)	\$.91	\$.65	\$.44	\$.30	\$.20
Basic weighted average shares outstanding	28,916	28,010	25,139	23,525	20,191
Diluted weighted average shares outstanding(3)	29,592	28,670	25,552	24,033	20,815
Balance Sheet Data					
Total assets	\$253,243	\$212,061	\$128,819	\$ 76,173	\$ 27,789
Long-term debt	1,505	1,680	2,510	1,279	-
Stockholders' equity	212,733	180,643	106,282	62,609	19,269

(1) The Company operates on a 52-53 week fiscal year ending on the last Sunday of December of each year. The 1997, 1996, 1994, and 1993 fiscal years consisted of 52 weeks and the 1995 fiscal year consisted of 53 weeks.

(2) Information for 1993 reflects pro forma adjustments assuming that the Company had been treated as a C Corporation rather than an S Corporation for income tax purposes for the entire year, with assumed combined federal, state and local effective income tax rates aggregating 37%, and the Company's compensation program for the top three executive officers that was adopted during 1993 had been in effect for the entire year, which would have reduced compensation expense by \$154,000.

(3) Reflects the dilutive effect of stock options as required by Statement of Financial Accounting Standards No. 128, "Earnings Per Share". See "Note 2" of "Notes to Consolidated Financial Statements."

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

Papa John's International, Inc. (the "Company") began operations in 1985 with the opening of the first Papa John's restaurant in Jeffersonville, Indiana. At December 28, 1997, there were 1,517 Papa John's restaurants in operation, consisting of 401 Company-owned and 1,116 franchised restaurants. The Company's revenues are principally derived from retail sales of pizza to the general public by Company-owned restaurants, franchise royalties, sales of franchise and development rights, and sales to franchisees of food and paper products, restaurant equipment, printing and promotional items, and information systems and related services used in their operations.

The Company intends to continue to expand the number of Company-owned and franchised restaurants. The Company's expansion strategy is to cluster restaurants in targeted markets, thereby increasing consumer awareness and enabling the Company to take advantage of operational, distribution and advertising efficiencies. The Company believes that its expansion strategy has contributed to increases in comparable annual sales for Company-owned restaurants of 9.3% in 1997, 11.9% in 1996 and 9.0% in 1995. The Company anticipates that future comparable sales increases, if any, will be at a lesser rate than in recent years. Average sales for Company-owned restaurants open a full year increased to \$713,000 for 1997 from \$682,000 for 1996. This increase is attributable to continuing strong sales of maturing restaurants and to the fact that several new markets were entered in 1995 and 1996, with generally lower sales volumes throughout 1996 as those markets were built out. Average sales volumes in new markets are generally lower than in those markets in which the Company has established a significant market position, although recent trends indicate that new markets are opening with stronger than historical sales volumes.

Approximately 45% of the Company's revenues for 1997 and 47% for 1996 were derived from the sale to franchisees of food and paper products, restaurant equipment, printing and promotional items and information systems equipment and software and related services by the Company, its commissary subsidiary, PJ Food Service, Inc., and the Company's support services subsidiary, Printing & Promotions, Inc. The Company believes that, in addition to supporting both Company and franchised growth, these subsidiaries contribute to product quality and consistency throughout the Papa John's system.

The Company continually strives to obtain high quality sites with greater access and visibility, and to enhance the appearance and quality of its restaurants. The Company believes that these factors improve Papa John's image and brand awareness. During 1997 and 1996, the Company pursued a greater number of free-standing conversion and prototype locations and expects to continue this strategy in 1998. Over time, the Company expects that these free-standing units will approximate 25% of the total Company-owned restaurants.

The average cash investment for the 76 Company-owned restaurants opened during 1997, exclusive of land and pre-opening costs, increased to approximately \$257,000 from \$208,000 for the 66 units opened in 1996. This increase was primarily due to the planned increase in the percentage of higher-cost free-standing units opened during 1997. The Company expects the average cash investment for restaurants opening in 1998 to approximate \$260,000 as the Company plans to build a number of free-standing units in 1998 comparable to 1997.

Pre-opening costs are capitalized and amortized on a straight-line basis over a period of one year from the opening date of the restaurant or commissary facility.

In April 1997, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued an Exposure Draft of a Proposed Statement of Position, "Reporting on the Costs of Start-Up Activities" (the "SOP") which, if finalized, would require adoption at the beginning of 1999. The Company's initial application of the SOP would require the write-off of deferred pre-opening costs as of the date of adoption, and such write-off would be reported, on a net of tax basis, as the cumulative effect of a change in accounting principle. The Company does not expect the adoption of the SOP to significantly impact future operating income due to the relative consistency of new facility openings and length of the current amortization period. Deferred pre-opening costs as of December 28, 1997 were \$3.8 million.

The Company defers certain costs incurred in connection with the development of its information systems and amortizes such costs over periods of up to five years from the date of completion.

The Company's fiscal year ends on the last Sunday in December of each year. The 1997 and 1996 fiscal years consisted of 52 weeks and the 1995 fiscal year consisted of 53 weeks.

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

Results of Operations

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

	Year Ended		
	Dec. 28, 1997	Dec. 29, 1996	Dec. 31, 1995
Income Statement Data:			
Revenues:			
Restaurant sales	49.4%	46.7%	44.1%
Franchise royalties	4.7	4.9	5.3
Franchise and development fees	1.0	1.2	1.4
Commissary sales	37.0	39.7	41.8
Equipment and other sales	7.9	7.5	7.4
Total revenues	100.0	100.0	100.0
Costs and expenses:			
Restaurant cost of sales(1)	26.4	28.0	28.4
Restaurant operating expenses(1)	54.9	54.9	54.8
Commissary, equipment and other expenses(2)	91.5	91.1	93.1
General and administrative expenses	7.3	7.4	7.9
Depreciation and amortization	3.9	3.8	3.4
Total costs and expenses	92.3	92.9	93.8
Operating income	7.7	7.1	6.2
Other income (expense):			
Investment income	0.9	1.0	0.7
Other	(0.2)	0.1	0.1
Income before income taxes	8.4	8.2	7.0
Income tax expense	3.1	3.0	2.6
Net income	5.3%	5.2%	4.4%

(1) As a percentage of Restaurant sales.

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

	Year Ended		
	Dec. 28, 1997	Dec. 29, 1996	Dec. 31, 1995
Restaurant Data:			
Percentage increase in comparable Company-owned restaurant sales(3)	9.3%	11.9%	9.0%
Average sales for Company-owned restaurants open full year	\$713,000	\$682,000	\$657,000
Number of Company-owned restaurants:			
Beginning of period	303	217	133
Opened	76	66	61
Closed	(1)	(2)	-
Acquired	23	22	23
End of period	401	303	217
Number of franchised restaurants:			
Beginning of period	857	661	499
Opened	288	224	190
Closed	(6)	(6)	(5)
Sold to Company	(23)	(22)	(23)
End of period	1,116	857	661
Total restaurants-end of period	1,517	1,160	878

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

1997 Compared to 1996

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

Restaurant sales increased 49.5% to \$251.2 million in 1997, from \$168.0 million in 1996. This increase was primarily due to a 42.0% increase in the number of equivalent Company-owned restaurants open during 1997 as compared to 1996. "Equivalent restaurants" represents the number of restaurants open at the beginning of a given period, adjusted for restaurants opened or acquired during the period on a weighted average basis. Also, comparable sales increased 9.3% in 1997 over 1996 for Company-owned restaurants open throughout both years.

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

Franchise and development fees increased 24.3% to \$5.3 million in 1997, from \$4.3 million in 1996. This increase was primarily due to the 288 franchised restaurants opened during 1997, as compared to 224 opened during 1996, an increase of 28.6%, partially offset by the lower per unit franchise and development fees collected on certain non-traditional restaurant units opened in 1997. The average dollar amount of fees per franchised restaurant may vary from period to period, depending on the mix of restaurants opened pursuant to older development agreements and "Hometown restaurants" which generally have lower required

fees than traditional restaurants opened pursuant to standard development agreements. Hometown restaurants are located in smaller markets, generally with less than 9,000 households.

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

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

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

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

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

Other restaurant operating expenses were relatively consistent as a percentage of restaurant sales at 13.5% for 1997 and 13.6% for 1996. Other operating expenses include an allocation of commissary operating expenses equal to 3% of Company-owned restaurant sales in order to assess a portion of the costs of dough production and food and equipment purchasing and storage to Company-owned restaurants.

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

delivery costs resulting from larger commissary service areas and staffing and other costs related to the opening of three commissary facilities in 1997.

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

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

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

Other Income (Expense). Other income (expense) fluctuated from income of \$433,000 in 1996, to expense of \$1.1 million in 1997. This fluctuation was primarily attributable to the equipment and leasehold write-offs related to an increasing number of restaurant relocations during the year.

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

1996 Compared to 1995

Revenues. Total revenues increased 42.1% to \$360.1 million in 1996, from \$253.4 million in 1995.

Restaurant sales increased 50.3% to \$168.0 million in 1996, from \$111.7 million in 1995. This increase was primarily due to a 44.3% increase in the number of equivalent Company-owned restaurants open during 1996 as compared to 1995. "Equivalent restaurants" represents the number of restaurants open at the beginning of a given period, adjusted for restaurants opened or acquired during the period on a weighted average basis. Also, comparable sales increased 11.9% in 1996 over 1995, for Company-owned restaurants open throughout both years.

Franchise royalties increased 31.5% to \$17.8 million in 1996, from \$13.6 million in 1995. This increase was primarily due to a 30.1% increase in the number of equivalent franchised restaurants open during 1996 as compared to 1995. Also, comparable sales increased 5.9% in 1996 over 1995, for franchised restaurants open throughout both years.

Franchise and development fees increased 22.2% to \$4.3 million in 1996, from \$3.5 million in 1995. This increase was primarily due to the 224 franchised restaurants opened during 1996, as compared to 190 opened during 1995, an increase of 17.9%, and an increasing number of franchise renewals.

Commissary sales increased 35.1% to \$143.0 million in 1996, from \$105.9 million in 1995. This increase was primarily due to the increases in equivalent franchised restaurants and comparable sales for franchised restaurants noted above. Additionally, sales for the Orlando commissary increased in 1996 as compared to 1995 due to its conversion from a dough production facility to a full-service commissary and distribution center beginning in August 1995.

Equipment and other sales increased 44.4% to \$27.0 million in 1996, from \$18.7 million in 1995. This increase was primarily due to the increase in equivalent franchised restaurants open during 1996 as compared to 1995, the increase in franchised restaurants opened during 1996 as compared to 1995 and the increased installations of point of sale technology (the Papa John's PROFIT System) in franchised restaurants during 1996 as compared to 1995.

Costs and Expenses. Restaurant cost of sales, which consists of food, beverage and paper costs, decreased as a percentage of restaurants sales to 28.0% in 1996, from 28.4% in 1995. The primary reason for the decrease is attributable to increased efficiencies at both mature and newly-opened stores, offset somewhat by higher average cheese prices for the year.

Restaurant salaries and benefits (26.7% in 1996 and 26.8% in 1995) and occupancy costs (5.1% in 1996 and 5.3% in 1995) decreased slightly as a percentage of restaurant sales primarily as a result of efficiencies related to strong restaurant sales and a generally maturing restaurant base.

Restaurant advertising and related costs increased as a percentage of restaurant sales to 9.6% in 1996, from 9.4% in 1995. The increase was primarily driven by fourth quarter advertising campaigns related to the roll-out of the new Papa John's "Better Thin" product to all markets.

Other restaurant operating expenses increased as a percentage of restaurant sales to 13.6% for 1996, from 13.3% for 1995. The increase in other restaurant operating expenses was primarily due to an increased emphasis on managerial training programs throughout Company-owned restaurants during 1996.

Commissary, equipment and other expenses include cost of sales and operating expenses associated with sales of food, paper, equipment, information systems and printing and promotional items to franchisees and other customers. These costs decreased as a percentage of combined commissary sales and equipment and other sales to 91.1% in 1996, from 93.1% in 1995. This improvement was primarily due to volume related operating efficiencies in the commissaries.

General and administrative expenses decreased as a percentage of total revenues to 7.4% in 1996, from 7.9% in 1995. The decrease was primarily due to improved organizational efficiencies over an increasing revenue base. Additionally, savings in certain insurance costs were realized as a result of coverage changes implemented during the fourth quarter of 1995.

Depreciation and amortization increased as a percentage of total revenues to 3.8% in 1996, from 3.4% in 1995. This increase was primarily due to additional capital expenditures by the Company, intangibles related to acquisitions, deferred pre-opening costs for newly-opened restaurants and commissaries and other deferred expenses, primarily systems development costs. These factors resulting in increased depreciation and amortization were partially offset

by the impact of a change in the depreciable lives of certain restaurant equipment and signage effective at the beginning of the third quarter of 1995 to more accurately reflect the economic lives of such assets. The estimated useful life for ovens and certain other restaurant equipment was extended from five to seven years, and the estimated useful life for restaurant signage was extended from five to ten years.

Investment Income. Investment income increased to \$3.5 million in 1996, from \$1.7 million in 1995. Average investment balances increased during 1996, compared to 1995, as a result of the investment of the net proceeds of the Company's public offerings of common stock in August 1995 and May 1996.

Income Tax Expense. Income tax expense reflects a combined federal, state and local effective income tax rate of 37.0% in 1996, as compared to 36.8% in 1995. This increase was primarily due to the impact of higher federal and state statutory income tax rates due to higher taxable income levels, substantially offset by the impact of tax-exempt income generated by the investment portfolio during 1996.

Impact of Year 2000

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

The Company has completed an assessment and will have to modify or replace portions of its software so that its systems will function properly with respect to dates in the year 2000 and thereafter. Management believes the total Year 2000 project cost is immaterial to financial position, net income and liquidity. Much of the cost related to Year 2000 coincides with existing management plans to replace certain systems (principally the general ledger and related subsidiary systems) in order to accommodate the Company's planned growth.

The project is estimated to be completed in early 1999, which is prior to any anticipated impact on its operating systems. The Company believes that with modifications to existing software and/or conversions to new software, the Year 2000 issue will not pose significant operational problems for its computer systems. However, if such modifications and conversions are not made, or are not completed timely, the Year 2000 issue could have a material impact on certain administrative processes of the Company.

Liquidity and Capital Resources

The Company requires capital primarily for the development and acquisition of restaurants, the addition of new commissary and support services facilities and equipment, the enhancement of corporate systems and facilities and the funding of franchisee loans. Capital expenditures of \$43.1 million, acquisitions of \$6.2 million, and loans to franchisees of \$12.3 million for 1997, were primarily funded by cash flow from operations, available cash and liquidation of investments.

Total 1998 capital expenditures are expected to be approximately \$84.0 million, primarily for the development or relocation of restaurants, commissary facilities and corporate offices. The Company plans to open approximately 70 new Company-owned restaurants during 1998, and has identified an additional 15 restaurants for potential relocation.

The Company plans to open a full service commissary in Portland, Oregon by mid-1998. In late-1998, the Company plans to open a 242,000 square foot facility in Louisville, Kentucky, approximately 30-40% of which will accommodate relocation and expansion of the Louisville commissary operations and Novel Approach promotional division and the remainder of which will accommodate relocation and consolidation of corporate offices.

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

Additionally, during 1998 the Company expects to fund up to \$4.5 million in additional loans under existing franchisee loan program commitments. Approximately \$15.1 million was outstanding under this program as of December 28, 1997. At this time, the Company does not expect to significantly expand the program beyond existing commitments.

Capital resources available at December 28, 1997 include \$18.7 million of cash and cash equivalents, \$57.9 million of investments and \$8.0 million under a line of credit expiring in June 1998. The Company expects to fund planned capital expenditures and disbursements under the franchise loan program for the next twelve months from these resources and operating cash flows.

Impact of Inflation

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

Item 8. Consolidated Financial Statements and Supplemental Data

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

(In thousands, except per share amounts)	Year Ended		
	December 28, 1997	December 29, 1996	December 31, 1995
Revenues:			
Restaurant sales	\$ 251,153	\$ 167,982	\$ 111,747
Franchise royalties	24,318	17,827	13,561
Franchise and development fees	5,327	4,286	3,508
Commissary sales	188,034	142,998	105,874
Equipment and other sales	39,952	26,959	18,665
Total revenues	508,784	360,052	253,355
Costs and expenses:			
Restaurant expenses:			
Cost of sales	66,417	47,092	31,703
Salaries and benefits	67,830	44,774	29,946
Advertising and related costs	23,298	16,074	10,513
Occupancy costs	12,785	8,527	5,896
Other operating expenses	33,882	22,801	14,913
	204,212	139,268	92,971
Commissary, equipment and other expenses:			
Cost of sales	177,263	134,771	101,342
Salaries and benefits	13,091	9,023	7,072
Other operating expenses	18,181	11,009	7,577
	208,535	154,803	115,991
General and administrative expenses	37,051	26,694	19,954
Depreciation	13,267	9,063	5,776
Amortization	6,525	4,595	2,844
Total costs and expenses	469,590	334,423	237,536
Operating income	39,194	25,629	15,819
Other income (expense):			
Investment income	4,505	3,484	1,659
Other, net	(1,074)	433	251
Income before income taxes	42,625	29,546	17,729
Income tax expense	15,772	10,932	6,525
Net income	\$ 26,853	\$ 18,614	\$ 11,204
Basic earnings per share			
	\$.93	\$.66	\$.45
Diluted earnings per share			
	\$.91	\$.65	\$.44
Basic weighted average shares outstanding			
	28,916	28,010	25,139
Diluted weighted average shares outstanding			
	29,592	28,670	25,552
Supplemental Data:			
Revenues - affiliates	\$ 62,986	\$ 47,012	\$ 34,673
Other income - affiliates	\$ 514	\$ 85	\$ 48

See accompanying notes.

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

(Dollars in thousands, except per share amounts)	December 28, December 29, 1997 1996	
Assets		
Current asset:		
Cash and Cash equivalents	\$ 18,692	\$ 24,063
Accounts receivable	12,678	10,169
Accounts receivable-affiliates	2,454	2,932
Inventories	9,091	6,839
Deferred pre-opening costs	3,827	2,654
Prepaid expenses and other current assets	2,434	1,591
Total current assets	49,176	48,248
Investments	57,933	65,067
Net property and equipment	112,601	80,717
Notes receivable-franchisees	7,083	2,646
Notes receivable-affiliates	7,997	2,407
Other assets	18,453	12,976
Total assets	\$253,243	\$212,061
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 15,148	\$ 13,105
Accrued expenses	15,132	9,237
Deferred income taxes	102	672
Total current liabilities	30,382	23,014
Unearned franchise and development fees	4,613	3,378
Deferred income taxes	3,987	3,285
Other long-term liabilities	1,528	1,741
Stockholders' equity:		
Preferred stock (\$.01 par value per share; authorized 5,000,000 shares, no shares issued)	-	-
Common stock (\$.01 par value per share; authorized 50,000,000 shares, issued 29,127,717 in 1997 and 28,776,348 in 1996)	291	288
Additional paid-in capital	149,850	143,978
Unrealized gain on investments	321	977
Retained earnings	62,752	35,882
Treasury stock (36,437 shares in 1997 and 36,460 shares in 1996, at cost)	(481)	(482)
Total stockholders' equity	212,733	180,643
Total liabilities and stockholders' equity	\$253,243	\$212,061

See accompanying notes.

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

(In thousands)	Common Stock	Additional Paid-In Capital	Unrealized Gain (Loss) on Investments	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance at December 25, 1994	\$ 244	\$ 55,627	\$ (651)	\$ 8,002	\$ (613)	\$ 62,609
Issuance of common stock	18	29,982	--	--	--	30,000
Exercise of stock options	2	567	--	--	--	569
Tax benefit related to exercise of non-qualified stock options	--	1,085	--	--	--	1,085
Acquisitions	4	782	--	--	--	786
Change in unrealized gain (loss) on investments	--	--	388	--	--	388
Net income	--	--	--	11,204	--	11,204
Other	--	--	--	(368)	9	(359)
Balance at December 31, 1995	268	88,043	(263)	18,838	(604)	106,282
Issuance of common stock	17	50,534	--	--	--	50,551
Exercise of stock options	2	1,429	--	--	--	1,431
Tax benefit related to exercise of non-qualified stock options	--	1,315	--	--	--	1,315
Acquisitions	1	2,602	--	(1,542)	--	1,061
Change in unrealized gain (loss) on investments	--	--	1,240	--	--	1,240
Net income	--	--	--	18,614	--	18,614
Other	--	55	--	(28)	122	149
Balance at December 29, 1996	288	143,978	977	35,882	(482)	180,643
Exercise of stock options	3	3,533	--	--	1	3,537
Tax benefit related to exercise of non-qualified stock options	--	2,339	--	--	--	2,339
Change in unrealized gain (loss) on investments	--	--	(656)	--	--	(656)
Net income	--	--	--	26,853	--	26,853
Other	--	--	--	17	--	17
Balance at December 28, 1997	\$ 291	\$ 149,850	\$ 321	\$ 62,752	\$ (481)	\$ 212,733

See accompanying notes.

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

(In thousands)	Year Ended		
	December 28, 1997	December 29, 1996	December 31, 1995

Operating activities			
Net income	\$ 26,853	\$ 18,614	\$ 11,204
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	13,267	9,063	5,776
Amortization	7,255	5,241	2,960
Deferred income taxes	528	1,956	1,249
Other	(601)	430	239
Changes in operating assets and liabilities:			
Accounts receivable	(2,017)	(2,903)	(4,701)
Inventories	(2,234)	(1,651)	(2,671)
Deferred pre-opening costs	(5,823)	(4,247)	(3,282)
Prepaid expenses and other current assets	(817)	(499)	(22)
Other assets	(827)	(3,253)	(2,074)
Accounts payable	2,043	3,717	2,626
Accrued expenses	5,885	2,630	2,376
Unearned franchise and development fees	1,195	700	829

Net cash provided by operating activities	44,707	29,798	14,509
Investing activities			
Purchase of property and equipment	(43,135)	(28,792)	(32,683)
Purchase of investments	(41,445)	(65,031)	(15,247)
Proceeds from sale or maturity of investments	46,696	26,572	12,387
Loans to franchisees	(12,348)	(7,823)	(420)
Loan repayments from franchisees	2,321	--	--
Deferred systems development costs	(1,989)	(2,614)	(2,078)
Acquisitions	(6,168)	(30)	(673)
Other	316	161	(81)

Net cash used in investing activities	(55,752)	(77,557)	(38,795)
Financing activities			
Proceeds from issuance of long-term debt	--	--	2,000
Payments on long-term debt	(175)	(1,367)	(2,492)
Proceeds from issuance of common stock	--	50,551	30,000
Proceeds from exercise of stock options	3,537	1,431	569
Tax benefit related to exercise of non-qualified stock options	2,339	1,315	1,085
Other	(27)	(12)	255

Net cash provided by financing activities	5,674	51,918	31,417

Net (decrease) increase in cash and cash equivalents	(5,371)	4,159	7,131
Cash and cash equivalents at beginning of year	24,063	19,904	12,773

Cash and cash equivalents at end of year	\$ 18,692	\$ 24,063	\$ 19,904
=====			

See accompanying notes.

Notes to Consolidated Financial Statements

1. Description of Business

Papa John's International, Inc. (the "Company") operates and franchises pizza delivery and carry-out restaurants under the trademark "Papa John's," currently in 41 states and the District of Columbia. Substantially all revenues are derived from retail sales of pizza to the general public by Company-owned restaurants, franchise royalties, sales of franchise and development rights, and sales to franchisees of food and paper products, restaurant equipment, printing and promotional items, and information systems and related services used in their operations.

2. Significant Accounting Policies

Principles of Consolidation

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

Fiscal Year

The Company's fiscal year ends on the last Sunday in December of each year. The 1997 and 1996 fiscal years consisted of 52 weeks and the 1995 fiscal year consisted of 53 weeks.

Use of Estimates

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

Revenue Recognition

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

Cash Equivalents

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

2. Significant Accounting Policies (continued)

Accounts Receivable

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

Inventories

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

Deferred Pre-Opening Costs

Pre-opening costs, which represent certain expenses incurred before a new restaurant or commissary facility opens, are capitalized and amortized on a straight-line basis over a period of one year from the facility's opening date. Total costs deferred were approximately \$5.8 million in 1997, \$4.2 million in 1996 and \$3.0 million in 1995.

