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AFC ENTERPRISES INC

FORM 10-Q
(Quarterly Report)

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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2012

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 000-32369

AFC Enterprises, Inc.
(Exact name of registrant as specified in its charter)

Minnesota **(State or other jurisdiction of incorporation or organization)**	**58-2016606** **(IRS Employer Identification No.)**
400 Perimeter Center Terrace, Suite 1000 **Atlanta, Georgia** **(Address of principal executive offices)**	**30346** **(Zip code)**

(404) 459-4450
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

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

As of October 28, 2012 there were 24,020,745 shares of the registrant’s common stock, par value $.01 per share, outstanding.

AFC ENTERPRISES, INC.
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Part 1. Financial Information

Item 1. Financial Statements

AFC Enterprises, Inc.

Condensed Consolidated Balance Sheets (unaudited)
(In millions, except share data)

	09/30/12	12/25/11
ASSETS		
Current assets:		
Cash and cash equivalents	$ 24.8	$ 17.6
Accounts and current notes receivable, net	6.7	7.0
Other current assets	3.6	4.8
Advertising cooperative assets, restricted	23.5	18.9
Total current assets	58.6	48.3
Long-term assets:		
Property and equipment, net	29.2	27.4
Goodwill	11.1	11.1
Trademarks and other intangible assets, net	46.0	46.5
Other long-term assets, net	1.9	2.3
Total long-term assets	88.2	87.3
Total assets	$146.8	$135.6
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3.1	$ 6.1
Other current liabilities	7.6	8.2
Current debt maturities	6.0	5.2
Advertising cooperative liabilities	23.5	18.9
Total current liabilities	40.2	38.4
Long-term liabilities:		
Long-term debt	52.9	58.8
Deferred credits and other long-term liabilities	26.8	24.6
Total long-term liabilities	79.7	83.4
Commitments and contingencies		
Shareholders' equity:		
Preferred stock ($.01 par value; 2,500,000 shares authorized; 0 shares issued and outstanding)	—	—
Common stock ($.01 par value; 150,000,000 shares authorized; 24,020,745 and 24,383,274 shares issued and outstanding at September 30, 2012 and December 25, 2011, respectively)	0.2	0.2
Capital in excess of par value	89.0	97.6
Accumulated deficit	(61.4)	(83.2)
Accumulated other comprehensive loss	(0.9)	(0.8)
Total shareholders' equity	26.9	13.8
Total liabilities and shareholders' equity	$146.8	$135.6

See accompanying notes to unaudited condensed consolidated financial statements.

AFC Enterprises, Inc.

Condensed Consolidated Statements of Operations and Comprehensive Income (unaudited)
(In millions, except per share data)

	12 Weeks Ended		40 Weeks Ended	
	09/30/12	10/02/11	09/30/12	10/02/11
Revenues:				
Sales by company-operated restaurants	$ 13.5	$ 12.3	$ 47.6	$ 42.2
Franchise revenues	24.4	22.2	80.4	72.1
Rent and other revenues	1.0	0.9	3.3	3.2
Total revenues	38.9	35.4	131.3	117.5
Expenses:				
Restaurant employee, occupancy and other expenses	6.7	6.0	23.1	20.6
Restaurant food, beverages and packaging	4.6	4.2	16.0	14.1
Rent and other occupancy expenses	0.6	0.7	2.1	2.1
General and administrative expenses	14.7	14.1	49.7	46.2
Depreciation and amortization	1.1	0.9	3.5	3.2
Other expenses (income), net	0.1	0.3	0.2	—
Total expenses	27.8	26.2	94.6	86.2
Operating profit	11.1	9.2	36.7	31.3
Interest expense, net	0.7	0.8	2.7	2.8
Income before income taxes	10.4	8.4	34.0	28.5
Income tax expense	3.5	2.6	12.2	10.0
Net income	$ 6.9	$ 5.8	$ 21.8	$ 18.5
Earnings per common share, basic:	$ 0.29	$ 0.24	$ 0.91	$ 0.75
Earnings per common share, diluted:	$ 0.29	$ 0.24	$ 0.89	$ 0.74
Weighted-average shares outstanding:				
Basic	23.7	24.1	23.9	24.7
Diluted	24.2	24.5	24.4	25.1
Comprehensive income	$ 6.8	$ 5.5	$ 21.7	$ 17.6

See accompanying notes to unaudited condensed consolidated financial statements.

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AFC Enterprises, Inc.

Condensed Consolidated Statement of Changes in Shareholders' Equity (unaudited)
(In millions, except share data)

	Common Stock		Capital in Excess of Par	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Number of Shares	Amount				
Balance at December 25, 2011	24,383,274	$ 0.2	$ 97.6	$ (83.2)	$ (0.8)	$ 13.8
Net income	—	—	—	21.8	—	21.8
Change in fair value of cash flow hedge, net of income taxes	—	—	—	—	(0.1)	(0.1)
Repurchases and retirement of shares	(597,545)	—	(11.5)	—	—	(11.5)
Issuance of common stock under stock option plan	43,549	—	0.5	—	—	0.5
Issuance of restricted stock awards, net of forfeitures	191,467	—	(1.4)	—	—	(1.4)
Excess tax benefits from stock-based compensation	—	—	0.3	—	—	0.3
Stock-based compensation expense	—	—	3.5	—	—	3.5
Balance at September 30, 2012	24,020,745	$ 0.2	$ 89.0	$ (61.4)	$ (0.9)	$ 26.9

See accompanying notes to unaudited condensed consolidated financial statements.

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AFC Enterprises, Inc.

Condensed Consolidated Statements of Cash Flows (unaudited)
(In millions)

	40 Weeks Ended	
	09/30/12	10/02/11
Cash flows provided by (used in) operating activities:		
Net income	$ 21.8	$ 18.5
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	3.5	3.2
Asset write-downs	0.2	0.3
Net gain on sale of assets	(0.1)	(0.7)
Deferred income taxes	1.9	0.2
Non-cash interest expense, net	0.3	0.4
Provision for credit losses	(0.1)	(0.2)
Excess tax benefits from stock-based compensation	(0.3)	—
Stock-based compensation expense	3.5	2.2
Change in operating assets and liabilities:		
Accounts receivable	0.4	(0.9)
Other operating assets	1.4	0.8
Accounts payable and other operating liabilities	(4.3)	(2.0)
Net cash provided by operating activities	28.2	21.8
Cash flows provided by (used in) investing activities:		
Capital expenditures	(5.0)	(2.7)
Proceeds from dispositions of property and equipment	—	0.7
Proceeds from notes receivable and other investing activities	—	0.3
Net cash used in investing activities	(5.0)	(1.7)
Cash flows provided by (used in) financing activities:		
Principal payments — 2010 credit facility (term loan)	(5.0)	(3.8)
Borrowings under 2010 revolving line of credit	—	2.0
Share repurchases	(11.5)	(22.3)
Proceeds from exercise of employee stock options	0.5	0.5
Excess tax benefits from stock-based compensation	0.3	—
Other financing activities, net	(0.3)	(0.3)
Net cash used in financing activities	(16.0)	(23.9)
Net increase (decrease) in cash and cash equivalents	7.2	(3.8)
Cash and cash equivalents at beginning of year	17.6	15.9
Cash and cash equivalents at end of quarter	$ 24.8	$ 12.1

See accompanying notes to unaudited condensed consolidated financial statements.

AFC Enterprises, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

Note 1 — Description of Business

AFC Enterprises, Inc. ("AFC" or the "Company") develops, operates and franchises quick-service restaurants under the trade names Popeyes ® Chicken & Biscuits and Popeyes ® Louisiana Kitchen (collectively "Popeyes ® ") in 46 states, the District of Columbia, Puerto Rico, Guam, the Cayman Islands and 25 foreign countries.

Note 2 — Significant Accounting Policies

The Company's significant accounting policies are presented in Note 2 to the Company's consolidated financial statements for the fiscal year ended December 25, 2011, which are contained in the Company's 2011 Annual Report on Form 10-K ("2011 Form 10-K"). The significant accounting policies that are most critical and aid in fully understanding and evaluating the reported financial results include the following:

Basis of Presentation. The accompanying condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial information. Accordingly, certain information required by generally accepted accounting principles in the United States ("GAAP") for complete financial statements is not included. The Consolidated Balance Sheet data as of December 25, 2011 that is presented herein was derived from the Company's audited consolidated financial statements for the fiscal year then ended. The condensed consolidated financial statements as of September 30, 2012 have not been audited by the Company's independent registered public accountants, but in the opinion of management, they contain all normal recurring adjustments necessary for a fair statement of the Company's financial condition and results of operations for the interim periods presented. Interim period operating results are not necessarily indicative of the results expected for the full fiscal year. The Company suggests that the accompanying financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the 2011 Form 10-K. Except as disclosed herein, there has been no material change in the information disclosed in the notes to our consolidated financial statements included in the 2011 Form 10-K.

Use of Estimates . The preparation of condensed consolidated financial statements in conformity with GAAP requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities. These estimates affect the disclosure of contingent assets and liabilities as of the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Adopted Accounting Pronouncements. In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (Topic 820) - Fair Value Measurement* (ASU 2011-04), to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for level 3 fair value measurements. ASU 2011-04 was effective for the Company in the first quarter of fiscal 2012. The measurement provisions of this ASU did not impact our financial statements and all necessary disclosures have been complied with in this Form 10-Q.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU 2011-05). The new guidance requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The guidance eliminates the option to present the components of other comprehensive income as part of the statement of equity. ASU 2011-05 was effective for the Company in its first quarter of fiscal 2012 and applied retrospectively. All necessary disclosures have been complied with in this Form 10-Q.

