

AFC ENTERPRISES INC

FORM 10-Q (Quarterly Report)

Filed 08/18/10 for the Period Ending 07/11/10

Address	5555 GLENRIDGE CONNECTOR, NE, SUITE 300 ATLANTA, GA 30342
Telephone	4044594450
CIK	0001041379
Symbol	AFCE
SIC Code	5812 - Eating Places
Industry	Restaurants
Sector	Services
Fiscal Year	12/30

Table of Contents

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 July 11, 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 (as defined by Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a 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 August 8, 2010 there were 25,557,996 shares of the registrant's common stock, par value \$.01 per share, outstanding.

AFC ENTERPRISES, INC.
INDEX

	<u>Page</u>
PART 1 FINANCIAL INFORMATION	
Item 1. Financial Statements (unaudited)	3
Condensed Consolidated Balance Sheets as of July 11, 2010 and December 27, 2009	3
Condensed Consolidated Statements of Operations for the Twelve and Twenty-Eight Week Periods Ended July 11, 2010 and July 12, 2009	4
Condensed Consolidated Statement of Changes in Shareholders' Equity (Deficit) for the Twenty-Eight Week Period Ended July 11, 2010	5
Condensed Consolidated Statements of Cash Flows for the Twenty-Eight Week Periods Ended July 11, 2010 and July 12, 2009	6
Notes to Unaudited Condensed Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3. Quantitative and Qualitative Disclosures About Market Risk	22
Item 4. Controls and Procedures	23
PART 2 OTHER INFORMATION	
Item 1. Legal Proceedings	24
Item 1A. Risk Factors	24
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	24
Item 6. Exhibits	25
SIGNATURE	26
EX-10.1	
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	

Table of Contents

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

AFC Enterprises, Inc.

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

	<u>07/11/10</u>	<u>12/27/09</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4.6	\$ 4.1
Accounts and current notes receivable, net	6.7	9.1
Other current assets	4.9	3.9
Advertising cooperative assets, restricted	16.6	16.0
Total current assets	<u>32.8</u>	<u>33.1</u>
Long-term assets:		
Property and equipment, net	20.9	21.5
Goodwill	11.1	11.1
Trademarks and other intangible assets, net	47.3	47.6
Other long-term assets, net	2.4	3.3
Total long-term assets	<u>81.7</u>	<u>83.5</u>
Total assets	<u>\$ 114.5</u>	<u>\$ 116.6</u>
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 4.2	\$ 4.8
Other current liabilities	11.3	13.7
Current debt maturities	0.9	1.3
Advertising cooperative liabilities	16.6	16.0
Total current liabilities	<u>33.0</u>	<u>35.8</u>
Long-term liabilities:		
Long-term debt	66.7	81.3
Deferred credits and other long-term liabilities	18.8	17.7
Total long-term liabilities	<u>85.5</u>	<u>99.0</u>
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 July 11, 2010 and December 27, 2009, respectively)	0.3	0.3
Capital in excess of par value	113.5	112.3
Accumulated deficit	(117.7)	(130.3)
Accumulated other comprehensive loss	(0.1)	(0.5)
Total shareholders' deficit	<u>(4.0)</u>	<u>(18.2)</u>
Total liabilities and shareholders' deficit	<u>\$ 114.5</u>	<u>\$ 116.6</u>

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

AFC Enterprises, Inc.

Condensed Consolidated Statements of Operations (unaudited)

(In millions, except per share data)

	12 Weeks Ended		28 Weeks Ended	
	07/11/10	07/12/09	07/11/10	07/12/09
Revenues:				
Sales by company-operated restaurants	\$ 12.1	\$ 14.1	\$ 28.2	\$ 34.9
Franchise revenues	21.2	20.6	47.6	46.3
Rent and other revenues	1.0	1.0	2.3	2.4
Total revenues	<u>34.3</u>	<u>35.7</u>	<u>78.1</u>	<u>83.6</u>
Expenses:				
Restaurant employee, occupancy and other expenses	6.2	7.5	14.0	18.3
Restaurant food, beverages and packaging	3.8	4.7	8.9	11.6
Rent and other occupancy expenses	0.6	0.7	1.4	1.3
General and administrative expenses	12.6	13.2	29.4	30.9
Depreciation and amortization	0.9	1.1	2.1	2.7
Other expenses (income), net	—	(2.9)	(0.1)	(2.5)
Total expenses	<u>24.1</u>	<u>24.3</u>	<u>55.7</u>	<u>62.3</u>
Operating profit	10.2	11.4	22.4	21.3
Interest expense, net	<u>1.7</u>	<u>1.3</u>	<u>4.5</u>	<u>3.0</u>
Income before income taxes	8.5	10.1	17.9	18.3
Income tax expense	<u>1.7</u>	<u>3.7</u>	<u>5.3</u>	<u>6.9</u>
Net income	<u>\$ 6.8</u>	<u>\$ 6.4</u>	<u>\$ 12.6</u>	<u>\$ 11.4</u>
Earnings per common share, basic:	<u>\$ 0.27</u>	<u>\$ 0.25</u>	<u>\$ 0.50</u>	<u>\$ 0.45</u>
Earnings per common share, diluted:	<u>\$ 0.26</u>	<u>\$ 0.25</u>	<u>\$ 0.49</u>	<u>\$ 0.45</u>
Weighted-average shares outstanding:				
Basic	25.3	25.2	25.3	25.2
Diluted	25.5	25.3	25.4	25.3

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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	—	—	—	12.6	—	12.6
Other comprehensive income						
Derivative loss (net of income tax)	—	—	—	—	0.4	0.4
Total comprehensive income						13.0
Issuance of restricted stock awards, net of forfeitures	102,079	—	—	—	—	—
Stock-based compensation expense	—	—	1.2	—	—	1.2
Balance at July 11, 2010	<u>25,557,996</u>	<u>\$ 0.3</u>	<u>\$ 113.5</u>	<u>\$ (117.7)</u>	<u>\$ (0.1)</u>	<u>\$ (4.0)</u>

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

AFC Enterprises, Inc.

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

	28 Weeks Ended	
	07/11/10	07/12/09
Cash flows provided by (used in) operating activities:		
Net income	\$ 12.6	\$ 11.4
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2.1	2.7
Asset write-downs	0.2	0.2
Net gain on sale of assets	(0.3)	(3.0)
Deferred income taxes	0.2	0.8
Non-cash interest expense, net	1.1	0.4
Provision for credit losses	(0.2)	0.3
Stock-based compensation expense	1.2	1.0
Change in operating assets and liabilities:		
Accounts receivable	0.8	0.1
Other operating assets	(0.4)	1.1
Accounts payable and other operating liabilities	(2.4)	(1.4)
Net cash provided by operating activities	<u>14.9</u>	<u>13.6</u>
Cash flows provided by (used in) investing activities:		
Capital expenditures	(1.4)	(0.5)
Proceeds from dispositions of property and equipment	—	7.7
Proceeds from notes receivable and other	2.2	0.8
Net cash provided by investing activities	<u>0.8</u>	<u>8.0</u>
Cash flows provided by (used in) financing activities:		
Principal payments — 2005 credit facility (term loan)	(14.9)	(3.7)
Principal payments — 2005 revolving credit facility	—	(0.5)
Other financing activities, net	(0.3)	(0.5)
Net cash used in financing activities	<u>(15.2)</u>	<u>(4.7)</u>
Net increase in cash and cash equivalents	0.5	16.9
Cash and cash equivalents at beginning of year	4.1	2.1
Cash and cash equivalents at end of quarter	<u>\$ 4.6</u>	<u>\$ 19.0</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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

Note 1 — Description of Business

AFC Enterprises, Inc. (“AFC” or the “Company”) develops, operates and franchises quick-service restaurants under the trade names Popeyes[®] Chicken & Biscuits and Popeyes[®] Louisiana Kitchen (“Popeyes”). The Company operates two business segments: franchise restaurants 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 (“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 July 11, 2010 have not been audited by the Company’s independent registered public accountants, but in the opinion of management, they contain all normal recurring adjustments necessary for a fair statement of the Company’s financial condition and results of operations for the interim periods presented. Interim period operating results are not necessarily indicative of the results expected for the full fiscal year. The Company suggests that the accompanying financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the 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 revenue 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 \$2.2 million for the twenty-eight week period ended July 12, 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 had no impact on our financial statements.

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

AFC Enterprises, Inc.
Notes to Unaudited 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 July 11, 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
July 11, 2010				
Financial Assets				
Cash equivalents	\$ 2.7	\$ —	\$ —	\$ 2.7
Advertising cooperative assets, restricted	0.3	—	—	0.3
Total assets at fair value	\$ 3.0	\$ —	\$ —	\$ 3.0
Financial Liabilities				
Interest rate swap agreement (Note 4)	\$ —	\$ 0.1	\$ —	\$ 0.1
Total liabilities at fair value	\$ —	\$ 0.1	\$ —	\$ 0.1
December 27, 2009				
Financial Assets				
Cash equivalents	\$ 3.3	\$ —	\$ —	\$ 3.3
Advertising cooperative assets, restricted	3.6	—	—	3.6
Total assets at fair value	\$ 6.9	\$ —	\$ —	\$ 6.9
Financial Liabilities				
Interest rate swap agreement (Note 4)	\$ —	\$ 0.1	\$ —	\$ 0.1
Total liabilities at fair value	\$ —	\$ 0.1	\$ —	\$ 0.1

At July 11, 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.

Note 4 — Long-Term Debt and Other Borrowings

(In millions)	07/11/10	12/27/09
2005 Credit Facility Term loan	\$ 63.4	\$ 78.3
Capital lease obligations	1.5	1.6
Other notes	2.7	2.7
	67.6	82.6
Less current portion	(0.9)	(1.3)
	<u>\$ 66.7</u>	<u>\$ 81.3</u>

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 July 11, 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 Unaudited Condensed Consolidated Financial Statements

As of July 11, 2010, the Company was in compliance with the financial and other covenants of the 2005 Credit Facility. As of July 11, 2010, the Company's weighted average interest rate for all outstanding indebtedness under the 2005 Credit Facility was 7.2% taking into consideration the Company's 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 July 11, 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 \$30.0 million of the term loan debt to a fixed rate of 7.40%. The term of the swap agreements expires August 31, 2011.

The Company's interest rate swap agreements are derivative instruments that are designated as cash flow hedges. The fair value gain or loss on the interest rate swaps is included as a component of the "Accumulated other comprehensive loss" ("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 Statements of Operations for the Twenty-Eight Weeks ended July 11, 2010 and July 12, 2009

(In millions)	Amount of Gain (Loss) Recognized in AOCI (effective portion)		Location of Gain (Loss) Reclassified from AOCI to Income	Amount of Gain (Loss) Reclassified from AOCI to Income (effective portion)	
	2010	2009		2010	2009
	\$	\$		\$	\$
Interest rate swap agreements	\$ —	\$ —	Interest expense, net	\$ (0.6)	\$ (0.4)
	<u>\$ —</u>	<u>\$ —</u>		<u>\$ (0.6)</u>	<u>\$ (0.4)</u>

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 twelve and twenty-eight weeks ended July 11, 2010 and July 12, 2009:

(In millions)	12 Weeks Ended		28 Weeks Ended	
	07/11/10	07/12/09	07/11/10	07/12/09
Net income	\$ 6.8	\$ 6.4	\$ 12.6	\$ 11.4
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	0.1	0.1	0.4	0.2
Total comprehensive income	<u>\$ 6.9</u>	<u>\$ 6.4</u>	<u>\$ 13.0</u>	<u>\$ 11.6</u>

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 July 11, 2010 and December 27, 2009:

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

(In millions)	07/11/10	12/27/09
Net unrealized loss on an interest rate swap agreement	\$ (0.1)	\$ (0.1)
Net unrealized loss on interest rate swaps settled in cash	—	(0.4)
Total Accumulated other comprehensive loss	<u>\$ (0.1)</u>	<u>\$ (0.5)</u>

The unrealized loss associated with the interest rate swaps settled in cash was 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

(In millions)	12 Weeks Ended		28 Weeks Ended	
	07/11/10	07/12/09	07/11/10	07/12/09
Impairments and disposals of fixed assets	\$ 0.1	\$ —	\$ 0.2	\$ 0.2
Net gain on sale of assets	(0.1)	(2.9)	(0.3)	(3.0)
Other	—	—	—	0.3
	<u>\$ —</u>	<u>\$ (2.9)</u>	<u>\$ (0.1)</u>	<u>\$ (2.5)</u>

During the second fiscal quarter 2009, the Company completed the re-franchising of thirteen company-operated restaurants in its Atlanta, Georgia market and sold nine real estate properties in the Texas market. The Company realized combined net proceeds of approximately \$7.5 million, including \$0.4 million of franchise fees which are recorded as a component of "Franchise revenues" in the condensed statement of operations. The Company recognized a related net gain on the sale of the assets during the quarter of \$2.8 million which is recorded as a component of "Other expenses (income), net" on the Condensed Consolidated Statements of Operations.