In April 1997, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued an Exposure Draft of a Proposed Statement of Position, "Reporting on the Costs of Start-Up Activities" (the "SOP") which, if finalized, would require adoption at the beginning of 1999. The Company's initial application of the SOP would require the write-off of deferred pre-opening costs as of the date of adoption, and such write-off would be reported, on a net of tax basis, as the cumulative effect of a change in accounting principle. The Company does not expect the adoption of the SOP to significantly impact future operating income due to the relative consistency of new facility openings and the length of the current amortization period. Deferred pre-opening costs as of December 28, 1997 were \$3.8 million.

Investments

The Company determines the appropriate classification of investment securities at the time of purchase and reevaluates such designation as of each balance sheet date. All investment securities held by the Company at December 28, 1997, have been classified as available-for-sale. Available-for-sale securities are stated at fair value as determined primarily through quoted market prices. Unrealized gains and losses, net of tax, are reported as a separate component of stockholders' equity. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion, along with interest and dividends earned and realized gains and losses, are included in investment income. The cost of securities sold is based on the specific identification method.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets (generally five to ten years for restaurant, commissary and other equipment, and 20 to 25 years for buildings and improvements).

2. Significant Accounting Policies (continued)

Leasehold improvements are amortized over the terms of the respective leases, including the first renewal period (generally five to ten years).

Systems Development Costs

The Company defers certain systems development and related costs which meet established criteria. Amounts deferred are amortized over periods not exceeding five years beginning in the month subsequent to completion of the related systems project. Total costs deferred were approximately \$2.0 million in 1997, \$2.6 million in 1996, and \$2.1 million in 1995. Unamortized deferred systems development costs were \$4.3 million at December 28, 1997 and \$3.8 million at December 29, 1996, and are reported in other assets in the accompanying balance sheets.

Advertising and Related Costs

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

Earnings per Share

In 1997, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share", which replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Diluted earnings per share is based upon weighted average shares outstanding adjusted for the dilutive effect of stock options. Basic and diluted earnings per share amounts for all periods have been presented, and where appropriate, restated to conform to the SFAS 128 requirements. The calculations of basic and diluted earnings per share for the years ended December 28, 1997, December 29, 1996 and December 31, 1995 are as follows (in thousands, except per share data):

	1997	1996	1995

Basic earnings per share:			
Net income	\$26,853	\$18,614	\$11,204
Weighted average shares outstanding	28,916	28,010	25,139

Basic earnings per share	\$ 0.93	\$ 0.66	\$ 0.45
=====			
Diluted earnings per share:			
Net income	\$26,853	\$18,614	\$11,204
Weighted average shares outstanding	28,916	28,010	25,139
Dilutive effect of outstanding common stock options	676	660	413

Diluted weighted average shares outstanding	29,592	28,670	25,552

Diluted earnings per share	\$ 0.91	\$ 0.65	\$ 0.44
=====			

Options to purchase common stock with an exercise price greater than the average market price were not included in the computation of diluted earnings per share because the effect would have been antidilutive. The number of antidilutive options was 695,000 in 1997, 217,000 in 1996, and 42,000 in 1995.

2. Significant Accounting Policies (continued)

Prior Year Data

Certain prior year data has been reclassified to conform to the 1997 presentation.

Recently Issued Accounting Standards

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income," which is required to be adopted for 1998 interim financial reporting. This Statement will require additional disclosures related to comprehensive income (which includes items such as unrealized gains and losses on available-for-sale securities, not included in the income statement) in the Company's financial statements.

Also in June 1997, the FASB issued SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," which is required to be adopted for 1998 year-end financial reporting. This Statement does not have any impact on the financial results or financial condition of the Company, but may result in certain changes in required disclosures of segment information.

3. Business Combinations

During the second quarter of 1997, the Company acquired four Papa John's restaurants in Arlington, Texas for approximately \$488,000 in cash and 16 Papa John's restaurants in North Carolina for \$5.0 million (consisting of \$4,960,000 in cash and a credit of \$40,000 towards future development fees). A majority ownership interest in the franchisee of the North Carolina restaurants was held by certain directors and officers, including the Chief Executive Officer of the Company.

During the fourth quarter of 1997, the Company acquired three Papa John's restaurants near Denver, Colorado for \$720,000 in cash. These restaurants were owned by the Chief Executive Officer of the Company and his wife.

The above business combinations were accounted for by the purchase method of accounting whereby operating results subsequent to the acquisition date are included in the Company's financial statements.

During the fourth quarter of 1997, the Company acquired a 49% equity ownership interest in Mountain Pizza Group, L.L.C. ("MPG"), an entity which operates seven Papa John's restaurants in Denver, Colorado, for \$150,000 in cash. The operating results of MPG will be accounted for by the equity method of accounting. The 49% equity ownership interest was acquired from the President of the Company, who remains the 51% majority owner of MPG.

During 1996, the Company purchased the assets of four Papa John's restaurants from franchisees for total consideration of approximately \$1.5 million, consisting of 51,800 shares of common stock of the Company (valued at \$1.4 million) and \$30,000 in cash. Additionally during 1996, the Company acquired a franchisee operating eighteen Papa John's restaurants in a transaction accounted for as a pooling of interests. The Company issued 46,593 shares of its common stock (valued at \$1.5 million) and retired \$3.5 million of acquiree debt in connection with this acquisition.

During 1995, the Company purchased the assets of eight Papa John's restaurants from franchisees for total consideration of approximately \$2.0 million, consisting of 54,170 shares of common stock of the Company (valued at \$650,000), \$574,000 in credits toward future development and franchise fees and \$770,000 in cash. Additionally during 1995, the Company acquired franchisees operating 15 Papa John's restaurants in transactions accounted for as poolings of interests. The Company issued 346,080 shares of its common stock (valued at \$6.0 million) and retired \$1.2 million of acquiree debt in connection with these acquisitions.

4. Investments

A summary of the Company's available-for-sale securities as of December 28, 1997 and December 29, 1996 follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value

December 28, 1997				
U.S. Government securities	\$ 1,001	\$ --	\$ (4)	\$ 997
Corporate debt securities	500	--	(1)	499
Municipal bonds	40,073	125	(1)	40,197
Mortgage-backed securities	556	5	--	561
Fixed income mutual funds	10,822	--	(217)	10,605
Equity securities	3,320	736	--	4,056
Interest receivable	1,018	--	--	1,018

Total	\$ 57,290	\$ 866	\$ (223)	\$ 57,933
=====				
December 29, 1996				
U.S. Government securities	\$ 4,003	\$ 11	\$ (17)	\$ 3,997
Corporate debt securities	500	--	(1)	499
Municipal bonds	45,852	142	(1)	45,993
Mortgage-backed securities	1,078	--	(1)	1,077
Fixed income mutual funds	10,822	--	(221)	10,601
Equity securities	--	1,772	--	1,772
Interest receivable	1,128	--	--	1,128

Total	\$ 63,383	\$ 1,925	\$ (241)	\$ 65,067
=====				

The amortized cost and estimated fair value of securities at December 28, 1997, by contractual maturity, are shown below (in thousands). Expected maturities will differ from contractual maturities because the issuers of securities may have the right to prepay obligations without prepayment penalties.

	Amortized Cost	Estimated Fair Value

Due in one year or less	\$ 26,277	\$ 26,322
Due after one year through three years	15,297	15,371
Mortgage-backed securities	556	561
Fixed income mutual funds	10,822	10,605
Equity securities	3,320	4,056
Interest receivable	1,018	1,018

Total	\$ 57,290	\$ 57,933
=====		

5. Net Property and Equipment

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

	1997	1996
Land	\$ 14,219	\$ 10,273
Buildings and improvements	13,478	10,734
Leasehold improvements	35,406	20,169
Equipment and other	70,419	49,496
Construction in progress	11,790	10,841
	145,312	101,513
Less accumulated depreciation and amortization	(32,711)	(20,796)
Net property and equipment	\$ 112,601	\$ 80,717

6. Franchisee Loan Program

During 1996, the Company established a program under which selected franchisees may borrow funds for use in the construction and development of their restaurants. Loans outstanding to franchisees were approximately \$15.1 million as of December 28, 1997 and \$5.1 million as of December 29, 1996. As of December 28, 1997, commitments to lend up to an additional \$4.5 million had been made. Such loans bear interest at fixed or floating rates (ranging from 5.5% to 10.0% at December 28, 1997), and are generally secured by the fixtures, equipment, signage and, where applicable, land of each restaurant and the ownership interests in the franchisee. Interest earned on franchisee loans was approximately \$1.1 million in 1997 and \$153,000 in 1996, and is reported in investment income in the accompanying statements of income. Approximately \$8.0 million of the loans outstanding as of December 28, 1997 were to franchisees in which the Company or certain directors or officers of the Company had an ownership interest.

7. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	1997	1996
Salaries, wages and bonuses	\$ 2,124	\$ 1,738
Taxes other than income	4,045	2,857
Accrued insurance	3,520	1,242
Income taxes	2,495	1,228
Other	2,948	2,172
Total	\$ 15,132	\$ 9,237

8. Long-Term Debt and Credit Arrangements

Long-term debt consists of a \$2.0 million economic development loan (the "Loan") from the State of Mississippi in connection with the opening of a commissary in Jackson, Mississippi. The balance of the loan was \$1.5 million as of December 28, 1997 and \$1.7 million as of December 29, 1996, and is classified in accrued expenses and other long-term liabilities in the accompanying balance sheets.

The Company has a \$10.0 million revolving credit agreement, which expires on June 29, 1998. Outstanding balances accrue interest at 1% below the prime rate or at rates tied to other interest indices at the election of the Company. In the event of any default, the lender has a security interest in the Company's cash account balances maintained with the lender. Letters of credit in the amount of \$2.0 million have been issued under the agreement on the Company's behalf, reducing the remaining borrowing capacity to \$8.0 million at December 28, 1997.

9. Income Taxes

A summary of the provision for income taxes follows (in thousands):

	1997	1996	1995
Current			
Federal	\$ 13,061	\$ 7,658	\$ 4,469
State and local	2,183	1,318	807
Deferred (federal and state)	528	1,956	1,249
Total	\$ 15,772	\$ 10,932	\$ 6,525

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

	1997	1996
Unearned development fees	\$ 1,630	\$ 1,055
Unrealized loss on investments	82	91
Accrued expenses	1,405	263
Other	270	204
Total deferred tax assets	3,387	1,613
Valuation allowance related to unrealized loss on investments	(82)	(84)
Net deferred tax asset	3,305	1,529
Deferred expenses	(3,158)	(2,107)
Accelerated depreciation	(3,833)	(2,594)
Unrealized gain on warrant	(270)	(656)
Other	(133)	(129)
Total deferred tax liabilities	(7,394)	(5,486)
Net deferred tax liability	\$ (4,089)	\$ (3,957)

9. Income Taxes (continued)

The reconciliation of income tax computed at the U.S. federal statutory rate to income tax expense for the years ended December 28, 1997, December 29, 1996 and December 25, 1995 is as follows (in thousands):

	1997	1996	1995
Tax at U.S. federal statutory rate	\$ 14,919	\$ 10,341	\$ 6,063
State and local income taxes	1,459	1,011	567
Tax exempt investment income	(783)	(788)	(188)
Other	177	368	83
Total	\$ 15,772	\$ 10,932	\$ 6,525

Income taxes paid were \$11.0 million in 1997, \$6.5 million in 1996 and \$3.2 million in 1995.

10. PJ America, Inc. Stock Warrant

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

The Company did not recognize income in connection with receipt of the warrant. The warrant is classified as an available-for-sale security, and accordingly, is stated at fair value in the balance sheet, with unrealized gains, net of tax, reported as a separate component of stockholders' equity.

The fair value of the warrant was \$731,250 on December 28, 1997, based upon a closing price per share of \$14.50 for PJ America common stock on that date, and is reported in investments in the accompanying balance sheets. The intrinsic value of the warrant (market value of PJ America common stock less the exercise price of the warrant) is considered a reasonable approximation of the fair value of the warrant.

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

11. Related Party Transactions

Certain officers and directors of the Company own equity interests in entities that operate and/or have rights to develop franchised restaurants. Prior to the Company's initial public offering of common stock in June 1993, certain of these affiliated entities entered into agreements to acquire area development rights at reduced development fees and also pay reduced initial franchise fees when restaurants are opened. All such entities pay royalties at the same rate as other franchisees. Following is a summary of transactions and balances with affiliated entities (in thousands):

	1997	1996	1995

Revenues from affiliates:			
Commissary sales	\$47,153	\$35,972	\$26,180
Equipment and other sales	8,187	5,628	4,265
Franchise royalties	6,265	4,512	3,518
Franchise and development fees	1,381	900	710

Total	\$62,986	\$47,012	\$34,673
=====			
Other income	\$ 514	\$ 85	\$ 48
=====			
Accounts receivable-affiliates	\$ 2,454	\$ 2,932	\$ 2,093
=====			
Notes receivables-affiliates	\$ 7,997	\$ 2,407	\$ 728
=====			

During 1997, the Company acquired full or partial ownership in 26 Papa John's restaurants from related parties (see Note 3).

The Company paid \$689,000 in 1997, \$515,000 in 1996 and \$149,000 in 1995 for charter aircraft services provided by entities owned by certain directors and officers, including the Chief Executive Officer, of the Company.

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

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

12. Lease Commitments

The Company leases office, retail and commissary space under operating leases with terms generally ranging from three to five years and providing for at least one renewal. Certain leases further provide that the lease payments may be increased annually based on the Consumer Price Index. The Company also leases certain equipment under operating leases with terms ranging from three to seven years. Future minimum lease payments are as follows: 1998 - \$8.3 million; 1999 - \$7.0 million; 2000 - \$5.6 million; 2001 - \$3.9 million; 2002 - \$1.9 million; and thereafter - \$3.3 million. Total rent expense was \$7.9 million in 1997, \$4.6 million in 1996 and \$3.2 million in 1995.

13. Stock Options

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

The Company awards stock options under the Papa John's International, Inc. 1993 Stock Ownership Incentive Plan (the "Incentive Plan") and the Papa John's International, Inc. 1993 Non-Employee Directors Stock Option Plan (the "Directors Plan"). Shares of common stock authorized for issuance are 4,737,500 under the Incentive Plan and 270,000 under the Directors Plan. On February 26, 1998, the Board of Directors amended the Incentive Plan to increase the number of shares available for issuance under the Plan to 6,000,000 shares. The amendment will be submitted for stockholder approval at the Annual Meeting of Stockholders scheduled for May 21, 1998. Options granted under both plans generally expire ten years from the date of grant and vest over one to five year periods, except for options awarded under a multi-year operations compensation program which vest immediately upon grant.

Pro forma information regarding net income and earnings per share is required by SFAS 123, which also requires that the information be determined as if the Company has accounted for its employee stock options granted subsequent to December 25, 1994 under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1997 and 1996, respectively: risk-free interest rates of 5.7% and 5.9%; a dividend yield of 0%; volatility factors of the expected market price of the Company's common stock of .47; and a weighted-average expected life of the options of 3.6 years.

13. Stock Options (continued)

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

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

	1997	1996	1995
Pro forma net income	\$19,754	\$14,772	\$10,922
Pro forma earnings per share:			
Basic	\$ 0.68	\$ 0.53	\$ 0.43
Diluted	\$ 0.67	\$ 0.52	\$ 0.43

Because SFAS 123 is applicable only to options granted subsequent to December 25, 1994, its pro forma effect will not be fully reflected until a complete five years of vesting occurs for 1995 option awards in 2000.

Information pertaining to options for 1997, 1996 and 1995 is as follows (number of options in thousands):

	1997		1996		1995	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Outstanding-beginning of year	3,532	\$20.98	1,725	\$12.01	1,188	\$ 6.46
Granted	2,259	29.30	2,108	27.31	903	17.07
Exercised	351	10.09	180	7.13	240	2.61
Cancelled	243	25.91	121	19.04	126	11.48
Outstanding-end of year	5,197	\$25.28	3,532	\$20.98	1,725	\$12.01
Exercisable-end of year	1,567	\$21.96	870	\$13.19	421	\$ 3.63
Weighted-average fair value of options granted during the year	\$10.22		\$ 9.65		\$ 5.03	

13. Stock Options (continued)

The number, weighted-average exercise price and weighted-average remaining contractual life of options outstanding as of December 28, 1997, and the number and weighted average exercise price of options exercisable as of December 28, 1997 follow (number of options in thousands):

	Range of Exercise Prices	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Life
Outstanding options:	\$ 5.44 - \$ 9.99	206	\$ 6.33	5.59
	10.00 - 19.99	1,168	16.04	7.63
	20.00 - 38.50	3,823	29.13	9.23
Total		5,197	\$25.28	8.73
Exercisable options:	\$ 5.44 - \$ 9.99	160	\$ 6.08	
	10.00 - 19.99	683	16.33	
	20.00 - 38.50	724	30.79	
Total		1,567	\$21.96	

As of December 28, 1997, approximately 75,750 shares were available for future issuance under the Directors Plan. Contingent upon approval by the Company's stockholders of the amendment to the Incentive Plan described above, 593,000 shares were available at December 28, 1997 for future issuance under such Plan.

14. Defined Contribution Benefit Plan

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

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

Quarter	1st		2nd		3rd		4th	
	1997	1996	1997	1996	1997	1996	1997	1996
Total revenues	\$109,643	\$76,726	\$126,212	\$87,680	\$128,252	\$92,729	\$144,677	\$102,917
Operating income	8,382	5,024	9,200	5,801	9,697	6,519	11,915	8,285
Net income	5,693	3,519	6,271	4,232	6,854	4,914	8,035	5,949
Basic earnings per share	\$.20	\$.13	\$.22	\$.15	\$.24	\$.17	\$.28	\$.21
Diluted earnings per share	\$.19	\$.13	\$.21	\$.15	\$.23	\$.17	\$.27	\$.20

All quarterly information above is presented in 13 week periods.

Report of Management

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

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

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

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

We have audited the accompanying consolidated balance sheets of Papa John's International, Inc. and subsidiaries (the "Company") as of December 28, 1997 and December 29, 1996, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 28, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Papa John's International, Inc. and subsidiaries at December 28, 1997 and December 29, 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 28, 1997, in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP

*Louisville, Kentucky
February 27, 1998*

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Items 10, 11, 12 and 13. Directors and Executive Officers of the Registrant; Executive Compensation; Security Ownership of Certain Beneficial Owners and Management; and Certain Relationships and Related Transactions.

The information required by these items, other than the information set forth in this Report under Part I, "Executive Officers of the Registrant," is omitted because the Company is filing a definitive proxy statement pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Report which includes the required information. Such information is incorporated herein by reference.

PART IV

Item 14. Exhibits, Consolidated Financial Statement Schedules and Reports on Form 8-K

(a)(1) Consolidated Financial Statements:

The following consolidated financial statements, notes related thereto and report of independent auditors are included in Item 8 of this Report:

Consolidated Statements of Income for the years ended December 28, 1997, December 29, 1996 and December 31, 1995 Consolidated Balance Sheets as of December 28, 1997 and December 29, 1996

Consolidated Statements of Stockholders' Equity for the years ended December 28, 1997, December 29, 1996 and December 31, 1995

Consolidated Statements of Cash Flows for the years ended December 28, 1997, December 29, 1996 and December 31, 1995 Notes to Consolidated Financial Statements Report of Independent Auditors

(a)(2) Consolidated Financial Statement Schedules:

All schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are not applicable and therefore have been omitted.

(a)(3) Exhibits:

3.1 The Company's Amended and Restated Certificate of Incorporation.

Exhibit 3.1 to the Company's Registration Statement on Form S-1 (Registration No. 33-61366) is incorporated herein by reference.

3.2 The Company's Restated By-Laws. Exhibit 3.2 to the Company's Registration Statement on Form S-1 (Registration No. 33-61366) is incorporated herein by reference.

3.3 Certificate of Amendment of Amended and Restated Certificate of Incorporation of Papa John's International, Inc. Exhibit 3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 29, 1997, is incorporated herein by reference.

4.1 Specimen Common Stock Certificate. Exhibit 4.1 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995 (Commission File No. 0-21660) is incorporated herein by reference.

4.2 Amended and Restated Certificate of Incorporation and Restated By- Laws (See 3.1, 3.2 and 3.3 above).

*10.1 Consulting Agreement dated March 29, 1991, between the Company and Richard F. Sherman. Exhibit 10.4 to the Company's Registration Statement on Form S-1 (Registration No. 33-61366) is incorporated herein by reference.

10.2 Lease dated November 7, 1990, including amendments I, II and III thereto, between the Company and CWK #7, a Texas limited partnership, relating to the Company's corporate offices. Exhibit 10.5 to the Company's Registration Statement on Form S-1 (Registration No. 33- 61366) is incorporated herein by reference.

10.3 Lease dated November 9, 1990, including amendments thereto, between the Company and Crow-Kessler, a Texas limited partnership, relating to the Company's commissary and distribution facility in Louisville, Kentucky. Exhibit 10.6 to the Company's Registration Statement on Form S-1 (Registration No. 33-61366) is incorporated herein by reference.

10.4 Lease dated January 15, 1993, between the Company and CWK #7, a Texas limited partnership, relating to the Company's corporate offices. Exhibit 10.7 to the Company's Registration Statement on Form S-1 (Registration No. 33-61366) is incorporated herein by reference.

*10.5 Papa John's International, Inc. 1993 Stock Ownership Incentive Plan.

Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended September 29, 1996, is incorporated herein by reference.

*10.6 Papa John's International, Inc. 1993 Stock Option Plan for Non- Employee Directors. Exhibit 10.3 to the Company's quarterly report on Form 10-Q for the quarter ended September 29, 1996, is incorporated herein by reference.

*10.7 Employment and Non-Competition Agreement dated January 1, 1993, between the Company and Richard J. Emmett. Exhibit 10.14 to the Company's Registration Statement on Form S-1 (Registration No. 33- 61366) is incorporated herein by reference.

10.8 The Company's standard Franchise Agreement. Exhibit 10.8 to the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 1996, is incorporated herein by reference.

- 10.9 Lease dated May 14, 1993, between PJ Food Service, Inc. and Sample Properties relating to the Company's commissary facility in Raleigh, North Carolina. Exhibit 10.16 to the Company's Registration Statement on Form S-1 (Registration No. 33-61366) is incorporated herein by reference.
- 10.10 Amendment IV to Lease dated November 7, 1990 (and related leases), by and between the Company and CWK #7, a Texas limited partnership, relating to the Company's corporate offices. Exhibit 10.17 to the Company's Registration Statement on Form S-1 (Registration No. 33-73530) is incorporated herein by reference.
- 10.11 Lease dated November 1, 1993, between PJ Food Service, Inc. and Jackson Developers, LLC, a Missouri limited liability company, relating to the Company's commissary and distribution facility in Jackson, Mississippi. Exhibit 10.18 to the Company's Registration Statement on Form S-1 (Registration No. 33-73530) is incorporated herein by reference.
- 10.12 Second Amended and Restated Loan Agreement, and related promissory note, each dated June 30, 1995, between the Company and PNC Bank, Kentucky, Inc. Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarterly period ended June 25, 1995 (Commission File No. 0-21660) is incorporated herein by reference.
- 10.13 Amendment V to Lease dated November 7, 1990 (and related leases), by and between the Company and CWK #7, a Texas limited partnership, relating to the Company's corporate offices. Exhibit 10.22 to the Company's Registration Statement on Form S-1 (Registration No. 33-73530) is incorporated herein by reference.
- 10.14 Loan Agreement among Mississippi Business Finance Corporation (acting for and on behalf of the State of Mississippi), Bank of Mississippi (as Servicing Trustee) and PJFS of Mississippi, Inc. Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended March 27, 1994 (Commission File No. 0-21660) is incorporated herein by reference.
- 10.15 Amendment VI to Lease dated November 7, 1990 (and related leases), by and between the Company and CWK #7, a Texas Partnership, relating to the Company's corporate offices. Exhibit 10.28 to the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 1994 (Commission File No. 0-21660) is incorporated herein by reference.
- 10.16 Third Amended and Restated Loan Agreement dated June 30, 1996, between the Company and PNC Bank, Kentucky, Inc. Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarterly period ended September 29, 1996, is incorporated herein by reference.
- 10.17 Agreement and Plan of Merger dated December 1, 1995, by and among Papa John's International, Inc., Papa John's USA, Inc., Kentuckiana Pizza, Ltd., Kentuckiana

Pizza, Ltd., II (Collectively, "Kentuckiana Pizza") and all of the stockholders of Kentuckiana Pizza. Exhibit 2.1 to the Company's Current Report on Form 8-K dated December 1, 1995 (Commission File No. 0-21660) is incorporated herein by reference.