In September 2011, the FASB issued ASU No. 2011-08, *Testing Goodwill for Impairment (Topic 350): Intangibles – Goodwill and Other* (ASU 2011-08) . The amendments are intended to simplify goodwill impairment testing by permitting an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than the carrying value before performing the two-step goodwill impairment test that exists currently. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. ASU 2011-08 was effective for the Company in the first quarter of fiscal 2012. The measurement provisions of this ASU did not impact our financial statements and all necessary disclosures have been complied within this Form 10-Q.

Note 3 — Other Current Liabilities

(In millions)	09/30/12	12/25/11
Accrued wages, bonuses and severances	$ 5.3	$ 5.0
Other	2.3	3.2
Other Current Liabilities	$ 7.6	$ 8.2

Note 4 — Fair Value Measurements

The following table reflects assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2012 and December 25, 2011:

(In millions)	Quoted Prices in Active Markets for Identical Asset or Liability (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Value
September 30, 2012				
Financial Assets				
Cash equivalents	$ 24.6	$ —	$ —	$ 24.6
Restricted cash (advertising cooperative assets)	4.3	—	—	4.3
Total assets at fair value	$ 28.9	$ —	$ —	$ 28.9
Financial Liabilities				
Interest rate swap agreement	$ —	$ 1.4	$ —	$ 1.4
Long term debt and other borrowings	—	58.3	—	58.9
Total liabilities at fair value	$ —	$ 59.7	$ —	$ 60.3
December 25, 2011				
Financial Assets				
Cash equivalents	$ 17.7	$ —	$ —	$ 17.7
Restricted cash (advertising cooperative assets)	4.3	—	—	4.3
Total assets at fair value	$ 22.0	$ —	$ —	$ 22.0
Financial Liabilities				
Interest rate swap agreement	$ —	$ 1.3	$ —	$ 1.3
Long Term debt and other borrowings	—	66.2	—	64.0
Total liabilities at fair value	$ —	$ 67.5	$ —	$ 65.3

There were no transfers among levels within the fair value hierarchy during the forty weeks ended September 30, 2012.

At September 30, 2012 and December 25, 2011, the fair value of the Company's current assets and current liabilities approximates carrying value because of the short-term nature of these instruments.

The fair value of our interest rate swap is based on the sum of all future net present value cash flows. The future cash flows are derived based on the terms of our interest rate swap, as well as considering published discount factors, and projected London Interbank Offered Rates ("LIBOR"). The fair values of each of our long-term debt instruments are based on the amount of future cash flows associated with each instrument, discounted using our current borrowing rate for similar debt instruments of comparable maturity.

Note 5 — Long-Term Debt

(In millions)	09/30/12	12/25/11
2010 Credit Facility:		
Revolving credit facility	$ 24.0	$ 24.0
Term Loan	31.3	36.3
Capital lease obligations	1.4	1.4
Other notes	2.2	2.3
	58.9	64.0
Less current portion	(6.0)	(5.2)
Long-term debt	$ 52.9	$ 58.8

2010 Credit Facility. On December 23, 2010, the Company entered into a bank credit facility (the "2010 Credit Facility") with a group of lenders consisting of a five year $60.0 million revolving credit facility and $40.0 million term loan.

Under the terms of the revolving credit facility, the Company may obtain other short-term borrowings up to $10.0 million and letters of credit up to $25.0 million. Collectively, these other borrowings and letters of credit may not exceed the amount of unused borrowings under the 2010 Credit Facility. As of September 30, 2012, the Company had $0.8 million of outstanding letters of credit. Availability for short-term borrowings and letters of credit under the revolving credit facility was $35.2 million.

As of September 30, 2012, the Company was in compliance with the financial and other covenants of the 2010 Credit Facility. As of September 30, 2012, the Company's weighted average interest rate for all outstanding indebtedness under the 2010 Credit Facility was 3.9%.

Interest Rate Swap Agreements. On February 22, 2011, the Company entered into new interest rate swap agreements limiting the interest rate exposure on $30.0 million of the term loan debt to a fixed rate of 4.8%. The term of the swap agreements expires March 31, 2015.

The Company's interest rate swap agreements are derivative instruments that are designated as cash flow hedges. The fair value gain or loss on the interest rate swaps is included as a component of the "Accumulated other comprehensive loss" ("AOCL"). The following tables summarize the fair value of the Company's interest rate swap agreements and the effect on the financial statements:

Fair Values of Derivative Instruments

(In millions)

Derivative Instrument	Balance Sheet Location	09/30/12	12/25/11
Interest rate swap agreements	Deferred credits and other long-term liabilities	$ 1.4	$ 1.3

Note 6 — Deferred Credits and Other Long-Term Liabilities

(In millions)	09/30/12	12/25/11
Deferred franchise revenues	$ 2.6	$ 2.4
Deferred gains on unit conversions	1.6	1.7
Deferred rentals	6.7	6.1
Above-market rent obligations	2.7	2.7
Deferred income taxes	8.5	6.8
Other	4.7	4.9
Deferred Credits and Other Long-Term Liabilities	$ 26.8	$ 24.6

Note 7 — Comprehensive Income

Comprehensive income is net income plus the change in fair value of the Company's cash flow hedge discussed in Note 5. The following table presents the components of comprehensive income for the twelve and forty week periods ended September 30, 2012 and October 02, 2011:

	12 Weeks Ended		40 Weeks Ended	
(In millions)	09/30/12	10/02/11	09/30/12	10/02/11
Net income	$ 6.9	$ 5.8	$ 21.8	$ 18.5
Other comprehensive loss:				
Change in fair value of interest rate swap agreements (a)	(0.1)	(0.4)	(0.1)	(1.0)
Derivative loss realized in earnings during the period, net of income taxes	—	0.1	—	0.1
Comprehensive income	$ 6.8	$ 5.5	$ 21.7	$ 17.6

(a) Amounts are shown net of income taxes which were insignificant for the twelve and forty week periods ended September 30, 2012. The tax impacts for the twelve and forty week periods ended October 2, 2011 were $0.1 and $0.5 million, respectively.

Note 8 — Other Expenses (Income), Net

	12 Weeks Ended		40 Weeks Ended	
(In millions)	09/30/12	10/02/11	09/30/12	10/02/11
Asset writedowns	$ —	$ 0.1	$ 0.2	$ 0.3
Net gain on sale of assets	—	—	(0.1)	(0.7)
Other	0.1	0.2	0.1	0.4
Other Expenses (Income), Net	$ 0.1	$ 0.3	$ 0.2	$ —

Net gain on sale of assets consists primarily of recognition of deferred gains associated with refranchising of company-operated restaurants and gain on the sale of real estate to franchisees and other third parties. During the forty weeks ended October 2, 2011, the Company sold two properties to a franchisee for approximately $0.7 million and recognized a gain of $0.5 million.

Note 9 — Commitments and Contingencies

Litigation. The Company is a defendant in various legal proceedings arising in the ordinary course of business, including claims resulting from "slip and fall" accidents, employment-related claims, claims from guests or employees alleging illness, injury or other food quality, health or operational concerns and claims related to franchise matters. The Company establishes reserves to provide for the settlement of such matters when payment is probable and reasonably estimable. The Company's management believes their ultimate resolution will not have a material adverse effect on the Company's financial condition or its results of operations.

Insurance Programs. The Company carries property, general liability, business interruption, crime, directors and officers liability, employment practices liability, environmental and workers' compensation insurance policies which it believes are customary for businesses of its size and type. Pursuant to the terms of their franchise agreements, the Company's franchisees are also required to maintain certain types and levels of insurance coverage, including commercial general liability insurance, workers' compensation insurance, all risk property and automobile insurance.

The Company has established reserves with respect to the programs described above based on the estimated total losses the Company will experience. At September 30, 2012, the Company's insurance reserves of approximately $0.2 million were collateralized by letters of credit and/or cash deposits of $0.9 million.

Note 10 — Interest Expense, Net

	12 Weeks Ended		40 Weeks Ended	
(In millions)	**09/30/12**	**10/02/11**	**09/30/12**	**10/02/11**
Interest on debt	$ 0.6	$ 0.7	$ 2.1	$ 2.2
Amortization and write-offs of debt issuance costs	0.1	0.1	0.3	0.3
Other debt related charges	0.1	0.1	0.4	0.4
Interest Income	(0.1)	(0.1)	(0.1)	(0.1)
Interest Expense, Net	$ 0.7	$ 0.8	$ 2.7	$ 2.8

Note 11 — Income Taxes

The Company's effective tax rates for the twelve week periods ended September 30, 2012 and October 2, 2011 were 33.7% and 31.0%, respectively. The Company's effective tax rates for the forty week periods ended September 30, 2012 and October 2, 2011 were 35.9% and 35.1%, respectively. The effective rates differ from statutory rates due to tax credits and permanent differences between reported income before income taxes and taxable income for tax purposes.

As of September 30, 2012 and December 25, 2011, the amount of unrecognized tax benefits was approximately $1.9 million and $2.2 million, respectively, of which approximately $0.5 million and $0.7 million, respectively, if recognized, would affect the effective income tax rate.

The Company successfully concluded the audit of its 2009 U.S. federal income tax return with the Internal Revenue Service during the second fiscal quarter of 2012. As a result of concluding the audit, the Company received a tax refund of $0.4 million. The net impact of concluding the audit did not have a material impact on income tax expense.

The Company files income tax returns in the United States and various state jurisdictions. The U.S. federal tax years 2010 through 2011 are open to audit. In general, the state tax years open to audit range from 2008 through 2010.