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

(In millions)	12 Weeks Ended		28 Weeks Ended	
	07/11/10	07/12/09	07/11/10	07/12/09
Interest on debt, less capitalized amounts	\$ 1.5	\$ 1.2	\$ 3.8	\$ 2.9
Amortization and write-offs of debt issuance costs	0.1	0.2	0.5	0.4
Other debt related charges	0.1	0.1	0.3	0.3
Interest income	—	(0.2)	(0.1)	(0.6)
	<u>\$ 1.7</u>	<u>\$ 1.3</u>	<u>\$ 4.5</u>	<u>\$ 3.0</u>

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

Note 9 — Income Taxes

The Company concluded 2004 and 2005 Federal income tax audits with the Internal Revenue Service (the “IRS”) during the second fiscal quarter 2010. As a result of concluding the audits, the Company received tax refunds of \$0.7 million, including \$0.1 million of interest income, recognized \$0.7 million of previously unrecognized tax benefits and reversed \$0.6 million of accrued interest on the uncertain positions under audit. The net impact of concluding the audits was a \$1.4 million reduction in income tax expense for the twelve and twenty-eight weeks ended July 11, 2010.

The Company’s effective tax rates for the twelve week periods ended July 11, 2010 and July 12, 2009 were 20.0% and 36.6%, respectively. The Company’s effective tax rates for the twenty-eight week periods ended July 11, 2010 and July 12, 2009 were 29.6% and 37.7%, respectively. Excluding the impact of concluding the IRS audits, the effective tax rates for the twelve and twenty-eight week periods ended July 11, 2010 were 36.5% and 37.4%, respectively, which differs from statutory rates due to adjustments to estimated tax reserves related to the current year, permanent differences and inter-period allocations.

The amount of unrecognized tax benefits was approximately \$2.4 million as of July 11, 2010 of which approximately \$0.6 million, if recognized, would affect the effective income tax rate. A reconciliation of the beginning and ending amount of unrecognized tax benefits as of July 11, 2010 is as follows:

(In millions)	
Balance as of December 27, 2009	\$ 4.9
Gross additions related to current year	0.1
Reductions for tax positions of prior years	(2.6)
Balance as of July 11, 2010	<u>\$ 2.4</u>

The Company has unrecognized tax benefits of approximately \$0.3 million which the Company would recognize within the next twelve months if the statute of limitations were to expire.

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 were approximately \$(0.7) and \$0.1 million for the twelve weeks ended July 11, 2010 and July 12, 2009, respectively. Interest and penalties on uncertain tax positions for the twenty-eight week periods ended July 11, 2010 and July 12, 2009 were \$(0.6) million and \$0.1 million, respectively. As of July 11, 2010 and December 27, 2009, the Company had approximately \$0.5 million and \$1.1 million, respectively, of accrued interest and penalties related to uncertain tax positions.

The Company files income tax returns in the United States and various state jurisdictions. The U.S. federal tax years 2006 through 2008 are open to audit. In general, the state tax years open to audit range from 2005 through 2008.

Note 10 — Components of Earnings Per Common Share Computation

(In millions)	12 Weeks Ended		28 Weeks Ended	
	07/11/10	07/12/09	07/11/10	07/12/09
Numerator for earnings per share computation:				
Net Income	<u>\$ 6.8</u>	<u>\$ 6.4</u>	<u>\$ 12.6</u>	<u>\$ 11.4</u>
Denominator for basic earnings per share — weighted average shares	25.3	25.2	25.3	25.2
Effect of dilutive share-based employee and director compensation	0.2	0.1	0.1	0.1
Denominator for diluted earnings per share	<u>25.5</u>	<u>25.3</u>	<u>25.4</u>	<u>25.3</u>

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.

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

Employee stock options with an exercise price greater than the average market price for the twelve and twenty-eight week periods ended July 11, 2010 and July 12, 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 were 0.6 million and 0.5 million for the twelve and twenty-eight week periods ended July 11, 2010 and July 12, 2009, respectively.

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.

(In millions)	12 Weeks Ended		28 Weeks Ended	
	07/11/10	07/12/09	07/11/10	07/12/09
Revenues				
Franchise restaurants(a)	\$ 22.2	\$ 21.6	\$ 49.9	\$ 48.7
Company-operated restaurants	12.1	14.1	28.2	34.9
	<u>\$ 34.3</u>	<u>\$ 35.7</u>	<u>\$ 78.1</u>	<u>\$ 83.6</u>
Operating profit				
Franchise restaurants(b)	\$ 10.1	\$ 8.9	\$ 21.6	\$ 19.4
Company-operated restaurants	1.0	0.7	2.8	2.1
	<u>11.1</u>	<u>9.6</u>	<u>24.4</u>	<u>21.5</u>
Less unallocated expenses(c)				
Depreciation and amortization	0.9	1.1	2.1	2.7
Other expenses (income), net	—	(2.9)	(0.1)	(2.5)
	<u>\$ 10.2</u>	<u>\$ 11.4</u>	<u>\$ 22.4</u>	<u>\$ 21.3</u>
Capital expenditures				
Franchise operations	\$ 0.3	\$ 0.1	\$ 0.5	\$ 0.2
Company-operated restaurants	0.3	0.2	0.9	0.3
	<u>\$ 0.6</u>	<u>\$ 0.3</u>	<u>\$ 1.4</u>	<u>\$ 0.5</u>

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

(b) Includes inter-segment royalties for the quarter of \$0.6 million in 2010 and \$0.7 million in 2009. The year to date inter-segment royalties include \$1.4 million in 2010 and \$1.7 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.

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 July 11, 2010, we operated and franchised 1,945 Popeyes restaurants in 44 states, the District of Columbia, 3 territories and 26 foreign countries.



	July 11, 2010	Dec. 27, 2009
Total Operating Restaurants as of:		
Domestic:		
Company-Operated	37	37
Franchised	1,533	1,539
International:		
Franchised	<u>375</u>	<u>367</u>
 Total	 <u>1,945</u>	 <u>1,943</u>

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 (Second Quarter)

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

- Reported net income was \$6.8 million, or \$0.26 per diluted share, compared to \$6.4 million, or \$0.25 per diluted share, last year. Adjusted earnings per diluted share were \$0.21 compared to \$0.18 last year. Year-to-date adjusted earnings per diluted share were \$0.44 compared to \$0.39 last year. Adjusted earnings per diluted share is a supplemental non-GAAP measure of performance. See the heading entitled “Management’s Use of Non-GAAP Financial Measures.”
- Total system-wide sales increased 2.8% compared to a 4.9% increase last year.

Table of Contents

- Global same-store sales increased 0.6% compared to a 4.3% increase last year. Domestic same-store sales increased 0.4% compared to a 4.3% increase last year. International same-store sales increased 2.7% compared to a 3.9% increase in 2009.
- The Popeyes system opened 17 restaurants and permanently closed 17 restaurants in the second quarter.
- Year-to-date EBITDA of \$24.5 million was 31.4% of total revenue, which included \$0.1 million of other income, compared to EBITDA of \$24.0 million, or 28.7% of total revenue, which included \$2.5 million of other income last year. EBITDA is a supplemental non-GAAP measure of performance. See the heading entitled “Management’s Use of Non-GAAP Financial Measures.”
- In the second quarter, the Company recorded a tax benefit of \$1.4 million, or \$0.05 per diluted share, related to the completion of a federal income tax audit for years 2004 and 2005.
- During the second quarter, outstanding debt was reduced by \$8.2 million to \$67.6 million.

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

(Dollars in millions)	12 Weeks Ended		28 Weeks Ended	
	07/11/10	07/12/09	07/11/10	07/12/09
Sales by company-operated restaurants	\$ 12.1	\$ 14.1	\$ 28.2	\$ 34.9
Franchise revenues (a)	21.2	20.6	47.6	46.3
Other revenues	1.0	1.0	2.3	2.4
Total revenues	\$ 34.3	\$ 35.7	\$ 78.1	\$ 83.6
Operating profit	\$ 10.2	\$ 11.4	\$ 22.4	\$ 21.3
Net income	\$ 6.8	\$ 6.4	\$ 12.6	\$ 11.4
Global system-wide sales increase	2.8%	4.9%	2.4%	2.8%
Same-store sales increase (decrease) (b)				
Company-operated restaurant segment	0.3%	1.8%	0.2%	(1.8)%
Domestic franchised restaurants	0.4%	4.4%	(0.1)%	1.8%
Total domestic (company-operated and franchised restaurants)	0.4%	4.3%	(0.1)%	1.7%
International franchised restaurants	2.7%	3.9%	1.9%	4.4%
Total global system	0.6%	4.3%	0.1%	1.9%
Company-operated restaurants (all domestic)				
Restaurants at beginning of period	37	51	37	55
New restaurant openings	—	—	—	—
Unit conversions, net	—	(13)	—	(16)
Permanent closings	—	(1)	—	(2)
Temporary (closings)/re-openings, net	—	—	—	—
Restaurants at the end of second quarter	37	37	37	37
Franchised restaurants (domestic and international)				
Restaurants at beginning of period	1,907	1,858	1,906	1,867
New restaurant openings	17	16	34	30
Unit conversions, net	—	13	—	16
Permanent closings	(17)	(21)	(29)	(51)
Temporary (closings)/re-openings, net	1	2	(3)	6
Restaurants at the end of second quarter	1,908	1,868	1,908	1,868
Total system restaurants	1,945	1,905	1,945	1,905

(a) Franchise revenues are principally comprised of royalty payments from franchisees that are based upon franchisee sales. While franchisee sales are not recorded as revenue by the Company, we believe they are important in understanding the Company’s financial performance and overall financial health, given the Company’s strategic focus on growing its overall business through franchising. For the second quarter of 2010 and 2009, franchisee sales, as reported by our franchisees, were approximately \$426.4 million and \$412.2 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 — Second Quarter

Global same-store sales increased 0.6% compared to a 4.3% increase in 2009. Total domestic same-store sales increased 0.4% compared to a 4.3% increase last year, an improvement over the 0.4% decrease in the first quarter. The second quarter increase was primarily due to the strong sales performance of the Company's new product introduction of Popeyes Wicked Chicken. According to independent data, Popeyes' second quarter domestic same-store sales outpaced the chicken QSR category for the ninth consecutive quarter. Through the remainder of 2010, Popeyes' efforts will be focused on offering its guests the brand's distinctive products at compelling value to drive traffic into the restaurants.

International same-store sales increased 2.7% compared to a 3.9% 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 softer sales in certain international markets, the Company will continue to shift its marketing focus to value promotions to drive traffic into the restaurants.

Looking Forward to the Remainder of 2010

Given its year-to-date same-store sales performance, the Company now projects that its global same-store sales for fiscal 2010 will be in the range of zero to positive 2.0%, an increase from the Company's previous guidance of negative 1.0% to positive 2.0%.