- 10.18 Agreement and Plan of Merger dated October 16, 1995 by and among Papa John's International, Inc., Papa John's USA, Inc., NRG, Inc. ("NRG") and all of the stockholders of NRG. Exhibit 2.2 to the Company's Current Report on Form 8-K dated December 1, 1995 (Commission File No. 0-21660) is incorporated herein by reference.
- *10.19 1996 Papa John's International, Inc. Executive Option Program. Exhibit 10.26 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, is incorporated herein by reference.
- 10.20 Lease dated November 29, 1995 between PJ Food Service, Inc. and Arlington-OP&F, Inc. relating to the Company's distribution facility in Dallas, Texas. Exhibit 10.28 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, is incorporated herein by reference.
- 10.21 Lease dated January 3, 1996, between PJ Food Service, Inc. and Fraser, L.L.C. relating to the Company's commissary and distribution facility in Denver, Colorado. Exhibit 10.29 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, is incorporated herein by reference.
- 10.22 Amendment VII to Lease dated November 7, 1990 (and related leases) between the Company and CWK #7 Limited Partnership, related to the Company's corporate offices. Exhibit 10.30 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, is incorporated herein by reference.
- 10.23 Lease dated January 23, 1996, between PJ Food Service, Inc. and CWK #8 relating to commercial and corporate office space in Louisville, Kentucky. Exhibit 10.31 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, is incorporated herein by reference.
- 10.24 Agreement for Purchase and Sale of Real Estate dated February 28, 1996, by and between Papa John's USA, Inc., NTS/Crossings Corporation and NTS Bluegrass Commonwealth Park, relating to approximately 6 acres of land in Louisville, Kentucky. Exhibit 10.32 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, is incorporated herein by reference.
- 10.25 Lease dated September 30, 1996, between PJ Food Service, Inc. and Opus Southwest corporation relating to the Company's commissary and distribution facility opened in Tempe, Arizona. Exhibit 10.27 to the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 1996, is incorporated herein by reference.

- 10.26 Sublease dated January 16, 1997, between PJ Food Service, Inc. and Distribution Unlimited, Inc. relating to the Company's commissary and distribution facility opened in Rotterdam, New York.
- 10.27 Lease dated August 30, 1996, between PJ Food Service, Inc. and A. Terry Moss and Ira E. White relating to the Company's commissary and distribution facility opened in Des Moines, Iowa. Exhibit 10.29 to the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 1996, is incorporated herein by reference.
- *10.28 Amendment to Papa John's International, Inc. 1993 Stock Ownership Incentive Plan. Exhibit 10 to the Company's quarterly report on Form 10-Q for the quarter ended June 29, 1997, is incorporated herein by reference.
- 10.29 Discretionary Line of Credit dated June 30, 1997, between the Company and PNC Bank, Kentucky, Inc. Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended September 28, 1997, is incorporated herein by reference.
- *10.30 Amendment to Chief Operating Officer Agreement dated October 9, 1997, by and between the Company and Wade S. Oney. Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended September 28, 1997, is incorporated herein by reference.
- 10.31 Lease dated November 27, 1997 by and between the Company and SF Property Investments, LLC, an Oregon limited liability corporation, relating to the Company's commissary and distribution facility to be opened in Portland, Oregon.
- 10.32 Amendment II to Lease dated November 9, 1990 between the Company and Crow-Kessler, a Texas limited partnership, relating to the Company's commissary and distribution facility in Louisville, Kentucky.
- 10.33 Amendment VIII to Lease dated November 7, 1990 (and related leases) between the Company and CWK #7 Limited Partnership, related to the Company's corporate offices.
- 10.34 First Lease Modification Agreement to Lease dated May 14, 1993 between PJ Food Service, Inc., and Sample Properties relating to the Company's commissary and distribution facility in Raleigh, North Carolina.
- 10.35 First Amendment to Lease dated November 29, 1995 between PJ Food Service, Inc. and Arlington-OP&F, Inc. relating to the Company's distribution facility in Dallas, Texas.
- 10.36 Amendment IX to Lease dated November 7, 1990 (and related leases) between the Company and CWK #7 Limited Partnership, related to the Company's corporate offices.
- 10.37 Amendment III to Lease dated November 9, 1990 between the Company and Crow-Kessler, a Texas limited partnership, relating to the Company's commissary and distribution facility in Louisville, Kentucky.
- 21 Subsidiaries of the Company:
 - (a) PJ Food Service, Inc., a Kentucky corporation
 - (b) Papa John's USA, Inc., a Kentucky corporation
 - (c) Printing & Promotions, Inc., a Kentucky corporation
 - (d) PJFS of Mississippi, Inc., a Mississippi corporation
 - (e) Risk Services Corp., a Kentucky corporation
 - (f) Capital Delivery, Ltd., a Kentucky corporation
- 23 Consent of Ernst & Young LLP
- 27.1 Financial Data Schedule which is submitted electronically to the Securities and Exchange Commission for information only and not deemed to be filed with the Commission.
- 27.2 Restated Financial Data Schedule including columns for the quarters ended September 28, 1997, June 29, 1997 and March 30, 1997 and fiscal year ended December 29, 1996. The schedule is submitted electronically to the Securities and Exchange Commission for information only and is not deemed to be filed with the Commission.
- 27.3 Restated Financial Data Schedule including columns for the quarters ended September 29, 1996, June 30, 1996 and March 31, 1996 and fiscal year ended December 31, 1995. The schedule is submitted electronically to the Securities and Exchange Commission for

information only and is not deemed to be filed with the Commission.

99.1 Cautionary Statements.

*Compensatory plan required to be filed as an exhibit pursuant to Item 14(c) of Form 10-K.

(b) Reports on Form 8-K

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

(c) Exhibits

The response to this portion of Item 14 is submitted as a separate section of this report.

(d) Consolidated Financial Statement Schedules

All schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are not applicable and therefore have been omitted.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 19, 1998

PAPA JOHN'S INTERNATIONAL, INC.

By: /s/ John H. Schnatter

John H. Schnatter, Chairman and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<i>Signature</i>	<i>Title</i>	<i>Date</i>
-----	-----	-----
/s/ John H. Schnatter ----- John H. Schnatter	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	March 19, 1998
/s/ Charles W. Schnatter ----- Charles W. Schnatter	Senior Vice President, Secretary, General Counsel and Director	March 19, 1998
/s/ Blaine E. Hurst ----- Blaine E. Hurst	President and Director	March 19, 1998
/s/ O. Wayne Gaunce ----- O. Wayne Gaunce	Director	March 19, 1998
/s/ Jack A. Laughery ----- Jack A. Laughery	Director	March 19, 1998
/s/ Michael W. Pierce ----- Michael W. Pierce	Director	March 19, 1998

Signature	Title	Date
----- /s/ Richard F. Sherman ----- Richard F. Sherman	Director	March 19, 1998
----- /s/ E. Drucilla Milby ----- E. Drucilla Milby	Chief Financial Officer and Treasurer (Principal Financial Officer)	March 19, 1998
----- /s/ J. David Flanery ----- J. David Flanery	Vice President and Corporate Controller (Principal Accounting Officer)	March 19, 1998

EXHIBIT INDEX

Exhibit Number	Description of Exhibit	Sequentially Numbered Page
10.26	Sublease dated January 16, 1997, between PJ Food Service, Inc. and Distribution Unlimited, Inc. relating to the Company's Commissary and Distribution Facility opened in Rotterdam, New York.	
10.31	Lease dated November 21, 1997 by and between the Company and SF Property Investments, LLC, an Oregon limited liability corporation, relating to the Company's commissary and distribution facility to be opened in Portland, Oregon.	
10.32	Amendment II to Lease dated November 9, 1990 between the Company and Crow-Kessler, a Texas limited partnership, relating to the Company's commissary and distribution facility in Louisville, Kentucky.	
10.33	Amendment VIII to Lease dated November 7, 1990 (and related leases) between the Company and CWK #7 Limited Partnership, related to the Company's corporate offices.	
10.34	First Lease Modification Agreement to Lease dated May 14, 1993 between PJ Food Service, Inc., and Sample Properties relating to the Company's commissary and distribution facility in Raleigh, North Carolina.	
10.35	First Amendment to Lease dated November 29, 1995 between PJ Food Service, Inc. and Arlington-OP&F, Inc. relating to the Company's distribution facility in Dallas, Texas.	
10.36	Amendment IX to Lease dated November 7, 1990 (and related leases) between the Company and CWK #7 Limited Partnership, related to the Company's corporate offices.	
10.37	Amendment III to Lease dated November 9, 1990 between the Company and Crow-Kessler, a Texas limited partnership, relating to the Company's commissary and distribution facility in Louisville, Kentucky.	
21	Subsidiaries of the Company	
23	Consent of Ernst & Young LLP	
27.1	Financial Data Schedule which is submitted electronically to the Securities and Exchange Commission for information only and is not deemed to be filed with the Commission.	
27.2	Restated Financial Data Schedule including columns for the quarters ended September 28, 1997, June 29, 1997 and March 30, 1997 and fiscal year ended December 29, 1996. The schedule is submitted electronically to the Securities and Exchange Commission for information only and is not deemed to be filed with the Commission.	
27.3	Restated Financial Data Schedule including columns for the quarters ended September 29, 1996, June 30, 1996 and March 31, 1996 and fiscal year ended December 31, 1995. The schedule is submitted electronically to the Securities and Exchange Commission for information only and is not deemed to be filed with the Commission.	
99.1	Cautionary Statements	

Exhibit 10.26

SUBLEASE AGREEMENT

for

**BUILDING 14, BAY 2
ROTTERDAM INDUSTRIAL PARK
ROTTERDAM, NEW YORK**

between

**DISTRIBUTION UNLIMITED, INC.
ROTTERDAM INDUSTRIAL PARK
BUILDING 6
ROTTERDAM, NEW YORK 12306**

and

**P.J. FOOD SERVICE, INC.
11460 BLUEGRASS PARKWAY
LOUISVILLE, KENTUCKY 40299**

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SUBLEASE AGREEMENT

THIS SUBLEASE made as of the 16th day of January, 1997, between Distribution Unlimited, Inc., Rotterdam Industrial Park, Building 6, Rotterdam, New York 12306, hereinafter referred to as the "Sublessor" and P.J. Food Service, Inc., a Delaware corporation which has a business office at 11460 Bluegrass Parkway, Louisville, Kentucky 40299, hereinafter referred to as the "Sublessee".

WITNESSETH that the Sublessor hereby subleases to the Sublessee and the Sublessee hereby hires and takes from the Sublessor those premises described as Bay 2, Building 14 located in Rotterdam Industrial Park, Town of Rotterdam, County of Schenectady, State of New York, hereinafter referred to as the "Demised Premises", as shown on the map attached hereto and made a part hereof, as Exhibit "B"; said Demised Premises being 44,620 square feet, which includes the 1,400 square foot enclosed loading dock on the north side of Building 14, as measured in accordance with the BOMA Standard Method of Measurement, American National Standard Section Z65.1, which states that the rentable area of a floor shall be computed by measuring to the center of the dominant portion of the permanent outer buildings walls, and Sublessor hereby grants to Sublessee its guests, invitees and licensees all easements, rights and privileges appurtenant thereto including the right to use, in common with others, the loading dock adjacent to Bay 1 servicing the Demised Premises, the adjoining parking areas, driveways, roads, alleys, means of ingress and egress and other portions of the other areas ("Common Areas") in common use by owners or lessees of the Rotterdam Industrial Park and Sublessor agrees that it will not, during the term of this Sublease, alter those portions of the Common Areas shown in yellow on Exhibit "B" so as to materially and adversely affect ingress and egress to and from the Demised Premises or parking adjacent to the Demised Premises. The foregoing subleasing shall (be upon the terms and conditions hereinafter set forth, and the Sublessee does hereby covenant with the Sublessor as follows:

1. **TERM:** The initial term of this Sublease shall be for a period of approximately four (4) years and eleven (11) months commencing on the earlier to occur of (i) January 31, 1997 or (ii) the date that Sublessee first commences normal business operations in any portion of the Demised Premises (the earlier of such two dates being hereinafter referred to as the "Term Commencement Date") and ending December 31, 2001 ("Initial Term"). Commencing as of the date hereof, Sublessee shall be entitled to enter upon the Demised Premises for the purpose of making same ready for Sublessee's use.

2. **RENTAL:** Commencing with the date Sublessee first enters the Demised Premises, Sublessee shall be responsible for the payment of all utility costs and Common Area charges allocable to the Demised Premises. As rental for the Demised Premises for the Initial Term the Sublessee hereby agrees to pay the Sublessor without deduction, setoff, prior notice or demand the sums as outlined in Exhibit A--Rental and Term Schedule, in advance on the Term Commencement Date (to the extent of any partial month's rent due because the Term Commencement Date is not the first day of a calendar month) and thereafter on the first day of each and every month, said rental to be paid to the Sublessor by good check mailed to Sublessor at P.O. Box 98, Guilderland Center, New York 12085 or delivered to Sublessor's offices at Building 6, East Road, Rotterdam Industrial Park, Schenectady, New York, or at such other place or places as the Sublessor may from time to time direct. Sublessee shall pre-pay the first full month's rent and last months' rental at Sublease signing. The Sublessee shall pay a "late charge" of two (2%) percent per month from the due date of any installment of rental (Fixed Minimum, or other as may be construed as rent) if said rental payment not is made within three (3) days after receipt of telephone notice that said amount is past due. Nothing herein contained shall be deemed to limit any right or remedy which the Sublessor may have under this Sublease, at law or in equity,

3. **CONDITION OF PREMISES:** The Sublessee covenants that the Sublessee has examined the Demised Premises, knows the condition thereof and acknowledges

that the same are accepted "as is", subject to the warranties as set forth hereafter. Sublessee shall comply with the requirements of the Occupational Safety and Health Act of 1970 and all other applicable laws relating to occupational safety and health and rules and regulations promulgated thereunder, and the Sublessee shall further comply with all laws, rules and regulations of the State of New York and any department agency, board, or political sub-division of the State pertaining to building construction or safety applicable to either the Sublessee or the Sublessor and shall hold the Sublessor harmless therefrom. Nothing herein shall be construed as preventing the Sublessor from taking such action as it shall deem necessary for the protection of its interests in respect to any order, decree, judgment or other act of any Federal or State department, agency or board.

4. UTILITIES: The Sublessor or the local public utility shall provide and maintain the necessary mains, ducts and conduits in order to bring water, electricity and natural gas service to the Demised Premises and to carry sewage therefrom. All means of distribution of such services within the Demised Premises shall be supplied and maintained by the Sublessee at the Sublessee's expense.

a. ELECTRICAL: The Sublessee shall make known to the Sublessor its electricity requirements at or prior to the execution of this Sublease. In the event the Sublessee requires additional capacity, any additional risers, feeders, meters, wiring or other equipment required thereby shall be installed by the Sublessor or a qualified contractor upon the Sublessee's request and at the Sublessee's cost and expense, provided, however, that in the Sublessor's sole judgment, the same are reasonably necessary and will not cause permanent damage or injury to the Demised Premises or cause or create a dangerous or hazardous condition or entail excessive alterations, repairs or expense or unreasonably or materially interfere with or disturb other lessees. If, at the time of the commencement of this Sublease, the Demised Premises shall be unmetered for electricity consumption, the Sublessor shall cause such metering device or devices to be installed as the Sublessor shall deem necessary and the cost of such device, together with the expense of installing the same, shall not be paid by the Sublessee. If such electrical service is directly with the Niagara Mohawk Power Corporation, Sublessee shall request service in its own name prior to entering upon the Demised Premises and pay such costs directly to Niagara Mohawk Power Corporation.

b. WATER: The Sublessor shall install, or cause to be installed, at no cost to Sublessee, a water meter and thereby measure the Sublessee's water consumption. Throughout the duration of the Sublessee's occupancy, the Sublessee shall keep such meter and installation equipment in good working order and repair at its own expense. In the event of activation of the unmetered sprinkler system due to fire or acts of Sublessee, Sublessor shall render a bill for water consumption based on output per sprinkler head times the duration of sprinkler flow. The cost of water is to be the then current charge by the municipality. Sublessee is to make payment directly to the utility company supplying such water. Sublessor warrants that a water line of at least 2" or greater delivering at a constant flow of 60 to 80 PSI services the Demised Premises.

c. SEWER: Sublessee is to make payment, upon presentation of a bill by Sublessor, for the then current sewage charge by the municipality for the Demised Premises, and the amount thereof shall be deemed Additional Rent hereunder. Lessor warrants that a sewer line of at least 6" or greater services the Demised Premises.

d. FUEL OIL AND/OR NATURAL GAS AND/OR LP GAS: Sublessee is to contract for and pay all costs of liquid or gas fuels directly to supplier, provided service to the Demised Premises shall not be the obligation and expense of the Sublessee. Sublessor warrants that a gas line of at least 2" or greater delivering at a constant flow of 1.5 PSI to the Demised Premises.

e. SPRINKLERS: Sprinklers and sprinkler systems now existing in said Demised Premises shall be maintained and serviced by the Sublessor, provided, however, that if any such system or any of its appliances shall be damaged or injured or rendered otherwise than in proper working order by reason of any act or omission of the Sublessee, the Sublessee's agents, servants, employees, licensees or visitors, the Sublessee shall forthwith restore such equipment to good working condition and order at its own expense. If by reason of the acts or operations of the Sublessee, the New York Board of Fire Underwriters or the New York Fire Insurance Exchange or any bureau, department or official of the state or municipal government requires or recommends any change in such sprinklers or sprinkler system or if any change is necessary to prevent the imposition of a penalty or charge against the full allowance for a sprinkler system in the fire insurance rate as fixed by such exchange or by any fire insurance company, the Sublessee shall at its own expense promptly make such change; provided said change is a direct consequence of Sublessee's particular use of the Demised Premises. In the event said change is incident to the general usage of the Demised Premises as warehouse, industrial or distribution uses, Sublessee shall not be obligated to perform same at its expense. Any changes whatsoever in the sprinkler system desired by the Sublessee must be submitted to the Sublessor for the review and approval of the Sublessor's insurer.

In the event the Sublessee shall fail to pay any tax, rent, levy or charge for any utility service, which by reason of such non-payment may become a lien upon any part of the premises of the Sublessor, the Sublessor may, upon ten (10) days' written notice thereof to the Sublessee, make payment of such tax, rent, levy or charge together with any interest, penalties or other accruals due thereon, and upon such payment the amount thereof shall immediately become due and payable by the Sublessee to the Sublessor as rent hereunder.

The Sublessor may interrupt or suspend the supply of any such service to the Demised Premises in order to make any necessary repair or alteration to the Demised Premises or to any other building or other part of the premises of the Sublessor provided Sublessor notifies Sublessee, in writing, promptly after receiving notice thereof from any utility or governmental authority of any scheduled suspension of such service, and, in the case of a suspension of service necessitated by any activity of Sublessor or its affiliates, upon not less than ten (10) days' written notice sent prior to the Sublessee of the date for the commencement of any necessary repair or alteration. Said notice shall not be applicable in the event of an emergency involving the endangerment of life or the preservation of property from imminent destruction. There shall be no abatement in rent because of any such interruption or suspension provided that such repairs or alterations shall be made with reasonable diligence and provided further that any repair or alteration made by Sublessor shall not unreasonably interfere with the Sublessee's business. The Sublessor may at any time during the term of this Sublease assign, convey, transfer or set over to any municipality having jurisdiction or to any public utility corporation or private water corporation or sewage disposal corporation any or all of the Sublessor's right, title and interest in and to such public utility facilities and thereupon require the Sublessee to make payment for such services to such assignee, municipality, firm or corporation in accordance with such rates as such assignee may establish. Upon any such conveyance, assignment or transfer, there

shall be no abatement of rent due and payable hereunder by reason of any interruption of such service resulting from the act or fault of such assignee, provided further that such conveyance, assignment or transfer shall not unreasonably interfere with the Sublessee's business.

5. **ADDITIONAL RENT:** In addition to the rental herein provided, the Sublessee shall pay to the Sublessor as Additional Rent within twenty (20) days, that proportion of any real property taxes and assessments levied or assessed against the premises of which the Demised Premises are a unit, either school tax or town tax, as the total net rental area within the Demised Premises bears to the total net rental area within the building or buildings or land area, including the Demised Premises, which are included in the unit so taxed or assessed. The Sublessee shall also pay to the Sublessor as Additional Rent, similarly computed, premium rate charges incurred by the Sublessor with respect to insurance on the Demised Premises for general liability, fire and extended coverage. Such amounts shall be paid by the Sublessee to the Sublessor within ten (10) days after the receipt by the Sublessee of written notice thereof from the Sublessor. As of the date immediately preceding execution of this Sublease, Sublessor represents that the Demised Premises are listed on the applicable assessment rolls as being exempt from all real estate taxes. Sublessor agrees not to take any action to seek to have the Demised Premises become subject to real estate taxation. Nevertheless, should the Demised Premises become subject to any real estate taxes, Sublessee's liability or obligation for payment shall not exceed \$33,465.00 (thirty-three thousand four hundred sixty-five and 00/100 dollars) (calculated by multiplying \$.15 x 44,620 square feet x 5 years) in the aggregate over the Initial Term.

6. **SERVICES - ADDITIONAL RENT:** The Sublessee shall initially pay to the Sublessor as Additional Rent, as and when billed by the Sublessor, \$.30 per square foot annual cost, paid monthly, for security and common area maintenance. The \$.30 is an estimated amount expected due for the first year, or part thereof, which is subject to adjustments detailed later in the Sublease.

Security and Common Area Maintenance: The charges for maintaining security and common area maintenance, as hereinbefore defined, shall include, but not be limited to, the costs of replacing, operating, managing, equipping, cleaning, lighting, repairing, and removing snow from main roads, ingress and egress thereto and parking areas (but excluding dock areas), landscaping and gardening, striping, sign, rail track maintenance and repair, traffic and safety control (including personnel), security personnel, maintenance and costs of labor, insurance materials and supplies, and the Sublessor's administrative and overhead costs for said services, which administrative and overhead costs shall be charged in the same manner as such costs are charged to other tenants in Rotterdam Industrial Park. The Sublessee shall pay its proportionate share, as hereinafter defined, of the total costs of security and common area maintenance in the manner hereinafter stated.

In computing the charges for security and common area maintenance, as provided above, the Sublessee's proportionate share, currently 1.2%, shall be deemed to be the ratio of the total square footage of the floor area of the Demised Premises, presently 44,620, to the total square footage of the floor area of the entire industrial park, presently 3,743,204.

Sublessor shall furnish the Sublessee a written estimate of the Sublessee's proportionate share of the charges specified above for the first calendar year or portion thereof, or for the next succeeding calendar year, as the case may be, and said charges shall be paid monthly with Fixed Minimum Rent, in advance commencing on the first day of the first Sublease Year. Charges for the first and last Sublease Years shall be on a pro rata basis based upon twelve (12) thirty (30) day months.

Demised Premises or part thereof for any immoral or any other purpose prohibited by law or which will increase the rate of insurance upon the building in which said Demised Premises may be located or cause a cancellation of any insurance policy covering said building or any part thereof. The Sublessee shall not do or suffer anything to be done upon said Demised Premises which will cause structural injury to said Demised Premises or to the building of which the same form a part, nor shall it cause said Demised Premises to be overloaded, nor shall it permit any machinery, apparatus or other appliance to be used or operated upon said Demised Premises which will injure said Demised Premises or the building of which the same form a part, nor shall the Sublessee permit any noisemaking device to be operated or allowed upon said Demised Premises for the purpose of attracting trade or otherwise. The Sublessee shall not permit any use to be made of the Demised Premises which will in any way impair the efficient operation of the sprinkler within the building containing the Demised Premises. In addition to the Sublessee's liability for Additional Rent in respect of insurance premium rate increases as provided in Paragraph 5 hereof, if any act on the part of the Sublessee or use of the Demised Premises by the Sublessee shall cause directly or indirectly any increase of the Sublessor's insurance expense, such additional expense shall be paid by the Sublessee to the Sublessor upon demand as Additional Rent. No such payment by the Sublessee shall limit the Sublessor in the exercise of any other rights or remedies or constitute a waiver of the Sublessor's right to require the Sublessee to discontinue such act or use.

