AFC ENTERPRISES INC

FORM 10-K
(Annual Report)

Filed 03/11/09 for the Period Ending 12/28/08

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

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 28, 2008

Commission files number 000-32369

AFC Enterprises, Inc.

Minnesota	**58-2016606**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
5555 Glenridge Connector, NE, Suite 300 Atlanta, Georgia	**30342**
(Address of principal executive offices)	*(Zip Code)*

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

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

Title of each class	Name of each exchange on which registered
Common stock, $0.01 par value per share	**Nasdaq Global Market**

Securities registered pursuant to Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☑

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ☑ No ☐

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

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

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

As of July 13, 2008 (the last day of the registrant's second quarter for 2008), the aggregate market value of the registrant's voting common stock held by non-affiliates of the registrant, based on the closing sale price as reported on the Nasdaq Global Market System, was approximately $202,121,777.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at February 20, 2009
Common stock, $0.01 par value per share	**25,306,473 shares**

Documents incorporated by reference: Portions of our 2009 Proxy Statement are incorporated herein by reference in

Part III of this Annual Report.

AFC ENTERPRISES, INC.
INDEX TO FORM 10-K

PART I.

Item 1. BUSINESS

AFC Enterprises, Inc. ("AFC" or "the Company") develops, operates, and franchises quick-service restaurants ("QSRs" or "restaurants") under the trade name Popeyes ® Chicken & Biscuits and Popeyes ® Louisiana Kitchen (collectively "Popeyes"). Within Popeyes, we manage two business segments: franchise operations and company-operated restaurants. Financial information concerning these business segments can be found in Note 23 to our Consolidated Financial Statements.

In recent years, we have narrowed our business model from a multi-brand operator to focus only on the Popeyes brand. Following the sale of Church's Chicken ® ("Church's") in December of 2004 (which is more fully described in Note 21 to our Consolidated Financial Statements), we renegotiated our material outsourcing contracts, closed our then-existing corporate offices, reduced our AFC corporate staffing, and integrated the remaining AFC corporate staff and services into Popeyes' business operations (which is more fully described in Note 22 to our Consolidated Financial Statements). These transitional activities were completed during 2005 and the first half of 2006.

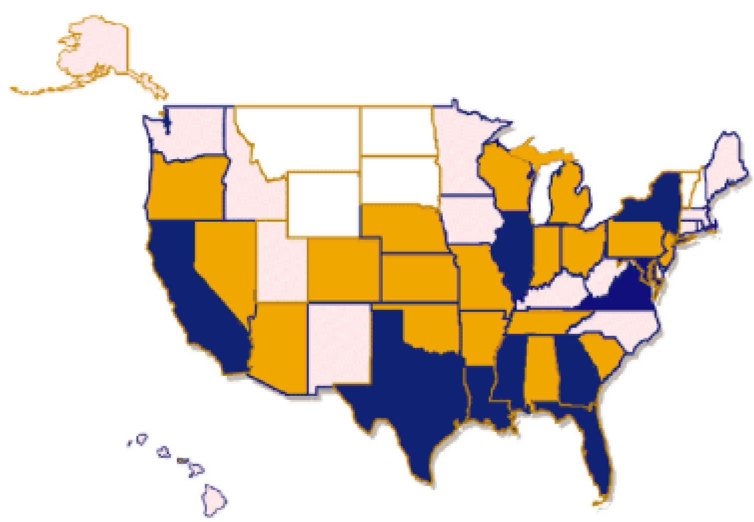
Popeyes Profile

Popeyes was founded in New Orleans, Louisiana in 1972 and is the world's second largest quick-service chicken concept based on the number of units. Within the QSR industry, Popeyes distinguishes itself with a unique "New Orleans" style menu that features spicy chicken, chicken sandwiches, chicken tenders, fried shrimp and other seafood, red beans and rice and other regional items. Popeyes is a highly differentiated QSR brand with a passion for its New Orleans heritage and flavorful authentic food.

As of December 28, 2008, we operated and franchised 1,922 Popeyes restaurants in 44 states, the District of Columbia, Puerto Rico, Guam and 25 foreign countries. The map below shows the concentration of our domestic restaurants, by state.

POPEYES

Total Operating Restaurants as of December 28, 2008	
Domestic Restaurants:	
Company-Operated	55
Franchised	1,527
International restaurants:	
Franchised	340
Worldwide restaurants	1,922



50 + restaurants in the state	
10 – 49 restaurants in the state	
1 – 9 restaurants in the state	
No presence in the state	

As of December 28, 2008, of our 1,527 domestic franchised restaurants, approximately 70% were concentrated in Texas, California, Louisiana, Florida, Illinois, Maryland, New York, Georgia, Virginia and Mississippi. Of our 340 international franchised restaurants, approximately 59% were located in Korea, Canada, Turkey, and Indonesia as of December 28, 2008. Of our 55 company-operated restaurants, more than 90% were concentrated in Georgia, Louisiana and Tennessee.

