AFC ENTERPRISES INC

FORM 10-Q
(Quarterly Report)

Filed 05/26/10 for the Period Ending 04/18/10

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Industry	Restaurants
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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 April 18, 2010

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.)
5555 Glenridge Connector, NE, Suite 300 Atlanta, Georgia (Address of principal executive offices)	30342 (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 126-2 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 May 14, 2010 there were 25,557,996 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)

	04/18/10	12/27/09
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3.8	$ 4.1
Accounts and current notes receivable, net	6.8	9.1
Other current assets	4.5	3.9
Advertising cooperative assets, restricted	17.0	16.0
Total current assets	32.1	33.1
Long-term assets:		
Property and equipment, net	21.2	21.5
Goodwill	11.1	11.1
Trademarks and other intangible assets, net	47.5	47.6
Other long-term assets, net	2.7	3.3
Total long-term assets	82.5	83.5
Total assets	$ 114.6	$ 116.6
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 4.5	$ 4.8
Other current liabilities	11.7	13.7
Current debt maturities	0.9	1.3
Advertising cooperative liabilities	17.0	16.0
Total current liabilities	34.1	35.8
Long-term liabilities:		
Long-term debt	74.9	81.3
Deferred credits and other long-term liabilities	17.1	17.7
Total long-term liabilities	92.0	99.0
Commitments and contingencies		
Shareholders' deficit:		
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; 25,557,996 and 25,455,917 shares issued and outstanding at April 18, 2010 and December 27, 2009, respectively)	0.3	0.3
Capital in excess of par value	112.9	112.3
Accumulated deficit	(124.5)	(130.3)
Accumulated other comprehensive loss	(0.2)	(0.5)
Total shareholders' deficit	(11.5)	(18.2)
Total liabilities and shareholders' deficit	$ 114.6	$ 116.6

See accompanying notes to condensed consolidated financial statements.

AFC Enterprises, Inc.
Condensed Consolidated Statements of Operations (unaudited)
(In millions, except per share data)

	16 Weeks Ended	
	04/18/10	**04/19/09**
Revenues:		
Sales by company-operated restaurants	$ 16.1	$ 20.8
Franchise revenues	26.4	25.7
Rent and other revenues	1.3	1.4
Total revenues	43.8	47.9
Expenses:		
Restaurant employee, occupancy and other expenses	7.8	10.8
Restaurant food, beverages and packaging	5.1	6.9
Rent and other occupancy expenses	0.8	0.6
General and administrative expenses	16.8	17.7
Depreciation and amortization	1.2	1.6
Other expenses (income), net	(0.1)	0.4
Total expenses	31.6	38.0
Operating profit	12.2	9.9
Interest expense, net	2.8	1.7
Income before income taxes	9.4	8.2
Income tax expense	3.6	3.2
Net income	$ 5.8	$ 5.0
Earnings per common share, basic:	$ 0.23	$ 0.20
Earnings per common share, diluted:	$ 0.23	$ 0.20
Weighted-average shares outstanding:		
Basic	25.3	25.2
Diluted	25.4	25.3

See accompanying notes to condensed consolidated financial statements.

AFC Enterprises, Inc.
Condensed Consolidated Statement of Changes in Shareholders' Equity (Deficit) (unaudited)
(In millions, except share data)

	Common Stock		Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Number of Shares	Amount				
Balance at December 27, 2009	25,455,917	$ 0.3	$ 112.3	$ (130.3)	$ (0.5)	$ (18.2)
Net income	—	—	—	5.8	—	5.8
Other comprehensive income						
Derivative loss realized in earnings during the period (net of tax impact of $0.2 million)	—	—	—	—	0.3	0.3
Total comprehensive income						6.1
Issuance of restricted stock awards, net of forfeitures	102,079	—	—	—	—	—
Stock-based compensation expense	—	—	0.6	—	—	0.6
Balance at April 18, 2010	25,557,996	$ 0.3	$ 112.9	$ (124.5)	$ (0.2)	$ (11.5)

See accompanying notes to condensed consolidated financial statements.

AFC Enterprises, Inc.
Condensed Consolidated Statements of Cash Flows (unaudited)
(In millions)

	16 Weeks Ended	
	04/18/10	04/19/09
Cash flows provided by (used in) operating activities:		
Net income	$ 5.8	$ 5.0
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1.2	1.6
Asset write-downs	0.1	0.2
Net gain on sale of assets	(0.2)	(0.1)
Deferred income taxes	0.4	(0.1)
Non-cash interest expense, net	0.8	0.1
Provision for credit losses	(0.1)	0.3
Stock-based compensation expense	0.6	0.6
Change in operating assets and liabilities:		
Accounts receivable	0.9	(0.2)
Other operating assets	(0.5)	1.5
Accounts payable and other operating liabilities	(3.3)	(2.4)
Net cash provided by operating activities	5.7	6.5
Cash flows provided by (used in) investing activities:		
Capital expenditures	(0.8)	(0.2)
Proceeds from dispositions of property and equipment	—	1.0
Other proceeds	1.7	0.5
Net cash provided by investing activities	0.9	1.3
Cash flows provided by (used in) financing activities:		
Principal payments — 2005 credit facility (term loan)	(6.7)	(3.4)
Principal payments — 2005 revolving credit facility	—	(0.5)
Other financing activities, net	(0.2)	(0.4)
Net cash used in financing activities	(6.9)	(4.3)
Net increase (decrease) in cash and cash equivalents	(0.3)	3.5
Cash and cash equivalents at beginning of year	4.1	2.1
Cash and cash equivalents at end of quarter	$ 3.8	$ 5.6

See accompanying notes to condensed consolidated financial statements

AFC Enterprises, Inc.
Notes to 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 ("Popeyes"). The Company operates two business segments: franchise operations and company-operated restaurants.

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 27, 2009, which are contained in the Company's 2009 Annual Report on Form 10-K for the fiscal year ended December 27, 2009 ("2009 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 27, 2009 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 April 18, 2010 have not been audited by the Company's independent registered public accountants, but in the opinion of management, they contain all 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 2009 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 2009 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.

Reclassifications. In the accompanying condensed consolidated financial statements and in these notes, certain prior year amounts have been reclassified to conform to the current year presentation.

The Company reclassified the "Increase in restricted cash" from "Cash flows provided by (used in) financing activities" to "Cash flows provided by (used in) operating activities" on the Condensed Consolidated Statements of Cash Flows. The impact of this reclassification decreased "Net cash provided by operating activities" and decreased "Net cash used in financing activities" by $0.4 million for the sixteen week period ended April 19, 2009.

Recently Adopted Accounting Pronouncements . In 2009, the Financial Accounting Standards Board ("FASB") amended the consolidation principles associated with variable interest entities ("VIEs"). The objective is to improve the financial reporting of companies involved with VIEs. The amendments replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a VIE with an approach focused on identifying which reporting entity has the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. Additionally, a company is required to perform ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE. Prior to this statement, a company was only required to reassess the status when specific events occurred. The Company adopted the new standard during the first quarter of 2010. The adoption of this standard has no impact on our financial statements.

Recent Accounting Pronouncements That the Company Has Not Yet Adopted. Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the condensed consolidated financial statements upon adoption.

AFC Enterprises, Inc.
Notes to Condensed Consolidated Financial Statements

Note 3 — Fair Value Measurements

The following table reflects assets and liabilities that are measured and carried at fair value on a recurring basis as of April 18, 2010 and December 27, 2009:

(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
April 18, 2010				
Financial Assets				
Cash equivalents	$ 3.2	$ —	$ —	$ 3.2
Restricted cash (advertising cooperative assets)	3.6	—	—	3.6
Total assets at fair value	$ 6.8	$ —	$ —	$ 6.8
Financial Liabilities				
Interest rate swap agreement	$ —	$ 0.1	$ —	$ 0.1
Total liabilities at fair value	$ —	$ 0.1	$ —	$ 0.1
December 27, 2009				
Financial Assets				
Cash equivalents	$ 3.3	$ —	$ —	$ 3.3
Restricted cash (advertising cooperative assets)	3.6	—	—	3.6
Total assets at fair value	$ 6.9	$ —	$ —	$ 6.9
Financial Liabilities				
Interest rate swap agreement	$ —	$ 0.1	$ —	$ 0.1
Total liabilities at fair value	$ —	$ 0.1	$ —	$ 0.1

At April 18, 2010 and December 27, 2009, 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 Company believes the fair value of its credit facilities approximates its carrying value, as management believes the floating rate interest and other terms are commensurate with the credit and interest rate risks involved. The fair value of the Company's interest rate swap agreements is based upon valuation models as reported by our counterparties.

