

PAPA JOHNS INTERNATIONAL INC
Form 11-K
June 26, 2018
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

(Mark One)

Annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2017

OR

Transition report pursuant to Section 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number: 0 21660

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

PAPA JOHN'S INTERNATIONAL, INC. 401(k) PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

PAPA JOHN'S INTERNATIONAL, INC.

2002 Papa John's Boulevard

Louisville, Kentucky 40299-2367

(502) 261 7272

Table of Contents

Papa John's International, Inc. 401(k) Plan

Financial Statements and Supplemental Schedules

Years ended December 31, 2017 and 2016

Contents

<u>Report of Independent Registered Public Accounting Firm</u>	1
<u>Financial Statements</u>	
<u>Statements of Net Assets Available for Benefits</u>	2
<u>Statements of Changes in Net Assets Available for Benefits</u>	3
<u>Notes to Financial Statements</u>	4
<u>Supplemental Schedules</u>	
<u>Schedule of Assets (Held at End of Year)</u>	10
<u>Schedule of Delinquent Participant Contributions</u>	11
<u>Signature</u>	12
<u>Exhibit Index</u>	13
Exhibit 23.1 – Consent of Independent Registered Public Accounting Firm	

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Plan Participants and Plan Administrator

Papa John's International, Inc. 401(k) Plan

Opinion on the Financial Statements

We have audited the accompanying statements of net assets available for benefits of the Papa John's International, Inc. 401(k) Plan (the "Plan") as of December 31, 2017 and 2016, the related statements of changes in net assets available for benefits for the years then ended, and the related notes (collectively, the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2017 and 2016, and the changes in net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Plan in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Report on Supplemental Schedules

The supplemental schedules listed in the Table of Contents have been subjected to audit procedures performed in conjunction with the audit of the Plan's financial statements. The supplemental schedules are the responsibility of the Plan's management. Our audit procedures included determining whether the supplemental schedules reconcile to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental schedules. In forming our opinion on the supplemental schedules, we evaluated whether the supplemental schedules, including their form and content, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, such schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

/s/ MCM CPAs & Advisors LLP

Louisville, Kentucky

June 26, 2018

We have served as the auditor of the Plan since 2006.

Table of Contents

Papa John's International, Inc. 401(k) Plan

Statements of Net Assets Available for Benefits

December 31, 2017 and 2016

	2017	2016
Assets		
Cash	\$ 71	\$ 22
Investments at fair value:		
Papa John's International, Inc. common stock	4,130,859	6,718,426
Mutual funds	31,722,940	26,326,182
Pooled separate accounts	22,877,046	15,649,379
Collective trust fund	3,001,104	2,736,897
Total investments	61,731,949	51,430,884
Receivables:		
Contributions receivable from employer	1,507,834	1,490,232
Notes receivable from participants	2,371,460	1,917,927
Total receivables	3,879,294	3,408,159
Net assets available for benefits	\$ 65,611,314	\$ 54,839,065

See accompanying notes.

Table of Contents

Papa John's International, Inc. 401(k) Plan

Statements of Changes in Net Assets Available for Benefits

Years ended December 31, 2017 and 2016

	2017	2016
Additions (deductions):		
Investment income:		
Net appreciation in fair value of investments	\$ 6,037,172	\$ 5,255,328
Interest and dividend income	834,236	647,475
Total investment income	6,871,408	5,902,803
Contributions:		
Participant	4,562,523	4,237,935
Rollover	1,535,148	1,452,257
Employer	1,507,835	1,490,232
Total contributions	7,605,506	7,180,424
Benefits paid to participants	(3,409,839)	(4,153,668)
Administrative fees	(294,826)	(249,750)
Net increase	10,772,249	8,679,809
Net assets available for benefits at beginning of year	54,839,065	46,159,256
Net assets available for benefits at end of year	\$ 65,611,314	\$ 54,839,065

See accompanying notes.

Table of Contents

Papa John's International, Inc. 401(k) Plan

Notes to Financial Statements

December 31, 2017 and 2016

1. Description of Plan

The following description of the Papa John's International, Inc. 401(k) Plan (the "Plan") provides general information. Participants should refer to the Summary Plan Description for a more complete description of the Plan's provisions.

General

Papa John's International, Inc. (the "Company") established the Plan on October 1, 1995. The Plan is a defined contribution plan available to all eligible employees of the Company and its subsidiaries, who have attained the age of twenty-one and have completed one year of service as defined by the Plan. Highly compensated employees, as defined by the Plan, are restricted from deferring contributions to the Plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). Although it has not expressed any intent to do so, the Company has the right under the Plan to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100 percent vested in their accounts.

Contributions

Participants may voluntarily elect to contribute from 1 to 75 percent of annual eligible wages to their accounts within the Plan. Participant contributions are subject to Internal Revenue Code ("IRC") limits. The Company may, at its discretion, make matching or profit sharing contributions to the Plan. The Company contributed, to participants who completed 1,000 hours of service and were actively employed on the last day of the 2017 and 2016 Plan years, an amount equal to 50 cents for every dollar contributed by the participants up to a maximum of the first 6 percent of the participants' eligible compensation contributed to the Plan. Participants who die, retire, or are disabled during the Plan year also received Company matching contributions.

Participant Accounts

Individual accounts are maintained for each Plan participant. Each participant's account is credited with the participant's contributions and Company matching contributions, as well as allocations of the Company's profit sharing contribution and Plan earnings. All contributions are allocated at the direction of the participant among selected investment funds. Each fund's investment income or loss, less any investment management fee, is allocated to participants' accounts based on their proportionate interest in the fund. The value of participant accounts will fluctuate with the market value of the securities in which the accounts are invested.