Popeyes now expects its global new openings to be in the range of 120-130 restaurants, an increase from previous guidance of 110-130 restaurants. Consistent with prior years, many of these new openings are expected to occur in December. Due to improved restaurant performance and a favorable year-to-date restaurant closure rate, the Company now expects its closures to be 80-90 restaurants resulting in 30-50 net restaurant openings, compared to previous guidance of approximately 100 restaurant closures and 10-30 net restaurant openings. 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 will 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 invest in its international business and core initiatives of the Company's Strategic Plan. This includes new product innovation to drive traffic, operational tools and training to improve the guest experience, and productivity initiatives to strengthen restaurant profitability.

The Company now expects 2010 adjusted earnings per diluted share to be \$0.75-\$0.79, an increase from previous guidance of \$0.73-\$0.77 per diluted share. The Company calculates adjusted earnings per diluted share by excluding its year-to-date tax benefit of \$1.4 million or \$0.05 per diluted share. Adjusted earnings per diluted share is a supplemental non-GAAP measure of performance. See the heading entitled "Management's Use of Non-GAAP Financial Measures."

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 Second Quarter for 2010 and 2009

Sales by Company-Operated Restaurants

Sales by company-operated restaurants were \$12.1 million in the second quarter of 2010, a \$2.0 million decrease from the second quarter of 2009. The decrease was primarily due to the successful refranchising of 13 company-operated restaurants in the Atlanta market during 2009.

Table of Contents

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 \$21.2 million in the second quarter of 2010, a \$0.6 million increase from the second 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 \$1.0 million in the second quarter of 2010 and 2009.

Company-operated Restaurant Expenses

Company-operated restaurant expenses were \$10.0 million in the second quarter of 2010, a decrease of \$2.2 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 were 3.9 percentage points better than the second quarter of last year. This improvement was primarily a result of lower food cost, primarily attributable to successful renegotiation of vendor contracts, restaurant efficiency initiatives, declines in 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 \$0.6 million in the second quarter of 2010, a \$0.1 million decrease from the second quarter of 2009.

General and Administrative Expenses

General and administrative expenses were \$12.6 million, or 2.9% of system-wide sales, compared to \$13.2 million, or 3.1% of system-wide sales, last year. This improvement was primarily attributable to a \$1.4 million decrease in planned national media advertising expenses, partially offset by \$1.0 million of higher attorney fees and expenses. These expenses were associated with settlement of litigation initiated by the Company which resulted in renegotiation of a long-term supply agreement with a key supplier of Popeyes proprietary ingredients and products.

General and administrative expenses as a percent of system-wide sales were lower than the Company’s full year guidance due to timing of expenses. The Company expects to apply these expenses over the next two quarters and that its general and administrative expenses for fiscal 2010 will be in the range of 3.1-3.2% of system-wide sales, among the lowest in the restaurant industry.

Depreciation and Amortization

Depreciation and amortization was \$0.9 million in the second quarter of 2010, a \$0.2 million decrease from the second quarter of 2009. The decrease was principally due to certain information technology assets fully depreciated in 2009.

Interest Expense, Net

Interest expense, net was \$1.7 million in the second quarter of 2010, a \$0.4 million increase from the second 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 includes \$0.4 million of non-cash charges related to amortization of bank fees and interest rate swap costs compared to \$0.5 million last year.

Table of Contents

Income Tax Expense

Income tax expense was \$1.7 million in the twelve weeks ended July 11, 2010 compared to \$3.7 million in 2009. Our effective tax rates were 20.0% and 36.6% in 2010 and 2009, respectively. In the second quarter, the Company recorded a tax benefit of \$1.4 million, or \$0.05 per diluted share, related to the completion of a federal income tax audit for years 2004 and 2005. Excluding the tax benefit, the effective tax rate would have been 36.5% for the second quarter, which differs from statutory rates due to adjustments to estimated tax reserves related to the current year, other permanent differences and inter-period allocations.

Comparisons of the Twenty-Eight Weeks Ended July 11, 2010 and July 12, 2009

Sales by Company-Operated Restaurants

Sales by company-operated restaurants were \$28.2 million in the twenty-eight weeks ended July 11, 2010, a \$6.7 million decrease from 2009. The decrease was primarily due to the successful franchising of 16 company-operated restaurants in the Nashville and Atlanta markets during 2009.

Franchise Revenues

Franchise revenues were \$47.6 million in the twenty-eight weeks ended July 11, 2010, a \$1.3 million increase from 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 \$2.3 million in the twenty-eight weeks ended July 11, 2010, a \$0.1 million decrease from 2009.

Company-operated Restaurant Expenses

Company-operated restaurant expenses were \$22.9 million in the twenty-eight weeks ended July 11, 2010, a decrease of \$7.0 million from 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 twenty-eight weeks ended July 11, 2010 were 4.5 percentage points better than last year. This improvement was a result of lower food costs primarily attributable to successful renegotiation of vendor contracts, restaurant efficiency initiatives, declines in 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 \$1.4 million in the twenty-eight weeks ended July 11, 2010, a \$0.1 million increase from 2009.

General and Administrative Expenses

General and administrative expenses were \$29.4 million in the twenty-eight weeks ended July 11, 2010, a \$1.5 million decrease from 2009. The decrease was primarily due to a \$3.0 million decrease in national media advertising expenses and a \$0.5 million lower provision for credit losses partially offset by a \$1.0 million increase in attorney fees and expenses, and an \$0.8 million increase in other expenses and business conference costs relating to the hosting of our international franchise conference in February 2010. The attorney fees and expenses were associated with litigation initiated by the company which resulted in settlement and the renegotiation of a long-term supply agreement with a key supplier of proprietary ingredients and products during the second quarter of 2010.

General and administrative expenses were approximately 3.0% and 3.2% of system-wide sales in the twenty-eight week periods ended July 11, 2010 and July 12, 2009, respectively.

Depreciation and Amortization

Depreciation and amortization was \$2.1 million in the twenty-eight weeks ended July 11, 2010, a \$0.6 million decrease from 2009. The decrease was principally due to certain information technology assets fully depreciated in 2009.

Table of Contents

Interest Expense, Net

Interest expense, net was \$4.5 million in the twenty-eight weeks ended July 11, 2010, a \$1.5 million increase from 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 in the twenty-eight weeks ended July 11, 2010, includes \$1.2 million of non-cash charges related to amortization of bank fees and interest rate swap costs compared to \$1.0 million last year.

Income Tax Expense

Income tax expense was \$5.3 million in the twenty-eight weeks ended July 11, 2010, compared to \$6.9 million in 2009. Our effective tax rates were 29.6%, and 37.7% in 2010 and 2009, respectively. In the second quarter, the Company recorded a tax benefit of \$1.4 million, or \$0.05 per diluted share, related to the completion of a federal income tax audit for years 2004 and 2005. Excluding the tax benefit, the effective tax rate would have been 37.4% year to date which differs from statutory rates due to adjustments to estimated tax reserves related to the current year, other permanent differences and inter-period allocations. Excluding the tax benefit, we expect the effective tax rate will be in the range of 37 to 38% in 2010.

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 \$14.9 million and \$13.6 million for the twenty-eight weeks ended July 11, 2010 and July 12, 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 \$4.6 million available as of July 11, 2010), and available borrowings under our 2005 Credit Facility (approximately \$46.7 million available as of July 11, 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 our 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 second quarter of 2010, we paid principal on term loan borrowing in the amount of \$8.2 million, including \$8.0 million of voluntary payments and scheduled principal payments of \$0.2 million. The total principal payments for the twenty-eight weeks ending July 11, 2010 were \$14.9 million. As of July 11, 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 July 11, 2010, the Company's Total Leverage Ratio was 1.47 to 1.0.

The Company did not repurchase any shares of its common stock during the second quarter of 2010. As of July 11, 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.

Table of Contents

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 July 11, 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 twenty-eight week period ended July 11, 2010, we invested approximately \$1.4 million in various capital projects, including approximately \$0.5 million in restaurant reimage projects, \$0.4 million of software and computer equipment and approximately \$0.5 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 twenty-eight week period ended July 12, 2009, we invested approximately \$0.5 million in various capital projects, including approximately \$0.1 million in new restaurant site modeling software and approximately \$0.4 million in other capital assets to maintain, replace and extend the lives of company-operated restaurant facilities, equipment and other corporate assets.

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.

Management’s Use of 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 per diluted share 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 second quarter 2010 includes \$0.1 million for impairments and disposals of fixed assets and \$0.1 million for net gain on sales of assets; and for second quarter year-to-date 2010 includes \$0.2 million for impairments and disposals of fixed assets and \$0.3 million for net gain on sales of assets; and for second quarter 2009 includes \$2.9 million for net gain on sales of assets; and for second quarter year-to-date 2009 includes \$0.2 million for impairments and disposals of fixed assets, \$3.0 million for net gain on sales of assets, and \$0.3 million for other costs), (ii) the tax effect of these adjustments, and (iii) the tax audit benefit. 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 second quarter 2010, second quarter year-to-date of 2010, second quarter 2009, and second quarter year-to-date of 2009, the Company’s adjusted earnings per diluted share on a consolidated basis to the line on its consolidated statement of operations entitled net income, which the Company believes is the most directly comparable GAAP measure on its consolidated statement of operations to adjusted earnings per diluted share:

(In millions, except per share data)	Q2 2010	Q2 2009	Year-to-date 7/11/2010	Year-to-date 7/12/2009
Net income	\$ 6.8	\$ 6.4	\$ 12.6	\$11.4
Other expense (income), net	—	\$ (2.9)	\$ (0.1)	\$ (2.5)
Tax effect	—	\$ 1.1	\$ 0.1	\$ 0.9
Tax audit benefit	(\$1.4)	—	(\$1.4)	—
Adjusted net income	\$ 5.4	\$ 4.6	\$ 11.2	\$ 9.8
Adjusted earnings per diluted share	\$ 0.21	\$0.18	\$ 0.44	\$0.39
Weighted-average diluted shares outstanding	25.5	25.3	25.4	25.3

Table of Contents

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 second quarter year-to-date of 2010 and second quarter year-to-date of 2009, the Company’s earnings before interest expense, taxes, depreciation and amortization (“EBITDA”) on a consolidated basis to the line on its consolidated statement of operations entitled net income, which the Company believes is the most directly comparable GAAP measure on its consolidated statement of operations to EBITDA:

(In millions)	Year-to-date 7/11/2010	Year-to-date 7/12/2009
Net income	\$12.6	\$11.4
Interest expense, net	\$ 4.5	\$ 3.0
Income tax expense	\$ 5.3	\$ 6.9
Depreciation and amortization	\$ 2.1	\$ 2.7
EBITDA	\$24.5	\$24.0
Total Revenue	\$78.1	\$83.6
EBITDA as a percentage of Total Revenue (EBITDA margin)	31.4%	28.7%

Forward-Looking Statements

This quarterly report on Form 10-Q contains “forward-looking statements” within the meaning of the federal securities laws. Statements regarding future events and developments and our future performance, as well as management’s current expectations, beliefs, plans, estimates or projections relating to the future, are forward-looking statements within the meaning of these laws. These forward-looking statements are subject to a number of risks and uncertainties. Examples of such statements in this quarterly report on Form 10-Q include discussions regarding the Company’s planned implementation of its strategic plan, the Company’s plan to own and operate its current 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 restaurant openings and closures, and the Company’s anticipated 2010 and long-term performance, including projections regarding general and administrative expenses, and net earnings per diluted share, and similar statements of belief or expectation regarding future events. Among the important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are: competition from other restaurant concepts and food retailers, continued disruptions in the financial markets, the loss of franchisees and other business partners, labor shortages or increased labor costs, increased costs of our principal food products, changes in consumer preferences and demographic trends, as well as concerns about health or food quality, instances of avian flu or other food-borne illnesses, general economic conditions, the loss of senior management and the inability to attract and retain additional qualified management personnel, limitations on our business under our credit facility, our ability to comply with the repayment requirements, covenants, tests and restrictions contained in our credit facility, failure of our franchisees, a decline in the number of franchised units, a decline in our ability to franchise new units, slowed expansion into new markets, unexpected and adverse fluctuations in quarterly results, increased government regulation, effects of volatile gasoline prices, supply and delivery shortages or interruptions, currency, economic and political factors that affect our international operations, inadequate protection of our intellectual property and liabilities for environmental contamination and the other risk factors detailed in our 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 twelve weeks ended July 11, 2010 and July 12, 2009, foreign-sourced revenues represented approximately 7.0% and 5.2%, respectively, of our total revenues. All other things being equal, for the quarter ended July 11, 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 July 11, 2010, approximately \$0.9 million of our accounts receivable were denominated in foreign currencies. Our international franchised operations are in 26 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 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 July 11, 2010, we had outstanding borrowings under our 2005 Credit Facility of \$63.4 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 7.4%. The term of the swap agreements expires August 31, 2011.