Note 4 — Long-Term Debt and Other Borrowings

(in millions)	04/18/10	12/27/09
2005 Credit Facility Term loan	$ 71.6	$ 78.3
Capital lease obligations	1.5	1.6
Other notes	2.7	2.7
	75.8	82.6
Less current portion	(0.9)	(1.3)
	$ 74.9	$ 81.3

2005 Credit Facility. On May 11, 2005, the Company entered into a bank credit facility as amended and restated on April 14, 2006, April 27, 2007 and August 14, 2009 (the "2005 Credit Facility") with a group of lenders, which consists of a term loan and a $48.0 million revolving credit facility.

The term loan and the revolving credit facility mature during May 2013 and May 2012, respectively.

Under the terms of the revolving credit facility, the Company may obtain other short-term borrowings of 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 2005 Credit Facility. As of April 18, 2010, the Company had $1.3 million of outstanding letters of credit. Availability for short-term borrowings and letters of credit under the revolving credit facility was $46.7 million.

AFC Enterprises, Inc.
Notes to Condensed Consolidated Financial Statements

As of April 18, 2010, the Company was in compliance with the financial and other covenants of the 2005 Credit Facility. As of April 18, 2010, the Company's weighted average interest rate for all outstanding indebtedness under the 2005 Credit Facility was 7.2% taking into consideration our interest rate swap agreements.

Interest Rate Swap Agreements. In accordance with the 2005 Credit Facility, the Company uses interest rate swaps to fix the interest rate exposure on a portion of its outstanding term loan. As interest rate swaps are terminated, the effective portion of the termination loss is amortized as interest expense over the unexpired term of the swap. The mark to market value of the interest rate swap agreements were $0.1 million at April 18, 2010 and December 27, 2009 and are shown on the Condensed Consolidated Balance Sheets in Deferred credits and other long-term liabilities.

As required by the third amendment and restatement to the 2005 Credit Facility, on September 10, 2009, the Company entered into new interest rate swap agreements limiting the interest rate exposure on $30 million of the term loan debt to a fixed rate of 7.40%. The term of the swap agreements expire August 31, 2011.

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

The Effect of Derivative Instruments on the Condensed Consolidated Statement of Operations for the Sixteen Weeks ended April 18, 2010 and April 19, 2009

(in millions)	Amount of Gain (Loss) Recognized in AOCI (effective portion) 2010	Amount of Gain (Loss) Recognized in AOCI (effective portion) 2009	Location of Gain (Loss) Reclassified from AOCI to Income	Amount of Gain (Loss) Reclassified from AOCI to Income (effective portion) 2010	Amount of Gain (Loss) Reclassified from AOCI to Income (effective portion) 2009
Interest rate swap agreements	$ —	$ 0.1	Interest expense, net	$ (0.5)	$ (0.2)
	$ —	$ 0.1		$ (0.5)	$ (0.2)

Note 5 — Comprehensive Income

Comprehensive income is net income plus the change in fair value of the Company's cash flow hedge discussed in Note 4 plus derivative (gains) or losses realized in earnings during the period. The following table presents the components of comprehensive income for the sixteen weeks ended April 18, 2010 and April 19, 2009:

(In millions)	16 Weeks Ended 04/18/10	16 Weeks Ended 04/19/09
Net income	$ 5.8	$ 5.0
Change in fair value of interest rate swap agreements, net of income taxes	—	0.1
Derivative loss realized in earnings during the period, net of income taxes	0.3	0.1
Total comprehensive income	$ 6.1	$ 5.2

AFC Enterprises, Inc.
Notes to Condensed Consolidated Financial Statements

Amounts included in accumulated other comprehensive loss for the Company's derivative instruments are recorded net of the related income tax effects. The following table gives further detail regarding the composition of accumulated other comprehensive loss at April 18, 2010 and December 27, 2009:

(In millions)	04/18/10	12/27/09
Net unrealized loss on an interest rate swap agreement	$ (0.1)	$ (0.1)
Unrealized loss on interest rate swaps settled in cash	(0.1)	(0.4)
Total comprehensive income	$ (0.2)	$ (0.5)

The unrealized loss associated with the interest rate swaps settled in cash will be recognized as a component of interest expense through June 30, 2010, the remaining term of the original hedge. See Note 4 for further discussion of the Company's interest rate swap agreements.

Note 6 — Other Expenses (Income), Net

	16 Weeks Ended	
(in millions)	04/18/10	04/19/09
Impairments and disposals of fixed assets	$ 0.1	$ 0.2
Net gain on sale of assets	(0.2)	(0.1)
Other	—	0.3
	$ (0.1)	$ 0.4

Note 7 — Commitments and Contingencies

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 has established adequate reserves to provide for the defense and settlement of such matters. 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.

Note 8 — Interest Expense, Net

	16 Weeks Ended	
(in millions)	04/18/10	04/19/09
Interest on debt, less capitalized amounts	$ 2.3	$ 1.7
Amortization and write-offs of debt issuance costs	0.4	0.2
Other debt related charges	0.2	0.2
Interest income	(0.1)	(0.4)
	$ 2.8	$ 1.7

During the sixteen weeks ended April 18, 2010 and April 19, 2009, total payments made for interest were approximately $2.0 million and $3.2 million, respectively.

Note 9 — Income Taxes

The Company's effective tax rates for the sixteen week periods ended April 18, 2010 and April 19, 2009 were 38.3% and 39.0%, respectively. The effective rate differs from statutory rates due to adjustments to estimated tax reserves, other permanent differences and inter-period allocations.

The amount of unrecognized tax benefits was approximately $5.0 million as of April 18, 2010, of which approximately $1.3 million, if recognized, would affect the effective income tax rate.

The Company recognizes interest and penalties related to uncertain tax positions as a component of its income tax expense. Interest and penalties on uncertain tax positions was approximately $0.1 million for the sixteen weeks ended April 18, 2010 and April 19, 2009. As of April 18, 2010 and December 27, 2009, the Company had approximately $1.2 million and $1.1 million, respectively, of accrued interest and penalties related to uncertain tax positions.

AFC Enterprises, Inc.
Notes to Condensed Consolidated Financial Statements

During the sixteen weeks ended April 18, 2010 and April 19, 2009, total payments made for income taxes were approximately $3.1 million and $1.0 million, respectively.

The Company files income tax returns in the United States and various state jurisdictions. The U.S. federal tax years 2004 through 2008 are open to audit, with 2004 and 2005 currently under examination. The Company has unrecognized tax benefits of approximately $0.7 million related to the period being examined which may be recognized once the federal income tax audit is closed. In general, the state tax years open to audit range from 2005 through 2008.

Note 10 — Components of Earnings Per Common Share Computation

	16 Weeks Ended	
(in millions)	**04/18/10**	**04/19/09**
Numerator for earnings per share computation:		
Net Income	$ 5.8	$ 5.0
Denominator for basic earnings per share — weighted average shares	25.3	25.2
Effect of dilutive share-based employee and director compensation	0.1	0.1
Denominator for diluted earnings per share	25.4	25.3

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, outstanding restricted stock awards and nonvested 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.

Employee stock options with an exercise price greater than the average market price for the sixteen week periods ended April 18, 2010 and April 19, 2009 were not included in the computation of the dilutive effect of common stock options because the effect would have been antidilutive. The weighted average number of shares subject to antidilutive options was 0.6 million in 2010 and 0.5 million in 2009.

AFC Enterprises, Inc.
Notes to Condensed Consolidated Financial Statements

Note 11 — 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.

	16 Weeks Ended	
(in millions)	**04/18/10**	**04/19/09**
Revenues		
Franchise operations(a)	$ 27.7	$ 27.1
Company-operated restaurants	16.1	20.8
	$ 43.8	$ 47.9
Operating profit before unallocated expenses		
Franchise operations(b)	$ 11.5	$ 10.5
Company-operated restaurants	1.8	1.4
	13.3	11.9
Less unallocated expenses(c)		
Depreciation and amortization	1.2	1.6
Other expenses (income), net	(0.1)	0.4
Operating profit	$ 12.2	$ 9.9
Capital expenditures		
Franchise operations	$ 0.2	$ 0.1
Company-operated restaurants	0.6	0.1
	$ 0.8	$ 0.2

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

(b) Includes inter-segment royalties of $0.8 million in 2010 and $1.0 million in 2009.