Our Business Strategy

Our new business strategy, announced during the first quarter of 2008, capitalizes on our strengths as a highly franchised restaurant system. The model provides diverse and reliable earnings and cash flows, with low capital spending demands. It efficiently produces cash flows which are available for use in enhancing our shareholder value. Additionally, this model provides the ability to expand the Popeyes system more rapidly than under a company-operated restaurant model.

Our strategy is built on the four pillars below and emphasizes more compelling everyday value, speed of service, and improved restaurant profitability. We believe our execution of these proven strategies makes Popeyes more competitive immediately and better positioned for accelerated growth as the consumer environment improves.

- ***Build the Popeyes Brand*** — offering a distinctive brand and menu with clear competitive advantages.
  - We launched our new menu boards featuring three new permanent menu platforms — Big Deals value sandwiches and wraps, Louisiana Travelers nuggets and tenders, and Big Easy chicken bowls and chicken sandwiches — adding greater flexibility to address value, portability, and lunch and snack dayparts.
  - We also refreshed our logo design and created food-focused advertising that capitalizes on the superiority of our food, the strength of our flavorful signature menu and our culinary heritage.
  - In connection with the launch of our new products, messaging and menu boards, the Company shifted the majority of Popeyes' media advertising funds to national cable advertising during the third and fourth quarters of 2008. In further support of national cable advertising, the Company invested $2.0 million in additional advertising dollars and the majority of the Popeyes' franchisees agreed to contribute an additional 1% of their restaurants sales to the Popeyes' advertising fund during the same period. As a result, our television media weight more than doubled. In 2009, we will continue to support and invest in national advertising to expand media reach to bring guests into our restaurants.
- ***Run Great Restaurants*** — strengthening restaurant operations and improving the Popeyes guest experience by providing service as distinctive as our food.
  - We have partnered with our franchisees to implement a guest experience monitor (GEM) to gauge guest satisfaction and improve the guest experience at every restaurant in the Popeyes system.
  - We designed and implemented a new restaurant operations scorecard supported with a restructuring of our field operations team to accomplish quarterly operations assessments of restaurants against Popeyes standards and procedures and to develop specific action plans to improve operations.
  - We continue to use these new tools to make measurable operations improvements in 2009.
- ***Strengthen Unit Economics*** — identifying cost savings to improve food, labor and overhead efficiencies in the restaurants.
  - We remain focused on improving Popeyes restaurant unit economics to better position franchisees to build new units as the economic environment improves. Initiatives include new tools to enhance food cost management and labor scheduling, and the standardization of equipment and systems for improved productivity.
  - We have invested in the development of new site modeling software utilizing consumer and real estate data which we believe provides an improved approach to selection of sites for future development.
- ***Align People and Resources to Deliver Results*** — making significant investments in brand building, operational tools and talent.
  - We will continue to partner with our franchisees and make investments in 2009 to strengthen brand building and menu innovation to drive guest traffic increases.
  - Consistent with our strategic initiative to re-franchise company-operated restaurants, the Company completed the re-franchising and sale of 11 company-operated restaurants in Atlanta, Georgia for net

proceeds of $3.5 million from the sale of assets and new franchise and development agreements. On January 26, 2009, the Company completed the re-franchising and sale of three company-operated restaurants in Nashville, Tennessee for net proceeds of $1.1 million from the sale of assets and new franchise and development agreements. The Company continues to negotiate definitive agreements for the remaining 14 company-operated restaurants in Atlanta, Georgia; however, at this time the Company is unable to predict the timing of when a sale will be completed.

The following features of the Company are material to the execution of our initiatives and business strategies discussed above.

Our Agreements with Popeyes Franchisees

As discussed above, our strategy places a heavy emphasis on increasing the number of restaurants in the Popeyes system through franchising activities. The following discussion describes the standard arrangements we enter into with our Popeyes franchisees.

Domestic Development Agreements. Our domestic franchise development agreements provide for the development of a specified number of Popeyes restaurants within a defined geographic territory. Generally, these agreements call for the development of the restaurants over a specified period of time, usually three to five years, with targeted opening dates for each restaurant. Our Popeyes franchisees currently pay a development fee of $7,500 per restaurant. These development fees typically are paid when the agreement is executed, and are typically non-refundable.

International Development Agreements. Our international franchise development agreements are similar to our domestic franchise development agreements, though the development time frames can be longer and the development fees generally range from $15,000 to $50,000 for each restaurant developed. Depending on the market, limited sub-franchising rights may also be granted.