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Note 12 — Components of Earnings Per Common Share Computation

The Company's basic earnings per share calculation is computed based on the weighted-average number of common shares outstanding. Diluted earnings per share calculation is computed based on the weighted-average number of common shares outstanding adjusted by the number of additional shares that would have been outstanding had the potentially dilutive common shares been issued. Potentially dilutive common shares include employee stock options, non-vested restricted stock awards and non-vested restricted share units. Performance based awards are included in the average diluted shares outstanding each period if the performance criteria have been met at the end of the respective periods.

Potentially dilutive shares are excluded from the diluted earnings per share computation in periods in which they have an anti-dilutive effect. During the twelve week and forty week period ended October 2, 2011, approximately 0.1 million weighted stock options were not included in the computation of diluted earnings per share.

	12 Weeks Ended		40 Weeks Ended	
(In millions)	**09/30/12**	**10/02/11**	**09/30/12**	**10/02/11**
Numerator for earnings per share computation:				
Net Income	$ 6.9	$ 5.8	$ 21.8	$ 18.5
Denominator for basic earnings per share — weighted average shares	23.7	24.1	23.9	24.7
Effect of dilutive share-based employee and director compensation	0.5	0.4	0.5	0.4
Denominator for diluted earnings per share	24.2	24.5	24.4	25.1

Note 13 — Segment Information

Based on its internal reporting and management structure, the Company has determined that it has two reportable segments: franchise operations and company-operated restaurants. The company-operated restaurant segment derives its revenues from the operation of company owned restaurants. The franchise segment consists of domestic and international franchising activities and derives its revenues principally from (1) ongoing royalty payments that are determined based on a percentage of franchisee sales; (2) franchise fees associated with new restaurant openings; (3) development fees associated with the opening of new franchised restaurants in a given market; and (4) rental income associated with properties leased or subleased to franchisees. Operating profit for each reportable segment includes operating results directly allocable to each segment plus a 5% inter-company royalty charge from franchise operations to company-operated restaurants.

	12 Weeks Ended		40 Weeks Ended	
	09/30/12	10/02/11	09/30/12	10/02/11
Revenues				
Franchise restaurants(a)	$ 25.4	$ 23.1	$ 83.7	$ 75.3
Company-operated restaurants	13.5	12.3	47.6	42.2
	38.9	35.4	131.3	117.5
Operating profit before unallocated expenses				
Franchise restaurants(b)	11.6	9.5	36.7	30.9
Company-operated restaurants	0.7	0.9	3.7	3.6
	12.3	10.4	40.4	34.5
Less unallocated expenses(c)				
Depreciation and amortization	1.1	0.9	3.5	3.2
Other expenses (income), net	0.1	0.3	0.2	—
Operating Profit	11.1	9.2	36.7	31.3
Interest expense, net	0.7	0.8	2.7	2.8
Income before income taxes	10.4	8.4	34.0	28.5
Income tax expense	3.5	2.6	12.2	10.0
Net Income	$ 6.9	$ 5.8	$ 21.8	$ 18.5
Capital expenditures				
Franchise operations	$ 0.5	$ 0.7	$ 0.9	$ 1.1
Company-operated restaurants	2.6	0.3	4.1	1.6
	$ 3.1	$ 1.0	$ 5.0	$ 2.7

(a) Franchise operations revenues exclude 5% inter-segment royalties.

(b) Includes inter-segment royalties for the quarter of $0.7 million in 2012 and $0.6 million in 2011. The year-to-date inter-segment royalties include $2.4 million in 2012 and $2.1 million in 2011.

(c) Amounts have not been allocated to reportable segments for performance reporting purposes in accordance with the Company's method of internal reporting.

Note 14 — Subsequent Events

On October 11, 2012, the Company entered into an Asset Purchase Agreement to acquire 29 restaurant sites in Minnesota and California for a purchase price of $13.8 million. The restaurants are currently in the trade image of another quick service restaurant concept. The Company intends to convert 28 of the restaurants to Popeyes Louisiana Kitchen restaurants at a cost of approximately $11.5 and to dispose of one of the restaurant sites. Following the conversions, the restaurants will be leased to Popeyes franchisees to operate. The closing of the acquisition, the Asset Purchase Agreement, the number of acquired restaurant sites, the number of restaurants converted to the Popeyes concept, and the conversion costs are subject to bankruptcy court approval and customary closing conditions. As of 12:00 noon Eastern Time on November 7, 2012, the bankruptcy court had not ruled with respect to approval. The Company will provide an update following such ruling.

During November 2012, the 2010 Credit Facility lenders approved an amendment to exclude the initial purchase price and conversion costs for the acquired restaurants from the Company’s debt covenant calculations. As a result, the Company expects to be compliant with its covenant requirements through the life of the facility.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis for AFC Enterprises, Inc. ("AFC" or the "Company") should be read in conjunction with our condensed consolidated financial statements included in Part 1, Item 1 of this quarterly report and in conjunction with the Company's Annual Report on Form10-K for the fiscal year ended December 25, 2011 (the "2011 Form 10-K").

Nature of Business

We develop, operate and franchise quick-service restaurants ("QSRs") under the trade names Popeyes ® Chicken & Biscuits and Popeyes ® Louisiana Kitchen (collectively "Popeyes"). The Company operates two business segments: franchise operations and company-operated restaurants.

As of September 30, 2012, we operated and franchised 2,060 Popeyes restaurants in 46 states, the District of Columbia, Puerto Rico, Guam, the Cayman Islands and 25 foreign countries.

Total Operating Restaurants as of:	09/30/12	12/25/11
Domestic:		
Company-Operated	40	40
Franchised	1,606	1,587
International:		
Franchised	414	408
Total	2,060	2,035

Our Business Strategy

The Company continues to strengthen its competitive position in the restaurant industry and quick service restaurant sector by executing its Strategic Plan which is based on the following pillars:

1. Build a Distinctive Brand
   - The Popeyes system continues to grow average unit volumes by complementing its core Bonafide ® offerings with a wide array of distinctive, premium quality boneless chicken and seafood products.
   - This menu innovation, combined with the expansion of our highly effective national media advertising program is resonating with a broader spectrum of guests and accelerating the performance of our brand.

2. Run Great Restaurants
   - At the end of the third quarter, approximately 18% of the Popeyes domestic system had incorporated the new Popeyes Louisiana Kitchen re-image. Our goal is to have approximately one-third of our domestic system in the new restaurant image by the end of 2012, and the balance of the system by the end of 2015.
   - Speed of service at the drive-thru continued to be an area of focus. By the end of the third quarter, approximately three quarters of our domestic system restaurants attained speed of service below our 180 second standard.
   - We revised our Guest Experience Monitor ("GEM") process in the first quarter of 2012 and are pleased that we have doubled the number of guest survey responses. For the third quarter, GEM "Overall Delighted" scores were approximately 70%.

3. Grow Restaurant Profits
   - In the second quarter of 2012, our franchisees reported average profits of nearly 20% higher than last year despite commodity cost inflation of 1.5%.
   - On a full year basis, the Company now expects food costs to increase by approximately 2%, which equates to an approximate 0.7% negative impact on Restaurant Operating Profit margins.
   - We expect to offset the full year impact of commodity inflation by continuing to deliver top-line sales growth and implementing on-going supply chain cost savings and in-restaurant cost controls.
   - For 2013, we expect commodity inflation of approximately 1-2% based on current market indications.

4. Accelerate Quality Restaurants
   - Approximately two-thirds of the 42 domestic restaurant openings through the end of the third quarter have been in top priority development markets.

- The average unit volumes of the new freestanding restaurants are materially higher than the system average as a direct result of the site selection discipline we have in place.
- We believe our opportunity in the U.S. is to at least double our current footprint through additional development in existing markets and entry into new markets.
- Company-operated restaurant development remains on track, with 4 and 6 new restaurants expected to open in the fourth quarter.

5. Create a Culture of Servant Leaders
   - Our work on key initiatives to transform the Popeyes culture into one of Servant Leadership punctuates the importance we place on human capital and its proven impact on long term performance.
   - We are intent on delivering a branded guest experience that differentiates Popeyes among our competitors. The foundation of this effort is based on establishing Popeyes unique employee value proposition, defining the guest experience and developing leaders at all levels of the organization who can execute that experience.
   - We are currently gathering insights from our guests and employees. Spending time with these important stakeholders is key to understanding what they expect from an employee and guest experience.

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Management Overview of 2012 Operating Results (Third Quarter)

Our third quarter of 2012 results and highlights include the following:

- Reported net income was $6.9 million, or $0.29 per diluted share, compared to $5.8 million or $0.24 per diluted share in 2011. Adjusted earnings per diluted share were $0.29, compared to $0.25 last year. Through the end of the third quarter, adjusted earnings per diluted share were $0.91 compared to $0.75 last year, an increase of 21%. Adjusted earnings per diluted share is a supplemental non-GAAP measure of performance. See the heading entitled "Management's Use of Non-GAAP Financial Measures."
- Global same-store sales increased 6.3% rolling over a 1.7% increase in the third quarter of 2011. Through the end of the third quarter, global same-store sales increased 7.1% rolling over a 2.2% increase last year, for a two-year same-store sales growth of 9.3%.
- According to independent data, in the third quarter, Popeyes domestic same-store sales outpaced the Chicken QSR category for the 18th consecutive quarter and the QSR category for the 4th consecutive quarter.
- Global system-wide sales increased 10.5% rolling over a 5.5% increase in 2011 for a two-year growth rate of 16%.
- The Popeyes system opened 28 new restaurants during the third quarter and permanently closed 23 restaurants, resulting in 5 net openings compared to 1 in the prior year. Through the end of the third quarter, the Popeyes system opened 79 new restaurants and permanently closed 56, for 23 net restaurant opening compared to 24 in 2011.