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

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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 Form 10-K for the fiscal year ended December 27, 2009 (the "2009 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 April 18, 2010, we operated and franchised 1,944 Popeyes restaurants in 44 states, the District of Columbia, Puerto Rico, Guam and 27 foreign countries.

Total Operating Restaurants as of:	April 18, 2010	Dec. 27, 2009
Domestic:		
Company-Operated	37	37
Franchised	1,533	1,539
International:		
Franchised	374	367
Total	1,944	1,943

Our Business Strategy

Our business strategy, announced at the beginning of 2008, capitalizes on our strengths as a highly franchised restaurant system. The model provides diverse and reliable earnings with steady cash flow, and low capital spending requirements.

Our strategic plan is built on the foundation of aligning and collaborating with our stakeholders, and is focused on the following four pillars. We believe our execution of these strategies makes Popeyes more competitive and better positioned to capture market share and accelerate long-term growth as the consumer environment improves.

- **Build the Popeyes Brand** — offer a distinctive brand and menu with superior food at affordable prices.
- **Run Great Restaurants** — improve restaurant operations and Popeyes' guest experience by delighting the guest with "service as distinctive as our food".
- **Strengthen Unit Economics** — lower restaurant operating costs and improve profitability while maintaining excellent food quality for our guests.
- **Ramp Up New Unit Growth** — build more restaurants across the U.S. and abroad with superior profits and investment returns.

Management Overview of 2010 Operating Results (First Quarter)

Our first quarter of 2010 results and highlights include the following:

- Reported net income was $5.8 million, or $0.23 per diluted share, compared to $5.0 million, or $0.20 per diluted share, last year. Adjusted earnings per diluted share were $0.23 compared to $0.21 last year. Adjusted earnings per diluted share is a supplemental non-GAAP measure of performance. See "Non- GAAP Financial Measures" in this Item 2 for a definition of adjusted earnings per diluted share and a reconciliation to the most comparable GAAP measure.
- Total system-wide sales increased 2.1% compared to a 1.1% increase last year.

- Global same-store sales decreased 0.3% compared to a 0.2% increase last year. Domestic same-store sales decreased 0.4% compared to a 0.3% decrease last year. International same-store sales increased 1.2% compared to a 4.8% increase in 2009.
- The Popeyes system opened 17 restaurants and permanently closed 12 restaurants, resulting in 5 net openings.
- EBITDA was $13.4 million or 30.6% of total revenue compared to $11.5 million or 24.0% of total revenue last year. EBITDA is a supplemental non-GAAP measure of performance. See “Non-GAAP Financial Measures” in this Item 2 for a definition of EBITDA and a reconciliation to the most comparable GAAP measure.
- Outstanding debt was reduced by $6.8 million to $75.8 million.

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

(Dollars in millions)	**16 Weeks Ended 04/18/10**	**16 Weeks Ended 04/19/09**
Sales by company-operated restaurants	$ 16.1	$ 20.8
Franchise revenues (a)	26.4	25.7
Other revenues	1.3	1.4
Total revenues	$ 43.8	$ 47.9
Operating profit	$ 12.2	$ 9.9
Net income	$ 5.8	$ 5.0
Global system-wide sales increase	2.1%	1.1%
Same-store sales increase (decrease) (b)		
Total domestic (company-operated and franchised restaurants)	(0.4)%	(0.3)%
International franchised restaurants	1.2%	4.8%
Total global system	(0.3)%	0.2%
Company-operated restaurants (all domestic)		
Restaurants at beginning of period	37	55
New restaurant openings	—	—
Restaurant conversions, net	—	(3)
Permanent closings	—	(1)
Temporary (closings)/re-openings, net	—	—
Restaurants at the end of first quarter	37	51
Franchised restaurants (domestic and international)		
Restaurants at beginning of period	1,906	1,867
New restaurant openings	17	14
Restaurant conversions, net	—	3
Permanent closings	(12)	(30)
Temporary (closings)/re-openings, net	(4)	4
Restaurants at the end of first quarter	1,907	1,858
Total system restaurants	1,944	1,909

(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 as these sales are indicative of the Company’s financial health, given the Company’s strategic focus on growing its overall business through franchising. For the first quarter of 2010 and 2009, franchisee sales, as reported by the franchisees, were approximately $538.7 million and $522.7 million, respectively.

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

2010 Same-Store Sales — First Quarter

Global same-store sales decreased 0.3% compared to a 0.2% increase in 2009. Total domestic same-store sales decreased 0.4% compared to a 0.3% decrease last year, an improvement over the 1.0% decrease in the fourth quarter of 2009. The first quarter decrease was in part due to a planned change in first quarter media timing from three national promotions last year to two national promotions this year. According to independent data, Popeyes' first quarter domestic same-store sales outpaced the chicken QSR category for the eighth consecutive quarter. In 2010, Popeyes' efforts will remain focused on offering our guests compelling value while introducing innovative products to drive traffic into the restaurants.

Our international same-store sales increased 1.2% compared to a 4.8% increase in 2009. The increase was due primarily to strong sales in Canada, Turkey and overseas U.S. military bases, partially offset by negative performance in Latin America, Korea and the Middle East. To address the slowdown in certain international markets, we will shift our marketing focus to value promotions to drive traffic into the restaurants. As we have experienced in the domestic system, we believe lowering average check in this climate is essential to gaining market share. As such, we expect 2010 same-store sales in international markets to be more modest than prior years.

Looking Forward to the Remainder of 2010

The Company continues to project global same-store sales to be in the range of negative 1.0% to positive 2.0% for 2010.

Popeyes expects its global new openings to remain consistent with previous guidance in the range of 110-130 restaurants. Similar to the past few years, the Company will continue to close underperforming restaurants and enforce higher operating standards throughout the system. As a result, the Company projects system-wide unit closings to be approximately 100 restaurants, yielding 10-30 net openings in 2010, consistent with the Company's previous guidance. Popeyes restaurant closures typically have sales significantly lower than the system average.

The Company continues to expect its fiscal 2010 general and administrative expense rate to be consistent with last year's rate of 3.1-3.2% of system-wide sales, among the lowest in the restaurant industry. The Company will continue to tightly manage general and administrative expenses and invest in its international business and core initiatives of the Company's strategic plan, including new product innovation to drive traffic, operational tools and training to improve speed of service, and productivity initiatives to strengthen restaurant profitability.

Consistent with previous guidance, the Company expects 2010 diluted earnings per share to be in the range of $0.73-$0.77, compared to $0.74 last year.

Long-Term Guidance

Consistent with previous guidance, over the course of the next five years, the Company believes the execution of its strategic plan will deliver on an average annualized basis the following results: same-store sales growth of 1 to 3%; net new unit growth of 4 to 6%; and earnings per diluted share growth of 13 to 15%.

Comparisons of the First Quarter for 2010 and 2009

Sales by Company-Operated Restaurants

Sales by company-operated restaurants were $16.1 million in the first quarter of 2010, a $4.7 million decrease from the first quarter of 2009. The decrease was primarily due to:

- a $4.5 million decrease due the successful refranchising of 16 company-operated restaurants in the Nashville and Atlanta markets during 2009.

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 $26.4 million in the first quarter of 2010, a $0.7 million increase from the first quarter of 2009. The increase was primarily due to an increase in royalty revenue from new franchised restaurants.

Other Revenues

Other revenues are principally composed of rental income associated with properties leased or subleased to franchisees. Other revenues were $1.3 million in the first quarter of 2010, a $0.1 million decrease from the first quarter of 2009.

Company-operated Restaurant Expenses

Company-operated restaurant expenses were $12.9 million in the first quarter of 2010, a decrease of $4.8 million from the same period in 2009. Company-operated restaurant expenses consist of “Restaurant food, beverage and packaging” and “Restaurant employee, occupancy and other expenses”. The decrease was principally due to a reduction in the number of company-operated restaurants as discussed above. Company-operated restaurant expenses as a percentage of sales in the first quarter were 5% better than first quarter last year. This improvement was equally a result of better food and labor costs, attributable to better management controls and lower commodity costs, and the re-franchising of lower performing company-operated restaurants.