As of July 11, 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 \$0.3 million, taking into account our interest rate swap agreements.

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures

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

(b) CEO and CFO Certifications

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

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

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

(d) Changes in Internal Control Over Financial Reporting

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

(e) Inherent Limitations of Any Control System

We do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. 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 second quarter of 2010, the Company did not repurchase any shares of its common stock. As of July 11, 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.

Table of Contents

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**	Royalty and Supply Agreement dated July 15, 2010 between the Company and Diversified Seasoning, Inc.
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.

* 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.

** Certain information contained in this document has been omitted and filed separately with the SEC pursuant to a request for confidential treatment under Rule 24b-2 of the Exchange Act.

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: August 18, 2010

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

PORTIONS OF THIS AGREEMENT MARKED BY “*” HAVE BEEN
OMITTED PURSUANT TO A REQUEST FOR CONFIDENTIAL TREATMENT
FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION**

ROYALTY AND SUPPLY AGREEMENT

This Royalty and Supply Agreement (“Agreement”) dated as of the 15th day of July, 2010 (the “Effective Date”), is by and between AFC ENTERPRISES, INC. (“AFC”) and DIVERSIFIED FOODS AND SEASONINGS, INC. (“Diversified”).

WHEREAS, Diversified has substantial experience in the production and/or supply of certain commercial seasonings, spices, custom-formulated cooked products, and other products and supplies; and

WHEREAS, AFC is the franchisor of the Popeyes[®], Popeyes[®] Chicken & Biscuits and Popeyes[®] Louisiana Kitchen quick service restaurant system and as of the Effective Date operates, and licenses others to operate, Popeyes restaurants around the world; and

WHEREAS, Diversified has acted as a supplier for certain products used in Popeyes restaurants; and

WHEREAS, AFC and Diversified, and their respective predecessors, have been parties to various agreements and amendments thereto dealing with Diversified’s supply of products; and

WHEREAS, AFC and Diversified desire to enter into a comprehensive royalty and supply agreement under the terms set forth herein;

NOW, THEREFORE, in consideration of the premises and representations, warranties, covenants, and agreements contained herein, the parties, intending to be legally bound, agree as follows:

1. DEFINITIONS

1.1 “AFC” means AFC Enterprises, Inc., a Minnesota corporation with a principal place of business, as of the Effective Date, located at 5555 Glenridge Connector, NE, Suite 300, Atlanta, Georgia 30342, and its successors.

1.2 “AFC Confidential Information” means secret, confidential or proprietary information of AFC, including without limitation, (i) AFC’s Formulas; (ii) other trade secrets of AFC; (iii) food preparation processes, procedures, methods and techniques developed by AFC; (iv) marketing plans; (v) test products; (vi) strategic plans; (vii) pricing plans and structures; and (viii) lists of Franchisees and lists of products and supplies approved by AFC. The term “AFC Confidential Information” does not include information that has become generally, readily, and freely available to the public by the act of a person or entity (other than Diversified or any affiliate or representative of Diversified or any person or entity acting in concert with or with the assistance or encouragement of Diversified) that has the right to disclose such information without violating any right of AFC (such as, for example, the filing of information by AFC with the Securities and Exchange Commission on EDGAR). The term

“AFC Confidential Information” does not include information which was known to Diversified prior to its disclosure by AFC, or that is independently developed by Diversified, in each case without using the AFC Confidential Information and without any use of Prohibited Analysis on any of AFC’s products.

1.3 “AFC Markings” means trademarks, trade names, logos or other identifying markings owned by AFC.

1.4 “Calendar year” or “calendar year” means the one-year period from and including any January 1 to and including the following December 31.

1.5 “Core Product” or “Core Products” means the products identified in Schedule A attached hereto, including any modifications thereto, as may be amended in accordance with the terms of this Agreement.

1.6 “Distributor” means a person or entity that has a contract with AFC, or with a purchasing cooperative affiliated with AFC (such as Supply Management Services, Inc.), to distribute products to AFC or the Franchisees.

1.7 “Diversified” means Diversified Foods and Seasonings, Inc., a Louisiana corporation with a principal place of business, as of the Effective Date, located at 1115 North Causeway Boulevard, Suite 200, Mandeville, Louisiana 70471, and its successors.

1.8 “Diversified Confidential Information” means secret, confidential or proprietary information of Diversified, including without limitation, (i) the Popeyes Formulas, (ii) other trade secrets of Diversified; (iii) food preparation processes, procedures, methods, and techniques developed by Diversified, and (iv) all information regarding Diversified’s costs, prices, revenues, margins, profits, and other financial information. The term “Diversified Confidential Information” does not include information that has become generally, readily, and freely available to the public by the act of a person or entity (other than AFC or any affiliate or representative of AFC or any person or entity acting in concert with or with the assistance or encouragement of AFC) that has the right to disclose such information without violating any right of Diversified. The term “Diversified Confidential Information” does not include information which was known to AFC prior to its disclosure by Diversified, or that is independently developed by AFC, in each case without using the Diversified Confidential Information and without any use of Prohibited Analysis on any of Diversified’s products.

1.9 “Diversified Markings” means trademarks, trade names, logos or other identifying markings owned by Diversified.

1.10 “Domestic Market” or “Domestic Markets” means the forty eight continental states in the United States of America (excluding Alaska and Hawaii) and the District of Columbia.

1.11 “Effective Date” means the date first set forth above in this Agreement.

1.12 “First Amendment to Formula Agreement” means the untitled agreement entered into on or about March 21, 1989, between Alvin C. Copeland, Sr., New Orleans Spice Company, Inc., and Biscuit Investments, Inc.

1.13 “Flour-Based Core Product” means the products indicated as such on Schedule A and any other Core Product added to Schedule A after the Effective Date that is flour-based.

1.14 “Flour Index” means the Flour Seller’s quoted price for [***] hard wheat flour (or, if Flour Seller has discontinued selling such brand, its most nearly comparable brand) to be delivered in the first full calendar month following the date of the quote, FOB the Flour Seller’s [***] mill, in bulk. (For example, if the price is quoted on June 12, 2011, it would be the price for delivery in July 2011.)

1.14A. “Flour Seller” means [***], or the successor to its flour sales business.

1.15 “Formula Agreement” means the agreement entered into on or about July 2, 1979, between Alvin C. Copeland, Sr., Gilbert E. Copeland, Mary L. Copeland, Catherine Copeland, Russell J. Jones, A. Copeland Enterprises, Inc., and Popeyes Famous Fried Chicken, Inc.

1.16 “Franchisee” or “Franchisees” means persons or entities who have a franchise or other agreement with AFC for the purpose of operating a Popeyes Restaurant.

1.17 “Including” or “including” means including but not limited to.

1.18 “International Market” or “International Markets” means any and all countries or markets (including Alaska and Hawaii) in which AFC or any Franchisee operates a Popeyes Restaurant other than in Domestic Markets.

1.19 “Markings” means trademarks, trade names, logos or other identifying markings.

1.20 “Other Product” or “Other Products” means any product sold or to be sold in Popeyes Restaurants that is not identified in Schedule A attached hereto.

1.21 “Popeyes” means Popeyes[®], Popeyes[®] Chicken & Biscuits, Popeyes[®] Louisiana Kitchen, a circle containing a capital letter “P”, other marks utilized by the Popeyes System, and any other variation or derivative of any of the foregoing, as the same may evolve over time.

1.22 “Popeyes Formula” or “Popeyes Formulas” means the recipes or formulas used by Diversified for the preparation of the Core Products.

1.23 “Popeyes Restaurant” or “Popeyes Restaurants” means a restaurant operated in connection with the Popeyes System.

1.24 “Popeyes System” means the entire Popeyes restaurant system that AFC operates and/or licenses or contracts with others to operate now or in the future, as the same may evolve over time.

1.25 “Recipe Royalty Agreement” means the agreement entered into on or about March 21, 1989, between Alvin C. Copeland, Sr., New Orleans Spice Company, Inc. and Biscuit Investments, Inc.

1.26 “Second Amendment to Formula Agreement” means the agreement so entitled and entered into on or about March 21, 1989, between Alvin C. Copeland, Sr., Biscuit Investments, Inc., and New Orleans Spice Company, Inc.

1.27 “SMS” means Supply Management Services, Inc. (which is the purchasing co-operative of the Popeyes System as of the Effective Date) and any subsequent purchasing co-operative for the Popeyes System.

1.28 “Supply Contract” means the agreement so entitled and entered into on or about March 21, 1989, between New Orleans Spice Company, Inc. and Biscuit Investments, Inc.

1.29 “Supplemental Disclosure” means the Supplemental Disclosure Relating to Plan of Reorganization Proposed by Canadian Imperial Bank of Commerce, as agent, including all exhibits thereto, filed on or about August 12, 1992, in the United States Bankruptcy Court for the Western District of Texas, Austin Division, in the case of Al Copeland Enterprises, Inc., debtor, Case No. 91 12575 FM 11.1.22.

1.30 “1994 Letter Agreement” means the letter agreement entered into on or about June 13, 1994, between Alvin C. Copeland, Sr., America’s Favorite Chicken Company, and Diversified Foods and Seasonings, Inc., executed by Kam M. Nasser and Alvin C. Copeland, Sr.

1.31 “1997 Settlement Agreement” means the agreement entered into on or about May 29, 1997, between Alvin C. Copeland, Sr., AFC Enterprises, Inc., Diversified Foods and Seasonings, Inc., and Flavorite Laboratories, Inc.

2. TERMINATION OF PRIOR AGREEMENTS . AFC and Diversified acknowledge and agree that, to the extent contractual rights or obligations have been created by any agreements between the parties or their predecessors in interest, they are, respectively, the successors in interest to those agreements, including without limitation, the Formula Agreement, the First Amendment to Formula Agreement, the Second Amendment to Formula Agreement, the Recipe Royalty Agreement, the Supply Contract, the Supplemental Disclosure, the 1994 Letter Agreement, and the 1997 Settlement Agreement (collectively the “Prior Agreements”). AFC and Diversified agree that as of the Effective Date of this Agreement, the Prior Agreements shall be terminated in their entirety, shall have no force or

effect whatsoever, and this Agreement shall instead be applicable in lieu thereof, excepting only, however, that within 10 days after the Effective Date, AFC shall pay the portion of the royalty payment that accrued but was unpaid under the Recipe Royalty Agreement as of the Effective Date.

3. TERM AND TERMINATION

A. Term. The initial term of this Agreement (the “Initial Term”) shall commence on the Effective Date and shall continue through March 20, 2029, unless earlier terminated in accordance with the terms of this Agreement. At the end of the Initial Term, this Agreement shall be renewed in two (2) year increments (each, a “Renewal Term”), provided that AFC and Diversified mutually agree in writing on such renewal terms. The “Term” means the Initial Term and any Renewal Term(s). This is an exclusive requirements contract. So long as this Agreement remains in effect, AFC agrees (i) that it will utilize Diversified as the exclusive supplier of all of AFC’s requirements of the Core Products, and (ii) that AFC will require the Franchisees to utilize Diversified as their exclusive supplier of all of their requirements of the Core Products. It is acknowledged and agreed that the supply of products by Diversified to AFC and the Franchisees is now and may be made either directly or indirectly through Distributors or agents.