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- Through the end of the third quarter, Operating EBITDA increased by 18.6% to $40.9 million, at 31.2% of total revenue, compared to $34.5 million, at 29.4% of total revenue in the prior year. Operating EBITDA is a supplemental non-GAAP measure of performance. See the heading entitled “Management’s Use of Non-GAAP Financial Measures.”
- The Company generated $26.3 million of Free Cash Flow through the third quarter compared to $22.1 million last year. As a percentage of Total Revenue, Free Cash Flow increased to 20.0% compared to 18.8% last year. Free Cash Flow is a supplemental non-GAAP measure of performance. See the heading entitled “Management’s Use of Non-GAAP Financial Measures.”

A summary of our financial results and key operational metrics is presented below.

	12 Weeks Ended		40 Weeks Ended	
(Dollars in millions)	**9/30/12**	**10/02/11**	**9/30/12**	**10/02/11**
Sales by company-operated restaurants	$ 13.5	$ 12.3	$ 47.6	$ 42.2
Franchise revenues (a)	24.4	22.2	80.4	72.1
Rent and other revenues	1.0	0.9	3.3	3.2
Total revenues	$ 38.9	$ 35.4	$131.3	$117.5
Operating profit	$ 11.1	$ 9.2	$ 36.7	$ 31.3
Net income	$ 6.9	$ 5.8	$ 21.8	$ 18.5
Global system-wide sales increase	10.5%	5.5%	11.3%	5.8%
Same-store sales increase (b)				
Company-operated restaurant segment	1.9%	(1.9%)	4.7%	1.9%
Domestic franchised restaurants	7.0%	1.8%	7.9%	2.2%
Total domestic (company-operated and franchised restaurants)	6.8%	1.7%	7.8%	2.2%
International franchised restaurants	2.5%	1.8%	2.0%	2.8%
Total global system	6.3%	1.7%	7.1%	2.2%
Company-operated restaurants (all domestic)				
Restaurants at beginning of period	40	38	40	38
New restaurant openings	—	—	—	—
Unit conversions, net	—	—	—	—
Permanent closings	—	—	—	—
Restaurant at the end of third quarter	40	38	40	38
Franchised restaurants (domestic and international)				
Restaurants at beginning of period	2,009	1,962	1,995	1,939
New restaurant openings	28	26	79	88
Permanent closings	(23)	(25)	(56)	(64)
Temporary (closings)/re-openings, net	6	(3)	2	(3)
Restaurants at the end of third quarter	2,020	1,960	2,020	1,960
Total system restaurants	2,060	1,998	2,060	1,998

(a) Franchise revenues are principally comprised of royalty payments from franchisees that are based upon franchisee sales. While franchisee sales are not recorded as revenue by the Company, we believe they are important in understanding the Company’s financial performance and overall financial health, given the Company’s strategic focus on growing its overall business through franchising. For the third quarter of 2012 and 2011, franchisee sales, as reported by our franchisees, were approximately $497.7 million and $450.6 million, respectively.

(b) Same-store sales statistics exclude temporarily and permanently closed restaurants and stores that have been open for less than 65 weeks.

2012 Same-Store Sales — Third Quarter

Total domestic same-store sales increased 6.8% compared to a 1.7% increase last year, representing the 10th consecutive quarter of same-store sales growth. International same-store sales increased 2.5% compared to a 1.8% increase in 2011, representing the 11th consecutive quarter of same-store sales growth. Same-store sales growth at company-operated restaurants in the third quarter of 2012 was 1.9% compared to negative 1.9% last year. Adjusting for the effect of Hurricane Isaac on the Company's New Orleans restaurants, company-operated restaurant same-store sales growth would have been 4.0%.

Looking Forward to the Remainder of 2012

Global same-store sales were positive 7.1% through the end of the third quarter. Accordingly, the Company is raising full year guidance on global same-store sales for fiscal 2012 to positive 6% to 6.5% to reflect the strong third quarter performance tempered by a tough 5.8% comparison in the fourth quarter. Previous guidance was 5% to 6% for full year 2012. Global same-store sales for fiscal 2011 were 3.1%.

As we reach completion of new restaurant projects begun throughout 2012, Popeyes now expects its global new openings will be in the range of 140-150 restaurants, compared to previous guidance of 135-155 restaurants. Many of the fourth quarter units are scheduled to open in late December. The Company expects net unit growth of 65-85, compared to previous guidance of 60-90 net unit growth. Total net unit growth in 2011 was 65.

Adjusted earnings per diluted share are now expected to be in the range of $1.19-$1.21, an increase from our previous guidance of $1.17 to $1.19. This represents an approximate 21% increase over the $0.99 of adjusted earnings per diluted share reported in fiscal 2011. Our guidance includes approximately $0.01 for the 53rd week in fiscal 2012.

The Company also reiterates its guidance on the following items:

- General and administrative expenses are expected to be between $67 and $68 million for fiscal 2012, at approximately 3% of system-wide sales.
- We expect our full year effective tax rate to be approximately 37%.
- In 2012, the Company plans to repurchase approximately $15 million of its outstanding shares, continuing its efforts to steadily grow shareholder value.
- Excluding our pending acquisition of 29 restaurant properties for $13.8 million, we expect capital expenditures for 2012 to be $10 to $12 million. Subject to the bankruptcy court's ruling, we anticipate investing an additional $2 to $3 million in the fourth quarter for the conversion of units in Minnesota and California.

Comparisons of the Third Quarter for 2012 and 2011

Sales by Company-Operated Restaurants

Sales by company-operated restaurants were $13.5 million in the third quarter of 2012, an increase of $1.2 million from the third quarter of 2011. The increase was primarily due to a same–store sales increase of 1.9% and two new restaurant openings in 2011.

Franchise Revenues

Franchise revenues have three basic components: (1) royalties that are based on a percentage (typically 5%) of franchisee sales; (2) franchise fees associated with new unit openings and renewals; and (3) development fees associated with the agreement pursuant to which a franchisee may develop new restaurants in a given market. Royalties are the largest component of franchise revenues, generally constituting more than 90% of franchise revenues.

Franchise revenues were $24.4 million in the third quarter of 2012, a $2.2 million increase from the third quarter of 2011. The increase was primarily due to an increase in royalty revenue from positive same-store sales and new franchised restaurants.

Company-operated Restaurant Operating Profit

Company-operated restaurant operating profit ("ROP") was $2.2 million, at 16.3% of sales compared to $2.1 million at 17.1% of sales last year. The decline in ROP margin was primarily attributable to personnel expenses and other fixed expenses incurred in Company-operated restaurants which were temporarily closed during Hurricane Isaac. Company-operated restaurant operating profit margin is a supplemental non-GAAP measure of performance. See the heading entitled "Management's Use of Non-GAAP Financial Measures."

General and Administrative Expenses

General and administrative expenses were $14.7 million, or 2.9% of system-wide sales, compared to $14.1 million, or 3.0% of system-wide sales last year.

The $0.6 million increase in general and administrative expenses was primarily attributable to a $0.4 million increase in company-operated restaurant support and pre-opening costs in new markets and a $0.2 million increase in domestic franchise development expenses.

Income Tax Expense

Income tax expense was $3.5 million at an effective tax rate of 33.7%, compared to an effective tax rate of 31.0% in 2011. Excluding favorable return to provision adjustments, adjustments to estimated tax reserves and recognition of tax credits in each period, the effective tax rates were 37.5% and 36.9% in 2012 and 2011, respectively. The effective tax rates differ from statutory rates due to credits and permanent differences between reported income before income taxes and taxable income for tax purposes.

Comparisons of the Forty Weeks Ended September 30, 2012 and October 2, 2011

Sales by Company-Operated Restaurants

Sales by company-operated restaurants were $47.6 million in the forty weeks ended September 30, 3012, a $5.4 million increase from 2011. The increase was primarily due to the positive 4.7% increase in same store sales year-to-date 2012.

Franchise Revenues

Franchise revenues were $80.4 million in the forty weeks ended September 30, 3012, an $8.3 million increase from 2011. The increase was primarily due to an increase in royalty revenue from positive same-store sales and new franchised restaurants.

Company-operated Restaurant Operating Profit

Company-operated restaurant operating profit ("ROP") was $8.5 million in the forty weeks ended September 30, 2012, or 17.9% of sales, compared to $7.5 million, or 17.8% of sales, last year. The $1.0 million increase in ROP was primarily due to the increase in same store sales of 4.7% partially offset by higher food costs as a result of increased commodity costs. Company-operated ROP is a supplemental non-GAAP measure of performance. See the heading entitled "Management's Use of Non-GAAP Financial Measures."

General and Administrative Expenses

General and administrative expenses were $49.7 million in the forty weeks ended September 30, 2012, or 2.9% of system-wide sales, compared to $46.2 million, or 3.0% of system-wide sales, last year.

The $3.5 million increase in general and administrative expenses was primarily attributable to a $2.3 million increase in short-term and long-term employee incentive costs, $0.5 million in legal fees related to licensing arrangements, a $0.7 million increase in domestic franchise development expenses, a $0.6 million increase in company-operated restaurant support and pre-opening costs in new markets partially offset by $0.6 million decrease other general and administrative expenses, net.

Income Tax Expense

Income tax expense was $12.2 million in the forty week period ended September 30, 2012, yielding an effective tax rate of 35.9%, compared to an effective tax rate of 35.1% in the prior year. Effective tax rates are below statutory rates primarily due to tax benefits related to favorable adjustments to estimated tax reserves and recognition of income tax credits. Excluding these benefits, the effective tax rates were 37.1% and 36.9% for the forty week periods ended September 30, 2012 and October 2, 2012 respectively.