Rent and Other Occupancy Expenses

Rent and other occupancy expenses associated with properties leased or sub-leased to franchisees or other third parties were $0.8 million in the first quarter of 2010, a $0.2 million increase from the first quarter of 2009.

General and Administrative Expenses

General and administrative expenses were $16.8 million in the first quarter of 2010, a $0.9 million decrease from the first quarter of 2009. The decrease was primarily due to a $1.6 million decrease in national media advertising expenses during the quarter partially offset by a net $0.7 million increase in other expenses and convention and business conference costs as a result of Popeyes’ hosting its international franchise conference in February 2010.

General and administrative expenses were approximately 3.0% and 3.3% of system-wide sales in the first quarter of 2010 and 2009, respectively.

Depreciation and Amortization

Depreciation and amortization was $1.2 million in the first quarter of 2010, a $0.4 million decrease from the first quarter of 2009. The decrease was principally due to certain fully depreciated information technology assets in 2009.

Interest Expense, Net

Interest expense, net was $2.8 million in the first quarter of 2010, a $1.1 million increase from the first quarter of 2009 resulting primarily from higher average interest rates on debt and amortization fees expensed in connection with the third amendment and restatement of the 2005 Credit Facility, partially offset by lower average debt balances as compared to 2009. Interest expense, net during the first quarter of 2010 includes $0.8 million of non-cash charges related to amortization of bank fees and interest rate swap costs.

Income Tax Expense

Income tax expense was $3.6 million, yielding an effective tax rate of 38.3%, compared to an effective tax rate of 39.0% in the prior year. The effective rates differ from statutory rates due to adjustments to estimated tax reserves, other permanent differences and inter-period allocations.

Liquidity and Capital Resources

We finance our business activities primarily with:

- cash flows generated from our operating activities, and
- borrowings under our 2005 Credit Facility.

Our franchise model provides diverse and reliable cash flows. Net cash provided by operating activities of the Company was $5.7 million and $6.5 million for the sixteen weeks ended April 18, 2010 and April 19, 2009, 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 $3.8 million available as of April 18, 2010), and available borrowings under our 2005 Credit Facility (approximately $46.7 million available as of April 18, 2010), 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,
- reduction of long-term debt, and
- repurchase shares of our common stock.

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 2005 Credit Facility, at the end of each fiscal year the Company is subject to mandatory prepayments on term loan borrowings of Consolidated Excess Cash Flow, as defined in the 2005 Credit Facility, less the amount of (1) any voluntary prepayments and (2) the amount by which the revolving loan commitments are permanently reduced in connection with repayments and mandatory prepayments of the revolving loans under the 2005 Credit Facility, when the Company's Total Leverage Ratio equals or exceeds specified amounts, as defined in the 2005 Credit Facility. During the first quarter of 2010, we paid principal on term loan borrowing in the amount of $6.8 million, including $6.0 million of voluntary payments, $0.3 million of mandatory prepayments from the fiscal 2009 Consolidated Excess Cash Flow and scheduled principal payments of $0.5 million. As of April 18, 2010, there were no amounts outstanding under the revolving credit facility.

Pursuant to the 2005 Credit Facility, the Company is subject to a Total Leverage Ratio requirement of ≤ 3.00 to 1.0 through the first quarter of 2012 and ≤ 2.75 to 1.0 thereafter. As of April 18, 2010, the Company's Total Leverage Ratio was 1.73 to 1.0.

The Company did not repurchase any shares of our common stock during the first quarter of 2010. As of April 18, 2010, the remaining value of shares that may be repurchased under the Company's current share repurchase program was approximately $38.9 million. Pursuant to the terms of the Company's 2005 Credit Facility, the Company is subject to a repurchase limit of approximately $47.3 million for the remainder of 2010.

Future debt maturities under the 2005 Credit Facility include four designated quarterly payments of approximately one fourth of the outstanding principal, beginning in the third quarter of 2012. The Company intends to amend or refinance the 2005 Credit Facility in advance of these maturities at a cost and interest rate that reflect market conditions.

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 2009 Form 10-K.

Contractual Obligations

The Company's material contractual obligations are summarized and included in our 2009 Form 10-K. During the quarter ended April 18, 2010, there have been no material changes outside the ordinary course of business in the contractual obligations specified in the 2009 Form 10-K.

Long-Term Debt

For a discussion of our long-term debt, see Note 4 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 10 in the 2009 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 for our company-operated restaurants, reimaging 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 2005 Credit Facility.

During the sixteen week period ended April 18, 2010, we invested approximately $0.8 million in various capital projects, including approximately $0.5 million in restaurant reimage projects and approximately $0.3 million in other capital assets to maintain, replace and extend the lives of company-operated restaurant facilities, equipment and other corporate office assets.

During the sixteen week period ended April 19, 2009, we invested approximately $0.2 million in various capital projects, including approximately $0.1 million in new restaurant site modeling software and approximately $0.1 million in other capital assets to maintain, replace and extend the lives of company-operated restaurant facilities and equipment.

Impact of Inflation

Inflation of the costs of food, labor, fuel and energy impacts our operating expenses. However, we are able to effectively manage inflationary cost increases due to rapid inventory turnover.

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

For a discussion of recently issued accounting pronouncements that we have not yet adopted, see Note 2 to our condensed consolidated financial statements at Part 1, Item 1 to this quarterly report.

Non-GAAP Financial Measures

Adjusted earnings per diluted share and EBITDA are supplemental non-GAAP financial measures. The Company uses adjusted earnings per diluted share and EBITDA, 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 because they provide a link between profitability and operating cash flow. Adjusted earnings per diluted share and EBITDA as calculated by the Company are not necessarily comparable to similarly titled measures reported by other companies. In addition, adjusted earnings per diluted share and EBITDA: (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 (i) other income, net (which for first quarter 2010 includes $0.1 million for impairments and disposals of fixed assets and $0.2 million for net gain on sales of assets; and first quarter 2009 includes $0.2 million for impairments and disposals of fixed assets, $0.1 million for net gain on sales of assets, and $0.3 million for other costs.), and (ii) the tax effect of these adjustments. Adjusted earnings per diluted share provides the per share effect of adjusted net income on a diluted basis. The following table reconciles on a historical basis for first quarter 2010 and first quarter 2009, the Company's adjusted earnings per diluted share on a consolidated basis to the line on its condensed consolidated statement of operations entitled net income, which the Company believes is the most directly comparable GAAP measure on its condensed consolidated statement of operations to adjusted earnings per diluted share.

(dollars in millions, except per share data)	**Q1 2010**	**Q1 2009**
Net income	$ 5.8	$ 5.0
Other expense (income), net	$ (0.1)	$ 0.4
Tax effect	$ 0.1	$ (0.2)
Adjusted net income	$ 5.8	$ 5.2
Adjusted earnings per diluted share	$ 0.23	$0.21
Weighted-average diluted shares outstanding	25.4	25.3

EBITDA: Calculation and Definition

The Company defines EBITDA as “earnings before interest expense, taxes, depreciation and amortization”. The following table reconciles on a historical basis for first quarter 2010 and first quarter 2009, the Company’s earnings before interest expense, taxes, depreciation and amortization (“EBITDA”) on a consolidated basis to the line on its condensed consolidated statement of operations entitled net income, which the Company believes is the most directly comparable GAAP measure on its condensed consolidated statement of operations to EBITDA.