B. Breach. In the event that (i) either party materially breaches this Agreement, and (ii) such material breach shall remain substantially unremedied for a period of thirty (30) calendar days after written notice of such breach from the non-breaching party, specifying in reasonable detail the nature and scope of the material breach, then the non-breaching party may terminate this Agreement by giving 30 days advance written notice to the breaching party; provided, however, that if such matter is not reasonably susceptible of cure within such thirty (30) day period, then the thirty (30) day period shall be extended for a commercially reasonable period (not to exceed one hundred and eighty (180) days in the aggregate) so long as the party in breach (1) promptly notifies the other party in writing of the expected period of time required to cure the default together with reasonable detail to support the position that it cannot cure the default within the thirty (30) day period; (2) commences curative action within the thirty (30) day period or as soon as commercially reasonable if it cannot reasonably be commenced within the thirty (30) day period; and (3) diligently proceeds therewith to completion within a commercially reasonable time.

C. Effect of Termination .

(i) Discontinue Use. Upon the expiration or the termination of this Agreement in accordance with its terms for any reason, and subject to the provisions of Section 3(C)(iii): (a) Diversified shall immediately and for fifty years and permanently thereafter discontinue and refrain from the use of all AFC Markings and all trade secrets of AFC and all AFC Confidential Information, and (b) AFC shall immediately and for fifty years and permanently thereafter discontinue and refrain from the use of all Diversified

Markings and all trade secrets of Diversified and all Diversified Confidential Information.

(ii) Deliver Materials. Upon the expiration or the termination of this Agreement in accordance with its terms for any reason, and subject to the provisions of Section 3(C)(iii): (a) Diversified shall promptly deliver to AFC, or at AFC's option, destroy, all AFC Markings and any other printed material containing either the AFC Markings, AFC trade secrets and/or AFC Confidential Information, and (b) AFC shall promptly deliver to Diversified, or at Diversified's option, destroy, all Diversified Markings and any other printed material containing any Diversified Markings, Diversified trade secrets and/or Diversified Confidential Information.

(iii) Pending Orders. Upon the expiration or the termination of this Agreement in accordance with its terms for any reason, Diversified shall fulfill all product orders that were made under this Agreement prior to the expiration of this Agreement or the effective date of any termination of this Agreement. Upon AFC's written request, Diversified shall further continue to supply the Core Products to the Popeyes System in accordance with and subject to the terms of this Agreement, at prices equal to those immediately in effect prior to termination or expiration plus 7.5%, for a period of time designated by AFC, up to but not exceeding six (6) months. The parties shall cooperate with each other and with any supplier designated by AFC in the transfer of the expired or terminated services in order to facilitate the seamless transfer of the terminated supply.

(iv) Rights to Popeyes Formulas. Upon the expiration or the termination of this Agreement in accordance with its terms for any reason, AFC acknowledges and agrees that Diversified shall have the full and exclusive right to use, sell, license, and otherwise exploit commercially in any lawful manner the Popeyes Formulas; however, in doing so Diversified shall not disclose to any party that the Popeyes Formulas have been utilized by Popeyes at any time.

4. LICENSE AGREEMENT. Diversified hereby grants to AFC, subject to the terms and conditions of this Agreement, an exclusive non-transferable license (the "License"), for the full Term of this Agreement, to use the Popeyes Formulas in connection with the operation of Popeyes Restaurants by AFC and/or the Franchisees by virtue of having the right to use in such connection products made in whole or in part with a Popeyes Formula by Diversified. Diversified hereby agrees not to grant any third party the right to use any Popeyes Formula without the express written consent of AFC, such consent to be in AFC's sole discretion, except that Diversified may grant such rights without AFC's consent for the purpose of enabling a third party to manufacture or process Core Products (such as rights granted to a co-packer or a further processor) for use in the Popeyes System. Diversified warrants that Diversified knows and will maintain its knowledge of the Popeyes Formulas for the Term of this Agreement. AFC acknowledges and agrees that (i) Diversified retains all

rights not expressly granted with respect to the Popeyes Formulas, including the right to use the Popeyes Formulas in the production of food, in accordance with the terms of this Agreement and (ii) AFC has no right to see or know the contents of any Popeyes Formulas. This shall not relieve Diversified from its obligation to provide ingredient information to AFC on a continuing basis as necessary for compliance with laws, regulations, and judicial orders.

5. ROYALTY AGREEMENT. AFC agrees to pay a royalty payment for the exclusive use of the Popeyes Formulas as set forth in Section 4 of \$254,166.67 per month, prorated for any period less than a month, during the Term of this Agreement and during any period of time designated by AFC under Section 3(C)(iii), with 16% of each payment being made to Diversified and the remaining 84% of each payment being made to the Estate of Alvin C. Copeland, Sr., or its successor (the "Estate"). Each payment shall be made on the first business day of each month (or prorated period) by wire transferable funds, by cashiers or certified check, or by any other means acceptable to Diversified and the Estate. The Estate shall be a third-party beneficiary of this Agreement for purposes of this Section.

6. SUPPLY IN INTERNATIONAL MARKETS. AFC and Diversified agree that, subject to the conditions in Section 8 of this Agreement, after the Effective Date of this Agreement, no obligation is imposed on AFC by this Agreement to purchase, or to cause any of its Franchisees or Distributors to purchase, from Diversified, any Core Products or Other Products in or for use in any International Markets, and no obligation is imposed on Diversified by this Agreement to sell any Core Products or Other Products to AFC or any Franchisees or Distributors in or for use in any International Markets. AFC and Diversified may or may not enter into one or more other agreements from time to time that govern such purchases and sales, but such purchases and sales are not governed by this Agreement. For example, with respect to certain International Markets, AFC and Diversified may agree that Diversified will supply Core Products or Other Products to such markets, but any such separate agreements will not be governed by this Agreement.

A. Exception for Certain International Markets. Notwithstanding the foregoing, AFC and Diversified agree that, for a period of time commencing on the Effective Date and continuing thereafter until December 31, 2015 for five (5) years, certain International Markets constituting United States military bases, Canada, and the islands of the Caribbean shall be treated as Domestic Markets and shall be subject to all requirements of this Agreement. After this period, AFC and Diversified may or may not enter into one or more other agreements from time to time that govern purchases and sales for United States military bases, Canada, and the islands of the Caribbean, but such purchases and sales will not be governed by this Agreement.

7. EXCLUSIVE SUPPLIER OF THE CORE PRODUCTS IN DOMESTIC MARKETS. AFC hereby appoints Diversified, and Diversified hereby accepts such appointment, as AFC's and the Franchisees' exclusive supplier in Domestic Markets of the Core Products. AFC agrees that during the Term of this Agreement, it shall purchase, and shall require all Franchisees in Domestic Markets to purchase, all of AFC's and the Franchisees' respective requirements of the Core Products for use in Domestic Markets, exclusively from Diversified, and Diversified agrees to sell such requirements to AFC and the

Franchisees. During the Term of this Agreement, Diversified will be identified by AFC to Franchisees as the sole and exclusive supplier of the Core Products for use in Domestic Markets. Such purchases and sales may be made directly or indirectly through Distributors or agents.

A. Use of the Core Products and the Popeyes Formula. The parties intend, and AFC agrees, that AFC and the Franchisees will purchase all of their requirements of the Core Products for use in Domestic Markets exclusively from Diversified (directly or indirectly) during the Term of this Agreement. During the Term of this Agreement, AFC shall not import, or permit any Franchisee or Distributor to import, directly or indirectly, any Core Product or any substitute for any core product from any International Market into any Domestic Market.

8. CONTINUITY OF SUPPLY.

A. Supply of All Products Currently Supplied to the Popeyes System. AFC and Diversified agree that for the period of time commencing on the Effective Date of this Agreement and continuing through December 31, 2010, AFC shall purchase, and shall require its Franchisees and Distributors to purchase, and Diversified shall continue to fill all orders made by AFC, the Franchisees, and/or the Distributor(s), for any products currently supplied by Diversified to the Popeyes System in both Domestic Markets and International Markets. Pricing for any such product orders shall be at Diversified's existing pricing on the Effective Date of this Agreement, except as set forth in this Agreement. After January 1, 2011, Diversified shall have no obligation to fill any orders for any products for the Popeyes System, and AFC, the Franchisees, and the Distributor(s) shall have no obligation to order any products from Diversified, except as set forth in this Agreement (such as in Section 6A and Section 7); provided that, upon AFC's request, Diversified shall continue through December 31, 2011 to fill all orders made by AFC, the Franchisees, and/or the Distributor(s), for any products currently supplied by Diversified to the Popeyes System in International Markets at Diversified's existing prices on the Effective Date of this Agreement. AFC shall give Diversified at least 90 days advance notice of the intent to stop buying products with respect to each particular jurisdiction in International Markets.

B. Supply of Certain Sauces. AFC and Diversified acknowledge that Diversified currently supplies barbeque sauce (Item No. 8R3306), cajun sparkle sauce (Item No. N656-C), cocktail sauce (Item No. 8R3307), confetti sweet and sour sauce (Item No. SD3310), and mardi gras mustard (Item No. 8R3303) (collectively the "Sauces") to the Popeyes System. For a period of time commencing on the Effective Date and continuing through December 31, 2014, AFC agrees it shall purchase, and shall require all Franchisees in Domestic Markets (including certain International Markets while treated as Domestic Markets under Section 6(A)) to purchase, all of AFC's and the Franchisees' respective requirements of the Sauces for use in such Domestic Markets, exclusively from Diversified, and Diversified agrees to sell such requirements to AFC and the Franchisees. After January 1, 2015, neither AFC, the Franchisees, nor the Distributor(s) will have the obligation to purchase the Sauces

from Diversified, unless Diversified's bid for any such products is accepted by AFC in accordance with Section 10 of this Agreement. The prices for the Sauces until December 31, 2014 shall be the same as the existing prices for the Sauces on the Effective Date.

9. NONDISCLOSURE, REPLICATION, PROHIBITED ANALYSIS, AND NEW PRODUCTS.

A. Nondisclosure. AFC agrees that it will not, during or after the Term of this Agreement, use or permit the duplication or disclosure of any trade secrets associated with the Popeyes Formulas or the Core Products or any other Diversified Confidential Information unless such use, duplication, or disclosure is specifically authorized in advance and in writing by Diversified through its President.

B. Replication. AFC agrees that during the Term of this Agreement, it will not seek or assist or encourage others to replicate the Core Products or any Popeyes Formula for commercial use in any Domestic Markets. AFC shall, however, have the right to independently develop, without using Prohibited Analysis, substitute recipes for the Core Products, which substitute recipes may be commercially utilized by AFC and/or the Franchisees in a Domestic Market only under the conditions set forth in Section 20 of this Agreement. AFC shall further have the right to independently develop, without using Prohibited Analysis, substitute recipes for the Core Products or any other Diversified products, which substitute recipes may be commercially utilized by AFC and/or the Franchisees only in and for International Markets.

C. Prohibited Analysis. AFC agrees that it will not, during or after the Term of this Agreement, attempt (or cause, induce, solicit, encourage, or assist any other person or entity to attempt) to use or take advantage of or benefit from any Prohibited Analysis on any Core Product or other Diversified product or any Popeyes Formulas or any recipes or formulas associated with any Core Product or other Diversified product. For purposes of this Agreement, "Prohibited Analysis" shall mean any effort to perform a chemical or other analysis (other than simple use of the five human senses) on any product in order to determine all or part of the composition of the product for purposes of duplication.

D. New Products. The parties acknowledge that AFC continuously develops new products. Nothing in this Agreement shall, in any way, preclude or limit AFC's rights to continue its efforts to develop new products. Notwithstanding the foregoing, for the full term of this Agreement, AFC shall exercise good faith in its development of any new products and agrees not to develop or sell or permit the Franchisees to sell any new products for the purpose of intentionally depleting the volume of Core Products sold by Diversified to the Popeyes System pursuant to this Agreement.

10. BIDDER ON OTHER PRODUCTS IN DOMESTIC MARKETS. AFC and Diversified acknowledge and agree that Popeyes Restaurants offer as of the Effective Date and may continue to offer Other Products for sale to the public in Domestic Markets. AFC

hereby agrees that, with respect to all Other Product offerings in Domestic Markets of the type that Diversified is capable of producing, AFC shall, at the time of such bidding, provide Diversified the opportunity to submit a competitive bid on any such Other Products.