Liquidity and Capital Resources

We finance our business activities primarily with:

- cash flows generated from our operating activities, and
- borrowings under our 2010 Credit Facility.

Our franchise model provides diverse and reliable cash flows. Net cash provided by operating activities of the Company was $28.2 million and $21.8 million for the forty week periods ended September 30, 2012 and October 2, 2011, respectively. See our condensed consolidated statements of cash flows in Part 1, Item 1 to this quarterly report. Based primarily upon our generation of cash flow from operations, our existing cash reserves (approximately $25.0 million available as of September 30, 2012), and available borrowings under our 2010 Credit Facility (approximately $35.2 million available as of September 30, 2012), we believe that we will have adequate cash flow to meet our anticipated future requirements for working capital, including various contractual obligations and expected capital expenditures.

Our cash flows and available borrowings allow us to pursue our growth strategies. Our priorities in the use of available cash are:

- reinvestment in our core business activities that promote the Company's strategic initiatives,
- repurchase shares of our common stock, and
- reduction of long-term debt.

Our investment in core business activities includes our obligation to maintain our company-operated restaurants and provide marketing plans and operations support to our franchise system.

Under the terms of the Company's 2010 Credit Facility, quarterly principal payments of $1.25 million will be due during 2012, $1.50 million during 2013 and 2014, and $4.50 million during 2015.

Pursuant to the 2010 Credit Facility, the Company is subject to a Total Leverage Ratio requirement of ≤ 2.75 to 1.0 through December 23, 2015. As of September 30, 2012, the Company's Total Leverage Ratio was 1.10 to 1.0. The Total Leverage Ratio is defined as the ratio of the Company's Consolidated Total Indebtedness to Consolidated EBITDA for the four immediately preceding fiscal quarters. Consolidated Total Indebtedness means, as at any date of determination, the aggregate principal amount of Indebtedness of the Company and its Subsidiaries.

The Company repurchased approximately 132,103 shares of our common stock for approximately $2.9 million during the third quarter of 2012. As of September 30, 2012 and November 7, 2012 the remaining value of shares that may be repurchased under the Company's current share repurchase program was approximately $5.2 million. Under the terms of the 2010 Credit Facility, the Company may repurchase and retire its common shares at any time its Total Leverage Ratio is less than 2.00 to 1.

Critical Accounting Policies and Significant Estimates

There have been no material changes to the Company's critical accounting policies and estimates from the information provided in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in the 2011 Form 10-K.

Contractual Obligations

The Company's material contractual obligations are summarized and included in our 2011 Form 10-K. During the forty weeks ended September 30, 2012, there have been no material changes outside the ordinary course of business in the contractual obligations specified in the 2011 Form 10-K.

Long-Term Debt

For a discussion of our long-term debt, see Note 5 to our condensed consolidated financial statements at Part 1, Item 1 to this quarterly report. That note is hereby incorporated by reference into this Item 2. See Note 9 in the 2011 Form 10-K for more information about the Company's long-term debt.

Capital Expenditures

Our capital expenditures consist of new unit construction and development, equipment replacements, the purchase of new equipment, reimaging our company-operated restaurants and investments in information technology hardware and software. Substantially all of our capital expenditures have been financed using cash provided from operating activities and borrowings under our 2010 Credit Facility.

During the forty week period ended September 30, 2012, we invested approximately $5.0 million in various capital projects, including approximately $2.5 million in company restaurant construction, $0.6 million in company restaurant reimages, $0.9 million of IT projects and $1.0 million in other capital assets to maintain, replace and extend the lives of company-operated restaurant facilities and equipment.

During the forty week period ended October 2, 2011, we invested approximately $2.7 million in various capital projects, including approximately $1.3 million in company restaurant reimages, $0.9 million of corporate center move costs, $0.2 million of IT projects and $0.3 million in other capital assets to maintain, replace and extend the lives of company-operated restaurant facilities and equipment.

Impact of Inflation

The impact of inflation on the cost of food, labor, fuel and energy costs, and other commodities has impacted our operating expenses. To the extent permitted by the competitive environment in which we operate, increased costs are partially recovered through menu price increases coupled with purchasing prices and productivity improvements.

Recently Adopted Accounting Pronouncements

For a discussion of recently adopted accounting pronouncements, see Note 2 to our condensed consolidated financial statements at Part 1, Item 1 to this quarterly report.

Accounting Pronouncements That We Have Not Yet Adopted

Accounting standards that have been issued by the FASB or other standards-setting bodies that do not require adoption until a future date are expected to have an immaterial impact on the financial statements upon adoption.

Management's Use of Non-GAAP Financial Measures

Adjusted earnings per diluted share, Operating EBITDA, Company-operated restaurant operating profit and Free cash flow are supplemental non-GAAP financial measures. The Company uses Adjusted earnings per diluted share, Operating EBITDA, Company-operated restaurant operating profit and Free cash flow in addition to net income, operating profit and cash flows from operating activities, to assess its performance and believes it is important for investors to be able to evaluate the Company using the same measures used by management. The Company believes these measures are important indicators of its operational strength and performance of its business. Adjusted earnings per diluted share, Operating EBITDA, Company-operated restaurant operating profit and Free cash flow as calculated by the Company are not necessarily comparable to similarly titled measures reported by other companies. In addition, Adjusted earnings per diluted share, Operating EBITDA, Company- operated restaurant operating profit and Free cash flow: (a) do not represent net income, cash flows from operations or earnings per share as defined by GAAP; (b) are not necessarily indicative of cash available to fund cash flow needs; and (c) should not be considered as an alternative to net income, earnings per share, operating profit, cash flows from operating activities or other financial information determined under GAAP.

Adjusted Earnings per Diluted Share: Calculation and Definition

The Company defines “Adjusted earnings” for the periods presented as the Company’s reported “Net income” after adjusting for certain non-operating items consisting of the following:

(i) other expense (income), net, as follow:

- for third quarter 2012 includes $0.1 million for impairments and disposals of fixed assets;
- for third quarter 2011 includes $0.1 million for impairments and disposals of fixed assets and $0.2 million of other expenses related to the Company’s relocation to a new Global Service Center;
- for third quarter year-to-date 2012 includes $0.2 million for disposals of fixed assets and $0.1 million of other hurricane-related expenses offset by $0.1 million net gain on the sale of assets;
- for third quarter year-to-date 2011 includes $0.3 million for impairments and disposals of fixed assets, $0.4 million of other expenses related to the Company’s relocation to a new Global Service Center offset by $0.7 million for net gain on sales of assets;

(ii) for third quarter 2012 year-to-date approximately $0.5 million in legal fees related to licensing arrangements;

(iii) accelerated depreciation for third quarter 2011 related to the Company’s relocation to a new Global Service Center; and

(iv) the tax effect of these adjustments at the effective statutory rates.

Adjusted earnings per diluted share” provides the per share effect of Adjusted earnings on a diluted basis. The following table reconciles on a historical basis for third quarter 2012, third quarter 2011, third quarter year-to-date 2012, third quarter year-to-date 2011 the Company’s Adjusted earnings per diluted share on a consolidated basis to the line on its Condensed Consolidated Statement of Operations and Comprehensive Income entitled “Net income”, which the Company believes is the most directly comparable GAAP measure on its Condensed Consolidated Statement of Operations and Comprehensive Income to “Adjusted earnings per diluted share.”

(In millions, except per share data)	Q3 2012	Q3 2011	Year-to-date 09/30/12	Year-to-date 10/02/2011
Net income	$ 6.9	$ 5.8	$ 21.8	$ 18.5
Other expense (income), net	$ 0.1	$ 0.3	$ 0.2	$ —
Legal fees related to licensing arrangements	$ —	$ —	$ 0.5	$ —
Accelerated Depreciation related to corporate move	$ —	$ 0.2	$ —	$ 0.5
Tax effect	$ (0.1)	$ (0.2)	$ (0.3)	$ (0.3)
Adjusted earnings	$ 6.9	$ 6.1	$ 22.2	$ 18.7
Adjusted earnings per diluted share	$ 0.29	$ 0.25	$ 0.91	$ 0.75
Weighted-average diluted shares outstanding	24.2	24.5	24.4	25.1

Operating EBITDA: Calculation and Definition

The Company defines “Operating EBITDA” as earnings before interest expense, net, taxes, depreciation and amortization, other expenses (income), net, and legal fees related to licensing arrangements. The following table reconciles on a historical basis for third quarter year-to-date 2012 and third quarter year-to-date 2011, the Company’s earnings before interest expense, taxes, depreciation and amortization and other expenses (income), net and legal fees related to licensing arrangements (“Operating EBITDA”) on a consolidated basis to the line on its Condensed Consolidated Statement of Operations and Comprehensive Income entitled “Net income”, which the Company believes is the most directly comparable GAAP measure on its Condensed Consolidated Statement of Operations and Comprehensive Income to Operating EBITDA. “Operating EBITDA as a percentage of Total Revenues” is defined as “Operating EBITDA” divided by “Total revenues”.