(dollars in millions)	Q1 2010	Q1 2009
Net income	$ 5.8	$ 5.0
Interest expense, net	$ 2.8	$ 1.7
Income tax expense	$ 3.6	$ 3.2
Depreciation and amortization	$ 1.2	$ 1.6
EBITDA	$13.4	$11.5
Total Revenue	$43.8	$47.9
EBITDA as a percentage of Total Revenue (EBITDA margin)	30.6%	24.0%

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 strategic plan including the re-franchising of company-operated restaurants, projections and expectations regarding same-store sales for fiscal 2010 and beyond, the Company's ability to improve restaurant level margins, guidance for new openings and restaurant closures, and the Company's anticipated 2010 and long-term performance including projections regarding general and administrative expenses, net earnings per diluted share and similar statements of belief or expectations 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, 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, disruptions in the financial markets, 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 2005 Credit Facility, our ability to comply with the repayment requirements, covenants, tests and restrictions contained in the 2005 Credit Facility, our ability to refinance our outstanding indebtedness, 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, adverse effects of regulatory actions arising in connection with the restatement of our previously issued financial statements, effects of increased 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 2009 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. Fresh chicken is the principal raw material for our Popeyes operations, constituting more than 40% of our combined “Restaurant food, beverages and packaging” costs. These 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. These 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 2010 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 sixteen weeks ended April 18, 2010 and April 19, 2009, foreign-sourced revenues represented approximately 6.7% and 5.0%, respectively, of our total revenues. All other things being equal, for the quarter ended April 18, 2010, operating profit would have decreased by approximately $0.2 million if all foreign currencies uniformly weakened 10% relative to the U.S. dollar.

As of April 18, 2010, approximately $0.9 million of our accounts receivable were denominated in foreign currencies. Our international franchised operations are in 27 foreign countries with approximately 30% of our revenues from international royalties originating from restaurants in Korea and Canada.

Interest Rate Risk With Respect to our 2005 Credit Facility. We have a market risk exposure to changes in interest rates. Borrowings made pursuant to the 2005 Credit Facility include interest rates that are benchmarked to U.S. and European short-term floating-rate interest rates. As of April 18, 2010, we had outstanding borrowings under our 2005 Credit Facility of $71.6 million.

As required by the third amendment and restatement to the 2005 Credit Facility, on September 10, 2009, 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 7.40%. The term of the swap agreements expires August 31, 2011.

As of April 18, 2010, the Company’s weighted average interest rate for all outstanding indebtedness under the 2005 Credit Facility, including the effect of the interest rate swap agreements, was approximately 7.2%. The impact on our annual results of operations of a hypothetical one-point interest rate change above the LIBOR floor of 2.5% on the outstanding borrowings under the 2005 Credit Facility would be approximately $0.4 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. 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 7 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 2009 Form 10-K.

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

As originally announced on July 22, 2002, and subsequently amended and expanded, the Company's Board of Directors has approved a share repurchase program. During the first quarter of 2010, the Company did not repurchase any shares of our common stock. As of April 18, 2010, the remaining shares that may be repurchased under the program were approximately $38.9 million.

Pursuant to the terms of the Company's 2005 Credit Facility, the Company is subject to a repurchase limit of approximately $47.3 million for the remainder of fiscal 2010.

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Item 6. Exhibits

(a) Exhibits

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	Amended and Restated Employment Agreement effective as of March 9, 2010 between the Company and Henry Hope, III (incorporated by reference to Exhibit 10.56 of the Registrant's Annual Report on Form 10-K for the fiscal year ended December 27, 2009).
Exhibit 10.2	Licensing Agreement dated March 11, 1976 between King Features Syndicate Division of the Hearst Corporation and A. Copeland and A. Copeland Enterprises, Inc. as amended through November 29, 2009.
Exhibit 10.3	AFC Enterprises, Inc. Annual Executive Bonus Program.
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.

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* Data required by FASB authoritative guidance for Earnings per Share, is provided in Note 10 to our condensed consolidated financial statements in Part 1, Item 1 to this quarterly report.

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: May 26, 2010

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

EXHIBIT 10.2

King Features Syndicate Division
THE HEARST CORPORATION
235 East 45th Street
New York, New York 10017

March 11, 1976

Gentlemen:

The following when executed by the parties hereto shall set forth our agreement with respect to your use of the characters contained in the cartoon strip entitled POPEYE, their names, pictures, likenesses, images, symbols, caricatures, cartoons and signatures in connection with your business as specifically described below on the following terms and conditions:

2. We hereby agree not to object to your use and registration of the mark POPEYES in connection with your business and trade during the term of this agreement and after* which

* the expiration of the original copyright for the POPEYE cartoon feature business and trade is hereby described as the operation and supply and franchising the operation of restaurants specializing in the sale of food items such as fried chicken, french fries and other prepared or packaged foods or food ingredients.*

* the foregoing shall not apply to the reproduction of any of the copyrighted designs or the features licensed hereunder.

7. All decisions relating to your business as described hereunder and the operation thereof shall be, except as otherwise provided herein, within your sole power and discretion.

You are aware of the high reputation that the Cartoon and Characters enjoy and you agree that the quality of services, products and facilities provided by you and your franchisees and/or licensees hereunder shall accord with and maintain this high reputation, and that said cartoon characters will not in any way be used by you or your franchisees in any way that will disparage the POPEYE cartoon or the characters thereof.

8. We shall make available to you without cost at your request existing original drawings, color separations or other mechanical aspects of the Cartoon for your use hereunder. You will return all of the foregoing to us in good condition upon request. Further, we shall furnish such cooperation and assistance to you, at your request, as we are able with respect to the use of said artwork and Cartoon hereunder in your business.

9. As a material condition of this agreement, you will properly affix to each reproduction of the Cartoon or any part thereof licensed hereunder such due notice of copyright in the name of King Features Syndicate, Inc. (or any such other name as is furnished therefor in writing by us to you), as is provided by the Universal Copyright Convention, such as “(c) by King Features Syndicate, Inc.”, and including in such notice as part thereof the proper year or years.

10. We shall have the continuing right to approve all artistic and literary materials displaying the cartoon characters and name thereof licensed herein, and the manner of their use hereunder before said use. Such approval shall be in our sole discretion, shall be in writing, and shall not be unreasonably withheld. However, if we fail to approve or disapprove of any such materials within fifteen (15) days of our receipt thereof, our approval thereof shall be conclusively presumed.

11. Upon the happening of any one of the following events, we shall have the option to terminate this agreement forthwith: the filing by you of a petition in bankruptcy; the filing against you of a petition of bankruptcy and the failure of you to take affirmative action within sixty (60) days to have such a petition dismissed; the making by you of a general assignment for the benefit of your creditors; the involuntary appointment of a receiver or trustee of all or substantially all of your assets and the failure by you to take affirmative action within sixty (60) days to have such appointment dismissed; the application for relief by you under any insolvency law; the liquidation, in whole or in part, of your business.

13. Except as otherwise provided herein, we warrant and represent that we have not heretofore granted nor will we hereafter grant any rights inconsistent with or in direct conflict

with those granted hereunder. We further warrant and represent that we are the copyright proprietor of said Cartoon or possess the rights we are hereunder granting from the said owner. It is understood that no warranty or representation is made by us with regard to the use of the name WIMPY or variations thereof and the use of said name may subject you to legal liability.

14. You acknowledge that the rights granted hereunder are of a special, unique and extraordinary nature and that the breach of this agreement will cause irreparable damage incapable of adequate compensation by damages in an action at law and accordingly, we shall be entitled to and you consent to injunctive or other equitable relief to prevent or cure any breach or threatened breach of this agreement by you.

15. You agree to indemnify and hold us, King Features Syndicate, Inc., and their and our respective successors and assigns, harmless from and against all loss, liability, damage and expense (including reasonable attorney's fees) arising out of any claims, demands, actions or suits resulting from your operation hereunder and in connection with the supply, operation of or franchising of POPEYES restaurants.

You warrant, represent and agree that you will exercise your best efforts to insure that all food or other materials sold or supplied by you and your franchisees and/or licensees and in connection with which the POPEYE cartoons are used will at all times be of good merchantable quality, fit for human consumption, free from any deleterious or injurious ingredients or substances and shall be manufactured in strict adherence to all applicable federal, state and local laws.

16. Nothing herein contained shall be deemed to create a partnership, joint venture or other similar relationship between us.

17. You shall have no right to use the Cartoon or any part thereof of equivalent thereto except to the extent expressly permitted hereunder. In this connection, it is understood that you shall have no right hereunder to reproduce, use or sell or cause to be sold reproductions of the Cartoon, or any part thereof, either alone or in combination with any product or thing offered for sale or resale, except as specifically authorized in paragraphs 1 and 2 hereof with respect to the described operation of the restaurant business only. Upon termination of this agreement, you agree that you will not in any way or manner in connection with the sale of any product, service or thing, use or cause to be used, directly or indirectly, the Cartoon or any part, name or element thereof as licensed hereunder. However, nothing herein shall be construed to require your discontinuance of the POPEYES mark for your restaurant services or food products after this agreement is terminated.