Vesting

Participant contributions and the earnings on those contributions are immediately vested to the participant. Company discretionary contributions and related earnings vest subject to a five-year graded vesting schedule which is based on years of vesting service. To receive vesting service for a Plan year, a participant must have completed at least 1,000 hours of service during the Plan year.

Payment of Benefits

Vested account balances are payable upon retirement, death or disability, or termination of employment. In-service distributions are also permitted upon meeting certain requirements as defined by the Plan.

Notes Receivable from Participants

Eligible participants may borrow from their accounts a minimum loan amount of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50 percent of their vested account balance. Loans are secured by the balances in the participants' accounts and are interest bearing at the prime rate plus one percentage point at the time of the loans. The loans are measured at their unpaid principal balance plus any accrued but unpaid interest.

Table of Contents

Papa John's International, Inc. 401(k) Plan

Notes to Financial Statements

December 31, 2017 and 2016

Forfeitures

Forfeited balances of terminated participants' non-vested accounts are used to reduce future Company contributions. Forfeitures of approximately \$52,000 and \$20,500 were used to reduce the amount of the employer matching contributions receivable as of December 31, 2017 and 2016, respectively. Forfeited amounts approximated \$30,200 and \$20,300 at December 31, 2017 and 2016, respectively.

Administrative Expenses

Administrative expenses of the Plan are paid by the Company or Plan participants, as defined by the Plan.

2. Significant Accounting Policies

Basis of Accounting

The financial statements of the Plan are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Contributions

Contributions from participants are recorded when the Company makes payroll deductions. Discretionary employer contributions are determined, funded and recorded annually. Contributions receivable represent amounts not yet deposited into the participants' individual accounts.

Valuation of Investments and Income Recognition

The Plan's investments are stated at fair value (see Note 3). Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

The Plan presents in the accompanying Statements of Changes in Net Assets Available for Benefits the net appreciation (depreciation) in the fair value of its investments which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments.

Management fees and operating expenses charged to the Plan for investments are deducted from income earned on a daily basis and are not separately reflected. Consequently, management fees and operating expenses are reflected as a reduction of investment return for such investments.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the Plan's management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates.

Subsequent Events

Subsequent events for the Plan have been considered through the date of the Independent Auditor's Report, which represents the date the financial statements were available to be issued.

Table of Contents

Papa John's International, Inc. 401(k) Plan

Notes to Financial Statements

December 31, 2017 and 2016

3. Fair Value Measurements

The Financial Accounting Standards Board Accounting Standards Codification establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three-tier fair value hierarchy includes the following categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which the transaction for the asset or liability occurs with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data, such as quoted prices for similar assets or liabilities or model-derived valuations.
- Level 3: Unobservable inputs that are not corroborated by market data. These inputs reflect a company's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following is a description of the valuation methodologies used for the investments measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

Papa John's International, Inc. common stock:

Papa John's International, Inc. common stock is traded on The NASDAQ Global Select Market tier of The NASDAQ Stock Market under the symbol PZZA. The common stock is valued at its quoted market price at the daily close of NASDAQ on the last business day of the Plan year and is classified as a Level 1 investment.

Mutual funds:

Mutual funds are valued at quoted market prices in an exchange and active market and are classified as Level 1 investments.

Pooled separate accounts:

Pooled separate accounts ("PSAs") are privately managed through investment companies and are not publicly quoted. PSAs are comprised, primarily, of shares of registered investment companies held through sub-accounts of an

insurance company. The PSAs are valued using net asset value (“NAV”) as a practical expedient to estimate fair value where NAV is based on the value of the underlying investment assets held through sub-accounts of a separate account of an insurance company. This practical expedient is not used when it is determined to be probable that the account will sell the investment for an amount different than the reported NAV. The Plan has concluded that the NAVs reported by the investment companies approximate the fair value of the investments. There are currently no redemption restrictions or unfunded commitments on these investments.

Table of Contents

Papa John's International, Inc. 401(k) Plan

Notes to Financial Statements

December 31, 2017 and 2016

Collective trust fund:

The Principal Stable Value Fund, held in a collective trust fund, invests in conventional and synthetic guaranteed investment contracts ("GICs") issued by life insurance companies, banks and other financial institutions with excess cash invested in cash equivalents. The objective of the stable value fund is to provide preservation of capital and relatively stable returns regardless of the volatility of the financial markets. The investments are valued using NAV as a practical expedient to estimate fair value where NAV is based on the value of the underlying investment assets owned by the fund, minus its liabilities. This practical expedient is not used when it is determined to be probable that the account will sell the investment for an amount different than the reported NAV. Participant transactions (purchases and sales) may occur daily. Were the Plan to initiate a full redemption of the collective trust, the issuer reserves the right to temporarily delay withdrawal from the trust in order to ensure that securities liquidations will be carried out in an orderly business manner. There are currently no redemption restrictions or unfunded commitments on these investments.

The Plan's investments measured at fair value on a recurring basis as of December 31, 2017 and 2016 are as follows:

	December 31, 2017			
	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Papa John's International, Inc. common stock	\$ 4,130,859	\$ —	\$ —	\$ 4,130,859
Mutual funds	31,722,940	—	—	31,722,940
Total assets in fair value hierarchy	\$ 35,853,799	\$ —	\$ —	35,853,799
Investments measured at NAV (a)				25,878,150
Investments at fair value				\$ 61,731,949

	December 31, 2016			
	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Papa John's International, Inc. common stock	\$ 6,718,426	\$ —	\$ —	\$ 6,718,426
Mutual funds	26,326,182	—	—	26,326,182
Total assets in fair value hierarchy	\$ 33,044,608	\$ —	\$ —	33,044,608
Investments measured at NAV (a)				18,386,276
Investments at fair value				