(dollars in millions)	Year-to-Date 09/30/12	Year-to-Date 10/02/11
Net income	$ 21.8	$ 18.5
Interest expense, net	2.7	2.8
Income tax expense	12.2	10.0
Depreciation and amortization	3.5	3.2
Other expenses (income), net	0.2	—
Legal fees related to licensing arrangements	0.5	—
Operating EBITDA	$ 40.9	$ 34.5
Total revenues	$ 131.3	$ 117.5
Operating EBITDA as a percentage of Total Revenues	31.2%	29.4%

Company-operated restaurant operating profit: Calculation and Definition

The Company defines "Company-operated restaurant operating profit" as "Sales by company-operated restaurants" minus "Restaurant employee, occupancy and other expenses" minus "Restaurant food, beverages and packaging". The following table reconciles on a historical basis for third quarter 2012, third quarter 2011, year-to-date 2012 and year-to-date 2011, Company-operated restaurant operating profit to the line item on its Condensed Consolidated Statement of Operations and Comprehensive Income entitled "Sales by company-operated restaurants", which the Company believes is the most directly comparable GAAP measure on its Condensed Consolidated Statement of Operations and Comprehensive Income. "Company-operated restaurant operating profit as a percentage of sales by company-operated restaurants" is defined as "Company-operated restaurant operating profit" divided by "Sales by company-operated restaurants."

(In millions)	Q3 2012	Q3 2011	Year-to-date 09/30/2012	Year-to-date 10/02/2011
Sales by Company-operated restaurants	$ 13.5	$ 12.3	$ 47.6	$ 42.2
Restaurant employee, occupancy and other expenses	$ (6.7)	$ (6.0)	$ (23.1)	$ (20.6)
Restaurant food, beverages and packaging	$ (4.6)	$ (4.2)	$ (16.0)	$ (14.1)
Company-operated restaurant operating profit	$ 2.2	$ 2.1	$ 8.5	$ 7.5
Company-operated restaurant operating profit as a percentage of sales by Company-operated restaurants	16.3%	17.1%	17.9%	17.8%

Free Cash Flow: Calculation and Definition

The Company defines "Free cash flow" as "Net income" plus "depreciation and amortization", plus "stock-based compensation expense", minus maintenance capital expenditures (which includes for third quarter year-to-date 2012 $0.6 million in Company restaurant reimages, $0.9 million in information technology projects and $1.0 million in other capital assets to maintain, replace and extend the lives of Company-operated restaurant facilities and equipment; and for third quarter year-to-date 2011 approximately $1.3 million in company restaurant reimages, $0.2 million of IT projects and $0.3 million in other capital assets to maintain, replace and extend the lives of company-operated restaurant facilities and equipment).

The following table reconciles on a historical basis for the third quarter year-to-date 2012 and third quarter year-to-date 2011, the Company's Free cash flow on a consolidated basis to the line on its Condensed Consolidated Statement of Operations and Comprehensive Income entitled "Net income", which the Company believes is the most directly comparable GAAP measure on its Condensed Consolidated Statement of Operations and Comprehensive Income to "Free cash flow".

(dollars in millions)	Year-to-date 9/30/12	Year-to-date 10/02/11
Net income	$ 21.8	$ 18.5
Depreciation and amortization	3.5	3.2
Stock-based compensation expense	3.5	2.2
Maintenance capital expenditures	(2.5)	(1.8)
Free cash flow	$ 26.3	$ 22.1
Total revenue	$ 131.3	$ 117.5
Free cash flow as a percentage of Total Revenue (Free cash flow margin)	20.0%	18.8%

Forward-Looking Statements

This quarterly report on Form 10-Q contains "forward-looking statements" within the meaning of the federal securities laws. Statements regarding future events and developments and our future performance, as well as management's current expectations, beliefs, plans, estimates or projections relating to the future, are forward-looking statements within the meaning of these laws. These forward-looking statements are subject to a number of risks and uncertainties. Examples of such statements in this quarterly report on Form 10-Q include discussions regarding the Company's planned implementation of its strategic plan, projections and expectations regarding same-store sales for fiscal 2012 and beyond, expectations regarding covenant compliance, the Company's ability to improve restaurant level margins, guidance for new restaurant openings and closures, the Company's pending restaurant acquisition, and the Company's anticipated 2012 and long-term performance, including projections regarding general and administrative expenses, and net earnings per diluted share, and similar statements of belief or expectation regarding future events. Among the important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are: competition from other restaurant concepts and food retailers, continued disruptions in the financial markets, the loss of franchisees and other business partners, labor shortages or increased labor costs, increased costs of our principal food products, changes in consumer preferences and demographic trends, as well as concerns about health or food quality, instances of avian flu or other food-borne illnesses, general economic conditions, the loss of senior management and the inability to attract and retain additional qualified management personnel, limitations on our business under our 2010 Credit Facility, our ability to comply with the repayment requirements, covenants, tests and restrictions contained in the 2010 Credit Facility, failure of our franchisees, a decline in the number of franchised units, a decline in our ability to franchise new units, slowed expansion into new markets, unexpected and adverse fluctuations in quarterly results, increased government regulation, effects of volatile gasoline prices, supply and delivery shortages or interruptions, currency, economic and political factors that affect our international operations, inadequate protection of our intellectual property and liabilities for environmental contamination and the other risk factors detailed in the Company's 2011 Annual Report on Form 10-K and other documents we file with the Securities and Exchange Commission. Therefore, you should not place undue reliance on any forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Commodity Market Risk. We are exposed to market risk from changes in poultry and other commodity prices. Chicken is the principal raw material for our Popeyes operations, constituting approximately 40% of our combined "Restaurant food, beverages and packaging" costs. Food costs are significantly affected by increases in the cost of chicken, which can result from a number of factors, including increases in the cost of corn and soy, disease, declining market supply of fast-food sized chickens and other factors that affect availability. Restaurant food, beverages and packaging costs are further affected by increases in the cost of other commodities including shortening, wheat, gas and utility price fluctuations. Our ability to recover increased costs through higher pricing is limited by the competitive environment in which we operate.

In order to ensure favorable pricing for fresh chicken purchases and to maintain an adequate supply of fresh chicken for the Popeyes system, Supply Management Services, Inc. (a not-for-profit purchasing cooperative of which we are a member) has entered into chicken pricing contracts with chicken suppliers. The contracts, which pertain to a vast majority of our system-wide purchases for Popeyes, are "cost-plus" contracts that utilize prices based upon the cost of feed grains plus certain agreed upon non-feed and processing costs. In order to stabilize pricing for the Popeyes system, Supply Management Services, Inc. has entered into commodity pricing agreements for 2012 for certain commodities including corn and soy, which impact the price of poultry and other food cost.

Instances of food-borne illness or avian flu could adversely affect the price and availability of poultry. In addition to losses associated with higher prices and a lower supply of our food ingredients, instances of food-borne illnesses could result in negative publicity for us and could result in a decline in our sales.

Foreign Currency Exchange Rate Risk. We are exposed to foreign currency exchange rate risk associated with our international franchise operations. Foreign currency exchange rate changes directly impact our revenues and cash flows from these operations. For the forty weeks ended September 30, 2012 and October 2, 2011, foreign currency revenues represented approximately 6.7% and 7.3%, respectively, of our total revenues. All other things being equal, for the forty weeks ended September 30, 2012, operating profit would have decreased by approximately $0.5 million if all foreign currencies uniformly weakened 10% relative to the U.S. dollar.

As of September 30, 2012, approximately $1.0 million of our accounts receivable were denominated in foreign currencies. Our international franchised operations are in 25 foreign countries with approximately 45% of our revenues from international royalties originating from restaurants in Korea, Canada and Turkey.

Interest Rate Risk With Respect to our 2010 Credit Facility. We have a market risk exposure to changes in interest rates. Borrowings made pursuant to the 2010 Credit Facility include interest rates that are benchmarked to U.S. and European short-term floating-rate interest rates. As of September 30, 2012, we had outstanding borrowings under our 2010 Credit Facility of $55.3 million.

On February 22, 2011, the Company entered into new interest rate swap agreements limiting the interest rate exposure on $30.0 million of the term loan debt to a fixed rate of 4.8%. The term of the swap agreements expires March 31, 2015.

As of September 30, 2012, the Company's weighted average interest rate for all outstanding indebtedness under the 2010 Credit Facility, including the effect of the interest rate swap agreements, was approximately 3.9%. The impact on our annual results of operations of a hypothetical one-point interest rate change on the outstanding borrowings under the 2010 Credit Facility would be approximately $0.3 million, taking into account our interest rate swap agreements.

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures of a registrant designed to ensure that information required to be disclosed by the registrant in the reports that it files or submits under the Securities Exchange Act of 1934 (the "Exchange Act") are properly recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's ("SEC") rules and forms. Disclosure controls and procedures include processes to accumulate and evaluate relevant information and communicate such information to a registrant's management, including its principal executive and financial officers, as appropriate, to allow for timely decisions regarding required disclosures.

(b) CEO and CFO Certifications

Attached as Exhibit 31.1 and 31.2 to this quarterly report are certifications by our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). These certifications are required in accordance with Section 302 of the Sarbanes-Oxley Act of 2002. This portion of our quarterly report describes the results of our controls evaluation referred to in those certifications.

(c) Our Evaluation of AFC's Disclosure Controls and Procedures

As of the end of the period covered by this report, we evaluated the effectiveness of the design and operation of AFC's disclosure controls and procedures, as required by Rule 13a-15 of the Exchange Act. This evaluation was carried out under the supervision and with the participation of our management, including our CEO and CFO. Based on the evaluation as of the end of the period covered by this report, our CEO and CFO concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

(d) Changes in Internal Control Over Financial Reporting

There were no changes to our internal control over financial reporting or in other factors that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the period covered by this report.

(e) Inherent Limitations of Any Control System

We do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. However, the control system has been designed to provide reasonable assurance of the control objectives are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected.

PART 2. OTHER INFORMATION

Item 1. Legal Proceedings

For a discussion of our legal matters, see Note 9 to our condensed consolidated financial statements at Part 1, Item 1 to this quarterly report. That note is hereby incorporated by reference into this Part 2, Item 1.