18. Any and all rights in and to the said Cartoon and Characters not expressly granted to you herein are reserved to us and any one or more of these said rights may be exercised or enjoyed by us, directly or indirectly, at any and all times.

19. Any and all rights and remedies reserved by or to us herein shall be cumulative and shall not exclude any other right or remedy legally or equitably available. Our failure to insist upon the strict performance of any of the covenants or terms hereof to be performed by you shall not be construed as a waiver of such covenants or terms.

20. All notices required or desired to be given hereunder shall be by registered mail or telegram to the parties hereto at their addresses herein set forth or as such may be from time to time supplied in writing. Notices given by registered mail shall be deemed given on actual receipt by the addressee or on the seventh day following delivery to the post office, whichever occurs first; and those by telegram on the date delivered to the addressee by the telegraph office.

21. You agree to pay any and all sales, use or other excise taxes, including interest and penalties, which may be now or hereafter imposed or levied on the transfer or use of the artwork or material hereunder or upon any of the rights herein licensed or the exercise thereof. However, none of the foregoing taxes shall be deemed to mean or include those imposed or levied on us in the nature of a corporate income tax.

22. This agreement sets forth the entire understanding of the parties and may not be modified or waived, in whole or in part, except in writing signed by the party against whom such modification or waiver in sought to be enforced. There are no

warranties, representations or promises other than those herein expressly set forth. This agreement shall be construed in accordance with and governed by the laws of the United States of America, State of New York.

23. This agreement shall be binding upon and inure to the benefit of The Hearst Corporation and its successors and assigns.

24. In the event of the declaration by a judicial tribunal having jurisdiction over the parties of the invalidity of any portion of this agreement, such decision shall not affect the remaining portion which shall remain and continue in full force and effect.

25. See '87 Letter Agr

Very truly yours,

KING FEATURES

BY: /s/
Vice President & General Manager

ACCEPTED AND APPROVED:

A. COPELAND ENTERPRISES, INC.

BY: /s/ Alvin Copeland
Alvin Copeland, President

<u>AMENDMENT</u>

AGREEMENT effective as of January 1, 2007 by and between Hearst Holdings, Inc., King Features Syndicate Division, a Delaware corporation with offices at 888 Seventh Avenue, New York, New York 10019 ("HHI") and AFC Enterprises, Inc., a Minnesota corporation with offices at 5555 Glenridge Connector, NE, Suite 300, Atlanta, Georgia 30342 ("AFCE") (hereinafter referred to as the "January 1, 2007 Amendment").

WHEREAS, The Hearst Corporation, King Features Syndicate Division ("Hearst") and A. Copeland Enterprises, Inc. entered into an agreement dated March 11, 1976 relating inter alia to the use of the POPEYE cartoon in connection with POPEYES restaurants inside of the United States (the "Domestic Agreement"); and

WHEREAS, Hearst, A. Copeland Enterprises, Inc. and Popeyes Famous Fried Chicken, Inc. ("PPFC") entered into an agreement dated January 1, 1981 (the "Assignment and Amendment") which inter alia amended the Domestic Agreement and assigned the rights and obligations of A. Copeland Enterprises, Inc. under the Domestic Agreement to PPFC; and

WHEREAS, Hearst and PPFC entered into an agreement dated January 1, 1981 relating inter alia to the use of the POPEYE cartoon in connection with POPEYES restaurants outside of the United States (the "International Agreement"); and

WHEREAS, Hearst and PPFC entered into a letter agreement dated September 17, 1981 (the "Letter Agreement of September 17, 1981") which amended the Domestic Agreement and the International Agreement; and

WHEREAS, King Features Syndicate, Inc., Hearst, POPEYES, Inc., and A. Copeland Enterprises, Inc. entered into an agreement dated December 19, 1985 (the "License Agreement") which refers to and is controlled by the Domestic Agreement; and

WHEREAS, Hearst and POPEYES, Inc. entered into a letter agreement dated July 20, 1987 (the "Letter Agreement of July 20, 1987") which amended the Domestic Agreement; and

WHEREAS, Biscuits Investments, Inc., Canadian Imperial Bank of Commerce, and Hearst entered into an agreement which was signed by the last party on September 22, 1989 (the "Consent Relative to Security Agreement") which amended the Domestic Agreement and the International Agreement and which was based on agreements, confirmations and representations of POPEYES, Inc., in a letter dated March 17, 1989; and

WHEREAS, Hearst and America's Favorite Chicken Company ("AFC") entered into an agreement dated July 12, 1995 (the "Japanese Agreement") which amended the International Agreement; and

WHEREAS, Hearst and AFC entered into an agreement dated December 31, 1995 (the "December 31, 1995 Amendment") which amended, among other provisions, the royalty provisions of the Domestic Agreement and the International Agreement; and

WHEREAS, AFCE by a succession of inter mesne assignments, name changes and mergers has succeeded to and accepted the rights and obligations of PFFC, POPEYES, Inc, and AFC under the Domestic Agreement as amended and the International Agreement as amended; and

WHEREAS, Hearst has assigned to HHI its rights and obligations under the Domestic Agreement as amended and the International Agreement as amended and HHI accepted such rights and obligations of Hearst; and

WHEREAS, HHI and AFCE entered into an agreement dated January 1, 2002 (the "January 1, 2002 Amendment") which, among other provisions, removed from the grant of rights under the Domestic Agreement as amended, and the License Agreement as amended, all rights relating to the companion characters of the POPEYE cartoon strip and also limited the exclusivity of the licensed use of the POPEYE character; and

WHEREAS, HH1 and AFCE entered into a letter agreement dated July 9, 2003 in which the parties clarified the procedures for making CPI-U adjustments to the Annual Fee pursuant to the provisions of the January 1, 2002 Amendment; and

WHEREAS, AFCE wishes to utilize the companion characters of the POPEYE cartoon strip in connection with POPEYES restaurants in the United States territories of Puerto Rico, Guam, Northern Mariana Islands, and the United States Virgin Islands; and

WHEREAS, as consideration for the additional grant of rights, AFCE is willing to modify the exclusivity provisions of the International Agreement.

NOW, THEREFORE, in consideration of the foregoing premises and of the respective promises, covenants, representations and warranties contained herein, HHI and AFCE hereby agree as follows:

1. The United States territories of Puerto Rico, Guam, Northern Mariana Islands, and the United States Virgin Islands shall be deleted from the grant of rights licensed to AFCE under the Domestic Agreement as amended,

and the License Agreement as amended, and shall be added to Schedule A of the International Agreement.

2. Notwithstanding anything to the contrary in the International Agreement, HHI shall have the right to license third parties to use the Cartoon to promote restaurants located in any country covered under the International Agreement, subject to the following:

(a) HHI may not grant such a license to promote restaurants in any country in which AFCE is then currently operating "locally-based" POPEYES restaurants or in which AFCE has a signed development agreement pursuant to which a "locally-based" POPEYES restaurant is scheduled to open within six (6) months;

(a) HHI may not grant such a license to any restaurant chain that derives more than fifty (50%) percent of its gross sales from prepared chicken (and not egg) products (e.g., chicken fingers, fried chicken, roasted chicken and chicken sandwiches);

(b) Any one (1) promotion cannot exceed two (2) months in its active phase;

(c) No one (1) restaurant chain may be granted the right to conduct more than two (2) such promotions in any period of eighteen (18) consecutive months; and

(d) For the purposes of subsection (a) above, POPEYES restaurants located on the premises of United States military bases shall not be considered "locally-based" restaurants.

The parties agree to work together to ensure that AFCE's operation and development of POPEYES restaurants pursuant to the International Agreement and HHI's licensing of the use of the Cartoon to promote restaurants pursuant to the provisions of this Section 2 do not conflict. Accordingly, a list of the countries in which AFCE is currently operating "locally-based" POPEYES restaurants and in which AFCE has a signed development agreements pursuant to which a "locally-based" POPEYES restaurant is scheduled to open within the next six (6) months is attached hereto as Exhibit A. AFCE shall promptly provide HHI with any updates that should be made to Exhibit A (i.e., any countries that should be added or removed) Similarly, HHI shall promptly notify AFCE of any licenses for the use of the Cartoon to promote restaurants granted to third parties pursuant to the provisions of this Section 2.