A. Bidding Process. AFC agrees that with respect to any Other Product offerings of the type that Diversified is capable of producing, AFC shall offer Diversified a fair and reasonable opportunity to develop and bid on any such Other Products, on terms and conditions (including lead time) no less favorable than those offered any other bidder. AFC shall provide Diversified with commercially-reasonable information (including whatever is or was provided to any other prospective bidder) to develop and bid on any such Other Products. Diversified has no obligation to submit a bid.

B. Award by AFC. AFC agrees that it will consider any bid presented by Diversified on Other Products in a commercially reasonable manner and will timely notify Diversified, in writing, whether Diversified's bid is selected for further negotiation of price and terms. AFC's decision to select, or not select, any Diversified bid for negotiation shall be subject to AFC's sole discretion. In the event AFC selects Diversified's bid on any such Other Products, AFC and Diversified may negotiate the price and other terms of one or more separate agreements for any such Other Products. Neither AFC nor Diversified shall have any obligation to enter into any agreement as a result of Diversified's bid being selected.

11. MODIFICATION OF CORE PRODUCTS

A. Initial Approval. AFC acknowledges and agrees that the Core Products meet or exceed all of AFC's quality standards. Diversified agrees that the Core Products will continue to meet AFC's quality standards as in effect between the parties as of the Effective Date for the Term of this Agreement. If AFC requests a higher standard of quality for any product, Diversified will use good faith efforts to attempt to satisfy the request, and AFC acknowledges that any higher costs entailed in meeting the higher quality standard may affect the reasonable price of the product.

B. Product Modifications Initiated by Diversified. If Diversified makes any material improvements, modifications, or changes to the formula of any of the Core Products, Diversified shall notify AFC in writing specifying the improvement, modification or change and any cost implications related to the change. Unless and until AFC, in its sole discretion, approves the modified Core Product, (a) Diversified shall not sell such modified product under this Agreement to AFC, any Distributor(s), or the Franchisees, and (b) AFC, any Distributor(s), and the Franchisees shall continue to buy the pre-modified Core Product from Diversified in accordance with Section 7 and the other terms and conditions of this Agreement.

C. Product Modification Requests by AFC. The parties agree that although Diversified owns the Popeyes Formulas, AFC retains the right to make all decisions regarding the Popeyes brand, including the right specifically to request in good faith modifications, improvements, or changes to the Core Products, including the Popeyes

Formulas, for any reason, including without limitation, actual or reasonably anticipated changes required by international laws (but only for such International Markets while treated as Domestic Markets under Section 6(A)), federal laws, state laws, or local laws or regulations, and changes in consumer preferences or industry standards. In the event of any such request by AFC for a modification, improvement or change to a Core Product or the Popeyes Formulas, (a) AFC will notify Diversified of the requested modification, improvement or change, and (b) provided AFC is not contractually prohibited from doing so by a confidentiality agreement or other contractual limitation, AFC will provide Diversified with the material information, if any, known to AFC regarding how the requested modification, improvement or change might be accomplished (including any work, formulas, recipes or manufacturing techniques related to the requested modification, improvement or change, whether developed by AFC or any third party), and (c) Diversified shall use commercially reasonable efforts to cooperate with AFC in executing the change. The price for any such modified Core Product shall be set in accordance with Section 13(G) of this Agreement. In the event (i) AFC in good faith requests improvements, modifications or changes that are commercially reasonable and that are stated in terms that are objectively measurable, and (ii) AFC has provided the information specified above, if any, without any exception due to a confidentiality agreement or contractual limitation, and (iii) the request for modifications is not for the purpose of intentionally depleting the volume of Core Products sold by Diversified to the Popeyes System pursuant to this Agreement, and (iv) Diversified fails to make the requested improvements, modifications or changes within a commercially fair and reasonable time period, and (v) the requested improvements, modifications or changes are shown to be feasible and capable of being made by Diversified, AFC, or a third party, and (vi) Diversified is unable or unwilling to then produce and sell the modified Core Product at the price determined in accordance with Section 13(G) of this Agreement, then the Core Product at issue shall be removed from the list of Core Products attached hereto as Schedule A, and shall thereafter not be included as one of the Core Products covered under this Agreement. The parties acknowledge that the time period provided for the change may vary depending on whether an immediate or other time restriction is implicated by a change in laws, regulations or interpretations thereof, and the complexity of the requested modifications. If the parties disagree whether the conditions for removal of a Core Product from Schedule A have been met, the issue shall be settled exclusively by arbitration in the City of New Orleans, Louisiana, before a three-person arbitration panel appointed by The American Arbitration Association (“AAA”) and pursuant to the Commercial Arbitration Rules of the AAA, which rules are hereby incorporated by reference thereto and made a part of this Agreement. The arbitrators shall determine whether the conditions for removal of a Core Product from Schedule A have been met. The arbitration shall be completed within 90 days of its commencement. The arbitration award shall be final and binding on both parties. The costs of the arbitration shall be borne equally by AFC and Diversified, but each party shall bear its own attorneys fees. During the period that the arbitration is pending, the Core Product at issue shall remain on Schedule A.

D. Time Period for Modification Requests by AFC. Except for any changes required by international, federal, state or local laws, regulations, or judicial orders in Domestic Markets (including International Markets while treated as Domestic Markets under Section 6(A)), AFC agrees that it will not make any requests for any modifications to the Core Products (as provided in Section 11(C) of this Agreement) before January 1, 2016; provided, however, that AFC and Diversified acknowledge that governmental regulation regarding sodium levels is possible in the next five (5) years, and Diversified will use good faith efforts to achieve a reduction in sodium levels, but Diversified cannot warrant the amount of such reduction, if any, at this time.

E. Approval of Modified Core Products. Before Diversified may sell any materially modified Core Product under this Agreement to AFC, any Distributor(s), or the Franchisees, AFC must approve the modifications to a Core Product in writing. Upon such approval, the modified Core Product shall be added to the list of Core Products attached hereto as Schedule A, and thereafter shall be included as one of the Core Products covered under this Agreement.

F. Quality and Assurance Testing. Subject to the limitations set forth in Section 9 above, AFC may conduct testing of the Core Products throughout the Term of this Agreement for quality and assurance purposes only. Diversified shall use commercially reasonable efforts to cooperate in such testing and shall supply such Core Product samples as are reasonably required, free of charge, including shipping costs.

G. Certain Terminology. The use in this Agreement of any one of the terms “modifications” or “improvements” or “changes,” or any of their derivatives (such as “modified” or “improved” or “changed”), alone without the others is intended in each case to stand for and encompass all three terms, and no distinction is intended by the use of one term without the others.

12. ORDERS, SUPPLY, AND DELIVERY. The parties agree to use commercially reasonable efforts to work with each other (and with the Distributors, with any purchasing cooperative working with AFC such as SMS, with any processor working with Diversified, and with any other person or entity involved in the distribution chain) to handle orders, supply, and delivery of the Core Products through the Distributor(s) to AFC and the Franchisees in a commercially reasonable manner. AFC or its designee shall instruct the Franchisees and/or the Distributor(s) to place purchase orders with Diversified at least two weeks before the requested date of delivery by Diversified. Diversified will use commercially reasonable efforts to accommodate any purchase orders not placed timely. AFC shall require its Distributors to maintain at least a two-week inventory of all Core Products.

13. PRICES AND DELIVERY

A. Pricing of Core Products. Diversified's sales price for each Core Product is for F.O.B. the facility designated by Diversified. Once an initial price for a Core Product is established or adjusted, the price of the Core Product shall remain the same unless and until adjusted. The parties agree that the prices established pursuant to this Section 13 are fair and reasonable.

B. Initial Prices for Initial Core Products. As of the Effective Date of this Agreement, the Core Product prices shall be the prices set forth in Schedule A attached hereto under the heading "Effective Date Price".

C. January 1, 2011 Price Cuts. On January 1, 2011, the price of each Core Product (as in effect immediately before January 1, 2011) shall be reduced by an amount equal to 3% of the Effective Date price of such Core Product, and rounded off to the nearest penny, provided that (i) in the case of a Core Product that was added to Schedule A after the Effective Date, the price shall not be subject to the price cut, and (ii) in the case of a Flour-Based Core Product, the price shall be further adjusted pursuant to Section 13(H). In the case of Core Products existing on the Effective Date that are not Flour-Based Products, their prices shall be the prices set forth in Schedule A attached hereto under the heading "Price as of 1-1-2011". In the case of Flour-Based Core Products, their prices cannot be calculated in advance, because their prices fluctuate in accordance with Section 13(H) below.

D. January 1, 2012 Price Cuts. On January 1, 2012, the price of each Core Product (as in effect immediately before January 1, 2012) shall be reduced by an amount equal to 3% of the price of such Core Product, and rounded off to the nearest penny, provided that (i) in the case of a Core Product that was added to Schedule A after the Effective Date, the price shall not be subject to the price cut, and (ii) in the case of a Flour-Based Core Product, the price shall be further adjusted pursuant to Section 13(H). In the case of Core Products existing on the Effective Date that are not Flour-Based Products, their prices shall be the prices set forth in Schedule A attached hereto under the heading "Price as of 1-1-2012". In the case of Flour-Based Core Products, their prices cannot be calculated in advance, because their prices fluctuate in accordance with Section 13(H) below.

E. January 1, 2013 Price Cuts. On January 1, 2013, the price of each Core Product (as in effect immediately before January 1, 2013) shall be reduced by an amount equal to 3% of the price of such Core Product, and rounded off to the nearest penny, provided that (i) in the case of a Core Product that was added to Schedule A after the Effective Date, the price shall not be subject to the price cut, and (ii) in the case of a Flour-Based Core Product, the price shall be further adjusted pursuant to Section 13(H). In the case of Core Products existing on the Effective Date that are not Flour-Based Products, their prices shall be the prices set forth in Schedule A attached hereto under the heading "Price as of 1-1-2013". In the case of Flour-Based Core Products, their prices cannot be calculated in advance, because their prices fluctuate in accordance with Section 13(H) below.

F. January 1, 2014 Price Cuts. On January 1, 2014, the price of each Core Product (as in effect immediately before January 1, 2014) shall be reduced by an amount equal to 3% of the price of such Core Product, and rounded off to the nearest penny, provided that (i) in the case of a Core Product that was added to Schedule A after the Effective Date, the price shall not be subject to the price cut, and (ii) in the case of a Flour-Based Core Product, the price shall be further adjusted pursuant to Section 13(H). In the case of Core Products existing on the Effective Date that are not Flour-Based Products, their prices shall be the prices set forth in Schedule A attached hereto under the heading "Price as of 1-1-2014". In the case of Flour-Based Core Products, their prices cannot be calculated in advance, because their prices fluctuate in accordance with Section 13(H) below.

G. Initial Price Adjustments for Modified Core Products. In the event any of the Core Products are modified pursuant to Section 11 of this Agreement, the parties agree to in good faith negotiate a reasonable price adjustment for the modified Core Product. Diversified shall provide AFC with commercially reasonable information regarding the reasons justifying the change in price of the Core Product, the capital expenditures and units sales made, and Diversified's initial price adjustment for the modified Core Product. If within 30 days of Diversified's submission of its initial price adjustment, the parties are unable to agree upon a reasonable price adjustment for the modified Core Product, the determination of the initial price adjustment shall be settled exclusively by arbitration in the City of New Orleans, Louisiana, before a three-person arbitration panel appointed by The American Arbitration Association ("AAA") and pursuant to the Commercial Arbitration Rules of the AAA, which rules are hereby incorporated by reference thereto and made a part of this Agreement. The arbitrators shall determine a reasonable initial price adjustment. The arbitration shall be completed within 90 days of its commencement. The arbitration award shall be final and binding on both parties. Once the arbitration award is rendered, the price of the modified Core Product shall equal the price of the pre-modified Core Product, plus or minus (as applicable) the price adjustment determined by the arbitration. The costs of the arbitration shall be borne equally by AFC and Diversified, but each party shall bear its own attorneys fees. The modified Core Product will not be sold until its price is resolved and pending resolution thereof the pre-modified Core Product will continue to be sold at its price determined in accordance with the terms of this Agreement.