Item 1A. Risk Factors

There have been no material changes to the risk factors presently disclosed in our 2011 Form 10-K.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the third quarter of 2012, we repurchased 132,103 of our common shares as scheduled below:

Period	Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Repurchased as Part of a Publicly Announced Plan	Maximum Value of Shares that May Yet Be Repurchased Under the Plan
Period 8 7/09/12 – 8/05/12	132,103	$22.21	132,103	$5,148,966
Period 9 8/06/12 – 9/02/12	—	$ —	—	$5,148,966
Period 10 9/03/12 – 09/30/12	—	$ —	—	$5,148,966
Total	132,103	$22.21	132,103	$5,148,966

All shares were repurchased pursuant to the Company's share repurchase program previously announced on July 22, 2002.

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Item 6. Exhibits

(a) Exhibits

Exhibit 2.1	Asset Purchase Agreement among AFC Enterprises, Inc. and Wagstaff Management Corporation, Wagstaff Minnesota, Inc., Wagstaff Properties Minnesota, LLC, D&D Property Investments, LLC, Wagstaff Properties, LLC, and D&D Food Management, Inc., dated October 11, 2012 (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed on October 16, 2012). (Schedules and exhibits omitted pursuant to Item 601(b)(2) of Regulation SK. The Registrant agrees to furnish supplementally a copy of any omitted schedule to the Securities and Exchange Commission upon request.)
Exhibit 3.1	Articles of Incorporation of AFC Enterprises, Inc., as amended (incorporated by reference to Exhibit 3.1 of the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended July 14, 2002).
Exhibit 3.2	Amended and Restated Bylaws of Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed April 16, 2008).
Exhibit 10.1	First Amendment, dated as of November 1, 2012, to the Credit Agreement, dated as of December 23, 2010, among the Registrant, the lenders party thereto and JPMorgan Chase Bank, N.A. as Administrative Agent.
Exhibit 11.1*	Statement Regarding Composition of Per Share Earnings.
Exhibit 31.1	Certification pursuant to Rule 13a — 14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification pursuant to Rule 13a — 14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101	The following financial information for the Company, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statement of Changes in Shareholders' Equity, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) the Notes to the Unaudited Condensed Consolidated Financial Statements.

* Data required by FASB authoritative guidance for Earnings per Share, is provided in Note 12 to our condensed consolidated financial statements in Part 1, Item 1 to this quarterly report.

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SIGNATURE

Pursuant to the requirements 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.

AFC Enterprises, Inc.

Date: November 7, 2012

By: /s/ H. Melville Hope, III
H. Melville Hope, III
Chief Financial Officer
(Duly Authorized Officer and Principal
Financial and Accounting Officer)

Exhibit 10.1

AFC ENTERPRISES, INC.

FIRST AMENDMENT
TO CREDIT AGREEMENT

This **FIRST AMENDMENT** , dated as of November 1, 2012 (this **"Amendment"**), to the Credit Agreement, dated as of December 23, 2010, (the **" Credit Agreement "**) is entered into by and among **AFC ENTERPRISES, INC.** , a Minnesota corporation (the **"Borrower"**), the **LENDERS** party thereto, **JPMORGAN CHASE BANK, N.A.** , as Administrative Agent, **J.P.MORGAN SECURITIES, LLC** , and **MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED** as Joint Lead Arrangers and Joint Bookrunners, and **BANK OF AMERICA, N.A.** , as Syndication Agent. Capitalized terms used herein not otherwise defined herein or otherwise amended hereby shall have the meanings ascribed thereto in the Credit Agreement.

RECITALS:

WHEREAS , Borrower has requested that the Lenders agree to make amendments to certain provisions of the Credit Agreement to permit Project Viking Expenditures and Project Viking Pre-Opening Expenses (as such terms are defined below) to be temporarily excluded from the calculation of the Fixed Charge Coverage Ratio and to exempt certain real estate from mortgage requirements, subject to the terms and conditions set forth herein;

WHEREAS , the Lenders have agreed to amend certain provisions of the Credit Agreement, in each case in the manner, and on the terms and conditions, provided for herein;

NOW, THEREFORE , in consideration of the premises and the agreements, provisions and covenants herein contained, the parties hereto agree as follows:

SECTION 1. AMENDMENT AGREEMENT DEFINITIONS

1.1 Definitions

A. "First Amendment " means the amendment to the Credit Agreement dated as of November 1, 2012.

B. " First Amendment Effective Date " means the date on or prior to November 20, 2012 upon which all the conditions precedent set forth in Section 3 of the First Amendment are satisfied.

SECTION 2. AMENDMENTS TO CREDIT AGREEMENT

2.1 Amendments to Article I: Definitions

A. Section 1.01 of the Credit Agreement is hereby amended by adding the following definitions:

" Bankruptcy Code " means Chapter 11 of Title 11, U.S.C. §§ 101, *et seq.* , as amended.

" Bankruptcy Court " means the United States Bankruptcy Court District of Minnesota.

" Encumbrances " means any lien, encumbrance, claim (as defined in Section 101(5) of the Bankruptcy Code), right, demand, charge, mortgage, deed of trust, option, pledge, security interest or similar interest, hypothecation, right of first refusal, preemptive right, judgment, conditional sale or other title retention agreement that are customarily remedied or terminated under applicable law by order of the Bankruptcy Court upon a sale pursuant to Sections 363 and 365 of the Bankruptcy Code (the "Sale Order"), excluding any contracts or leases assumed by Borrower.

" Project Viking Acquisition " means the Permitted Acquisition of twenty nine (29) restaurants located in California and Minnesota previously operated under another brand and the acquisition of the associated real property fee and/or leasehold interests, in each case from Wagstaff Management Corporation, a California corporation, Wagstaff Minnesota, Inc., a California corporation, Wagstaff Properties Minnesota, LLC a California limited liability company, Wagstaff Properties, LLC, a California limited liability company, D&D Property Investments, LLC, a California limited liability company, and D&D Food Management, Inc. (collectively, the "Viking Seller"), upon a sale pursuant to Sections 363 and 365 of the Bankruptcy Code.

" Project Viking Assets " means the assets which are the subject of the Project Viking Acquisition.

" Project Viking Expenditures " means any capital expenditures otherwise included in the calculation of Consolidated Capital Expenditures and any Consolidated Rental Expense incurred in connection with the Project Viking Acquisition, each made solely to maintain, protect, preserve, secure, prepare, renovate, repair, lease, re-image, dispose and equip certain of the facilities that are the subject of the Borrower's Project Viking Acquisition, up to a maximum of $15,000,000, inclusive of Project Viking Pre-Opening Expenses. For clarification, to the extent that the sum of Project Viking Expenditures and Project Viking Pre-Opening Expenses exceeds $15,000,000 in the aggregate, such excess shall not constitute Project Viking Expenditures.

" Project Viking Pre-Opening Expenses " means pre-opening restaurant expenses including utilities, temporary fencing, lot maintenance, security and insurance costs incurred in connection with the Project Viking Acquisition **,** up to a maximum of $15,000,000, inclusive of Project Viking Expenditures. For clarification, to the extent that the sum of Project Viking Expenditures and Project Viking Pre-Opening Expenses exceeds $15,000,000 in the aggregate, such excess shall not constitute Project Viking Pre-Opening Expenses.

B. Section 1.01 of the Credit Agreement is hereby amended by amending the following definition:

" Consolidated Capital Expenditures " shall be deleted in its entirety and replaced with the following:

"Consolidated Capital Expenditures" means, for any period, the aggregate of all expenditures (whether paid in cash or other consideration or accrued as a liability and including that portion of Capital Lease Obligations which is capitalized on the consolidated balance sheet of Borrower and its Subsidiaries) by Borrower and its Subsidiaries during that period that, in conformity with GAAP as in effect on the date hereof, are included in "additions to property, plant or equipment" or comparable items reflected in the consolidated statement of cash flows of Borrower and its Subsidiaries; provided, however, Consolidated Capital Expenditures shall not include expenditures made from the proceeds of any insurance or condemnation payments (or payments made in lieu of condemnation) received by Borrower and its Subsidiaries and used to repair or replace the damaged property with respect to which such proceeds were received or the purchase price paid in Permitted Acquisitions.

2.2 Amendment to Article V: Affirmative Covenants

A. Notwithstanding Section 5.11 (Additional Subsidiaries and Real Property Assets), the Real Property Assets and Real Property Leases acquired in the Project Viking Acquisition shall not be subject to the Collateral and Guarantee Requirement and Borrower shall not be required to deliver any Additional Mortgages with respect to such interests, provided that, notwithstanding anything to the contrary set forth in Section 6.02, Borrower shall not grant any Lien upon same to secure any Indebtedness other than the Obligations and shall not permit any Lien to exist upon same other than Permitted Encumbrances.

2.3 Amendment to Article VI: Negative Covenants

A. Section 6.11 (Minimum Fixed Charge Coverage Ratio) is hereby amended to read as follows:

As of the last day of any fiscal quarter ending on or after the Closing Date until the last day of the third fiscal quarter of 2012, the Borrower will not permit the ratio of (i) Consolidated EBITDAR less provisions for current taxes based upon or determined by reference to income of Borrower and its Subsidiaries and payable in cash with respect to such period less Consolidated Capital Expenditures to (ii) Consolidated Fixed Charges, in each case for the period of four consecutive fiscal quarters ending on or most recently ended prior to such day to be less than 1.25:1.00.