Except as expressly set forth above, all of the terms and conditions of the Domestic Agreement as previously amended, the International Agreement as previously amended, and the License Agreement as previously amended shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have duly executed this January 1, 2007 Amendment effective as of the date first written above.

HEARST HOLDINGS, INC. KING FEATURES SYNDICATE DIVISION	AFC ENTERPRISES, INC.
By: /s/ T.R. Shepard III	By: /s/ Cheryl Bachelder
Name: T.R. Shepard III	Name: Cheryl Bachelder
Title: 12/7/07	Title: CEO

Exhibit "A"

AFC Enterprises, Inc. — International Popeyes Chicken & Biscuits Locations

1. Bahrain
2. Canada
3. China
4. Egypt
5. Guam
6. Guyana
7. Honduras
8. Indonesia
9. Jamaica
10. Trinidad
11. Jordan
12. Korea
13. Kuwait
14. Mexico
15. Panama
16. Puerto Rico
17. Saudi Arabia
18. Singapore
19. Suriname
20. Turkey
21. United Arab Emirates

AMENDMENT

AGREEMENT effective as of November 30, 2009 by and between Hearst Holdings, Inc., King Features Syndicate Division, a Delaware corporation with offices at 888 Seventh Avenue, New York, New York 10019 (“HHI”) and AFC Enterprises, Inc., a Minnesota corporation with offices at 5555 Glenridge Connector, NE, Suite 300, Atlanta, Georgia 30342 (“AFCE”) (hereinafter referred to as the “November 30, 2009 Amendment”).

WHEREAS, The Hearst Corporation, King Features Syndicate Division (“Hearst”) and A. Copeland Enterprises, Inc. entered into an agreement dated March 11, 1976 relating inter alia to the use of the POPEYE cartoon in connection with POPEYES restaurants inside of the United States (the “Domestic Agreement”); and

WHEREAS, Hearst, A. Copeland Enterprises, Inc. and Popeyes Famous Fried Chicken, Inc. (“PPFC”) entered into an agreement dated January 1, 1981 (the “Assignment and Amendment”) which inter alia amended the Domestic Agreement and assigned the rights and obligations of A. Copeland Enterprises, Inc. under the Domestic Agreement to PPFC; and

WHEREAS, Hearst and PPFC entered into an agreement dated January 1, 1981 relating inter alia to the use of the POPEYE cartoon in connection with POPEYES restaurants outside of the United States (the “International Agreement”); and

WHEREAS, Hearst and PPFC entered into a letter agreement dated September 17, 1981 (the “Letter Agreement of September 17, 1981”) which amended the Domestic Agreement and the International Agreement; and

WHEREAS, King Features Syndicate, Inc., Hearst, POPEYES, Inc., and A. Copeland Enterprises, Inc. entered into an agreement dated December 19, 1985 (the “License Agreement”) which refers to and is controlled by the Domestic Agreement; and

WHEREAS, Hearst and POPEYES, Inc. entered into a letter agreement dated July 20, 1987 (the “Letter Agreement of July 20, 1987”) which amended the Domestic Agreement; and

WHEREAS, Biscuits Investments, Inc., Canadian Imperial Bank of Commerce, and Hearst entered into an agreement which was signed by the last party on September 22, 1989 (the “Consent Relative to Security Agreement”) which amended the Domestic Agreement and the International Agreement and which was based on agreements, confirmations and representations of POPEYES, Inc., in a letter dated March 17, 1989; and

WHEREAS, Hearst and America’s Favorite Chicken Company (“AFC”) entered into an agreement dated July 12, 1995 (the “Japanese Agreement”) which amended the International Agreement; and

WHEREAS, Hearst and AFC entered into an agreement dated December 31, 1995 (the “December 31, 1995 Amendment”) which amended, among other provisions, the royalty provisions of the Domestic Agreement and the International Agreement; and

WHEREAS, AFCE by a succession of inter mesne assignments, name changes and mergers has succeeded to and accepted the rights and obligations of PFFC, POPEYES, Inc. and AFC under the Domestic Agreement as amended and the International Agreement as amended; and

WHEREAS, Hearst has assigned to HHI its rights and obligations under the Domestic Agreement as amended and the International Agreement as amended and HHI accepted such rights and obligations of Hearst; and

WHEREAS, HHI and AFCE entered into an agreement dated January 1, 2002 (the “January 1, 2002 Amendment”) which, among other provisions, removed from the grant of rights under the Domestic Agreement as amended, and the License Agreement as amended, all rights relating to the companion characters of the POPEYE cartoon strip and also limited the exclusivity of the licensed use of the POPEYE character; and

WHEREAS, HHI and AFCE entered into a letter agreement dated July 9, 2003 in which the parties clarified the procedures for making CPI-U adjustments to the Annual Fee pursuant to the provisions of the January 1, 2002 Amendment; and

WHEREAS, HHI and AFCE entered into an agreement dated January 1, 2007 (the “January 1, 2007 Amendment”) pursuant to which HHI granted AFCE the rights to utilize the companion characters of the POPEYE cartoon strip in connection with POPEYES restaurants in the United States territories of Puerto Rico, Guam, Northern Mariana Islands, and the United States Virgin Islands and which modified the exclusivity provisions of the International Agreement; and

WHEREAS, the terms of the Domestic Agreement and the International Agreement are currently scheduled to expire on June 30, 2010, and HHI and AFCE are to commence good faith negotiations regarding a further extension of the terms of the Domestic Agreement and the International Agreement on or before December 1, 2009; and

WHEREAS, HHI and AFCE wish to postpone the commencement of the good faith negotiations regarding a further extension of the terms of the Domestic Agreement and the International Agreement for a period of two years and six months (i.e., until a date which is on or before June 1, 2012) and to extend the terms of the Domestic Agreement and the International Agreement for a corresponding period of two years and six months (i.e., through December 31, 2012);

NOW, THEREFORE, in consideration of the foregoing premises and of the respective promises, covenants, representations and warranties contained herein, HHI and AFCE hereby agree as follows:

1. Instead of expiring on June 30, 2010, the terms of the Domestic Agreement and the International Agreement shall now extend through December 31, 2012. Furthermore, the parties now agree to commence good faith negotiations regarding a further extension of the terms of the Domestic Agreement and the International Agreement on or before June 1, 2012.

Accordingly, Paragraph 7 of the January 1, 2002 Amendment is hereby deleted and replaced with the following:

> 7. The terms of the Domestic Agreement and the International Agreement shall extend through December 31, 2012. HHI and AFCE agree to commence good faith negotiations regarding a further extension of the term of the Domestic and International Agreements on or before June 1, 2012. In the event that HHI and AFCE do not agree to extend the terms of the Domestic Agreement or the International Agreement by December 31, 2012, then the non-extended agreement will be deemed terminated for all intents and purposes as set forth in the Domestic Agreement as amended, and the International Agreement as amended. The non-extension of one agreement shall not affect the continuing validity of the other agreement, assuming it is properly extended per its terms or other agreement between the parties. Further, the obligation of AFCE to pay any royalties pursuant to Paragraph 4 hereof shall cease at such time that the copyrights for the POPEYE cartoon as it appeared in newspapers during March 1976 expire, provided that in no event shall such obligation of AFCE cease prior to December 31, 2012.

Additionally, the last sentence of Subparagraph 4(a) of the January 1, 2002 Amendment is hereby deleted and replaced with the following:

> Notwithstanding the foregoing, the first such installment shall be paid upon execution of this January 1, 2002 Amendment by AFCE and HHI.

Finally, the last sentence of the third paragraph of the letter agreement dated July 9, 2003 and the last sentence of Subparagraph 4(b) of the January 1, 2002 Amendment are hereby deleted and replaced with the following:

The last pro-rated Annual Fee (for the year 2012), will be reconciled with the actual annual CPI-U no later than July 1, 2013.

Except as expressly set forth above, all of the terms and conditions of the Domestic Agreement as previously amended, the International Agreement as previously amended, and the License Agreement as previously amended shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have duly executed this November 30, 2009 Amendment effective as of the date first written above.