H. Semi-Annual Price Adjustments for Flour-Based Core Products. Beginning on January 1, 2011, and thereafter on the first day of each subsequent July and January, the price of each Flour-Based Core Product (in existence immediately prior to such month) shall be adjusted (unless otherwise agreed) by applying the following formula:

The new price for the Flour-Based Core Product = Old Product Price + $\left[\frac{(\text{New Flour Index} - \text{Old Flour Index})}{\text{Pounds Per Flour Index Unit}} \times \text{Pounds Per DFS Unit} \right]$, with the final amount rounded off to the nearest penny.

where:

“Old Product Price” means the price of the Flour-Based Core Product as in effect immediately before the adjustment (and after any adjustment under Section 13(C), (D), (E), or (F))

“New Flour Index” means the Flour Index as of the close of business on the thirteenth (or, if not a business day, the last business day before the thirteenth) of the month immediately preceding the adjustment date

“Old Flour Index” means the Flour Index as of the close of business on the thirteenth (or, if not a business day, the last business day before the thirteenth) of the calendar month six months preceding the month immediately preceding the adjustment date

“Pounds Per Flour Index Unit” means the number of pounds in the unit of product used by the Flour Index (which, as of the Effective Date, is 100)

“Pounds Per DFS Unit” means the number of pounds in the unit of product stated on Schedule A

For example, [***].

Diversified shall request the Flour Seller to provide the Flour Index prices as of the pertinent times promptly in writing by email or fax or other comparable method to both Diversified and AFC. The parties may discuss alternative mechanisms for determining the price of Flour-Based Core Products.

If for any reason the price adjustment mechanism set forth in this Section 13(H) cannot be implemented, and the parties are unable to agree upon a reasonable substitute mechanism within 30 days (such as the adoption of a substitute Flour Index), the determination of the substitute mechanism shall be settled exclusively by arbitration in the City of New Orleans, Louisiana, before a three-person arbitration panel appointed by The American Arbitration Association (“AAA”) and pursuant to the Commercial Arbitration Rules of the AAA, which rules are hereby incorporated by reference thereto and made a part of this Agreement. The arbitrators shall determine a reasonable substitute mechanism to replace the mechanism set forth in this Section 13(H). The arbitration shall be completed within 90 days of its commencement. The arbitration award shall be final and binding on both parties. The costs of the arbitration shall be borne equally by AFC and Diversified, but each party shall bear its own attorneys fees. During the period that the arbitration is pending, the prices of the Flour Based Core Products shall remain the same as prior to the arbitration.

I. Price Adjustments for Extraordinary Circumstances. AFC and Diversified anticipate that, for the time period from the Effective Date through December 31, 2014, the price for each Core Product that is not a Flour-Based Core Product shall be as set forth in Schedule A attached hereto. In the event of an extraordinary change in

Diversified's costs payable to third parties for essential ingredients or commodities that is beyond the reasonable control of Diversified, Diversified may request that AFC agree to an increase in price for a Core Product that is not a Flour-Based Product so affected, but only for the period of time in which Diversified experiences such extraordinary changes in Diversified's costs. If Diversified seeks such an increase in price, Diversified shall provide AFC with commercially reasonable information and reasons justifying the requested change in price, and Diversified's proposed price adjustment. If within 10 days of Diversified's submission of its proposed price adjustment, the parties are unable to agree upon a reasonable price adjustment for any such affected non-flour based Core Products, the determination of the price adjustment and the time period for such adjustment for each such Core Product shall be settled exclusively by arbitration in the City of New Orleans, Louisiana, before a three-person arbitration panel appointed by The American Arbitration Association ("AAA") and pursuant to the Commercial Arbitration Rules of the AAA, which rules are hereby incorporated by reference thereto and made a part of this Agreement. The arbitrators shall determine a reasonable price adjustment and a reasonable time period the adjusted price will be in effect for each such Core Product at issue. The arbitration shall be completed within 30 days of its commencement. The arbitration award shall be final and binding on both parties. The costs of the arbitration shall be borne equally by AFC and Diversified, but each party shall bear its own attorneys fees. During the period that the arbitration is pending, the prices of the non-flour based Core Products at issue shall remain the same as prior to the arbitration.

J. Annual Price Adjustments for All Other Core Products Beginning January 1, 2015. Beginning on January 1, 2015, and thereafter on each subsequent January 1, with respect to each Core Product (in existence immediately prior to such January 1) that is not a Flour-Based Core Product, the price shall be adjusted as set forth in this Section 13(J). The parties agree to in good faith negotiate prior to each such January 1 in an attempt to agree in advance upon a reasonable annual price adjustment for these non-flour based Core Products to establish the price for the coming year. At least 60 days prior to each such January 1, Diversified shall provide AFC with commercially reasonable information and reasons justifying the change in price for these non-flour based Core Products, the capital expenditures and units sales made, and Diversified's prices for these non-flour based Core Products as of the coming January 1. If within 30 days of Diversified's submission of its annual price adjustments, the parties are unable to agree upon a reasonable price adjustment for any non-flour based Core Products for the coming year, the determination of the price adjustment for each such Core Product for such year shall be settled exclusively by arbitration in the City of New Orleans, Louisiana, before a three-person arbitration panel appointed by The American Arbitration Association ("AAA") and pursuant to the Commercial Arbitration Rules of the AAA, which rules are hereby incorporated by reference thereto and made a part of this Agreement. The arbitrators shall determine a reasonable price adjustment for such year for each Core Product at issue. The arbitration shall be completed within 90 days of its commencement. The arbitration award shall be final and binding on both parties. Once the arbitration award is rendered, the new price for that year for each non-flour based Core Product at issue

shall equal the price immediately prior to the arbitration, plus or minus (as applicable) the price adjustment determined by the arbitration. The costs of the arbitration shall be borne equally by AFC and Diversified, but each party shall bear its own attorneys fees. During the period that the arbitration is pending, the prices of the non-flour based Core Products at issue shall remain the same as prior to the arbitration.

K. Passage of Title, Ownership, and Risk. Title to, ownership of, and risk of loss with respect to each Core Product purchased and sold under this Agreement shall remain with Diversified until delivery at Diversified's designated facility, at which point such title, ownership, and risk of loss will pass.

14. PAYMENTS BY DISTRIBUTOR(S) AND FRANCHISEES . Payment for the Core Products and any Other Products delivered by Diversified shall be made by and shall be the sole responsibility of the party purchasing such products. Diversified shall invoice directly for all products supplied by Diversified. AFC shall not be responsible for any non-payment of Diversified's invoices for products sold and/or delivered to the Distributor(s) or the Franchisees. If Diversified in good faith gives AFC notice that Diversified considers a specified Distributor or AFC-designated processor not to be creditworthy and provides AFC with commercially reasonable information supporting same, then Diversified may require cash on delivery from such Distributor or processor, and the refusal of Diversified to extend credit to such Distributor or processor or to deliver any product to such Distributor or processor absent payment in cash on delivery shall not be deemed a breach of this Agreement in any way.

15. WARRANTIES .

A. Diversified's Warranties. Diversified will not adulterate or misbrand any products as prohibited by the Federal Food, Drug, and Cosmetic Act ("FDA"). Diversified agrees that its supplies of beef, pork, and poultry products will be from processors under inspection from the USDA. The Core Products supplied by Diversified shall be merchantable and free from defects in material and workmanship and shall comply with all content and labeling requirements under applicable laws in Domestic Markets. Upon the request of AFC, any Distributor(s), or the Franchisees delivered in writing to Diversified within 10 days of receipt of any Core Products from Diversified that fail to conform to any of the warranties set forth in this Section 15(A), Diversified shall replace, at Diversified's expense, or refund the full purchase price of, such nonconforming Core Products, and Diversified may require, at Diversified's expense, the prompt return of any such nonconforming Core Products. This warranty shall control insofar as the same may conflict with any warranty or limitation on warranty set forth in Diversified's forms.

B. AFC's Warranties. AFC represents and warrants as of the Effective Date that (i) AFC does not foresee any major changes in AFC's and its Franchisees' requirements for the Core Products in the foreseeable future; (ii) AFC does not know of any laws or regulations in any jurisdiction in the Domestic Markets with which the Core Products are not compliant; and (iii) AFC has no plans to permit the Franchisees to remove any of the Core Products from their menus in the foreseeable future. If at any time AFC foresees any such

major change or plans, or learns of any such laws or regulations, AFC shall give Diversified prompt written notice, in reasonable detail, of such matters.

16. CONFIDENTIAL INFORMATION

A. Ownership by AFC. Ownership of all trade secrets of AFC and the AFC Confidential Information (including any furnished or disclosed by AFC to Diversified hereunder or previously) is and shall remain the property of AFC. Any reproductions, notes, specifications, manuals, summaries or similar documents relating to the trade secrets of AFC and AFC Confidential Information shall become and remain the property of AFC immediately upon creation. Subject to the limitations of Section 9 of this Agreement, AFC and Diversified acknowledge and agree that AFC owns any recipes or formulas it independently develops, without Prohibited Analysis, for any products sold or to be sold in Popeyes restaurants.

B. Ownership by Diversified. Ownership of all trade secrets of Diversified and the Diversified Confidential Information (including any furnished or disclosed by Diversified to AFC hereunder or previously) is and shall remain the property of Diversified. Any reproductions, notes, specifications, manuals, summaries or similar documents relating to the trade secrets of Diversified and Diversified Confidential Information shall become and remain the property of Diversified immediately upon creation. AFC and Diversified acknowledge and agree that Diversified owns the Popeyes Formulas and any other recipes or formulas it has developed or develops, whether or not for products sold or to be sold in Popeyes Restaurants, including but not limited to the recipes and formulas for the Core Products.

C. Nondisclosure of Trade Secrets. Diversified and AFC each agrees that it will not, during or after the term of this Agreement for so long as any such information remains trade secrets, use or permit the duplication or disclosure of any trade secrets owned by the other party to any person or entity (other than to employees who must have such information for the sole purpose of supplying the products contemplated under this Agreement), unless such use, duplication, or disclosure is specifically authorized by this Agreement or otherwise in advance and in writing by an authorized representative of the other party. This obligation survives the expiration or termination of this Agreement in perpetuity.

D. Nondisclosure of Confidential Information. AFC and Diversified each agrees that it will not, for a period commencing with the Effective Date of this Agreement and for so long thereafter as any such information remains competitively sensitive, use or permit the duplication or disclosure of any Confidential Information of the other party to any person or entity (other than to employees who must have such information for the sole purpose of supplying the products contemplated under this Agreement), unless such use, duplication, or disclosure is specifically authorized by this Agreement or otherwise in advance and in writing by an authorized representative of the other party.

17. INDEMNIFICATION . This Section is intended to address only indemnification for claims made by third parties. Damages for breaches of this Agreement shall be governed by applicable law.

A. Indemnification by Diversified. Diversified shall and hereby agrees to indemnify, defend and hold AFC as well as its successors and permitted assigns, and each of their respective officers, directors, and employees, harmless from and against any and all loss, liability, actions, claims, costs (including, without limitation, reasonable attorney's fees and expenses), damages, judgments and liabilities whatsoever (including without limitation any products liability claims, in law or equity) to the extent proximately caused by the negligence or willful misconduct of Diversified, its agents, or assigns.

B. Indemnification by AFC. AFC shall and hereby agrees to indemnify, defend and hold Diversified as well as its successors and permitted assigns, and each of their respective officers, directors, and employees, harmless from and against any and all loss, liability, actions, claims, costs (including, without limitation, reasonable attorney's fees and expenses), damages, judgments and liabilities whatsoever (including without limitation any products liability claims, in law or equity) to the extent proximately caused by the negligence or willful misconduct of AFC, its agents, or assigns.