8. REPAIRS AND MAINTENANCE: Throughout the term of this Sublease the Sublessee shall take good care of the Demised Premises. Sublessor is responsible for maintenance of the structural elements, fire alarm system, and sprinklers, and Sublessee for the maintenance and repairs of all other non-structural elements and systems, including doors and windows. When used in this paragraph the term "repairs" shall include all necessary replacements, renewals, alterations, additions and betterments of a non-structural character. All repairs made by the Sublessee shall be at least equal in quality and class to the original work. The Sublessee shall make no structural alterations to the Demised Premises without prior permission of the Sublessor given in writing. Upon the expiration of the term of this Sublease or sooner termination, the Sublessee shall surrender the Demised Premises to the Sublessor in the same condition as received, ordinary wear and tear and damage by fire, earthquake, act of God or the elements alone excepted. Sublessor, acting in its reasonable judgment, may make demand that maintenance be accomplished if a hazardous or deteriorating condition exists. Sublessee desires services by Sublessor's maintenance personnel such will be performed on a work order basis only.

9. ALTERATIONS AND LIENS: The Sublessee shall make no structural alterations or additions to the Demised Premises without prior written consent of the Sublessor. Upon the giving of such written consent all alterations, additions and improvements, excluding trade fixtures, furnishings and equipment made in, to or on the Demised Premises shall become the property of the Sublessor (or Master Lessor, as hereinafter defined) and shall remain upon and be surrendered with the Demised Premises, except that the Sublessee shall ascertain from the Sublessor within sixty (60) days before the expiration of this term whether the Sublessor desires to have the Demised Premises or any part or parts thereof restored to their condition as of the time of the delivery thereof to the Sublessee (except for any and all offices or office-related improvements which shall remain), and, if the Sublessor so desires, the Sublessee shall restore said Demised Premises or such part or parts thereof to such original condition before the end of the term of this Sublease entirely at the Sublessee's own cost and expense. The Sublessee shall indemnify and save and hold harmless the Sublessor from all liens, claims or demands arising out of any work performed, materials furnished or obligations incurred by or for the Sublessee upon said Demised Premises during said term and agrees not to suffer any such

lien or encumbrance to be imposed on any of the Sublessor's premises. The Sublessor shall have the right, after the giving of not less than five (5) days' notice to the Sublessee to remove such lien or encumbrance, to bring such action or proceeding as may be necessary to effect the removal thereof and the costs and expenses thereof, including reasonable attorney's fees, shall become immediately due and payable by the Sublessee to the Sublessor as Additional Rent.

10. ENTRY AND INSPECTION: The Sublessor and its agents may enter upon the Demised Premises at all reasonable times to inspect the same, to submit them to a prospective purchaser or to make any repairs which the Sublessor shall consider necessary for the protection, improvement or preservation of the building in which the Demised Premises are situated, or to make any changes in the plumbing, wiring, meters or other equipment, fixtures or appurtenances of the building, provided that the same may be performed without material interference with the business operations of the Sublessee, and there shall be no liability against the Sublessor in favor of the Sublessee for damages sustained by the Sublessee by reason of such repairs or changes nor shall the Sublessee be entitled to any abatement of rental by reason thereof. At any time after sixty (60) days prior to the termination of the Sublease the Sublessor may place on said Demised Premises any usual or ordinary "To Let" or "To Lease" signs. For the purposes of this paragraph, the Sublessor may hold at all times a duplicate set of keys to the Demised Premises. The Sublessee shall make no changes in locks or other facilities controlling access to the Demised Premises without the permission of the Sublessor and whenever such permission is granted, the Sublessee shall provide the Sublessor with a duplicate set of keys so as to provide the Sublessor with access at all times.

11. SUBLETTING AND ASSIGNMENT: The Sublessee shall not, without the Sublessor's prior written consent, which consent shall not be arbitrarily withheld or unreasonably delayed, assign or sublet this Sublease or permit any person or entity other than the Sublessee to use or occupy, or store goods, materials or other property (such goods, materials and property being hereinafter referred to as "Property") at the Demised Premises or any part thereof.

Notwithstanding the foregoing, or anything to be contrary elsewhere contained in this Sublease, Sublessee, without Sublessor's consent, but upon not less than thirty (30) days' prior written notice, may assign this Sublease or sub-sublet the Demised Premises, or any portion thereof, to its parent, any of its subsidiaries or to any other entity affiliated with Sublessee or its parent, or to a corporation or other entity resulting from any reorganization or merger to which Sublessee, its parent or any of its subsidiaries or affiliates is a party, provided Sublessee shall remain obligated under this Sublease (the foregoing being hereinafter referred to as a "Permitted Assignment"). The Sublessor will not divulge to any third parties, except if required by the applicable loan document, to Sublessor's lender, any confidential information received with respect to any proposed reorganization or merger.

Any (a) assignment or subletting or (b) or the permitting of any person or entity other than the Sublessee to use, or occupy any portion of, or store any Property at the Demised Premises, without the consent of the Sublessor in each instance, shall be void and shall constitute a breach of this Sublease. In the event of such prohibited assignment, sublet or use, occupancy or storage, the Sublessor may avail itself of any other remedies contained in this Sublease and any other remedy available to it under applicable law. In addition to the foregoing, in the event of any breach of clause (b) in the preceding sentence, the Sublessor may cause the removal of such occupant and/or materials, goods or Property, at the sole cost and expense of the Sublessee.

If the Sublessee proposes to assign the Sublease, enter into any sublease of the Demised Premises or grant to any person or entity the right to use, occupy, or store Property at any portion of the Demised Premises, the Sublessee shall deliver written notice thereof to the Sublessor, together with a copy of the proposed assignment, sublease or other agreement, if any, governing such use, occupancy or storage, and such financial information (i.e., balance sheet and annual reports concerning such sublessee, assignee or the person or entity that Sublessee proposes to let use or occupy, or store any Property at the Demised Premises (any such person or entity being hereinafter referred to as a "Licensee") as is acceptable to the Sublessor, in the exercise of Sublessor's reasonable discretion, the foregoing notice and financial information shall be delivered at least thirty (30) days prior to the effective date of the proposed assignment, the commencement date of the term of the proposed sublease or the date on which any person or entity proposes to use, occupy or store Property at the Demised Premises or any part thereof. Any proposed assignment, sublease or use, occupancy or storage of Property shall be expressly subject to the terms, conditions, and covenants of this Sublease. The Sublessee shall reimburse the Sublessor for all reasonable legal costs involved in reviewing a proposed assignment, subletting or agreement with any Licensee for the use, occupancy or storage of any Property.

Any proposed assignment shall contain a written assumption by the assignee of all of the Sublessee's obligations under this Sublease. Any sublease shall (a) provide that the sub-sublessee shall procure and maintain a policy of insurance as required of the Sublessee under this Sublease; (b) provide for a copy to the Sublessor of any notice of default by either party, and (c) otherwise be reasonably acceptable in form to the Sublessor.

No consent by the Sublessor to any subletting, assignment or use, occupancy or storage of Property by any Licensee shall be deemed to be a consent to any further subletting (or sub-subletting), assignment or any other use, occupancy or storage by any Licensee (including the Licensees for whom permission is being given).

In the event that the Sublessee assigns or subleases any portion of the Demised Premises or permits the use, occupancy or storage of Property at any portion of the Demised Premises to anyone other than the Sublessee, or a subsidiary or affiliate of Sublessee pursuant to a Permitted Assignment, the Sublessee shall pay to the Sublessor monthly, as Additional Rent hereunder, one hundred (100%) percent of the amount calculated by subtracting from the rent and other charges and considerations payable from time to time by the assignee, sub-sublessee or Licensee to the Sublessee for aforesaid space, the amount of rent and other charges payable by the Sublessee to the Sublessor under this Sublease, allocated to the assigned, subleased or otherwise utilized portion of the Demised Premises.

A) Except for a Permitted Assignment, Sublessee shall not have the right to sublet or assign the Demised Premises except on the following terms and conditions:

- 1) Such subletting or assignment shall not relieve the Sublessee from its duty to perform fully all of the agreements, covenants and conditions set forth in this Sublease or any Guarantor from the obligations of any Guaranty executed and delivered in connection with this leasing.
- 2) The Sublessee shall first obtain the Sublessor's written consent to the subletting or assignment in each instance.
- 3) The Sublessee shall provide the name of the proposed sub-sublessee or assignee, the terms and conditions of the proposed subletting or assignment, the nature and character of the business of the proposed sub-sublessee or assignee, and the banking, financial and other credit information to the,

proposed assignee or sub-sublessee reasonably sufficient to enable Sublessor to determine the financial responsibility of said proposed sub-sublessee or assignee.

B) If Sublessor shall not exercise its option within the period aforesaid, then Sublessor's consent to such request shall not be unreasonably withheld but will be given only on the following conditions acknowledged by Sublessee to be reasonable and proper:

- 1) That the subletting or assignment is for the entire Demised Premises only;
- 2) That the subletting or assignment shall be to a sub-sublessee whose occupancy will be in keeping with the dignity and character of the then use and occupancy of the premises by other lessees and whose occupancy will not be more objectionable or more hazardous than that of Sublessee herein. In no event shall any subletting or assignment be permitted to a school of any kind or an employment or placement agency; or governmental or quasi-governmental agency;
- 3) That the subletting or assignment shall not be to any Sublessee, sub-sublessee or assign of any leased space in the premises of which the Demised Premises form a part;
- 4) That no subletting or assignment shall be permitted to any person or entity who is then a tenant or occupant of Rotterdam Industrial Park, Northeastern Industrial Park or Scotia-Glenville Industrial Park;
- 5) That the sublease or assignment will expressly prohibit assignment of the Sublease agreement or further subletting by the sub-sublessee without Sublessor's written consent;
- 6) If this Sublease shall be assigned, or if the Demised Premises or any part thereof, be sublet or occupied by any person or persons other than Sublessee, Sublessor may, after default by Sublessee, collect rent from the assignee, subtenant or occupant, and apply the net amount collected to the rent herein reserved, but no such assignment, subletting, occupancy or collection of rent shall be deemed a waiver of the covenants contained in this Sublease, nor shall it be deemed acceptance of the assignee, subtenant or occupant as a tenant or a release of Sublessee from the full performance by Sublessee of all of the terms, conditions and covenants of this Sublease.

12. **LIABILITY AND INSURANCE:** The Sublessee shall keep, save and hold the Sublessor harmless and free from all liability, penalties, losses, damages, costs, expenses, causes of action, claims and/or judgments arising by reason of any injury or damage to any person or persons or property including, without limitation, the Sublessee, its servants, agents and employees, from any cause or causes whatsoever, except for intentional acts or gross negligence of Sublessor, including leakage, while in, upon or in any way connected with said Demised Premises or its appurtenances.

The Sublessor shall not be liable for any loss or damage occasioned by defective wiring, plumbing, gas, sprinkler, steam, sewer, water or other pipes or fixtures; the bursting, leaking, running or clogging of the above pipes or fixtures or of any heating or air conditioning equipment, cistern, tank, sprinkler system, boiler, wash stand, closet or wastepipe; accidental discharge of the sprinkler; water, snow, ice or other foreign matter being upon or coming through the roof, skylights, trapdoors, doors, windows or otherwise, unless in each case the foregoing result from the gross negligence or intentional acts of Sublessor; acts or negligence or failure to

comply with lease covenants by other tenants of the Sublessor; acts of negligence of guests, invitees and employees of the Sublessee or other occupants of the Demised Premises; acts of negligence of any owners or occupants of adjacent of contiguous property or their employees; acts of God; acts of negligence of any persons not in the employ of the Sublessor. In connection with any defect in or damage to the structural portions of the Demised Premises or the building-wide systems servicing the same (not arising from the act or omission of Sublessee or its sub-tenants, or their respective employees, agents or invitees), Sublessor agrees to take commercially reasonable good faith steps to have Sublessor's landlord or any other appropriate party repair same.

The Sublessee shall take out and keep in force during the term hereof, at the Sublessee's expense, public liability and other insurance in companies acceptable to the Sublessor to protect against any liability to the public, whether to persons or property, incident to the use of said Demised Premises or resulting from accident occurring in or about said Demised Premises or the areas immediately adjacent thereto, which insurance shall be in an amount not less than \$1,000,000.00 to indemnify against the claim of one person for personal injuries and not less than \$3,000,000.00 to indemnify against the claim of two or more persons for personal injuries in any one occurrence and in an amount not less than \$1,000,000.00 per occurrence to indemnify against a claim or claims for property damage. The Sublessee shall cause every insurer to agree by endorsement upon the policy or policies issued by it, or by independent instrument furnished to the Sublessor, that such insurer will give the Sublessor ten (10) days' written notice at the address where rental is paid before the policies in question shall be altered or canceled. Certified copies of said policies or certificates of insurance naming the Sublessor as additional insured shall be furnished at the time of Sublease inception. Said policies shall be renewed at the end of each policy period.

The Sublessor and Sublessee hereby release one another and their respective officers, agents, employees and servants from any and all claims or demands for damages, loss, expense or injury to the Demised Premises or to the furnishings and fixtures and equipment or inventory or other property of either the Sublessor or the Sublessee in, about or upon the Demised Premises, as the case may be, which may be caused by or result from perils, events or happenings which are the subject of insurance carried by the respective parties and in force at the time of any such loss, provided, however, that such release and waiver shall be effective only to the extent of the insurance coverage for such loss. This paragraph does not preclude the respective parties from any and all other remedies at law which are available and in no way are their respective rights prejudiced.

13. ABANDONMENT: In the event the Demised Premises become abandoned or surrendered or in the event the Sublessee be dispossessed or evicted by process of law, the Sublessor, in addition to all other remedies granted by this Sublease or available by operation of law, may deem that any personal property belonging to the Sublessee left on said Demised Premises is abandoned, and the Sublessor may enter upon said Demised Premises and remove therefrom any and all equipment, fixtures and merchandise and sell the same at public or private sale at such price and upon such terms as the Sublessor may determine without notice to or demand upon the Sublessee. Out of the proceeds of such sale the Sublessor may reimburse itself for the expense of such taking, removal and sale and for any indebtedness of the Sublessee to the Sublessor and the surplus, if any, shall be accounted for the Sublessee.

14. DEFAULT: In the event the Sublessee (a) fails to pay the rental herein provided or any part thereof or any other sum required by the Sublessee to be paid to the Sublessor within five (5) days of receipt of notice that said amount is past due the date when due or in the manner herein provided; however, if (5) such notices of

delinquency in the aggregate are sent during the term of this Sublease, then thereafter in the event Sublessee fails to pay the rental provided or any part thereof or any sum required by Sublessee to be paid to the Sublessor within ten (10) days of the time herein provided or, if at any time rent is not paid, in the manner herein provided; or (b) if the Sublessee abandons said Demised Premises or violates any of the provisions of this Sublease respecting assignments or subletting; or (c) makes default in any of the other covenants or conditions on the Sublessee's part to be performed hereunder and such default is not cured within thirty (30) days after notice by the Sublessor to the Sublessee of such default, then such default or breach or act shall give the Sublessor the right to re-enter the Demised Premises and remove all persons and all or any property therefrom either by summary dispossession proceedings or by any suitable action or proceeding at law, or by force or otherwise, without being liable to indictment, prosecution or damages therefor, and repossess and enjoy said Demised Premises together with all additions, alterations and improvements, and in such case the Sublessor may either relet the Demised Premises or any parts thereof as agent of the Sublessee and receive the rents applying the same first to the payment of such expenses as the Sublessor may have incurred and then to the fulfillment of the covenants of the Sublessee. The Sublessor may rent said Demised Premises for a term extending beyond the term hereby granted without releasing the Sublessee from any liability. Upon the expiration of this Sublease prior to the expiration of its term by operation of any provision hereof or by summary proceedings or otherwise, then, whether or not the Demised Premises be relet, the Sublessee shall remain liable for and shall pay the Sublessor, until the time when this Sublease would have expired but for such termination or expiration, the equivalent of the amount of all of the rent and Additional Rent reserved herein, less the avails of reletting, if any, and the same shall be due and payable by the Sublessee to the Sublessor on the several rent days above specified. The Sublessee hereby expressly waives any and all rights of redemption in the event of eviction or dispossession by judgment or warrant of any court or judge, and the Sublessee waives and will waive all right to trial by jury in any summary proceeding hereafter instituted by the Sublessor against the Sublessee in respect of the Demised Premises. All remedies herein provided shall be deemed cumulative and shall in no way limit or restrict the Sublessor from pursuing such other and further remedies as may be allowed at law or in equity.

15. [DELETED PRIOR TO EXECUTION]

16. **HOLDING OVER:** In the event the Sublessee holds over the term hereby created with the consent of the Sublessor, the Sublessee shall become a tenant from month to month at the average monthly rental payable hereunder for the immediately preceding six (6) month period, plus twenty-five (25%) percent increase at discretion of Sublessor.

17. **DESTRUCTION:** In the event the Demised Premises are damaged by fire, earthquake, enemy, act of God or the elements or other casualty, the Sublessor, unless it shall otherwise elect as hereinafter provided, shall take commercially reasonable, good faith steps to have the Master Lessor repair the same with reasonable dispatch after written notice of the damage. If such damage is so extensive as to render the Demised Premises untenable, but the election is made to nevertheless repair same, then the rent shall be abated to an extent corresponding with the time during which and the extent to which said Demised Premises may have been untenable. If such repairs, however, are delayed because of the Sublessee's failure to adjust the Sublessee's own insurance claim, no rental reduction shall be allowed beyond a reasonable time allowed for such adjustment. If, however, such damage or destruction to said Demised Premises shall be caused by negligence or intentional, improper conduct on the part of the Sublessee or the Sublessee's agents, servants, employees, visitors or licensees, then, notwithstanding such damage or destruction, the Sublessee shall be liable for

the rent during the unexpired portion of the demised term without abatement unless this Sublease is terminated by mutual agreement of the parties. The Sublessor shall have the right to determine, within a reasonable time after such occurrence regardless of its cause, whether to demolish, rebuild or reconstruct the building containing the Demised Premises and, in the event of such decision by the Sublessor to so demolish, rebuild or reconstruct, then, upon notice given by the Sublessor to the Sublessee, this Sublease shall terminate on a date to be specified in such notice as if that date had been originally fixed as the expiration date of the term here demised and the rent shall be adjusted as of the time of the occurrence of such damage or destruction. The Sublessee shall give immediate notice to the Sublessor in case of such damage or destruction. Notwithstanding anything else herein to the contrary, in the event the Demised Premises cannot, with reasonable effort, be repaired with one hundred twenty (120) days, Sublessee may, upon not less than thirty (30) days' prior written notice to Sublessor, terminate this Sublease, provided that any such notice must be given within thirty (30) days after Sublessor advises Sublessee that the Demised Premises cannot be repaired within one hundred twenty (120) days.

18. CONDEMNATION: If the whole or a portion of the Demised Premises shall be taken for any public or quasi-public use by right of eminent domain, with or without litigation, or transferred by agreement or purchase in connection with such public or quasi-public use, the Sublease at the option of the Sublessor shall terminate as of the date title shall vest in the condemnor. If any part of the Demised Premises shall be so taken as to render the remainder thereof unusable for the purposes for which the Demised Premises were leased, then the Sublessee shall have the right to terminate this Sublease by giving notice as hereinafter provided. Upon any such taking, with or without a termination of this Sublease, all compensation awarded shall belong and be paid to the Sublessor and the Sublessee shall have no claim thereto and the Sublessee hereby irrevocably assigns, transfers, releases and sets over to the Sublessor any right to compensation for damages to which the Sublessee may become entitled during the term hereof by reason of such condemnation or taking, provided, however, that in the event of such taking and a termination of this Sublease by either party as a result of or in connection therewith the Sublessee shall be entitled to a payment from the Sublessor of an amount equal to the unamortized cost (depreciated on a straight line basis computed monthly) to the Sublessee of all leasehold improvements made by the Sublessee during the original term hereof and such payment shall be made by the Sublessor out of the proceeds received by the Sublessor from the condemning authority and such claim of the Sublessee shall not be deemed a claim against the condemning authority or a lien on such proceeds. In no event shall the amount which the Sublessor shall be obligated to pay the Sublessee hereunder exceed the amount of the Sublessor's award less all expenses incurred by the Sublessor in connection with the securing or obtaining of such award. In the event that upon such taking there shall be no termination of this Sublease by either party, this Sublease shall continue for the balance of its term as to the part of the Demised Premises remaining. In such event the base rent payable by the Sublessee to the Sublessor hereunder and all items of Additional Rent payable hereunder as are determinable by reference to the area of the Demised Premises shall be reduced pro rata in the proportion in which the area of the Demised Premises so taken bears to the area of the Demised Premises before such taking, and all other liabilities of the Sublessee hereunder shall remain unaffected. If upon such taking this Sublease shall not terminate and shall continue as herein provided, the Sublessor shall at its own cost and expense restore the remaining portion of the Demised Premises to the extent necessary to render it useable for the purposes for which it was leased and shall make all repairs to the building in which the Demised Premises are located to the extent necessary to constitute the building a complete architectural unit, provided that such work shall not exceed the scope of construction existing immediately prior to such taking and the cost of such restoration shall not exceed the proceeds of the condemnation

award less the Sublessor's expenses in securing such award. Termination of this Sublease by either party under the provisions of this paragraph shall be effected by the delivery of a thirty (30) day notice by such party to the other.

19. **SALE OF PREMISES:** In the event of a sale or conveyance by the Sublessor of all or any part of the Sublessor's estate containing the Demised Premises, the same shall operate to release the Sublessor from any future liability upon any of the covenants or conditions, express or implied, herein contained in favor of the Sublessee, and in such event the Sublessee agrees to look solely to the responsibility of the successor in interest of the Sublessor.

20. **ESTOPPEL:** At Sublessor's request, Sublessee agrees, within ten (10) days after receipt, to execute a lease estoppel certificate stating that:

a. The Sublease is unmodified and in full force and effect;

b. The term of the Sublease has begun and rent payable under the Sublease is accruing;

c. No notice of default or termination of the Sublease has been served on Sublessee under the terms of the Sublease;

d. To the best of Sublessee's knowledge, neither he nor the Sublessor are in default in any way under the Sublease. In addition, Sublessee certifies that no event has occurred that with the passage of time or giving notice would constitute default under the Sublease by either him or the Sublessor; and

certifying with respect to such other information with respect to this Sublease and Sublessee's occupancy of the Demised Premises as Sublessor shall reasonably request.

21. [DELETED PRIOR TO EXECUTION]

22. **SIGNS:** The Sublessee shall not inscribe, paint or affix any signs, placards or advertisements on the exterior or roof of the Demised Premises or upon entrance doors, windows or upon any adjoining or appurtenant lands without obtaining the prior approval of the Sublessor in writing or without obtaining such permits therefor as may be required under any ordinance, local law, order, rules of regulation of the municipality having jurisdiction thereof. Any such sign, placard or advertisement so placed upon the Demised Premises shall be removed by the Sublessee at the termination of this Sublease and the Sublessee shall repair any damage or injury to the Demised Premises caused thereby, and upon the failure of the Sublessee to comply herewith, the Sublessor may have the same removed and the Sublessee shall be liable to the Sublessor for the expense thereof.

23. **ENTIRE AGREEMENT, WAIVER:** This instrument contains all the agreements and conditions made between the parties hereto and may not be modified, changed or terminated in whole or in part orally or in any manner other than by agreement in writing signed by the parties hereto or their respective successors in interest. The receipt of rent by the Sublessor, with knowledge of any breach of this Sublease by the Sublessee or of any default on the part of the Sublessee in the observance or performance of any of the conditions or covenants of this Sublease, shall not be deemed to be a waiver of any provision of this Sublease. If the Sublessee makes any payment of any amount less than that due hereunder, the Sublessor without notice may accept the same as a payment on account; the Sublessor shall not be bound by any notation on any check involving such payment nor any statement in any accompanying letter. No failure on the part of the Sublessor to enforce any covenant or provision herein contained, nor any waiver of any right thereunder by the Sublessor, unless in writing, shall discharge or invalidate such covenant or provision or affect the right of the Sublessor to enforce the same in the event of any subsequent breach or default. The receipt by the Sublessor of any rent or any other sum of money or any other consideration hereunder paid by the Sublessee after the

termination, in any manner, of the term herein demised, or after the giving by the Sublessor of any notice hereunder to effect such termination, shall not reinstate, continue or extend the term herein demised, or destroy, or in any manner impair the efficacy of any such notice of termination as may have been given hereunder by the Sublessor to the Sublessee prior to the receipt of any such sum of money or other consideration, unless so agreed to in writing and signed by the Sublessor. Neither acceptance of the keys nor any other act or thing done by the Sublessor of any agent or employee of the Sublessor during the term herein demised shall be deemed to be an acceptance of a surrender of said Demised Premises, excepting only an agreement in writing signed by the Sublessor accepting or agreeing to accept such a surrender. Any right herein granted to the Sublessor to terminate this Sublease shall apply to any extension or renewal of the term herein demised, and the exercise of any such right during the term herein demised shall terminate any extension or renewal of the term herein demised, and any right on the part of the Sublessee thereto. No act or conduct of any nature or character on the part of the Sublessor or its agents, servants or employees other than by an agreement in writing signed by the Sublessor shall be construed as a waiver of the provisions of this paragraph irrespective of any circumstances existing at the time of such act or conduct.