HEARST HOLDINGS, INC. KING FEATURES SYNDICATE DIVISION		AFC ENTERPRISES, INC.	
By:	/s/ T.R. Shepard III	By:	/s/ Cheryl A. Bachelder
Name:	T.R. Shepard III	Name:	Cheryl A. Bachelder
Title:	President	Title:	CEO

Exhibit 10.3

AFC ENTERPRISES, INC.
ANNUAL EXECUTIVE BONUS PROGRAM

§ 1

PURPOSE

The purpose of the Program is to give each Participant the opportunity to receive an annual bonus for each Fiscal Year payable in cash if, and to the extent, the Committee determines that the Performance Goals set by the Committee for such Participant for such year have been met.

§ 2

DEFINITIONS

Code . The term “Code” for purposes of this Program means the Internal Revenue Code of 1986, as amended from time to time.

Committee . The term “Committee” for purposes of this Program means the People Services (Compensation) Committee of the Board of Directors of the Company or, if all the members of such committee fail to satisfy the requirements to be an “outside director” under § 162(m) of the Code, a sub-committee of such committee which consists solely of members who satisfy such requirements.

Company . The term “Company” for purposes of this Program means AFC Enterprises, Inc., a Minnesota corporation, its wholly-owned subsidiaries and any successor company.

Covered Executive . A “Covered Executive” for purposes of this Program means for each Fiscal Year an executive of the Company whose compensation for such Fiscal Year is subject to the compensation deduction limitations under § 162(m) of the Code.

Fiscal Year . The term “Fiscal Year” for purposes of this Program means the Company’s fiscal year.

Participant . The term “Participant” for purposes of this Program means for each Fiscal Year each individual who is designated as such by the Committee under § 3.

Performance Criteria . The term “Performance Criteria” means (1) the Company’s return over capital costs or increases in return over capital costs, (2) the Company’s total earnings or the growth in such earnings, (3) the Company’s consolidated earnings or the growth in such earnings, (4) the Company’s earnings per share or the growth in such earnings, (5) the Company’s net earnings or the growth in such earnings, (6) the Company’s earnings before interest expense, taxes, depreciation, amortization and other non-cash items or the growth in such earnings, (7) the Company’s earnings before interest and taxes or the growth in such earnings,

(8) the Company's consolidated net income or the growth in such income, (9) the value of the Company's stock or the growth in such value, (10) the Company's stock price or the growth in such price, (11) the Company's return on assets or the growth on such return, (12) the Company's cash flow or the growth in such cash flow, (13) the Company's total shareholder return or the growth in such return, (14) the Company's expenses or the reduction of such expenses, (15) the sales growth, including same store/restaurant sales growth, of the Company and/or of the Popeyes restaurant system (including stores/restaurants operated by a franchisee of the Company), (16) the number of new stores/restaurants opened by the Company and/or by the Popeyes restaurant system (including stores/restaurants operated by a franchisee of the Company), (17) the Company's overhead ratios or changes in such ratios, (18) the Company's expense-to-sales ratios or the changes in such ratios, (19) the Company's economic value added or changes in such value added, or (20) the number of stores/restaurants at the Company and/or as part of the Popeyes restaurant system (including stores/restaurants operated by a franchisee of the Company), or the change or increase in such number of stores/restaurants.

Performance Goals . The term "Performance Goals" for purposes of this Program means the goal, or the combination of goals, set under § 4 by the Committee for each Participant for each Fiscal Year based on the Performance Criteria selected by the Committee for such Fiscal Year.

Program . The term "Program" means this AFC Enterprises, Inc. Annual Executive Bonus Program as in effect from time to time.

§ 3

PARTICIPATION

The Committee for each Fiscal Year shall have the right to designate any executive officer of the Company and any other employee of the Company who the Committee deems a key employee as a Participant in this Program for such Fiscal Year if (1) such designation is made no later than 90 days after the beginning of such Fiscal Year or (2) such designation is effective on the date an individual is first employed if he or she will be a key employee on the date he or she is first employed.

§ 4

PERFORMANCE GOALS

The Committee shall set in writing the Performance Goals for each Participant for each Fiscal Year based on such Performance Criteria as the Committee deems appropriate under the circumstances, and such Performance Goals shall be set (1) for each Participant described in §3(1) no later than 90 days after the beginning of such Fiscal Year and (2) for each Participant described in §3(2) no later than the end of the 30 day period which starts on the date he or she is first employed by the Company. The Committee shall have the right to use different Performance Criteria for different Participants, and the Committee shall have the right to set different Performance Goals for Participants whose goals look to the same Performance Criteria.

The Performance Goals for a Participant may be based on company-wide performance, Popeyes restaurant system performance (including restaurants operated directly by the Company and/or by a franchisee of the Company), division-specific performance, department-specific performance, region-specific performance, restaurant-specific performance, personal performance or on any combination of such criteria or other criteria the Committee deems appropriate under the circumstances. A Performance Goal may be set in any manner determined by the Committee, including looking to achievement on an absolute or relative basis in relation to peer groups or indexes, and the Committee may set more than one goal. No change may be made to a Performance Goal after the goal has been set. However, the Committee may express any goal in terms of alternatives, or a range of alternatives, as the Committee deems appropriate under the circumstances, such as including or excluding (1) any acquisitions or dispositions, restructuring, discontinued operations, extraordinary items and other unusual or non-recurring charges, (2) any event either not directly related to the operations of the Company or not within the reasonable control of the Company's management or (3) the effects of tax or accounting changes. Finally, no Performance Goal shall be treated as satisfied under this § 4 until the Committee certifies that such goal has been satisfied in accordance with § 5.

§ 5

CERTIFICATION AND RIGHT TO PAYMENT

The Committee at the end of each Fiscal Year shall certify the extent, if any, to which the Performance Goals set for each Participant for such Fiscal Year have been met and shall determine the bonus payable to each Participant based on the extent, if any, to which he or she met his or her Performance Goals. However, the Committee shall have the right to reduce a Participant's bonus as determined under this § 5 to the extent that the Committee acting in its discretion determines that such a reduction is appropriate. If the Committee certifies that a bonus is payable to a Participant for any Fiscal Year, such bonus shall be paid in cash as soon as practical after such certification has been made. However, no Participant shall have a right to the payment of a bonus for any Fiscal Year if his or her employment with the Company has terminated for any reason whatsoever before the date the bonus is actually paid unless the Committee in the exercise of its absolute discretion expressly waives this employment requirement; provided, however, if the Committee so waives this requirement for any Participant for any Fiscal Year, his or her bonus, if any, earned under this Program shall be paid no later than 2 1/2 months after the end of such Fiscal Year.

§ 6

BONUS CAP

No bonus shall be paid to any Participant for any Fiscal Year under this Program to the extent such bonus would exceed 200% of the Participant's base salary paid to the Participant during such Fiscal Year or $2,000,000, whichever is less. However, the Committee shall have the discretion to set a lower cap on the bonus payable to any Participant for any Fiscal Year.

§ 7

ADMINISTRATION

The Committee shall have the power to interpret and administer this Program as the Committee in its absolute discretion deems in the best interest of the Company, and the Committee to the extent practicable shall do so to protect the Company's right to deduct any bonus payable to a Covered Executive in light of § 162(m) of the Code.

§ 8

AMENDMENT AND TERMINATION

The Committee shall have the power to amend this Program from time to time as the Committee deems necessary or appropriate and to terminate this Program if the Committee deems that such termination is in the best interest of the Company.

§ 9

MISCELLANEOUS

9.1. General Assets . Any bonus payable under this Program shall be paid exclusively from the Company's general assets.

9.2. General Creditor Status . The status of each Participant with respect to his or her claim for the payment of a bonus under this Program shall be the same as the status of a general and unsecured creditor of the Company.

9.3. No Assignment . No Participant shall have the right to assign or otherwise alienate or commute all or any part of the bonus which might be payable to such Participant under this Program, and any attempt to do so shall be null and void.

9.4. No Contract of Employment . The designation of any individual as a Participant in this Program shall not constitute an agreement by the Company to employ any such individual for any period of time or affect the Company's right to terminate his or her employment at any time and for any reason or for no reason.

AFC ENTERPRISES, INC.

By: /s/ Cheryl A. Bachelder
Title: Chief Executive Officer and President
Date: March 25, 2010

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 15(d)-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: May 26, 2010

/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 15(d)-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: May 26, 2010

/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 April 18, 2010 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: May 26, 2010

/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 April 18, 2010 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, the Chief Financial Officer, 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: May 26, 2010

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