For the period beginning on the first day of the fourth fiscal quarter of 2012 and ending on the last day of the fourth fiscal quarter of 2013, the Borrower will not permit the ratio of (i) Consolidated EBITDAR, plus, without duplication the Project Viking Pre-Opening Expenses to the extent such amounts (a) have been deducted from Consolidated Net Income in calculating Consolidated EBITDAR or (b) have not been added back to Consolidated EBITDAR, less provisions for current taxes based upon or determined by reference to income of Borrower and its Subsidiaries and payable in cash with respect to such period less Consolidated Capital Expenditures (other than and excluding Project Viking Expenditures) to (ii) Consolidated Fixed Charges (other than and excluding Project Viking Expenditures), in each case for the period of four consecutive fiscal quarters ending on or most recently ended prior to such day to be less than 1.25:1.00.

For the period beginning on the first day of the first fiscal quarter of 2014, and ending on the last day of any fiscal quarter thereafter, the Borrower will not permit the ratio of (i) Consolidated EBITDAR less provisions for current taxes based upon or determined by reference to income of Borrower and its Subsidiaries and payable in cash with respect to such period less Consolidated Capital Expenditures to (ii) Consolidated Fixed Charges, in each case for the period of four consecutive fiscal quarters ending on or most recently ended prior to such day to be less than 1.25:1.00.

SECTION 3. CONDITIONS PRECEDENT TO EFFECTIVENESS

3.1 The effectiveness of the amendments set forth at Section 2 hereof are subject to the satisfaction, or waiver, of the following conditions on or before the date hereof:

A. The Borrower, the Required Lenders and each Subsidiary Loan Party shall have indicated their consent to this Amendment by the execution and delivery of the applicable signature pages to the Administrative Agent.

B. As of the First Amendment Effective Date, after giving effect to this Amendment, the representations and warranties contained herein and in the other Loan Documents shall be true, correct and complete in all material respects on and as of the First Amendment Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case such representations and warranties shall have been true, correct and complete in all material respects on and as of such earlier date.

C. As of the First Amendment Effective Date, after giving effect to this Amendment, no event shall have occurred and be continuing that would constitute an Event of Default or a Default.

D. The Administrative Agent shall have received a certificate from an authorized officer of the Borrower, certifying that (i) no Default or Event of Default has occurred and is continuing or would result from the Project Viking Acquisition, and (ii) the Borrower and the Subsidiaries are in compliance, on a pro forma basis after giving effect to the Project Viking Acquisition, with the Financial Covenants recomputed as at the last day of the most recently ended fiscal quarter of the Borrower for which financial statements are available as if such acquisition had occurred on the first day of each relevant period for testing such compliance.

E. The Administrative Agent shall have received a copy of the order entered by the Bankruptcy Court that (i) includes a specific finding that Borrower is a good faith purchaser of the Project Viking Assets within the meaning of §363(m) of the Bankruptcy Code and is entitled to the protections of §363(m) of the Bankruptcy Code, and (ii) states that the sale of the Project Viking Assets to Borrower shall be free and clear of all Encumbrances.

F. As of the First Amendment Effective Date, the Borrower shall have paid all fees and other amounts due and payable, including, to the extent invoiced, reimbursement or other payment of all out-of-pocket expenses required to be reimbursed or paid by the Borrower under any Loan Document.

SECTION 4. REPRESENTATIONS AND WARRANTIES

In order to induce Required Lenders to enter into this Amendment, each applicable Loan Party represents and warrants to each Lender, as of the date hereof and upon giving effect to this Amendment, that the representations and warranties contained in each of the Loan Documents are true, correct and complete in all material respects on and as of the date hereof to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case such representations and warranties shall have been true, correct and complete in all material respects on and as of such earlier date.

SECTION 5. ACKNOWLEDGMENT AND CONSENT

5.1 Each Subsidiary Loan Party has (i) guarantied the Obligations and (ii) created Liens in favor of Lenders on certain Collateral to secure such obligations.

5.2 Each Subsidiary Loan Party hereby acknowledges that it has reviewed the terms and provisions of the Credit Agreement and this Amendment and consents to the amendment of the Credit Agreement effected pursuant to this Amendment. Each Subsidiary Loan Party hereby confirms that each Security Document to which it is a party or otherwise bound and all Collateral encumbered thereby will continue to guarantee or secure, as the case may be, to the fullest extent possible in accordance with the Security Documents, the payment and performance of all Obligations under the Credit Agreement and the Obligations (as such term is defined in the Security Documents) under the Security Documents, as the case may be, including without limitation the payment and performance of all such Obligations under the Credit Agreement and the Obligations under the Security Documents in respect of the Obligations of Borrower now or hereafter existing under or in respect of the Credit Agreement, as amended hereby, and grants to the Collateral Agent a continuing lien on and security interest in and to all Collateral as collateral security for the prompt payment and performance in full when due of the Obligations under the Credit Agreement and the Obligations under the Security Documents (whether at stated maturity, by acceleration or otherwise).

5.3 Each Subsidiary Loan Party acknowledges and agrees that any of the Security Documents to which it is a party or otherwise bound shall continue in full force and effect and that all of its obligations thereunder shall be valid and enforceable and shall not be impaired or limited by the execution or effectiveness of this Amendment. Each Subsidiary Loan Party represents and warrants that all representations and warranties contained in the Credit Agreement, as amended hereby, and the Security Documents to which it is a party or otherwise bound are true, correct and complete in all material respects on and as of the First Amendment Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case they were true, correct and complete in all material respects on and as of such earlier date.

5.4 Each Subsidiary Loan Party acknowledges and agrees that (i) notwithstanding the conditions to effectiveness set forth in this Amendment, such Subsidiary Loan Party is not required by the terms of the Credit Agreement or any other Loan Document to consent to the amendments to the Credit Agreement effected pursuant to this Amendment and (ii) nothing in the Credit Agreement, this Amendment or any other Loan Document shall be deemed to require the consent of such Subsidiary Loan Party to any future amendments to the Credit Agreement.

SECTION 6. MISCELLANEOUS

6.1 This Amendment shall be binding upon the parties hereto and the Lenders and their respective successors and assigns and shall inure to the benefit of the parties hereto and the successors and assigns of Lenders. No Loan Party's rights or obligations hereunder or any interest therein may be assigned or delegated by any Loan Party without the prior written consent of all Lenders.

6.2 In case any provision in or obligation hereunder shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

6.3 On and after the First Amendment Effective Date, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to the "Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement shall mean and be a reference to the Credit Agreement as amended by this Amendment.

6.4 Except as specifically amended by this Amendment, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed.

6.5 The execution, delivery and performance of this Amendment shall not, except as expressly provided herein, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of any Agent or Lender under, the Credit Agreement or any of the other Loan Documents.

6.6 Section headings herein are included herein for convenience of reference only and shall not constitute a part hereof for any other purpose or be given any substantive effect.

6.7 THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

6.8 This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed to be an original, but all such counterparts together shall constitute but one and the same instrument. As set forth herein, this Amendment shall become effective upon the execution of a counterpart hereof by each of the parties hereto and receipt by Borrower and Administrative Agent of written or telephonic notification of such execution and authorization of delivery thereof.

[Remainder of this Page Intentionally Left Blank – Signature Pages Follow]

IN WITNESS WHEREOF , the parties hereto have caused this Amendment to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

BORROWER:

AFC ENTERPRISES, INC.,

By: /s/ H. Melville Hope, III
Name: H. Melville Hope, III
Title: CFO

SUBSIDIARY LOAN PARTY:

AFC PROPERTIES, INC.

By: /s/ H. Melville Hope, III
Name: H. Melville Hope, III
Title: CFO

LENDERS:

JPMORGAN CHASE BANK, N.A., individually as a Lender and as Administrative Agent

By /s/ Antje B. Focke
Name: Antje B. Focke
Title: Senior Underwriter

By signing below, you have indicated your consent to the First Amendment

Institution Name:

BANK OF AMERICA, N.A.

By /s/ John H. Schmidt
Name: John H. Schmidt
Title: Senior Vice President

By signing below, you have indicated your consent to the First Amendment

Institution Name:

AMEGY BANK, N.A.

By /s/ William B. Pyle
Name: William B. Pyle
Title: Executive Vice President

By signing below, you have indicated your consent to the First Amendment

Institution Name:

FIFTH THIRD BANK, an Ohio Banking Company

By /s/ Dan Komitor
Name: Dan Komitor
Title: Senior Relationship Manager

By signing below, you have indicated your consent to the First Amendment

Institution Name:

CAPITAL ONE, NATIONAL ASSOCIATION

By /s/ Jacob J Villere

Name: Jacob J Villere

Title: VP - US Coporate Banking

By signing below, you have indicated your consent to the First Amendment

Institution Name:

WELLS FARGO BANK, N.A.

By /s/ Maureen S. Malphus
Name: Maureen S. Malphus
Title: Vice President

Exhibit 31.1

CERTIFICATION

I, Cheryl A. Bachelder certify that:

1. I have reviewed this quarterly report on Form 10-Q of AFC Enterprises, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 7, 2012

/s/ Cheryl A. Bachelder
Cheryl A. Bachelder
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, H. Melville Hope, III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AFC Enterprises, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2012

/s/ H. Melville Hope, III

H. Melville Hope, III
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Quarterly Report on Form 10-Q of AFC Enterprises, Inc. (the “Corporation”) for the period ended September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, the Chief Executive Officer of the Corporation, certifies that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: November 7, 2012

/s/ Cheryl A. Bachelder
Cheryl A. Bachelder
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Quarterly Report on Form 10-Q of AFC Enterprises, Inc. (the “Corporation”) for the period ended September 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, the Chief Financial Officer of the Corporation, certifies that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: November 7, 2012

/s/ H. Melville Hope, III
H. Melville Hope, III
Chief Financial Officer
(Principal Financial and Accounting Officer)