24. NOTICE: Any notice required hereunder or by law to be served upon either of the parties shall be in writing and it shall be sent by certified mail, postage prepaid, addressed to the Demised Premises in the instance of the Sublessee, and to the place where rental is paid in the instance of the Sublessor, or to such other address as may be from time to time furnished in writing by either party to the other. Notice in writing shall be deemed to be communicated twenty-four (24) hours from the time of mailing.

25. [DELETED PRIOR TO EXECUTION]

26. [DELETED PRIOR TO EXECUTION]

27. ANCILLARY FACILITIES: Sublessor agrees that Sublessee shall have the right, under the then prevailing terms, conditions and rates; and subject to their availability to use the following facilities at, nearby, or within the Rotterdam Industrial Park:

- a) railroad-related transport, loading/unloading and storage facilities; or
- b) cold, frozen and dry goods storage facilities.

28. SECURITY BARRIERS: Sublessor agrees to permit Sublessee to erect, install or otherwise construct whatever security-related barriers within the Demised Premises Sublessee deems necessary between the Demised Premises and any adjacent premises, provided the work is performed in accordance with all applicable governmental laws and regulations. Sublessee shall not be obligated to remove these security barriers upon surrender of the Demised Premises to Sublessor. Further, any work performed hereunder shall be subject to the provisions of Paragraph 9 of this Sublease as it refers to liens.

29. MASTER LEASE: Sublessor and Sublessee acknowledge that this Sublease is subject to all terms and conditions of that certain lease dated as of January 15, 1997 ("Master Lease") between The Dormitory Authority of the State of New York ("Master Lessor") and Sublessor. Notwithstanding the aforementioned, Sublessor warrants that any and all terms, conditions and representations made in this Sublease are not contrary to or in conflict with any terms, conditions and covenants of the Master Lease. This Sublease is contingent upon Sublessor obtaining the consent of the Master Lessor to this Sublease within ninety (90) days of its final execution.

30. NOTICE OF SUBLEASE EXTENSION: In the event Sublessor shall obtain the right to lease the Demised Premises from Master Lessor for a period beyond the expiration date of Sublessee's Renewal Term, as hereinafter described, then Sublessor shall promptly notify Sublessee or such fact.

31. ENVIRONMENTAL MATTERS: Sublessor represents and warrants that to its knowledge no leak, spill, discharge, emission or disposal or hazardous or toxic substances has occurred on the Demised Promises and that to Sublessor's knowledge, the soil, ground water, soil vapor on or under the Demised Premises is free of toxic or hazardous substances as of the date hereof. Except to the extent caused by Sublessee, Sublessor agrees not to attempt to hold Sublessee and its officers, employees and agents liable for any claims, judgements, damages, fines, penalties, costs, liabilities (including sums paid in settlement of claims) or loss including attorneys' fees, consultants' fees, and experts' fees which arise during or after the term or any renewal term or in connection with the presence or suspected presence of toxic or hazardous substances in the soil, ground water, or soil vapor or in, under or upon the Demised Premises.

In the event Sublessee shall become aware of any environmental problem at the Demised Premises, which has, or in the exercise of reasonable discretion on the part of Sublessee could have, a material adverse affect upon Sublessee's business operations conducted at the Demised Premises, Sublessee shall have the right, on not less than thirty (30) days' prior written notice, to cancel this Sublease; provided that Sublessee must send such notice within thirty (30) days after the earlier to occur of (i) the date Sublessor advises Sublessee of the existence of such environmental problem or (ii) the date Sublessee first receives actual knowledge of such problem.

32. RENEWAL OPTION: If Sublessee shall not be in default of any of the terms, covenants and conditions of this Sublease at the time of giving the notice set forth within this Paragraph, as well as at the end of the Initial Term of this Sublease, the Sublessee is hereby granted the option to renew this Sublease for one (1) five (5) year period (the "Renewal Term") by giving notice, in writing, to Sublessor at least ninety (90) days prior to the expiration of the Initial Term. The rental for the Renewal Term shall be as outlined on Exhibit A with the Lessee paying its pro rata share of taxes (but with no limitation as to amount), insurance and security and common area maintenance (triple net costs) calculated and paid in the same manner as described herein.

33. CONSUMER PRICE INDEX:

A. Definitions: For the purpose of calculating the cost of living adjustment referred to on Exhibit A, the following definitions shall apply: (i) the term "Base Month" shall mean the calendar month immediately preceding the calendar month in which the term of this Sublease commences; (ii) the term "Price Index" shall mean the "Consumer Price Index for All Urban Consumers" published by the Bureau of Labor Statistics of the United States Department of Labor, for New York-Northeastern, NJ, All Items, (1967=100) or any renamed local index covering the metropolitan New York area or any other successor or substitute index appropriately adjusted; (iii) the term "Price Index for the Base Month" shall mean the Price Index for the Base Month; and (iv) the term "Equalization Factor" shall mean one hundred percent (100%).

B. The rent payable during the Renewal Term shall be adjusted to reflect a cost of living adjustment. The adjustment shall be based on the percentage difference between the Price Index for the Base Month and the Price Index for the month immediately preceding the commencement of the Renewal

Term (the "Adjustment Month"). (i) In the event the Price Index for the Adjustment Month reflects an increase over the Price Index for the Base Month, then the annual rental rate to be charged for the Renewal Term shall be multiplied by the Equalization Factor of the percentage difference between the Price Index for the Base Month and the Price Index for the Adjustment Month, and the resulting sum shall be added to such annual rental rate, effective as of commencement of the Renewal Term. Sublessee covenants and agrees that said adjusted annual rental rate shall thereafter be payable hereunder in equal monthly installments.

The following illustrates the intentions of the parties hereto as to the computation of the aforementioned cost of living adjustment in the rental rate payable hereunder during the Renewal Term:

Assuming that the fixed annual rent is \$10,000, that the Equalization Factor is 100%, that the Price Index for the Base Month was 102.0 and that the Price Index for the Adjustment Month was 105.0, then 100% of the percentage increase thus reflected, i.e., $100\% \times 2.941\%$, or 2.94%, would be multiplied by \$10,000, and the annual rental rate would be increased \$294.00 (plus any other adjustments computed in accordance with the terms of this Sublease) effective as of the first day of the Renewal Term.

In the event that any cost of living adjustment is not available as of the Adjustment Month, the monthly rent payments shall be made on the basis of the next preceding monthly rental until the cost of living adjustment is available when the monthly rental payment next due shall be computed on the basis of the cost of living adjustment increased to retroactively adjust the rental paid during the period at the old rate, and all subsequent monthly payments in such period shall be at the new rate.

C. No adjustments or recomputations, retroactive or otherwise, shall be made due to any revision with may later be made in the first published figure of the Price Index for any month.

D. Any delay or failure of Sublessor in computing or billing for the rent adjustments hereinabove provided, shall not constitute a waiver of or in any way impair the continuing obligation of Sublessee to pay such rent adjustments hereunder.

E. Notwithstanding any expiration or termination of this Sublease prior to the date that this Sublease is scheduled to expire (except in case of a cancellation by mutual written agreement) Sublessee's obligation to pay rent as adjusted under this Paragraph shall continue and shall cover all periods during the Renewal Term up to the date that this Sublease is scheduled to expire, and shall survive any default under this Sublease.

34. **BROKERAGE:** Sublessee warrants and represents that it has not dealt with any real estate broker or agent in connection with this Sublease or its negotiations except Richard Sleasman of Robert Cohn Associates, Inc. Sublessee shall indemnify and hold Sublessor harmless from any cost, expense or liability (including cost of suit and reasonable attorney's fees) for any compensation, commission or fees claimed by any other real estate broker or agent in connection with this Sublease or its negotiation by reason of any act of Sublessee. Sublessor agrees to pay a real estate commission pursuant to the Real Estate Brokerage Commission Agreement dated August 30, 1996, by and between Sublessor and Robert Cohn Associates, Inc.

35. GUARANTY: This Sublease is entitled to the benefits of a certain Guaranty of Sublease dated on or about the date hereof executed by Papa John's USA, Inc.

36. PAINTING: On or before June 30, 1997 Sublessor shall have the exterior of the Demised Premises painted. Sublessee shall reimburse Lessor, as Additional Rent, for a portion of the cost of such painting by paying an amount equal to one (1) month's base rent. Such amount shall become due and payable within thirty (30) days after Lessor has notified Lessee, in writing, of the completion of such painting.

37. PRIOR SUBLEASE: This Sublease supersedes and replaces, in its entirety, that certain lease dated September 4, 1996 between Sublessor and Sublessee (the "Prior Sublease"), which Prior Sublease the parties hereto agree is hereby declared null, void and of no further force or effect.

This Agreement shall be interpreted according to the laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement the day and year first above written.

AS TO SUBLESSOR:
ATTEST:

/s/ Heidi Parkes

DISTRIBUTION UNLIMITED, INC.

BY: /s/ David M. Buicko

David M. Buicko
Executive Vice President

DATE: May 29, 1997

AS TO SUBLESSEE:
ATTEST:

/s/ James D. Westfall

P.J. FOOD SERVICE, INC.

BY: /s/ Robert J. Wadell

NAME: Robert J. Wadell
TITLE: President P.J. Food Service

DATE: May 26, 1997

GUARANTY OF SUBLEASE

In order to induce Distribution Unlimited, Inc., a New York corporation, as Sublessor, to enter into a Sublease (the "Sublease") with P.J. Food Service, Inc., as Sublessee, the undersigned, Papa John's USA, Inc. (the "Guarantor"), who owns all of the stock of P.J. Food Service, Inc., hereby guarantees to Sublessor:

The full and prompt performance and observance by P.J. Food Service, Inc. of its obligations under the Sublease to remove itself and all personal property from the Demised Premises and to repair all damage caused by such removal at the termination of the Sublease, whether because of a default under such Sublease, the expiration of the stated term thereof or otherwise; without requiring any notice of nonpayment, nonperformance or nonobservance, or notice or demand whereby to charge the Guarantor therefor, all of which the Guarantor hereby expressly waives.

This Guaranty constitutes the unconditional, direct and primary obligation of the Guarantor, and shall be enforceable regardless of whether any steps shall have been taken to enforce any rights against Sublessee and regardless of any other condition or contingency. Guarantor consents that Sublessor may do or omit from doing any or all of the following and the obligations of the Guarantor hereunder shall not be terminated or impaired by reason thereof:

- (i) the assertion by Sublessor against Sublessee of any of the rights or remedies reserved by Sublessor pursuant to the Sublease;
- (ii) the extension of the time for payment or performance on the part of Sublessee of any agreement or condition under the Sublease;
- (iii) the supplementing, modification or amendment of the Sublease by the parties thereto;
- (iv) any failure, omission or delay on the part of Sublessor to enforce, assert or exercise any right or remedy conferred on Sublessor under the Sublease; and,
- (v) the voluntary or involuntary liquidation, dissolution, marshaling of assets and liabilities, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, or any similar proceeding affecting Guarantor or Sublessee or any of their assets.

Guarantor hereby waives notice of acceptance of this Guaranty and the right of trial by jury and the right to interpose a counterclaim in any litigation arising out of or in connection with this Guaranty.

Guarantor represents and warrants that it is fully authorized to enter into this Guaranty and that Guarantor has a financial interest in P.J. Food Service, Inc.

This Guaranty shall bind the legal successors and assigns of the Guarantor and shall inure to the benefit of the Sublessor, its successor and assigns and shall be construed for all purposes in accordance with the laws of the State of New York.

ATTEST:

/s/ James D. Westfall

PAPA JOHN'S USA, INC.

By: /s/ Richard J. Emmett

Name: Richard J. Emmett
Title: Vice President

Date: May 27, 1997

RENTAL AND TERM SCHEDULE

44,620 Square Feet in Building 14, Bay 2 in Rotterdam Industrial Park

Sublessor: P.J. Food Service, Inc.
11460 Bluegrass Parkway
Louisville, KY 40299

Contact: Robert Wadell (502-266-5200)

Initial Term: Five (5) years

Renewal Term: One (1) five (5) year term under the same terms and conditions subject only to an adjustment in the rental rate based on the change in the Consumer Price Index (as described in Paragraph 32 herein) as of the commencement date of the Sublease, but in no event shall the increase in the Sublease rate exceed fifteen percent (15%) of the Sublease rate for the initial term. Said adjusted rental rate shall remain constant throughout the Renewal Term.

Term Dates: Initial Term: January 31, 1997 through December 31, 2001
Renewal Term: January 1, 2002 through December 31, 2006

Sublease Rates: Initial Term: \$2.75 per square foot per annum, triple net
Renewal Term: \$2.75 per square foot per annum, increased one-time by any increase in the Consumer Price Index since the Lease Commencement Date, triple net

Triple net costs at Building 14, Rotterdam Industrial Park are currently \$.48 per square foot per annum, of which \$.15 per square foot per annum is allocable to taxes, to the extent charged. Taxes are limited, as described in Paragraph 5 of this Lease, during the Initial Term of the Lease.

Prepared February 12, 1997

EXHIBIT A - RENTAL AND TERM SCHEDULE

EXHIBIT 10.31

INDUSTRIAL LEASE

THIS LEASE is made and entered into as of the 21 November 1997 by and between SF Property Investment LLC, an Oregon limited liability corporation, with its address at 1121 SW Salmon Street, Portland, Oregon 97205 ("Landlord"), and PJ Food Service, Inc., with its address at PO Box 99900, Louisville, Kentucky 40269-9990, (502) 267-0948 ("Tenant").

1. PREMISES AND TERM

A. Premises. In consideration of the covenants and agreements herein contained, Landlord does hereby lease, let and demise unto Tenant the leased space depicted on Exhibit "A" attached hereto ("Premises"), located at 15011 North Lombard Street, Portland, Oregon, and contains approximately 37,170 square feet ("Building"). Tenant's Premises represent approximately twenty-nine and thirty-six one hundredths percent (29.36%) of the total square footage of 126,600 square feet within the Building. This percentage shall be used as "Tenant's proportionate share" in determining Tenant's share of taxes, assessments and operating expenses if applicable. Landlord shall also provide the improvements shown on the attached Exhibit D.

B. Possession. Delivery of possession shall occur when the Premises are occupied by tenant or are ready to be occupied by Tenant with all work to be performed by Landlord substantially completed as determined by Landlord's architect. No notice shall be required from Landlord if the Premises are ready on the date set for commencement of the term or on the first business day thereafter. If Landlord is unable to deliver possession of the Premises to Tenant because of strikes, acts of God, or any other cause beyond Landlord's control, then Tenant may take possession when Landlord notifies Tenant that the Premises are ready for possession, and the term of this Lease shall commence on such date and continue for the specified number of months thereafter, notwithstanding the commencement and termination dates stated above. Tenant shall owe no rent until the Premises are ready for possession. Landlord shall have no liability for such delays in delivery of possession, and neither party shall have the right to terminate except that Landlord may cancel this Lease without liability if permission to construct, use, or furnish necessary utilities to the Premises is denied or revoked by a governmental agency or public utility with such authority.

C. Term. Landlord leases the Premises to Tenant for a term of sixty (60) months commencing December 1, 1997, the "Commencement Date" and continuing through November 30, 2002. Options to renew the lease as described in the attached Exhibit E may be available to Tenant.

2. BASE RENT AND SECURITY DEPOSIT

A. Base Rent. Tenant agrees to pay to Landlord Base Rent for the Premises, in advance, without demand, deduction, or set off, for the entire Lease Term hereof in monthly installments payable on the first day of each calendar month at the rates shown in the Basic Lease Information.

B. Security Deposit. Tenant agrees to deposit with Landlord a security deposit in the amount specified in the Basic Lease Information as security for the performance of Tenant's covenants and obligations under this Lease, it being expressly understood and agreed that such deposit is not an advance rental deposit, not the last month's rent nor a measure of Landlord's damages in the event of Tenant's default. If Tenant shall at any time fail to make any payment or fail to keep or perform any term, covenant, or condition on Tenant's part to be made or performed or kept under this Lease, Landlord may, but shall not be obligated to, and without waiving or releasing Tenant from any obligation under this Lease, apply the whole or any part of the Security Deposit (a) to the extent of any sum due to Landlord; or (b) to make any required payment on Tenant's behalf; or (c) to compensate Landlord for any loss, damage, attorneys' fees, or expense sustained by Landlord due to Tenant's default. In such event, Tenant shall, within five (5) days of receipt of written demand by Landlord, remit to Landlord sufficient funds to restore the Security Deposit to its original sum; Tenant's failure to do so shall be a material breach of this Lease. Landlord shall not be required to keep the Security Deposit separate from its general funds, and Tenant shall not be entitled to interest on such deposit. Should Tenant comply with all of the terms, covenants, and conditions of this Lease and at the end of the term of this Lease leave the Premises in the condition required by this Lease, then the Security Deposit, less any sums owing to Landlord, shall be returned to Tenant (or, at Landlord's option to the last assignee of Tenant's interests hereunder) within 30 days after the termination of this Lease and vacancy of the Premises by Tenant.

3. USE. The Premises shall be used and occupied for only the use described in the Basic Lease Information by Tenant and for no other purpose without prior written approval of Landlord, which approval shall not be unreasonably withheld. In connection with its use, Tenant shall, at Tenant's expense, comply with all applicable laws, ordinances, and regulations of any public authority, including those requiring alteration of the Premises because of Tenant's specific use; shall create no nuisance nor allow any objectionable liquid, odor, or noise to be emitted from the Premises; shall store no gasoline or other highly combustible materials on the Premises which would violate any applicable fire code or regulation nor conduct any operation that will increase

Landlord's fire insurance rates for the Premises; shall not store, use or deposit, or cause to be stored, used or deposited, on the Premises or anywhere in the Building, any environmentally hazardous or potentially environmentally hazardous materials or substances and shall not overload the floors or electrical circuits of the premises or the Building. Landlord shall have the right to approve the installation of any power-driven machinery by Tenant and at its sole expense may select a qualified electrician whose opinion will reasonably control regarding electrical installations, an architect or engineer whose opinion will reasonably control regarding floor loads, and a certified industrial hygienist to evaluate materials to be used or stored in the Building or on the Premises.

4. SIGNS. Tenant may erect a sign on the exterior of the Building stating its name, business, and product after first securing Landlord's written approval, which approval shall not be unreasonably withheld, of the size, color, design, wording, and location, and all necessary governmental approvals. Landlord shall have no obligation to approve any sign which differs in style, size, color, design, or location from signs erected on the exterior of the Building, or from Landlord's standards or plans for the Building exterior signage. All signs installed by Tenant shall be removed upon termination of this lease, with the sign location restored to its former state. Tenant shall be responsible, at Tenant's sole cost and expense, to maintain the appearance of all of Tenant's signs. If Tenant fails to maintain any of Tenant's signs, Landlord may make required repairs or replace such signs, and Tenant shall promptly reimburse Landlord for the expense of the repairs or replacements. Window signs and awnings will not be permitted.

5. ALTERATIONS. Except for those alterations described in Exhibit C attached to this Lease, Tenant shall make no alterations, additions or improvements to the Premises, change the color of the exterior of the Building, or add any lighting to the exterior of the Building, without Landlord's prior written approval, may be withheld or conditioned as Landlord may deem appropriate within the exercise of its sole and absolute discretion, and without a valid building permit, when required, issued by the appropriate governmental agency. Upon termination of this Lease, any such alterations, additions, or improvements (including, without limitation, all electrical, lighting, plumbing, doors, windows, partitions, drapery, carpeting, counters, and physically attached fixtures) shall at once become part of the realty upon which the Premises are located and belong to Landlord unless the terms of the Lease provide otherwise, or unless Landlord requests in its prior written approval that part or all of the additions, alterations or improvements be removed. In such case, Tenant shall, at Tenant's sole cost and expense, promptly remove the specified additions, alterations, or improvements and repair and restore the affected portion of the Premises and Building to its or their original condition.

6. UTILITIES. Tenant shall pay, when due, all charges for electricity, natural gas, water, garbage collection, janitorial service, sewer, and all other utilities of any kind furnished to the Premises during the lease term, including any free rental period of this lease term. Landlord shall have no liability resulting from any interruption of utility services. Tenant shall control the temperature in the premises to prevent freezing of the sprinkler system and plumbing. Tenant shall be responsible to promptly repair or replace, at Tenant's own sole cost and expense, any parts of the sprinkler system or plumbing damaged by freezing or any other event, excluding other acts of God or negligence of Landlord.

7. OPERATING EXPENSES

A. Taxes. Tenant agrees to pay its proportionate share of any and all real and personal property taxes, regular and special assessments, license fees and other charges of any kind and nature whatsoever, payable by Landlord as a result of any public or quasi-public authority, private party, or owner's association levy, assessment or imposition against, or arising out of Landlord's interest in, the real estate described in Exhibit "B" attached hereto, together with the building and the grounds, parking areas, driveways, roads, and alley around the building in which the Premises are located, or any part thereof. Tenant shall not however, be obligated to pay any tax based upon Landlord's net income. During each month of the Lease Term at the same time and in the same manner as the payment of monthly base rent, Tenant shall make a monthly escrow deposit with Landlord ("the Property Tax Escrow Payment" and the "Insurance Escrow Payment") equal to 1/12 of its proportionate share of the charges which will be due and payable for that particular year. The charges are subject to adjustment after the end of the year on the basis of the actual cost for such year.

B. Monthly Common Area Maintenance Charges. Common area charges charged to Tenant hereunder shall include all usual and necessary costs of operating and maintaining the Premises and any common areas including, but not limited to, common area entry and exterior loading docks, the cost of all utilities or services not paid directly by Tenant, security, management fees, property insurance, maintenance and repair of landscaping and HVAC units, parking areas and any other common facilities. Operating expenses shall not include structural repairs of the roof, exterior walls, and foundations of the buildings, which are the responsibility of the Landlord. During each month of the Lease Term at the same time and in the same manner as the payment of monthly base rent, Tenant shall make a monthly escrow deposit with Landlord "the Common Area Maintenance Escrow Payment" equal to 1/12 of its proportionate share of the Charges which will be due and payable for that particular year.

C. Prorations. In the event a proration is necessary to determine Tenant's proportionate share of common area maintenance, taxes and insurance charges, the proportion shall be the same as the ratio of the gross leasable square feet of the Premises to the total applicable gross leasable square footage of the Building or such other equitable apportionment as may be adopted. Tenants proportionate share is stated in Section 1 of the lease.

D. Reconciliation's. Tenant's escrow payments shall be reconciled annually. If the Tenant's total escrow payments are more than Tenant's actual pro rata share of the taxes, insurance, and common area maintenance charges, Landlord shall retain such excess and credit it to Tenant's Escrow Payment account. Tenant shall be allowed to deduct said excess from future escrow payments until said excess is fully used. Excess escrow payments may not be deducted from rent. If the Tenant's total Escrow Payments are less than Tenant's actual pro rata share of the taxes, insurance, and common area maintenance charges, Tenant shall reimburse Landlord within fifteen (15) days following delivery of notice.

8. PARKING AND STORAGE AREAS

A. Parking. Tenant, its employees, and customers shall have the exclusive right to use up to 52 private parking spaces adjacent to the portion of the Building upon which the Premises are located. Tenant shall control the use of such parking spaces so that there will be no unreasonable interference with the normal traffic flow, and shall permit no parking on any landscaped or unpaved surface. Under no circumstances shall trucks serving the Premises be permitted to block streets. Said parking spaces shall be limited to vehicles no larger than standard size automobiles or pickup utility vehicles, and Tenant shall not park larger trucks or other large vehicles except in areas designated by Landlord for "loading" or "truck parking".