18. INSURANCE. During the Initial Term of this Agreement and any Renewal Term(s), each party shall maintain and keep in force, at its own expense, comprehensive or commercial general liability insurance that includes product liability insurance with respect to its products in an amount not less than \$2,000,000 per occurrence, with a reputable insurer, and shall cause the other party to be included as an additional insured on such insurance. The minimum limits of coverage required by this Agreement may be satisfied by a combination of primary and excess or umbrella insurance policies.

19. INSPECTION . AFC and SMS shall have the right reasonably to inspect Diversified's manufacturing facilities during normal business hours at any time during the Term of this Agreement, upon reasonable notice by AFC of such inspection and execution and delivery of a confidentiality agreement reasonably requested by Diversified and subject to Diversified's reasonable scheduling needs.

20. FORCE MAJEURE. "Force Majeure" shall mean and include any circumstance beyond the reasonable control of Diversified that causes a significant disruption in Diversified's supply of any Core Products to the Popeyes System, including without limitation, the following: any act of nature or the public enemy, accident, explosion, fire, storm, earthquake, flood, drought, hurricane, perils of the sea, the elements, casualty, strikes, lock-outs, labor troubles, riots, sabotage, embargo, war (whether or not declared), governmental laws, regulations, orders, or decrees, unavailability of raw material, or seizure for reasons other than the adverse financial condition of the party so affected.

In the event of a Force Majeure, Diversified agrees that it will provide written notice to AFC within three (3) business days from the initial occurrence of any such event or as soon as commercially practical, stating: 1) the nature, scope and all relevant circumstances (as then

known) of the Force Majeure event and impacts on the Popeyes System, and 2) whether Diversified has the need, ability and present intention, on a temporary basis, to immediately license the Popeyes Formula to a third party who is able to manufacture the Core Products at issue being produced by Diversified for the Popeyes System in sufficient quantity and quality so as not to cause a disruption in supply to the Popeyes System. In the event Diversified needs but is unable on a temporary basis to immediately license the Popeyes Formula to a third party who is able to manufacture the Core Products at issue in sufficient quantity and quality so as not to cause a disruption in supply to the Popeyes System, then AFC, the Distributor(s), or the Franchisees may begin purchasing products substantially similar to the Core Products at issue from third parties. This right shall only apply during any period Diversified is unable to satisfy its buyer's purchase orders as a result of an event of Force Majeure. In the event Diversified licenses the Popeyes Formula to a third party manufacturer pursuant to this paragraph, Diversified shall require the third party to execute a confidentiality agreement to maintain the Popeyes Formula in the strictest confidence. If the third party manufacturer sets a price for the Core Products at issue in excess of a reasonable price for the Core Products under the circumstances, Diversified shall pay the third party manufacturer the difference between a reasonable price and the third party's price for the duration of the term of the event of the Force Majeure, such that AFC, the Distributors, and the Franchisees shall in no event pay more than a reasonable price under the circumstances to such third party for the Core Products at issue during an event of Force Majeure. No further liability shall attach to Diversified during any such event of Force Majeure.

If Diversified and AFC do not agree on what constitutes a reasonable price for the Core Products at issue under the circumstances, the determination of the reasonable price shall be settled exclusively by arbitration in the City of New Orleans, Louisiana, before a three-person arbitration panel appointed by The American Arbitration Association ("AAA") and pursuant to the Commercial Arbitration Rules of the AAA, which rules are hereby incorporated by reference thereto and made a part of this Agreement. The arbitrators shall determine a reasonable price for each Core Product at issue under the circumstances. The arbitration shall be completed within 90 days of its commencement. The arbitration award shall be final and binding on both parties. Once the arbitration award is rendered, the reasonable prices determined by the award shall be the reasonable prices for the Core Products at issue for purposes of such event of Force Majeure. The costs of the arbitration shall be borne equally by AFC and Diversified, but each party shall bear its own attorneys fees.

In the event of a Force Majeure, Diversified shall diligently attempt to remove or work around the disruption with reasonable dispatch. As soon as the disruption resulting from any event of Force Majeure is remedied, the parties' respective rights, obligations and performance as set forth in this Agreement shall be immediately reinstated in full.

21. CERTIFICATE OF INDEPENDENT PRICE DETERMINATION . Each party represents and warrants that the prices under this Agreement have been arrived at independently, without the purpose of restricting competition, or any consultation, communication, or agreement with any other competitor relating to (i) such prices or (ii) the methods or factors used to calculate such prices.

22. NOTICES. Whenever, under the terms of this Agreement, notice is required, the same shall be given in writing and shall be delivered personally, or by certified mail, postage prepaid, addressed to the party for whom intended as follows:

If to AFC:

AFC Enterprises, Inc.
Attn: General Counsel
5555 Glenridge Connector, NE, Suite 300
Atlanta, GA 30342-4741

If to Diversified:

Diversified Foods & Seasonings, Inc.
Attn: President/Chief Executive Officer
1115 North Causeway Boulevard, Suite 200
Mandeville, LA 70471

Either party may change its notice address at any time by giving notice thereof to the other party.

23. COUNTERPARTS . This Agreement may be executed in any number of counterparts, each of which will be deemed an original, but all of which taken together shall constitute one agreement between the parties. This Agreement or any counterpart may be delivered physically or by email of a scanned pdf file or other comparable electronic means.

24. SEVERABILITY. If any provision of this Agreement is held by a court of competent jurisdiction to be contrary to applicable law, invalid, or unenforceable for any reason, the remaining provisions of this Agreement shall remain in full force and effect. To the extent permissible under applicable law without invalidating the Agreement, the illegal, invalid, or unenforceable provision shall be construed instead to provide that which is most fair and equitable between the parties under the circumstances and is legal, valid, and enforceable.

25. AMENDMENTS, WAIVERS, AND MODIFICATIONS . No change in, addition to, modification or waiver of the terms and provisions of this Agreement shall be binding upon Diversified or AFC unless it is mutually agreed upon in writing. Any such instrument shall be attached to this Agreement and shall be incorporated herein. Notwithstanding the foregoing, whenever this Agreement provides that Schedule A shall have a Core Product added to it, Schedule A shall be deemed amended to add such Core Product, whether the parties execute a formal amendment or not.

26. ASSIGNMENT . Neither this Agreement nor any rights hereunder may be assigned by either party without the prior written consent of the other party, which consent shall not be unreasonably withheld.

27. GOVERNING LAW . This agreement shall be governed by, interpreted, performed and enforced solely in accordance with the laws of the State of Louisiana, without reference to principles of conflicts of law.

28. EFFECTIVE DATE . This Agreement shall be effective only upon execution of the Agreement by AFC and Diversified, and the occurrence of the Effective Date.

29. BEST EFFORTS TO AVOID TERMINATION. Each party shall use best efforts to avoid termination of this Agreement. This Agreement may only be terminated in accordance with Section 3(B), and then only after the terminating party has exhausted all commercially reasonable efforts to avoid terminating the Agreement, including without limitation (i) timely seeking to obtain redress of any breaches through payment of compensation, specific performance, or other appropriate remedy or combination of remedies short of termination; (ii) offering to enter into amendments to the terms and provisions of this Agreement that are fair and equitable under the circumstances; and (iii) offering to enter into non-binding mediation with the breaching party in an effort to resolve the issues through mutual agreement.

30. FORUM SELECTION. Any legal action or proceeding by either party against the other arising out of, in connection with, or relating to this Agreement or the enforcement, non-enforcement, interpretation, performance or breach of any provision of this Agreement shall be brought in the United States District Court for the Eastern District of Louisiana. Each party consents to the exclusive jurisdiction of such court and the respective appellate courts for the purpose of all such legal actions and proceedings, except those brought for enforcement of a judgment or order rendered by any such courts. Each party waives, to the fullest extent permitted by law, any objection which it may now or later have to the laying of venue in any such courts and any claim that any such court is an inconvenient forum.

31. ENTIRE AGREEMENT . This Agreement represents the entire understanding between the parties with respect to the subject matter hereof and supersedes all other negotiations, agreements, representations and covenants, whether oral or written.

[The remainder of this page is intentionally left blank so that the signature page may start on a separate page.]

IN WITNESS WHEREOF , the parties have caused this Agreement to be duly executed and delivered by their authorized representatives as of the date first above written.

AFC ENTERPRISES, INC.

By: /s/ Cheryl A. Bachelder
Title: Chief Executive Officer
Date: July 15, 2010

DIVERSIFIED FOODS & SEASONINGS, INC.

By: /s/ Al Copeland Jr.
Title: Chairman of the Board
Date: July 15, 2010

**SCHEDULE "A"
CORE PRODUCTS**

(Items in grey are Flour-Based Core Products. Their prices for January 1, 2011, 2012, 2013, and 2014 are merely projections assuming no change in the Flour Index.)

ITEM	ITEM #	PACK SIZE	EFFEC-				
			TIVE DATE PRICE	PRICE AS OF 1-1-2011	PRICE AS OF 1-1-2012	PRICE AS OF 1-1-2013	PRICE AS OF 1-1-2014
Red Beans	001-100	9/5# bags per case	***	***	***	***	***
Jambalaya	3F0349	9/5# bags per case	***	***	***	***	***
Macaroni & Cheese	1F0160	16/3# bags per case	***	***	***	***	***
Cajun Meat	1F0111	20/2.25# bags per case	***	***	***	***	***
Cajun Gravy	1F0112	9/5# bags per case	***	***	***	***	***
All Purpose Batter (a complementary batter used for adhesion purposes on onion rings)	3D0099	50# per bag	***	***	***	***	***
Catfish Production Batter	3D0333	40# per bag	***	***	***	***	***
Multi-Purpose Batter (a fast-fry batter for shrimp and crawfish)	3D2004	10/4.5# bags per case	***	***	***	***	***
Zero Trans Biscuit ***	1D2009	49.2# per bag	***	***	***	***	***
Onion Ring Batter	1955	12/1.32# bags per case	***	***	***	***	***
Onion Ring Batter	3D3068	50# per bag	***	***	***	***	***
Poultry Batter	SC600	10/4.638# bags per case	***	***	***	***	***
Shoestring Batter Totes	1D2000	2000# (priced per lb)	***	***	***	***	***
Shoestring Fry Batter	1D2010	2000# per tote	***	***	***	***	***
Butterfly Shrimp Breading	601	50# per bag	***	***	***	***	***
Butterfly Shrimp Breading	3D0086	50# per bag	***	***	***	***	***
Popcorn Shrimp Breading	3D0303	50# per bag	***	***	***	***	***
Butterfly Shrimp Seasoning	602-R	75/32.2 gr. Bags per case	***	***	***	***	***
Butterfly Shrimp Seasoning	1S0588	25# per bag	***	***	***	***	***
La. Mild Seasoning	1S0514	50# per bag	***	***	***	***	***
Mild #3 Seasoning	1S0616	70/211.84 gr. per case	***	***	***	***	***
Mild #3 Seasoning	1S0524	50# per bag	***	***	***	***	***
Red Rice Seasoning	1S0610	60/1.76 oz. bags per case	***	***	***	***	***
Spicy #2 Seasoning	1S0609	50/181.44 gr. bags per case	***	***	***	***	***
Riverbend Breader (for chicken nuggets)	3D3529	50# per bag	***	***	***	***	***
Riverbend Nugget Marinade (for chicken nuggets)	3S0670	50# per bag	***	***	***	***	***
Riverbend Nugget Marinade (for chicken nuggets)	3S0671	25# per bag	***	***	***	***	***
Spicy #2 Seasoning	1S0242	50# per bag	***	***	***	***	***
Spicy Filet Seasoning	1S0591	50# per bag	***	***	***	***	***
Frozen Butterfly Shrimp Batter	3D1213	50# per bag	***	***	***	***	***
Crawfish Seasoning	1S0240	48/20.5 gr. bags per case	***	***	***	***	***

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 15(d)-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: August 18, 2010

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

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 15(d)-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: August 18, 2010

/s/ H. Melville Hope, III

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

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 July 11, 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: August 18, 2010

/s/ Cheryl A. Bachelder

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

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 July 11, 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: August 18, 2010

/s/ H. Melville Hope, III

H. Melville Hope, III

Chief Financial Officer

(Principal Financial and Accounting Officer)