B. Storage. Outside storage, including without limitations, trucks or other vehicles, is prohibited without Landlord's prior written consent, which shall not be unreasonably withheld. Tenant shall not store any materials, supplies, or equipment outside in any unapproved or unscreened area. Trash and garbage receptacles shall be stored in designated areas and shall be kept covered at all times.

9. TENANT RESPONSIBILITIES

A. Prohibition Against Liens. Tenant shall not allow any liens to attach to the Premises, Building or real property, upon which the Premises are located, as a result of its activities.

B. Liability Insurance. Tenant shall carry public liability and property damage insurance with limits of not less than One Million Dollars (\$1,000,000.00) for injury to one person in one occurrence, Two Million Dollars (\$2,000,000.00) for injuries to more than one person in one occurrence, and Five Hundred Thousand Dollars (\$500,000.00) property damage. Such insurance shall be evidenced by a certificate delivered to Landlord stating that the coverage will not be canceled or materially altered without thirty (30) days' advance written notice to Landlord. Landlord shall be named as an additional insured on such policy.

C. Tenant's Liability. Tenant hereby agrees that Landlord shall not be liable for injury to Tenant's business or any loss of income therefrom or for damage to the goods, wares, merchandise, equipment and vehicles or other property of Tenant, Tenant's employees, invitees, customers, or any person in or about the Premises, nor, unless through its sole negligence, shall Landlord be liable for injury to the person of Tenant, Tenant's employees, agents or contractors and invitees, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether the said damage or injury results from conditions arising upon the Premises or upon other portions of the Building of which the Premises are a part, or from other sources or places, and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible to Landlord or Tenant. Landlord shall not be liable for any damages arising from any act or neglect of any other tenant, if any, of the building in which the Premises are located.

D. Indemnity. Tenant shall indemnify, defend and hold Landlord harmless from any and all claims, losses or damages arising from Tenant's use of the Premises, and the related parking areas and common areas, or from the conduct of its business or from any activity, work or things which may be permitted or suffered by Tenant in or about the Premises, and shall further indemnify, defend and hold Landlord harmless from and against any and all claims arising from any breach or default in the performance of any obligation on Tenant's part to be performed under the provisions of this Lease or arising from any act, omission or negligence of Tenant or any of its agents, contractors, employees, or invitees and from any and all costs, attorneys' fees, expenses and liabilities incurred in the defense of any such claim or action or proceeding brought thereon, including any appeal therefrom. Tenant hereby assumes all risk or damage to property or injury to persons in or about the Premises, and Tenant hereby waives all claims in respect thereof against Landlord, except where said damage arises out of negligence of Landlord.

E. Tenant shall, at its own cost and expense, enter into a regularly scheduled preventative maintenance/service contract with a maintenance contractor for servicing all heating and air conditioning systems and equipment within the Premises.

10. CASUALTY DAMAGE

A. Casualty Damage. If fire or other casualty causes damage to the Premises in an amount exceeding thirty percent (30%) of the full construction-replacement cost of the Premises, Landlord may elect to terminate this Lease as of the date of the damage by notice in writing to Tenant within thirty (30) days after such date. Otherwise, Landlord shall promptly repair the damage and restore the Premises to their former condition as soon as practicable. Rent shall be abated during the period and to the extent the Premises are not reasonably usable for the use permitted by this Lease.

B. Insurance. Landlord shall be responsible for insuring the Premises and Tenant for insuring its personal property and trade fixtures located on the Premises. If any activity by Tenant on the Premises causes Landlord's fire insurance rate to increase, Tenant shall pay the amount of such increase promptly following written demand from Landlord.

C. Subrogation. Neither party shall be liable to the other for any loss or damage to the Premises or Tenant's personal property thereon caused by any of the risks covered by a standard fire insurance policy with extended coverage and sprinkler leakage endorsements, and there shall be no subrogated claim by one party's insurance carrier against the other party arising out of any such loss.

11. CONDEMNATION. If a condemning authority takes the entire Premises or a portion sufficient to render the remainder unsuitable for Tenant's use, then either party may elect to terminate this Lease effective on the date that title passes to the condemning authority. Otherwise, Landlord shall proceed as soon as practicable to restore the remaining Premises to a condition comparable to that existing at the time of the taking. Rent shall be abated during the period of restoration to the extent the Premises are reasonably usable by Tenant, and rent shall be reduced for the remainder of the term in an amount equal to the reduction in rental value of the Premises caused by the taking. All condemnation proceeds shall solely belong to the Landlord.

12. ASSIGNMENT AND SUBLETTING. Except to another wholly owned subsidiary of Papa John's International, Tenant shall not assign its interest under this Lease nor sublet the Premises without first obtaining Landlord's consent in writing, which consent shall not be unreasonably withheld.

No consent in one instance shall prevent this provision from applying to each subsequent instance. This provision shall apply to all transfers by operation of law including, but not limited to, mergers and changes in control of Tenant. No assignment shall relieve Tenant of its obligation to pay rent or perform other obligations required by this Lease. If Tenant assigns this Lease or sublets the premises for an amount in excess of the rent called for by this Lease, such excess shall be paid to Landlord promptly as it is received by Tenant. In the event that Landlord gives its consent, Tenant shall pay Landlord a reasonable fee, not to exceed \$500.00, to reimburse Landlord for processing costs incurred in connection with said consent.

13. DEFAULT

Any of the following shall constitute a default by Tenant under this Lease:

- a. Tenant's failure to pay rent or any other charge under this Lease within five (5) business days after receipt of notice that said amount is past due.
- b. Failure to comply with any other term or condition of this lease other than rent or any other charge within thirty (30) business days following written notice from Landlord specifying the noncompliance. If such noncompliance cannot be cured within the thirty business (30) day period, this provision shall be satisfied if Tenant commences correction within such period and thereafter proceeds in good faith and with reasonable diligence to effect compliance as soon as possible.
- c. Tenant's insolvency, assignment for the benefit of its creditors, business failure by Tenant, Tenant's voluntary petition in bankruptcy or adjudication as bankrupt, or the appointment of a receiver for Tenant's properties.

14. REMEDIES FOR DEFAULT. In case of default as described in paragraph 13 above, Landlord shall have the right to the following remedies which are intended to be cumulative and in addition to any other remedies, including but not limited to the rights of the Tenant, provided under applicable law:

- a. Retake possession of the Premises and relet the Premises upon any reasonable terms. No such reletting shall be construed as an acceptance or a surrender of Tenant's leasehold interest.
- b. Recover damages caused by Tenant's default, including, without limitation, reasonable attorneys' fees at trial and on any appeal therefrom, lost rentals and lease commissions incurred to re- lease the Premises. Landlord may sue

periodically to recover damages as they occur throughout the lease term, and no action for accrued damages shall bar a later action for damages subsequently accruing. Landlord may elect in any one action to recover accrued damages plus damages attributable to the remaining term of the Lease equal to the difference between the rent under this Lease and the reasonable rental value of the Premises for the remainder of the term, discounted to the time of judgment at the prevailing rate on judgments.

c. Make any payment or perform any obligation required of Tenant so as to cure Tenant's default, in which case Landlord shall be entitled to recover all amounts so expended from Tenant, plus interest from the date of the expenditure at the rate of ten percent (10%) per annum.

15. SURRENDER ON TERMINATION. On expiration or early termination of this Lease, Tenant shall deliver all keys to Landlord, have final utility readings made on the date of move out, and surrender the Premises clean and free of debris inside and out, with all mechanical, electrical, and plumbing systems in good operating condition, all signage removed and defacement corrected and all repairs called for under this Lease completed. Subject to the provisions of section 5 hereof, the Premises shall be delivered in the same condition as at the commencement of the term, subject only to depreciation and wear from ordinary use. Tenant shall remove all of its furnishings and trade fixtures that remain Tenant's property and restore all damage resulting from such removal. Failure to remove shall be an abandonment of the property, and Landlord may dispose of it in any manner without liability.

16. LANDLORD'S REPAIRS. After reasonable notice from Tenant, Landlord shall repair structural problems occurring in the roof, exterior walls, building structure and foundations. Tenant shall repair and pay for any damage to such items to be maintained by Landlord caused by any act, omission or negligence of Tenant, or Tenant's employees, agents, licenses or invitees, or caused by Tenant's default hereunder. The Term "walls" as used herein shall not include windows, glass or plate glass, doors, special store fronts or office entries. Tenant shall immediately give Landlord written notice of defect or need for repairs, after which Landlord shall have a reasonable opportunity and time to repair same or cure such defect. Landlord's liability with respect to any defects, repairs or maintenance for which Landlord is responsible under any provisions of this Lease shall be limited to the cost of such repairs or maintenance or the curing of such defect. In no event will Landlord be responsible for paying incidental or consequential damages resulting from Landlord's failure to cure such defects.

17. LATE CHARGES. Landlord may impose a late charge for rent not paid within five (5) business days of when due. The late charge shall commence on the sixth business day following the due date and shall be

equal to One Hundred Dollars (\$100.00) per day until the rent due is paid in full. In the event Tenant fails to pay rent within five (5) business days of when due on greater than two (2) occasions during any calendar year, Landlord shall have the option to terminate this Lease by giving Tenant written notice of termination. In the event Landlord exercises its option to terminate this Lease, Tenant shall surrender the Premises to Landlord within ten (10) days of the notice of termination in accordance with the provisions of paragraph 15.

18. SUBORDINATION. This Lease may, at Landlord's option, be made subordinate to any ground lease, mortgage, land sale contract or deed of trust, which may hereafter affect the real property of which the Building and Premises form a part. Tenant or Tenant's successors in interest will execute and deliver any documents required to effectuate such subordination to any ground lease, mortgage, land sale contract or deed of trust. Landlord is hereby irrevocable appointed and authorized as attorney-in-fact for Tenant to execute all such subordination instruments in the event Tenant fails to execute and deliver said instruments within ten (10) days after Landlord's written demand for execution thereof.

19. ESTOPPEL CERTIFICATE

A. Estoppel Certificate. Tenant shall, at any time upon not less than five (5) business days' prior written notice from Landlord, execute, acknowledge and deliver to Landlord a statement in writing certifying that the Lease is in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, if any, and acknowledging that there are not, to Tenant's knowledge, any uncured defaults on the part of the Landlord hereunder, or specifying such defaults, if any are claimed. Any such statement may be conclusively relied upon by prospective purchaser or encumbrance of the Premises or of the Building.

B. Tenant's failure to deliver such statement within such time shall be conclusive upon Tenant that this Lease is in full force and effect, without modification except as may be represented by Landlord that there are no uncured defaults in Landlord's performance, and that not more than one month's base rent has been paid in advance.

C. If Landlord desires to finance or refinance the entire Building, or any part thereof, Tenant hereby agrees to deliver to any lender designated by Landlord such financial statements of Tenant as may be reasonably required by such lender. Tenant shall also provide Landlord with Tenant's financial statements each year during the term of this lease on or before March 1, covering the prior

calendar year, or within ninety (90) days of the end of Tenant's fiscal year. All such financial statements shall be received by Landlord in confidence and shall be used for the purposes herein set forth.

21. **MODIFICATIONS TO PREMISES.** If Tenant wants to make any modifications to the Tenant's space, Tenant shall, at Tenant's sole cost and expense, construct the improvements on the Premises, all of which are subject to paragraph 5 above.

22. **HAZARDOUS SUBSTANCES.** Tenant shall not, and shall not cause or allow any other party to, construct, use, deposit, store, dispose, place or locate on or about the Premises any Hazardous Substances (as later defined) without the prior written consent of Landlord, which shall not be unreasonably withheld as long as Tenant demonstrates to Landlord's reasonable satisfaction that (a) the nature and quality of any Hazardous Substances are necessary, useful, and appropriate to Tenant's business conducted at the Premises; (b) the Hazardous Substances will be used, kept and stored with the highest degree of care and in a manner that complies with all governmental laws, ordinances, regulations, orders, and policies regulating any such hazardous material so brought upon or used or kept in or about the Premises (c) such Hazardous Substances are disposed of off the Premises and the land described in Exhibit B, in a disposal site licensed or designated for such Hazardous Substances, with the utmost care and caution and in a manner consistent with applicable governmental laws, ordinances, regulations, orders and policies; (d) Tenant pays as additional rent any increase in the premiums charged Landlord for insurance coverage by reason of Tenant's storage, placement, location, or use of Hazardous Substances or any premiums for additional insurance coverage's deemed appropriate by Landlord because of the presence of such Hazardous Substances; and (e) Tenant procures any insurance coverage's demanded by Landlord.

Tenant shall indemnify, defend, and hold Landlord harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities, or losses (including, without limitation, diminution in value of the Premises, damages for the loss or restriction on use of rentable or usable space or of any amenity of the Premises, damages arising from any adverse impact on marketing of space, and sums paid in settlement of claims, attorneys' fees, consultant fees, and expert fees) which arise during or after the lease term as a result of contamination by Hazardous Substances as a result of Tenant's use or activities, or of Tenant's agents or contractors. This indemnification of Landlord by Tenant includes, without limitation, costs incurred in connection with any investigation of the site conditions or any cleanup, remediation, removal, or restoration work required by any federal, state, or local governmental agency or political subdivision because of Hazardous Substances present in the soil or ground water on or under the Premises. Without limiting the foregoing, if the presence of any Hazardous Substances on the Premises caused or permitted by Tenant or its agents

or contractors result in any contamination of the Premises, Tenant shall promptly take all actions at its sole expense as are necessary to return the Premises to the condition existing prior to the release of any such hazardous material to the Premises, provided that Landlord's approval of such actions shall first be obtained, which approval shall not be unreasonable withheld so long as such actions would not potentially have any material adverse long-term or short-term effect on the Premises. The foregoing indemnity shall survive the expiration or earlier termination of this lease.

The term "Hazardous Substances" shall include (a) any chemical, material, element, compound, solution, mixture, substance, or other matter of any kind whatsoever which is a hazardous substance defined in, or related by the Federal Comprehensive Environmental Response Compensation and Liability Act, 42 USC (S)9601 et seq., as amended; the regulations promulgated from time to time thereunder; the waste listed in the United States Department of Transportation Hazardous Materials Table (49 CFR 172.101); the United States Environmental Protection Agency Hazardous Substances (40 CFR Part 302), and amendments thereto; environmental laws and regulations administered by the Environmental Protection Agency or its delegees; similar laws and regulations of the State of Oregon, City of Portland, or any state or local governmental organization or agency, or additional or substitute laws or regulations with respect to the same subject matter enacted or promulgated by the federal, state, local, or quasi-governmental organization or agency; and (b) asbestos or materials containing asbestos, petroleum products, or such other substances, materials, and wastes that are or become regulated under the applicable local, state, or federal laws, whether or not within clause (a).

23. **RELOCATION.** Landlord reserves the right to relocate Tenant, at Landlord's sole discretion and cost, to another similar location within the Building during the term of this Lease. In the event Landlord chooses to exercise its rights under this provision, Landlord shall also be responsible to reimburse Tenant for all reasonable additional costs and expenses incurred by Tenant and for any lost profits Tenant may incur as a result of said relocation.

24. **BROKERAGE FEES.** Landlord agrees to pay a real estate fee to Tony Reser, Cushman & Wakefield. Landlord agrees to indemnify and hold Tenant free and harmless from and against all claims for brokerage commissions or fees and/or finder's fees by any person or entity claiming to have been retained by Landlord in connection with this transaction or to be the procuring cause of this transaction. Tenant agrees to indemnify and hold Landlord free and harmless from and against all claims for brokerage commissions or fees and/or finder's fees from any person or entity claiming to have been retained by Tenant in connection with this transaction or to be the procuring cause of this transaction, other than

the real estate fee to Paul Breuer, Colliers through Tony Reser above which Landlord has agreed to pay hereunder.

25. GENERAL PROVISIONS

A. Waiver by either party of strict performance of any provision of this Lease shall not be a waiver nor prejudice the party's right otherwise to require performance of the same provision or any other provision.

B. Subject to the limitations on transfer of Tenant's interest, this Lease shall bind and inure to the benefit of the parties, their respective heirs, successors and assigns.

C. Landlord shall have the right to enter upon the Premises at any time with provision of reasonable notice to determine Tenant's compliance with this Lease, to make necessary repairs to the Building or the Premises, or to show the Premises to any prospective tenant or purchasers subject to signing a Confidentiality and Non-disclosure Agreement, (Exhibit E). Within six (6) months of the end of the initial lease term or any renewal thereof in the event Tenant exercises any such renewal, Landlord may place and maintain upon the Premises notices for leasing or sale of the Premises notices for leasing or sale of the Premises.

D. If this Lease commences or terminates at a time other than the beginning or end of one of the specified rental periods, then the rent (including Tenant's share of real property taxes and common area charges, if any) shall be prorated as of such date, and in the event of termination for reasons other than default, all prepaid rent shall be refunded to tenant or paid on this account.

E. Landlord warrants that, so long as Tenant complies with all terms of this Lease, it shall be entitled to peaceable and undisturbed possession of the Premises free from any eviction or disturbance by Landlord or persons claiming through Landlord.

F. The term "Landlord" as used herein shall mean only the owner of the fee title to the Building and the land on which it is situated. In the event of any transfer of such title or interest, Landlord herein named (and in case of any subsequent transfers, the then Landlord) shall be relieved from and after the date of such transfer of all liability as respects Landlord's obligations thereafter to be performed, provided that any funds in the hands of Landlord, or the then Landlord at the time of such transfer, in which Tenant has an interest, shall be delivered to the succeeding Landlord.

G. Notices between the parties relating to this Lease shall be in writing, effective when delivered, or if mailed, effective on the second day following mailing, postage prepaid, certified mail, return receipt requested, to the address for the party stated in this Lease or to such other address as either party may specify by notice to the other. Rent shall be payable to Landlord at the same address.

If to Landlord: SF Property Investments, LLC
1121 SW Salmon Street
Portland, OR 97205
503-248-2000
Fax-503-248-9140

Attn: Jordan Schnitzer

If to Tenant: PJ Food Service, Inc.
PO Box 99900
Louisville, Kentucky 40269-9990
502-267-0948

H. Time is of the essence with respect to the performance of each and every provision of this Lease. This Lease shall be governed by the laws of the State of Oregon.

I. If either party brings legal action against the other party to enforce any provision of this Lease, the prevailing party shall be entitled to recover reasonable attorneys' fees in addition to any other damages awarded at arbitration, trial and upon any appeal.

J. In the event Tenant renews or extends this lease, Landlord shall not be responsible for paying any outside brokerage or consulting fees for the extension period. Should Tenant retain an outside broker, consultant, Tenant shall be solely responsible for any compensation due.

IN WITNESS WHEREOF, the parties have executed this Lease as of the day and year first written above.

Landlord:
SF Property Investments LLC

By /s/ Harold Shultz

Title President

Date Nov. 21, 1997

SN Properties Triple Net Lease-Page 14
September 24, 1997

Tenant:
PJ Food Service, Inc.

By /s/ Robert J. Wadell

Title President P.J. Food Service

Date Nov. 13, 1997

EXHIBIT A

[FLOOR PLAN APPEARS HERE]

EXHIBIT B

**LEGAL DESCRIPTION
BLOCK 29
LOT 7, TRACT 1**

A parcel of land located in the Northeast 1/4 of Section 26, Township 2 North, Range 1 West, Willamette Meridian, City of Portland, Multnomah County, Oregon and further described as follows:

Beginning at the Southeast corner of Lot 7 of the duly recorded plat of "Rivergate Industrial District Block 29, Lots 1-8", recorded in book 1218, page 51, dated 5-21-86, said point being on the West right-of-way line of N. Lombard Street; thence leaving the aforesaid right-of-way line, along the South Line of Lot 7, North 90(degrees)00'00" West 465.81 feet, to the Southwest corner of Lot 7 of said plat; thence along the Westerly line of Lot 7 & 8, along the arc of a 2812.93 foot radius nontangent curve to the right, through a central angle of 7(degrees)20'09" a distance of 360.15 feet to a point that bears North 18(degrees)43'19" East a distance of 359.91 feet from the last described point; thence along the Westerly line of Lot 8, North 22(degrees)23'23" East a distance of 220.00 feet; thence leaving the Westerly line of Lot 8, South 72(degrees)27'08" East a distance of 279.49 feet to a point on the East line of Lot 8 and the West right-of-way line of North Lombard Street; thence South 00(degrees)00'00" East along the West right-of-way line of N. Lombard Street, a distance of 460.00 feet to the TRUE POINT OF BEGINNING, containing 4.41 acres more or less.

PLA746
BUREAU OF PLANNING
City of Portland
First Floor . Permit Center
1120 S.W. Fifth Avenue
Portland, Oregon 97204-1992

**REGISTERED
PROFESSIONAL
LAND SURVEYOR**

/s/ David A. Foster

OREGON
DEC. 10, 1909
DAVID A. FOSTER
#1934

RENEWED THRU 12/31/97

EXHIBIT C

Tenant's Specialty Improvements

Upon termination of the Lease or an option period, where Tenant is required to vacate the Premises, Landlord may, at its option, require Tenant, at Tenant's sole expense, to remove Tenant's Speciality Improvements and restore the Premises to its original condition prior to construction of Tenant's Specialty Improvements.

Attached are the layouts for the Building at Rivergate Distribution Center at 15011 North Lombard Street, Portland, Oregon 97203.

There is a layout for Phase One which will be constructed first and a layout for Phase Two which would be constructed once the store numbers are increased for the area.

Narrative for Phase One:

The Office Area includes Five Offices, Conference Room, Reception Area, Logistics Office, Shipping & Receiving Office, Copier Room, Women's & Men's Restroom, Break Room, Maintenance Area and a Mezzanine above the Office Area for added storage or future offices.

There is going to be a Freezer and a Dough Cooler installed, to warehouse the dough balls and perishables, for the individual pizza stores.

The Production Room will be the area where the dough will be produced. Inside the "Dough Room" there will be a mixer, divider, rounder, proofer and conveyors in which the dough balls will be placed into trays then conveyed to the dough cooler. There will be support utilities for the "Dough Room" which includes a chiller, ozonization system, water heater, air compressor with a dryer and a hydraulic pump. A Production Office will be connected to the Production Room.

In the open Warehouse Area, there will be a Battery Charging Area for the forklifts, guardrails and a tray washer at the back of the building.

Narrative for Phase Two:

In addition to the above, a Cheese Cooler, a larger Tray Washer, an Automated Tray Conveyor, another Mixer, a Weigh Hopper and a Silo System would be installed at a later date. Also some of the Dough Room Equipment might be upgraded.

See the attached drawings for the above Narratives.

[DRAFT APPEARS HERE]

[DRAFT APPEARS HERE]

EXHIBIT D

Landlord's Work

Landlord shall, at its sole cost and expense (unless otherwise noted below) construct the following improvements:

1. Construct a demising wall to separate the lease space from the balance of the building.
2. Provide Tenant with a 1,200 amp, 480 volt, 3-phase electrical panel.
3. Install insulation to allow the building to be heated above 45 degrees Farenheit. Cost of said improvement shall be shared co-equally by Landlord and Tenant up to a maximum cost of \$20,000.00 total, or \$10,000.00 each to Landlord and Tenant.
4. When required by Tenant, in writing, install a rail spur to the subject space sufficient to allow a rail car to be spotted at the northerly most rail door.
5. Relocate unit space heaters as required by Tenant.

EXHIBIT E

Renewal Options

If Lessee is not then in default, Lessee shall have the right to renew the Term of the Lease for up to two (2) additional periods of five (5) years each. Lessee must exercise its right to renew by providing Lessor with not less than six (6) months advance written notice. Lessee may only exercise its right as to the second option period if it is not then in default and it has previously exercised the first option. The terms and conditions during any renewal Term shall be the same as provided in the Lease except as to Base Rent which shall be as set forth below.

During the first Option Period (consisting of Lease years 6-10), Base Rent shall increase annually over the preceding year's Base Rent effective on the first day of the first month of each succeeding Lease Year in the same proportion as any increase in the "Consumer Index" during the 12-month period ending immediately before each such first day of the Lease Year; subject however, to the limitation that such increase shall be not less than three percent (3%) nor more than five percent (5%).

At the beginning of the second Option Period (consisting of Lease years 11- 15), there shall be a one-time adjustment of Base Rent specifically for the first year of the second Option Term (Lease Year 11) which could result in an increase over the previous period (Lease Year 10), no change or a decrease. This special one-time adjustment shall be determined by adding the actual annual changes in the Consumer Index from each of the first ten (10) lease years (increases, no changes or decreases) and applying that cumulative factor to the Lease's initial annual Base Rent rate of \$133,800.00. Thereafter, during Lease Years 12-15, the Base Rent shall be increased annually in proportion to the increase in the "Consumer Index" as described above; subject however, to the same limitation that such increase shall be not less than three percent (3%) nor more than five percent (5%).

The "Consumer Index" shall mean the Consumer Price Index for Urban Wage Earners and Clerical Workers (1982-1984=100) U.S. City Average for All Items, as published by the United States Department of Labor, Bureau of Labor Statistics. If the Consumer Index is discontinued or revised during the Term, then such other index or computation with which it is replaced or other reasonable replacement as determined by Landlord shall be used. Landlord shall submit a statement to Tenant reflecting the increase, if any, as provided in this section. If such statement is delayed, Tenant shall continue to pay the Base Rent in effect and shall immediately pay to Landlord any deficiency in Base Rent due upon submission of such statement.

EXHIBIT F

**PJ FOOD SERVICE
BUSINESS VISITORS CONFIDENTIALITY AGREEMENT
AND LIABILITY WAIVER**

PJ Food Service, Inc. ("PJFS") is engaged in the production, sale and distribution of various food products. PJFS has acquired or developed, at considerable expenditure of time and other resources, valuable proprietary information, the unauthorized disclosure or use of which would adversely affect the successful conduct of PJFS's business. In consideration of the opportunity to visit PJFS's facilities to perform services for PJFS or otherwise in furtherance of a business relationship between PJFS and the undersigned, the undersigned hereby agrees as follows:

1. The undersigned assumes any risk attendant upon such visit and agrees that PJFS, its employees, officers, directors and shareholders shall not be liable under any circumstances for any injury to the undersigned or any agent or employee of the undersigned or damage to the undersigned's property sustained when on PJFS's premises, regardless of cause (excepting willful misconduct or gross negligence of PJFS or its agents or employees).
2. In connection with my visit, the undersigned may acquire, have access to or be exposed to "Confidential Information" of PJFS (as defined below). The undersigned will not disclose or make available such Confidential Information, directly or indirectly, to any other person or entity whatsoever (except as strictly necessary in the performance of services for PJFS or in furtherance of a business relationship with PJFS, subject to the provisions of paragraph 4, below) and the undersigned will ensure the return to PJFS of all materials containing Confidential Information (and any copies thereof) upon termination of any business relationship with PJFS or upon PJFS's request, whichever first occurs.
3. As used herein, the term "Confidential Information" means all confidential proprietary information (regardless of whether marked or labeled as such) used by PJFS in the development, production, processing, preparation, sale, distribution or transportation of its food products, including: (a) all processes, procedures, formulae, recipes or other techniques; (b) all technical, business and economic information and data relevant to PJFS's food products; (c) all machinery, tools and equipment, and all drawings, designs and specifications therefor, used or developed by PJFS but which are not generally used by the food service or baking industries at large; and (d) all research data and information in PJFS's possession relating to PJFS's food products, including products that are under development, consideration or study. Confidential Information does not include information that: (i) is in the public domain; (ii) becomes in the public domain or is acquired other than through breach of this Agreement or breach by any party of any duty, obligation or restriction imposed by agreement, operation of law or otherwise; or (iii) is already in the possession of the undersigned company/business at the time of exposure or disclosure by PJFS.
4. To the extent it becomes necessary for the undersigned to communicate Confidential Information to other agents or employees of the undersigned, the undersigned will inform them of the confidential nature of such information and the necessity and responsibility for keeping such information confidential and will make all reasonable efforts to ensure that such individuals keep such information confidential.
5. The provisions of this Agreement shall apply to each and every visit made by the undersigned to a PJFS facility and shall be interpreted and applied in accordance with the laws of the Commonwealth of Kentucky. This Agreement shall inure to the benefit of and be enforceable by, PJFS and its successors and assigns.

Company Name

Individual Visitor

By: -----

Individual Visitor

Title: -----

Individual Visitor

Exhibit 10.32

AMENDMENT II

AMENDMENT 1, to be attached to and form a part of Lease Agreement dated 9 November 1990 and Amendment I dated 5 March 1992, which together with any amendments, modifications and extensions thereof is hereinafter referred to as "Lease Agreement",

BETWEEN:

Crow Kessler, a Texas Limited Partnership

hereinafter referred to as "LESSOR", and

Papa Johns International, Inc., a Delaware corporation

hereinafter referred to as "LESSEE",

concerning the premises described as follows:

Approximately 35,724 SF of office/warehouse space, which shall herein be deemed to be as displayed in Exhibit A-2, within Decimal Point Service Center #3, as described on Exhibit B-2.

WHEREAS, Lessor and Lessee desire to extend the term of said Lease Agreement;

Now, THEREFORE, in consideration of the mutual covenants herein set forth and other good and valuable consideration, Lessor and Lessee hereby amend said Lease Agreement to read as follows:

1. Reference Paragraph 1, TERM: The term of the Lease is hereby renewed and extended for an additional term of six (6) months to commence on January 1, 1998 and ending June 30, 1998.
2. Reference Paragraph 2A. BASE RENT: During the extended term, commencing on the Commencement Date, Lessee agrees to pay Lessor for the leased premises, in advance, without demand the following:

Period -----	Monthly Rental -----
1 - 6 Months	\$14,498.66/Month

The amount of monthly rental and the initial monthly escrow payments are as follows:

(1) Base Rent as set forth in Paragraph 2A	\$14,498.66 -----
(2) Tax Escrow Payment	\$ 1,190.80 -----
(3) Insurance Escrow Payment	\$ 297.70 -----
(4) Utility Charge	\$ **** -----
(5) Common Area Charge	\$ 1,190.80 -----
(6) Security Services	\$ **** -----
(7) Other (Drainage)	\$ **** -----
Monthly Payment Total	\$17,177.96 -----

3. Lessee shall accept the premises for this renewal term on an "as is" basis.

All other terms of the original Lease Agreement dated 9 November 1990 and Amendment I dated 5 March 1992 shall remain the same.

IN WITNESS WHEREOF, the parties hereto have signed this Amendment II this 21 day of April, 1997.

LESSEE:
Papa Johns International
a Delaware Corporation

LESSOR:
Trammell Crow Asset Management, Inc.
a Delaware Corporation

By: /s/ Richard Emmett

Agent for Crow Kessler
a Texas Limited Partnership

Title: Vice President

By: /s/ Scott Robinson

Scott Robinson, Senior Vice President

Witness: /s/ Barbara J. Allen

Witness: /s/ Patti Danagut

EXHIBIT A-2

LEASED PREMISES
35,724 SF

[DIAGRAM OF FLOOR PLAN APPEARS HERE]

EXHIBIT B-2

**DECIMAL POINT SERVICE CENTER
BUILDING 3**

Beginning at a point in the south line of a tract of land conveyed to Crow- DiManino #5 as recorded in Deed Book 5414, Page 214, Deed Book 5432, Page 263 and Deed Book 5432, Page 272 in the aforementioned clerk's office and the northwest corner of a tract of land conveyed to Crow-Kessler A Texas Limited Partnership as recorded in Deed Book 5432, Page 263 in the aforementioned clerk's office, thence with said line South 14 degrees 00' 00" East, 355.00 feet to a point; thence leaving said line South 35 degrees 45' 31" West, 22.88 feet to a point; thence South 76 degrees 00' 00" West, 129.09 feet to point; thence North 14 degrees 00' 00" West, 20.57 feet to a point; thence South 76 degrees 00' 00" West, 105.00 feet to a point; thence North 14 degrees 00' 00" West, 258.73 feet to a point; thence with the arc of a curve to the right having a radius of 144.41 feet and a chord of North 05 degrees 13' 59" West, 44.02 feet to a point in the southern right-of-way line of Bluegrass Court; thence with the south right-of-way line of Bluegrass Court with the arc of a curve to the left having a radius Of 60 feet and the following three chords: South 77 degrees 51' 40" East, 41.43 feet to a point; North 36 degrees 56' 33" East, 84.85 feet to a point; North 13 degrees 40' 57" West, 11.76 feet to a point in the south line of a tract of land conveyed to Crow-DiMartino #5 as previously mentioned; thence North 76 degrees 00'00" East, 141.70 feet to the point of beginning containing 1.941 acres.

Lessor AR

Lessee AJE

Exhibit 10.33 - Amendment VIII

AMENDMENT VIII, to be attached to and form a part of Lease Agreement dated 7 November 1990, Amendment I dated 29 April 1991, Amendment II dated 19 August 1991, Amendment III dated 4 December 1992, Amendment IV dated 10 August 1993, Amendment V dated 8 November 1993, Amendment VI dated 20 February 1995 and Amendment VII dated 31 May 1995, (which together with any amendments, modifications and extension thereof is hereinafter referred to as "Lease Agreement"),

BETWEEN

CWK #7 Limited Partnership
hereinafter referred to as "LANDLORD", and

Papa John's International Inc., a Delaware corporation hereinafter referred to as "TENANT",

concerning the premises described as follows:

Approximately 31,180 R.S.F. of office space, which shall herein be deemed to be as displayed in Exhibit "A-8", within the Decimal Point Corporate Center located at 11492 Bluegrass Parkway, Louisville, Kentucky 40299, situated on real property described on Exhibit "B-8".

WHEREAS, Landlord and Tenant desire to extend the term of said Lease Agreement;

Now, THEREFORE, in consideration of the mutual covenants herein set forth and other good and valuable consideration, Landlord and Tenant hereby amend said Lease Agreement to read as follows:

1. Reference Article 1: The term of the Lease is hereby extended six (6) months commencing January 1, 1998 ("Commencement Date") and ending June 30, 1998.
2. Reference Article 2A: Base rent for the premises (31,180 R.S.F.) starting January 1, 1998 shall be \$38,117.55 per month.
3. Entire Agreement: This Lease contains the entire agreement between the parties, and no agreement shall be effective to change, modify or terminate this Lease in whole or in part unless such agreement is in writing and duly signed by both parties. Landlord and Tenant acknowledge that there are no representations, either oral or written, between them other than those in this Lease.

All other terms and conditions of the original Lease Agreement dated 7 November 1990, Amendment I dated 29 April 1991, Amendment II dated 19 August 1991, Amendment III dated 4 December 1992, Amendment IV dated 10 August 1993, Amendment V dated 8 November 1993, Amendment VI dated 20 February 1995 and Amendment VII dated 31 May 1995 shall remain the same.

WITNESS WHEREOF, the parties hereto have signed this Amendment VIII this 21 day of April, 1997.

TENANT:
Papa John's International
a Delaware corporation

By: /s/ Richard Emmett
Title: Vice President
Witness: /s/ Barbara Allen

LANDLORD:
Trammell Crow Asset Management, Inc.
a Delaware corporation
Agent for CWK#7 Limited Partnership

By: /s/ Scott Robinson, Senior Vice President
Scott Robinson, Senior Vice President
Witness: /s/ Patti Baumgul

Exhibit A-8
Lease Premises

Decimal Point Corporate Center
31,180 SF

Exhibit B-8

Decimal Point Corporate Center

Legal Description of Premises

Beginning at a point in the southeast corner of a tract of land conveyed to Crow-Kessler, a Texas Limited Partnership, as recorded in Deed Book 5432, Page 263 in the aforementioned clerk's office, and the west right-of-way line of Bluegrass Parkway thence with the west right-of-way line of Bluegrass Parkway South 02 24' 46" East, 151.96 feet to a point; thence with the arc of a curve to the left having a radius of 565.00 feet and a chord of South 07 31' 23" East, 100.65 feet to a point; thence with the arc of a curve to the right having a radius of 40.00 feet and a chord of South 30 35' 20" West, 54.79 feet to a point; thence with the north right-of-way line of Decimal Drive with the arc of a curve to the right having a radius of 260.0 feet and a chord of South 83 10' 45" West, 84.64 feet to a point; thence North 87 27' 10" West, 324.32 feet to a point; thence leaving the right-of-way of Decimal Drive North 02 32' 50" East, 26.59 feet to a point thence with the arc of a curve to the left having a radius of 149.98 feet and the following chords: North 13 23' 23" West, 82.36 feet to a point; North 43 10' 26" West, 71.80 feet to a point, thence with the arc of a curve to the right having a radius of 150.0 feet and a chord of North 35 30' 41" West, 110.01 feet to a point; thence North 76 00' 00" East, 105.00 feet to a point; thence South 14 00' 00" East, 20.57 feet to a point; thence North 76 00' 00" East, 129.099 feet to a point; thence North 35 45' 31" East, 22.88 feet to a point in the south line of a tract of land conveyed to Crow-Kessler, a Texas Limited Partnership as previously mentioned; thence with said line South 65 54' 55" East, 65.03 feet to a point; thence North 76 00' 00" East, 200.00 feet to a point; thence South 02 24' 46" East, 33.27 feet to a point; thence North 87

35' 14" East, 47.00 feet to the point of beginning containing 3.230 acres.

Exhibit 10.34

FIRST LEASE

MODIFICATION AGREEMENT

For

P. J. Food Service, Inc.

101-A Vandora Springs Road

Vandora Shopping Center

Garner, North Carolina 27529

LESSOR:

Sample Properties Post Office Box 388 Garner, North Carolina 27529-0388

LESSEE:

P. J. Food Service, Inc. 11492 Bluegrass Parkway, Suite #175 Louisville, Kentucky 40299

FIRST LEASE MODIFICATION AGREEMENT

THIS FIRST LEASE MODIFICATION AGREEMENT is made and entered into this 7th day of November, 1997, by and between SAMPLE PROPERTIES, hereinafter known "Lessor", and P. J. FOOD SERVICE, INC., a Kentucky Corporation, hereinafter known as "Lessee".

WITNESSETH:

WHEREAS, Lessor and Lessee have entered into a Lease Agreement dated May 14, 1993, for premises situated at 101-A Vandora Springs Road, Garner, Wake County, North Carolina [with the legal description of said property attached to this Agreement and made part of it with its inclusion as Exhibit ~C"], said space being a 23,000-square-foot portion of a 26,750-square-foot masonry building; and

WHEREAS, the Lessee now desires to lease the adjacent and contiguous space currently occupied by Tom Jones Discount Drugs on an "as is, where is" basis, said space containing 3,750 square feet, said property identified as 101-B Vandora Springs Road, Garner, Wake County, North Carolina; and

WHEREAS, the parties hereto now desire to amend and modify the Lease Agreement as hereinafter set forth:

NOW, THEREFORE, by mutual agreement of the parties and in consideration of the promises and obligations hereinafter set forth, said Lease Agreement is hereby amended and modified as follows:

1. Paragraph #2 is amended to extend the Lease Agreement for a period of three [3] years and two [2] months commencing sixty [60] days after the date Lessor turns possession of the Tom Jones space over to Lessee for fit-up plus any time remaining to the end of the month. The total space being leased by Lessor to Lessee shall be approximately 26,750 square feet.
2. Paragraph #3 is amended to set the new rental rate for the combined space at Three 11/100 Dollars [\$3.11] per square foot which is Eighty-Three Thousand One Hundred Ninety-Two 50/100 Dollars [\$83,192.50] annually or Six Thousand Nine Hundred Thirty-Two 71/100 Dollars [\$6,932.71] per month during the first year of the lease period, each monthly payment of which shall be due and payable without setoff or demand to Lessor in advance by the first [1st] day of each calendar month during the term of this Lease. Beginning on the first day of the month following the anniversary of this First Lease Modification Agreement and on each subsequent anniversary date, the rentals due under the modified Lease Agreement may be increased annually by an amount not to exceed three percent [3%].

Rentals shall be paid to Sample Properties, and mailed to Post Office Box 388, Garner, North Carolina 27529-0388. Checks resumed to Lessor by a Bank or other such financial institution shall accrue a return-check charge of Fifty 00/100 Dollars [\$50.00]. Lessor's Taxpayer Identification Number [TIN] is 56-1404287.

3. Paragraph 8-E is amended to reflect the increased square footage, and Common Area Maintenance is expanded to include the regular maintenance of parking, common areas, service areas and landscaped areas all of which includes regular maintenance, mowing grassed areas, vacuuming parking areas, picking up trash, and maintenance and rehabilitation of landscaped areas, and for which Lessee agrees to pay monthly to Lessor an additional amount of Fifteen Cents [\$.15] per square foot per year which is Three Hundred Thirty-Four 38/100 Dollars [\$334.38] per month as additional rental. At the time this Lease Amendment becomes effective, Lessor agrees to commence being responsible for the electricity for area parking lights for all common areas of Vandora Shopping Center, and Lessee agrees to reimburse Lessor for its pro-rata number of the parking lot lights directly attributable to Lessee's commissary operations, that number being [N] of a total number of [O] lights, with [N] being the numerator and [O] being the denominator to determine the percentage of common area electrical use chargeable to Lessee, and which Lessee shall pay each month to Lessor as additional rental. Beginning with the first anniversary of this Lease Modification Agreement, the CAM charge [not including the common area light usage], may increase on an annual basis by an amount not to exceed Three percent [3%].

4. A new paragraph #34 with the heading "Lessor's Indemnity" is added with the following language: Lessor shall be responsible for and shall indemnify Lessee and hold it harmless from any and all liability for loss, damage or injury to person or property caused by the negligence of Lessee, its agents or employees. Lessor's obligation to indemnify Lessee hereunder shall include the duty to pay any judgments or settlements, and all reasonable costs, fees and expenses, including reasonable attorneys' fees, incurred in connection therewith.

5. A new paragraph #35 with the heading "Lessee's Indemnity" is added with the following language: Lessee shall be responsible for and shall indemnify Lessor and hold it harmless from any and all liability for loss, damage or injury to person or property caused by the negligence of Lessee, its agents or employees and in any product liability actions brought against Lessor by a customer, directly or indirectly, of Lessee. Lessee's obligation to indemnify Lessor hereunder shall include the duty to pay any judgments or settlements, and all reasonable costs, fees and expenses, including reasonable attorneys' fees, incurred in connection therewith.

6. Paragraph #22 is amended to add the following language: Lessee shall execute at Lessor's request, and within five [s] business days thereof, instruments evidencing the subordinate position of this Lease Agreement, and as often as requested, shall sign estoppel certificates setting forth the date it accepted possession, that it occupies the premises, the termination date of its lease, the date to which rent has been paid, and the amount of monthly rent that has been paid and the amount of monthly rent in effect as of such certification, whether or not it has any defense or offset to the enforcement of the Lease, any knowledge it has of any default or breach by Lessor, and that the Lease is in full force and effect except as to modifications, agreements or amendments thereto, copies of each of which shall be attached to the

certificate. Any sale of the real estate upon which the Premises are situated shall be subject to the Lessee's interest and Lessor shall provide Lessee with a written document acknowledging that its interest will be subject to this lease Agreement. Lessee also agrees to sign within five [5] business days and as often as requested by Lessor or his financial institution to sign Attornment, Subordination and Non-Disturbance Agreements.

7. A new paragraph #36 labeled "Force Majeure" is added with the following language: Neither Lessor nor Lessee shall be liable to the other for any breach or violation of this Lease Agreement resulting from any occurrence or event, including any Act of God, strikes, lockouts, property damage or other casualty or occurrence beyond the reasonable control of a party hereto.

8. A new paragraph #37 entitled "Environmental" is added with the following language: Lessor represents, covenants and warrants to Tenant that there are no hazardous or toxic substances either under, about, on or in the Premises to the best of its knowledge.

Lessor shall indemnify Lessee and hold it harmless for any and all costs, expenses, attorneys' fees, loss, damage or injury to person or property, including any legal action brought against Lessor or Lessee by any federal, state or local governmental agency, or subdivision thereof, or by any other third party claimant, caused by any water, soil or other contamination in, under or around the Premises resulting from the prior use of such Premises or any surrounding areas by the Lessor or any prior owner or tenant, which contamination was not caused by Lessee or which preceded the date of this Lease.

Lessee shall indemnify Lessor and hold it harmless for any similar environmental contamination to the extent such contamination is caused by Lessee and occurs exclusively during the period hereof, including any renewals.

9. A new paragraph #38 entitled "End of Lease Obligation" is added with the following language: At the final termination of the initial lease term or, if applicable, lease extension[s], Lessee shall remove all of his personal property and de-identify the property by removing advertising signs and any other decor or decorations which would identify Lessee's business. In removing inventory, furniture, fixtures, advertising signs, equipment, personal property and other miscellaneous items. Lessee shall not damage or destroy Lessor's property and Lessee shall broom clean the premises and repair all damage caused to the building by the removal of the above-identified items. Lessee shall be responsible for damage to any HVAC, plumbing or electrical equipment, structural portions of the building or common areas caused by the moving out process. If Lessor must repair said damage, Lessee agrees to reimburse Lessor for such damage within fifteen [15] days from invoice plus reasonable attorney's fees and other costs of collection, if necessary.

A new exhibit shall be added to the Lease Agreement and marked as "Exhibit C" which is identified as the legal description of the property and is attached and made part of this Modification Agreement.

Except as hereby amended, all other terms and conditions of the original Lease Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the Lessor and Lessee have caused this First Lease Modification Agreement [consisting of six (6) pages and one (1) exhibit] to be duly executed the day and year first above written.

LANDLORD:

SAMPLE PROPERTIES

/s/ Joseph T. Sample [SEAL]

by: Joseph T. Sample

TENANT:

P. J. FOOD SERVICE, INC.

/s/ Robert Wadell 11-4-97 [SEAL]

by: Robert Wadell, President
P. J. Food Service

ATTEST:

[Corporate Seal]

/s/ Charlotte L. Hendrick

By Asst Corporate Secretary

**STATE OF NORTH CAROLINA
COUNTY OF WAKE**

I, M. Zane Sosna, a Notary Public in and for the aforesaid State and County, do hereby certify that Joseph T. Sample personally appeared before me this day and acknowledged the due execution of the foregoing instrument. Witness my hand and official stamp or seal, this 7 day of November, 1997.

M. Zane Sosna
Notary Public

My commission expires: 02-06-2002

**COMMONWEALTH OF KENTUCKY
COUNTY OF JEFFERSON**

I, Kathie R. West, a Notary Public for said County and State, do hereby certify that Robert Wadell personally came before me and, who being by me duly sworn, says that he is President of P. J. Food Service, Inc., a Kentucky Corporation, and that the seal affixed for the foregoing instrument in writing is the corporate seal of said P. J. Food Service, Inc., and that said writing was signed and sealed by him in behalf of said corporation by its authority duly given and duly attested by the Corporate Secretary. The said President acknowledged the said writing to be the act and deed of the corporation. Witness my hand and notarial seal this 5th day of November, 1997.

Kathie R. West
Notary Public

My Commission Expires: 3/22/2001

EXHIBIT "C"

LEGAL DESCRIPTION

BEGINNING at the Southeast intersection of Aversboro Road and New Vandora Springs Road; runs thence along the South side of New Vandora Springs Road North 60 degrees 45 minutes East 381.92 feet to a point in the North Carolina Railroad right of way; runs thence with the North Carolina Railroad right of way South 60 degrees 50 minutes East 213.55 feet to a point on the West side of Oak Circle; runs thence with Oak Circle the following courses and distances: South 16 degrees West 213.2 feet, South 18 degrees 25 minutes West 50 feet, South 20 degrees 15 minutes West 25 feet, South 24 degrees 40 minutes West 25 feet, South 31 degrees 58 minutes West 25 feet, South 40 degrees 46 minutes West 25 feet, South 56 degrees 51 minutes West 25 feet, South 67 degrees 51 minutes West 25 feet, South 76 degrees 38 minutes West 25 feet, South 84 degrees 30 minutes West 25 feet, South 87 degrees 28 minutes West 25 feet, North 89 degrees 07 minutes West 82 feet, and North 86 degrees 53 minutes West 143.85 feet to the point on the East side of Aversboro Road, thence North 10 degrees 42 minutes West 284.5 feet to the point and place of BEGINNING, according to a survey entitled "Property of Vandora Shopping Center, Inc." dated 5/21/79, by Linwood E. Byrd, Registered Surveyors.

Wake County Revenue Department Property Identification Number 1711.14 24 7127 000

Exhibit 10.35

FIRST AMENDMENT TO LEASE

THIS FIRST AMENDMENT TO LEASE (this "Amendment") is executed and effective this 10th day of February, 1997, (the "Effective Date"), between Arlington - OP&F, Inc., a Delaware corporation ("Landlord" and PJ Food Service, Inc., a Kentucky corporation ("Tenant").

RECITALS

WHEREAS, Landlord and Tenant entered into that certain Lease Agreement dated November 29, 1995 (the "Lease"), pursuant to which Tenant leased from Landlord approximately 12,096 rentable square feet of space known as 1027 Avenue M, Grand Prairie, Texas (the "Premises") in the building known as GSW 202 (the "Building"); and

WHEREAS, Landlord and Tenant desire to modify the Lease as hereinafter described;

NOW THEREFORE, in consideration of \$10.00 and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties agree that the Lease is hereby amended as follows:

1. The term "Premises" as defined in the Lease shall be amended to include an additional +7,992 rentable square feet known as 1031 Avenue M, Grand Prairie, Texas (the "Additional Premises"), such space being outlined on the floor plan attached hereto marked Exhibit D, and signed by Landlord and Tenant for purposes of identification, for a term commencing on February 14, 1997 and continuing through the termination date of the Lease, or such earlier date upon Which said term may expire pursuant to any of the conditions of limitation or other provisions of the Lease or of this Amendment, or pursuant to law and, in order to accomplish the addition of the Additional Premises to the leased premises demised by the Lease, Landlord DOES HEREBY LEASE to Tenant and Tenant DOES HEREBY TAKE from Landlord, for the term herein mentioned, the Additional Premises UPON and SUBJECT to the covenants, agreements, terms, provisions and conditions of the Lease and of this Amendment.

The term "Premises", as defined in the Lease, shall be amended to mean approximately 20,088 rentable square feet, and Exhibit A of the Lease shall be amended to include the Additional Premises as outlined in Exhibit E attached hereto and signed by Landlord and Tenant for purposes of identification.

2. The termination date of the Lease shall be amended to mean February 29, 2000.

3. Base rent shall be amended to mean \$6,258.60 per month effective February 14, 1997.

4. Tenant's pro rata share shall be amended to mean 34.4% on 20,088 square feet out of 58,321 square feet.

5. The security deposit, as required by Article 5 of the Lease, shall be increased by \$2,730.60 for a total security deposit of \$6,258.60. Such increased security deposit shall be due and payable as of the Effective Date of this First Amendment to Lease.

6. Tenant shall take the Premises in its "as-is" condition except that Landlord agrees to combine the electrical service between 1027 and 1031 Avenue M and remove the existing concrete ramp located in front of 1031 Avenue M. Such modifications are not to exceed \$8,000.00.

7. Tenant shall not at any time occupy any part of the leased premises or project as sleeping or lodging quarters.

8. No dogs, cats, fowl, or other animals shall be brought into or kept in or about the leased premises or project.

9. None of the parking, recreation or lawn areas, entries, passages or doors shall be blocked or obstructed, or any rubbish, litter, trash, or material of any nature placed, emptied or thrown into these areas or such area be used by Tenant's agents, employees or invitees at any time for purposes inconsistent with their designation by Landlord.

10. Tenant and its employees, agents and invitees shall park their vehicles, i.e., cars, trucks, only in those parking areas designated by Landlord. Tenant shall not leave any vehicle in a state of disrepair (including, without limitation, flat tires, out of date inspection stickers or license plates) on the leased premises or project. If Tenant or its employees, agents or invitees park their vehicles in areas other than the designated parking areas or leave any vehicle in a state of

disrepair, Landlord, after posting written notice on the vehicle of such violation, shall have the right to remove such vehicles at vehicle owner's expense.

11. The areas located directly in front of the dock doors shall strictly be used for loading and unloading and shall not be used for additional parking. Semi-trailers and/or trucks may not block or obstruct the traffic flow of the parking lot.

12. Tenant shall not permit any objectionable or unpleasant odors, smoke, dust, gas, noise or vibrations to emanate from the Premises, nor take any other action that would constitute a nuisance or would disturb, unreasonably interfere with, or endanger Landlord or any other tenants of the Building in which the Premises are a part.

13. Except as modified herein, all other terms and conditions of the Lease between the parties above described, shall remain unchanged and shall continue in full force and effect.

14. The laws of the State of Texas and of the United States of America shall govern the rights, remedies, and duties of the parties hereto and the validity, construction, enforcement, and interpretation hereof

15. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

16. If any provision of this Amendment is held to be illegal, invalid, or unenforceable under present or future laws, such provision shall be fully severable; this Amendment shall be construed and enforced as if such illegal, invalid, or unenforceable provision had never comprised a part hereof; and the remaining provisions hereof shall remain in full force and effect and shall not be affected by the illegal, invalid, or unenforceable provision or by its severance therefrom.

17. Redress for any claim against Landlord under this Lease shall be limited to and enforceable only against and to the extent of Landlord's interest in the Building. The obligations of Landlord under this Lease are not intended to and shall not be personally binding on, nor shall any resort be had to the private properties of, any of its trustees or boards of directors and officers, as the case may be, its investment manager, the general partners thereof, or any beneficiaries, stockholders, employees, or agents of Landlord or the investment manager.

IN WITNESS WHEREOF, Landlord and Tenant have respectively signed this Amendment to Lease as of the day and year first written above.

LANDLORD:

TENANT:

Arlington - OP&F, Inc., a
Delaware corporation

PJ Food Service, Inc., a
Kentucky corporation

By: RREEF MANAGEMENT COMPANY,
a California corporation

By: Phyllis L. Palis

Phyllis L. Palis

By: Robert Wadell

Robert Wadell

Title: District Manager

Title: President

Date: 2/10/97

Date: Feb. 6, 1997

EXHIBIT D

attached to and made part of First Amendment to Lease between Arlington - OP&F, Inc., a Delaware corporation, as Landlord and PJ Food Service, Inc., a Kentucky corporation, as Tenant

ADDITIONAL PREMISES

Exhibit D is intended to show the general layout of the Additional Premises as of the beginning of the Term of this First Amendment to Lease. It does not in any way supersede any of Landlord's rights with respect to arrangements and/or locations of public parts of the Building and changes in such arrangements and/or locations. It is not to be scaled, any measurements or distances shown should be taken as approximate.

EXHIBIT E

attached to and made part of First Amendment to Lease between Arlington - OP&F, Inc., a Delaware corporation, as Landlord and PJ Food Service, Inc., a Kentucky corporation, as Tenant

PREMISES

Exhibit E is intended to show the general layout of the Premises as of the beginning of the Term of this First Amendment to Lease. It does not in any way supersede any of Landlord's rights with respect to arrangements and/or locations of public parts of the Building and changes in such arrangements and/or locations. It is not to be scaled; any measurements or distances shown should be taken as approximate.

Exhibit 10.36

AMENDMENT IX

AMENDMENT IX, to be attached to and form a part of Lease Agreement dated 7 November 1990, Amendment I dated 29 April 1991, Amendment II dated 19 August 1991, Amendment III dated 4 December 1992, Amendment IV dated 10 August 1993, Amendment V dated 8 November 1993, Amendment VI dated 20 February 1995, Amendment VII dated 31 May 1995, and Amendment VIII dated April 21, 1997 (which together with any amendments, modifications and extensions thereof is hereinafter referred to as "Lease Agreement"),

BETWEEN:

CWK #7 Limited Partnership

hereinafter referred to as "LANDLORD", and

Papa John's International Inc., a Delaware corporation

hereinafter referred to as "TENANT",

concerning the premises described as follows:

Approximately 31,180 R.S.F. of office space, which shall herein be deemed to be as displayed in Exhibit "A-9", within the Decimal Point Corporate Center located at 11492 Bluegrass Parkway, Louisville, Kentucky 40299, situated on real property described on Exhibit "B-9".

WHEREAS, Landlord and Tenant desire to extend the term of said Lease Agreement;

Now, THEREFORE, in consideration of the mutual covenants herein set forth and other good and valuable consideration, Landlord and Tenant hereby amend said Lease Agreement to read as follows:

1. Reference Article 1: The term of the Lease is hereby extended six (6) months commencing July 1, 1998 ("Commencement Date") and ending December 31, 1998.
2. Reference Article 2A: Base rent for the premises (31,180 R.S.F.) starting July 1, 1998 shall be \$38,117.55 per month.
3. Entire Agreement: This Lease contains the entire agreement between the parties, and no agreement shall be effective to change, modify or terminate this Lease in whole or in part unless such agreement is in writing and duly signed by both parties. Landlord and Tenant acknowledge that there are no representations, either oral or written, between them other than those in this Lease.

All other terms and conditions of the original Lease Agreement dated 7 November 1990, Amendment I dated 29 April 1991, Amendment II dated 19 August 1991, Amendment III dated 4 December 1992, Amendment IV dated 10 August 1993, Amendment V dated 8 November 1993, Amendment VI dated 20 February 1995, Amendment VII dated 31 May 1995 and Amendment VIII dated 21 April 1997 shall remain the same.

WITNESS WHEREOF, the parties hereto have signed this Amendment IX this 23 day of December, 1997.

TENANT:
Papa Johns International
a Delaware corporation

LANDLORD:
CIT Asset Management L.P.
Agent for CWK#7 Limited Partnership
By: Crow Family, Inc., its General
Partner

By: /s/ Richard J. Emmett

Richard J Emmett

By: /s/ James C. Hendricks

James C. Hendricks

Title: VP and Senior Counsel

Title: Vice President

Witness: /s/ Lee Ann Zeller

Witness: /s/ David T. Cobell

EXHIBIT A-9

LEASED PREMISES

DECIMAL POINT CORPORATE CENTER

31,180 SF

[DIAGRAM OF DECIMAL POINT CORPORATE CENTER]

EXHIBIT B-9

DECIMAL POINT CORPORATE CENTER

Legal Description of Premises

Beginning at a point in the southeast corner of a tract of land conveyed to Crow-Kessler, a Texas Limited Partnership, as recorded in Deed book 5432, Page 263 in the aforementioned clerk's office, and the west right-of-way line of Bluegrass Parkway thence with the west right-of-way line of Bluegrass Parkway south 02 degrees 24' 46" East, 151.96 feet to a point; thence with the arc of a curve to the left having a radius of 565.00 feet and a chord of South 07 degrees 31' 23" East, 100.65 feet to a point; thence with the arc of a curve to the right having a radius of 40.00 feet and a chord of South 30 degrees 35' 20" West, 54.79 feet to a point; thence with the north right-of-way line of Decimal Drive with the arc of a curve to the right having a radius of 260.00 feet and a chord of South 83 degrees 10' 45" West, 84.64 feet to a point; thence North 87 degrees 27' 10" West, 324.32 feet to a point; thence leaving the right-of-way of Decimal Drive North 02 degrees 32' 50" East, 26.59 feet to a point; thence with the arc of a curve to the left having a radius of 149.98 feet and the following chords: North 13 degrees 23' 23" West, 82.36 feet to a point; North 43 degrees 10' 26" West, 71.80 feet to a point; thence with the arc of a curve to the right having a radius of 150.00 feet and a chord of North 35 degrees 30' 41" West, 110.01 feet to a point; thence North 76 degrees 00' 00" East, 105.00 feet to a point; thence South 14 degrees 00' 00" East, 20.57 feet to a point; thence North 76 degrees 00' 00" East, 129.099 feet to a point; thence North 35 degrees 45' 31" East, 22.88 feet to a point in the south line of a tract of land conveyed to Crow-Kessler, A Texas Limited Partnership as previously mentioned; thence with said line South 65 degrees 54' 55" East, 65.03 feet to a point; thence North 76 degrees 00' 00" East, 200.00 feet to a point; thence South 02 degrees 24' 46" East, 33.27 feet to a point; thence North 87 degrees 35' 14" East, 47.00 feet to the point of beginning containing 3.230 acres.

Exhibit 10.37

AMENDMENT III

AMENDMENT III, to be attached to and form a part of Lease Agreement dated 9 November 1990, Amendment I dated 5 March 1992 and Amendment II dated 21 April 1997, which together with any amendments, modifications and extensions thereof is hereinafter referred to as "Lease Agreement",

BETWEEN:

Crow Kessler, a Texas Limited Partnership

hereinafter referred to as "LESSOR", and

Papa Johns International, Inc., a Delaware corporation

hereinafter referred to as "LESSEE",

concerning the premises described as follows:

Approximately 35,724 SF of office/warehouse space, which shall herein be deemed to be as displayed in Exhibit A-3, within Decimal Point Service Center #3, as described on Exhibit B-3.

WHEREAS, Lessor and Lessee desire to extend the term of said Lease Agreement;

Now, THEREFORE, in consideration of the mutual covenants herein set forth and other good and valuable consideration, Lessor and Lessee hereby amend said Lease Agreement to read as follows:

1. Reference Paragraph 1, TERM: The term of the Lease is hereby renewed and extended for an additional term of six (6) months to commence on July 1, 1998 and ending December 31, 1998.
2. Reference Paragraph 2A, BASE RENT: During the extended term, commencing on the Commencement Date, Lessee agrees to pay Lessor for the leased premises, in advance, without demand the following:

Period	Monthly Rental
-----	-----
1 - 6 Months	\$14,498.66/Month

The amount of monthly rental and the initial monthly escrow payments are as follows:

(1) Base Rent as set forth in Paragraph 2A	\$ 14,498.66
(2) Tax Escrow Payment	\$ 1,190.80
(3) Insurance Escrow Payment	\$ 297.70
(4) Utility Charge	\$ ****
(5) Common Area Charge	\$ 1,190.80
(6) Security Services	\$ ****
(7) Other (Drainage)	\$ ****
Monthly Payment Total	\$ 17,177.96

3. Lessee shall accept the premises for this renewal term on an "as is" basis.

All other terms of the original Lease Agreement dated 9 November 1990, Amendment I dated 5 March 1992 and Amendment II dated 21 April 1997 shall remain the same.

IN WITNESS WHEREOF, the parties hereto have signed this Amendment III this 23 day of December, 1997.

LESSEE:
Papa Johns International
a Delaware Corporation

LESSOR:
CIT Asset Management, L.P.
Agent for Crow Kessler
a Texas Limited Partnership
By: Crow Family, Inc., its General Partner

By: /s/ Richard J. Emmett

Richard J. Emmett

By: /s/ James C. Hendricks

James C. Hendricks

Title: VP and Senior Counsel

Title: Vice President

Witness: /s/ Lee Ann Zeller

Witness: /s/ David T. Cobell

EXHIBIT A-3

LEASED PREMISES

35,724 SF

[FLOOR PLAN APPEARS HERE]

EXHIBIT B-3

**DECIMAL POINT SERVICE CENTER
BUILDING 3**

Beginning at a point in the south line of a tract of land conveyed to Crow-DiMartino #5 as recorded in Deed Book 5414, Page 214, Deed Book 5432, Page 263 and Deed Book 5432, Page 272 in the aforementioned clerk's office and the northwest corner of a tract of land conveyed to Crow-Kessler A Texas Limited Partnership as recorded in Deed Book 5432, Page 263 in the aforementioned clerk's office; thence with said line South 14 degrees 00' 00" East, 355.00 feet to a point; thence leaving said line South 35 degrees 45' 31" West, 22.88 feet to a point; thence South 76 degrees 00' 00" West, 129.09 feet to a point; thence North 14 degrees 00' 00" West, 20.57 feet to a point; thence South 76 degrees 00' 00" West, 105.00 feet to a point; thence North 14 degrees 00' 00" West, 258.73 feet to a point; thence with the arc of a curve to the right having a radius of 144.41 feet and a chord of North 05 degrees 13' 59" West, 44.02 feet to a point in the southern right-of-way line of Bluegrass Court; thence with the south right-of-way line of Bluegrass Court with the arc of a curve to the left having a radius of 60 feet and the following three chords: South 77 degrees 51' 40" East, 41.43 feet to a point; North 36 degrees 56' 33" East, 84.85 feet to a point; North 13 degrees 40' 57" West, 11.76 feet to a point in the south line of a tract of land conveyed to Crow-DiMartino #5 as previously mentioned; thence North 76 degrees 00' 00" East, 141.70 feet to the point of beginning containing

1.941 acres.

Exhibit 21

Subsidiaries of the Company

- (a) PJ Food Service, Inc., a Kentucky corporation
- (b) Papa John's USA, Inc., a Kentucky corporation
- (c) Printing & Promotions, Inc., a Kentucky corporation
- (d) PJFS of Mississippi, Inc., a Mississippi corporation
- (e) Risk Services Corp., a Kentucky corporation

- (f) Capital Delivery, Ltd., a Kentucky corporation

Exhibit 23

Consent of Independent Auditors

We consent to the incorporation by reference in (i) the Registration Statements (Forms S-8 No. 333-27823, No. 333-16447 and No. 33-67472) pertaining to the Papa John's International, Inc. 1993 Stock Ownership Incentive Plan, (ii) the Registration Statement (Form S-8 No. 33-67470) pertaining to the Papa John's International, Inc. 1993 Stock Option Plan for Non-Employee Directors, and (iii) the Registration Statement (Form S-4 No. 33-96552) of Papa John's International, Inc. of our report dated February 27, 1998, with respect to the consolidated financial statements of Papa John's International, Inc. and subsidiaries included in the Annual Report (Form 10-K) for the year ended December 28, 1997.

/s/ Ernst & Young LLP

Louisville, Kentucky

March 16, 1998

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	Dec 28 1997
PERIOD START	Dec 30 1996
PERIOD END	Dec 28 1997
CASH	18,692
SECURITIES	57,933
RECEIVABLES	15,132
ALLOWANCES	0
INVENTORY	9,091
CURRENT ASSETS	49,176
PP&E	145,312
DEPRECIATION	32,711
TOTAL ASSETS	253,243
CURRENT LIABILITIES	30,382
BONDS	1,320
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	291
OTHER SE	212,422
TOTAL LIABILITY AND EQUITY	253,243
SALES	479,139
TOTAL REVENUES	508,784
CGS	243,680
TOTAL COSTS	412,747
OTHER EXPENSES	56,843
LOSS PROVISION	0
INTEREST EXPENSE	0
INCOME PRETAX	42,625
INCOME TAX	15,772
INCOME CONTINUING	26,853
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	26,853
EPS PRIMARY	0.93
EPS DILUTED	0.91

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	9 MOS	6 MOS	3 MOS	12 MOS
FISCAL YEAR END	DEC 28 1997	DEC 28 1997	DEC 28 1997	DEC 29 1996
PERIOD START	DEC 30 1996	DEC 30 1996	DEC 30 1996	JAN 01 1996
PERIOD END	SEP 28 1997	JUN 29 1997	MAR 30 1997	DEC 29 1996
CASH	19,663	9,424	16,066	24,063
SECURITIES	57,247	59,454	63,197	65,067
RECEIVABLES	13,547	13,613	13,475	13,101
ALLOWANCES	0	0	0	0
INVENTORY	8,524	8,862	8,067	6,839
CURRENT ASSETS	47,181	37,610	42,537	48,248
PP&E	133,727	124,477	112,165	101,513
DEPRECIATION	29,328	26,020	23,274	20,796
TOTAL ASSETS	241,289	226,584	218,928	212,061
CURRENT LIABILITIES	28,025	23,436	24,646	23,014
BONDS	1,320	1,320	1,320	1,505
PREFERRED MANDATORY	0	0	0	0
PREFERRED	0	0	0	0
COMMON	290	290	288	288
OTHER SE	202,956	194,350	185,851	180,355
TOTAL LIABILITY AND EQUITY	241,289	226,584	218,928	212,061
SALES	343,059	221,927	103,072	337,939
TOTAL REVENUES	364,107	235,855	109,643	360,052
CGS	174,070	112,902	52,567	181,863
TOTAL COSTS	295,748	191,651	88,765	294,071
OTHER EXPENSES	41,080	26,622	12,496	40,352
LOSS PROVISION	0	0	0	0
INTEREST EXPENSE	0	0	0	0
INCOME PRETAX	29,870	18,990	9,036	29,546
INCOME TAX	11,052	7,026	3,343	10,932
INCOME CONTINUING	18,818	11,964	5,693	18,614
DISCONTINUED	0	0	0	0
EXTRAORDINARY	0	0	0	0
CHANGES	0	0	0	0
NET INCOME	18,818	11,964	5,693	18,614
EPS PRIMARY	0.65	0.42	0.20	0.66
EPS DILUTED	0.63	0.40	0.19	0.65

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	9 MOS	6 MOS	3 MOS	12 MOS
FISCAL YEAR END	DEC 29 1996	DEC 29 1996	DEC 29 1996	DEC 31 1995
PERIOD START	JAN 01 1996	JAN 01 1996	JAN 01 1996	DEC 26 1994
PERIOD END	SEP 29 1996	JUN 30 1996	MAR 31 1996	DEC 31 1995
CASH	19,169	31,871	11,143	19,904
SECURITIES	67,730	58,408	33,322	24,394
RECEIVABLES	12,839	10,914	10,409	10,198
ALLOWANCES	0	0	0	0
INVENTORY	5,772	5,639	4,957	5,188
CURRENT ASSETS	41,910	51,593	29,497	38,318
PP&E	89,719	80,188	73,380	68,552
DEPRECIATION	18,113	15,777	13,658	11,853
TOTAL ASSETS	198,696	189,478	132,949	128,819
CURRENT LIABILITIES	19,210	16,138	16,676	16,900
BONDS	1,505	1,505	1,505	1,680
PREFERRED MANDATORY	0	0	0	0
PREFERRED	0	0	0	0
COMMON	287	191	179	268
OTHER SE	172,961	167,162	110,379	106,014
TOTAL LIABILITY AND EQUITY	198,696	189,478	132,949	128,819
SALES	241,404	154,392	71,977	236,286
TOTAL REVENUES	257,135	164,406	76,726	253,355
CGS	131,934	84,290	39,160	133,045
TOTAL COSTS	211,043	134,836	62,972	208,962
OTHER EXPENSES	28,748	18,745	8,730	28,574
LOSS PROVISION	0	0	0	0
INTEREST EXPENSE	0	0	0	0
INCOME PRETAX	20,104	12,304	5,586	17,719
INCOME TAX	7,439	4,553	2,067	6,525
INCOME CONTINUING	12,665	7,751	3,519	11,204
DISCONTINUED	0	0	0	0
EXTRAORDINARY	0	0	0	0
CHANGES	0	0	0	0
NET INCOME	12,665	7,751	3,519	11,204
EPS PRIMARY	0.46	0.28	0.13	0.45
EPS DILUTED	0.45	0.28	0.13	0.44

Exhibit 99.1 - Cautionary Statements

Information provided herein by the Company contains, and from time to time the Company may disseminate materials and make statements which contain "forward- looking" information within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"), including information within Management's Discussion and Analysis of Financial Condition and Results of Operation. The following cautionary statements are being made pursuant to the provisions of the Act and with the intention of obtaining the benefits of the "safe harbor" provisions of the Act. Although the Company believes that its expectations are based on reasonable assumptions, actual results may differ materially from those in the forward looking statements as a result of various factors, including but not limited to, the following:

1. The ability of the Company and its franchisees to continue to expand through the opening of new restaurants is affected by a number of factors, many of which are beyond the control of the Company and its franchisees. These factors include, among other things, selection and availability of suitable restaurant locations, negotiation of suitable lease or financing terms, constraints on permitting and construction of other restaurants, higher than anticipated construction costs, and the hiring, training and retention of management and other personnel. Accordingly, there can be no assurance that the Company or its franchisees will be able to meet planned growth targets or open restaurants in markets now targeted for expansion.
2. The restaurant industry is intensely competitive with respect to price, service, location and food quality, and there are many well established competitors with substantially greater financial and other resources than the Company and its franchisees. Some of these competitors have been in existence for a substantially longer period than the Company or its franchisees and may be better established in the markets where restaurants operated by the Company or its franchisees are, or may be, located. A change in the pricing or other marketing or promotional strategies of one or more of the Company's major competitors could have an adverse impact on sales and earnings at restaurants operated by the Company and its franchisees.
3. Changes in consumer taste, demographic trends, traffic patterns and the type, number and location of competing restaurants as well as increased food and other costs could adversely affect the Company's restaurant business.
4. The Company's restaurant operations are subject to federal and state laws governing such matters as wages, working conditions, citizenship requirements and overtime. A significant number of hourly personnel employed by the Company and its franchisees are paid at rates related to the federal minimum wage. Accordingly, further increases in the minimum wage will increase labor costs for

the Company and its franchisees.

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