Domestic Franchise Agreements. Once we execute a development agreement, we enter into a franchise agreement with our franchisee that conveys the right to operate the specific Popeyes restaurant at a site to be selected by the franchisee and approved by us within 180 days from the execution of the franchise agreement. Our current franchise agreements generally provide for payment of a franchise fee of $30,000 per location.

These agreements generally require franchisees to pay a 5% royalty on net restaurant sales. In addition, franchisees must contribute to national and local advertising funds. Payments to the advertising funds are generally 3% of net restaurant sales. Some of our institutional and older franchise agreements provide for lower royalties and advertising fund contributions. These agreements constitute a decreasing percentage of our total outstanding franchise agreements.

International Franchise Agreements. The terms of our international franchise agreements are substantially similar to those included in our domestic franchise agreements, except that these agreements may be modified to reflect the multi-national nature of the transaction and to comply with the requirements of applicable local laws. Our current international franchise agreements generally provide for payment of a franchise fee of up to $30,000 per location. In addition, the effective royalty rates may differ from those included in domestic franchise agreements, and may be lower due to the greater number of restaurants required to be developed by our international franchisees.

All of our franchise agreements require that our franchisees operate restaurants in accordance with our defined operating procedures, adhere to the menu established by us, and meet applicable quality, service, health and cleanliness standards. We may terminate the franchise rights of any franchisee who does not comply with these standards and requirements.

Site Selection

For new domestic restaurants, we assist our franchisees in identifying and obtaining favorable sites consistent with the overall market plan for each development area. Domestically, we primarily emphasize freestanding sites with drive-thrus and “end-cap, in-line” strip-mall sites with ample parking and easy access from high traffic roads.

Each international market has its own factors that lead to venue and site determination. In international markets, we use different venues including freestanding, in-line, food court and other nontraditional venues. Market development strategies are a collaborative process between Popeyes and our franchisees so we can leverage local market knowledge.

Suppliers and Purchasing Cooperative

Suppliers. Our franchisees are required to purchase all ingredients, products, materials, supplies and other items necessary in the operation of their businesses solely from suppliers who have been approved by us. These suppliers are required to meet or exceed strict quality control standards, and they must possess adequate capacity to supply our franchisees reliably.

Purchasing Cooperative. Supplies are generally provided to our domestic franchised and company-operated restaurants pursuant to supply agreements negotiated by Supply Management Services, Inc. (“SMS”), a not-for-profit purchasing cooperative. We, our Popeyes franchisees and the owners of Cinnabon bakeries hold membership interests in SMS in proportion to the number of restaurants owned. As of December 28, 2008, we held one of SMS’s seven seats on the SMS board of directors. Our Popeyes franchise agreements require that each franchisee join SMS.

Supply Agreements. The principal raw material for a Popeyes restaurant operation is fresh chicken. Company-operated and franchised restaurants purchase their chicken from suppliers who service the Popeyes system. In order to ensure favorable pricing and to secure an adequate supply of fresh chicken, SMS has entered into supply agreements with several chicken suppliers. These contracts, which pertain to the vast majority of our system-wide purchases, are “cost-plus” contracts with prices based partially upon the cost of feed grains plus certain agreed upon non-feed and processing costs. These contracts include volume purchase commitments that are adjustable at the election of SMS. Each year, purchase commitments may be adjusted by up to 10%, if notice is given within specified time frames; and the commitment levels for future years may be adjusted based on revised estimates of need. The Company has agreed to indemnify SMS for certain shortfalls in the annual purchase commitments entered into by SMS on behalf of the Popeyes restaurant system. To date, that indemnity has never been called due to the demand for poultry and the chicken suppliers’ ability to mitigate shortfalls, if any. Information about this guarantee can be found in Item 7 of this Annual Report under the caption “Off-Balance Sheet Arrangements.”

We have entered into long-term beverage supply arrangements with certain major beverage vendors. These contracts are customary in the QSR industry. Pursuant to the terms of these arrangements, marketing rebates are provided to the owner/operator of Popeyes restaurants based upon the volume of beverage purchases.

We also have a long-term agreement with Diversified Foods and Seasonings, Inc. (“Diversified”), under which we have designated Diversified as the supplier of certain proprietary products for the Popeyes system. Diversified sells these products to our approved distributors, who in turn sell them to our franchised and company-operated Popeyes restaurants.

Marketing and Advertising

Each domestic Popeyes restaurant, company-operated or franchised, contributes to an advertising fund that supports (1) branding and marketing initiatives, and the development of marketing materials that are used throughout our domestic restaurant system and (2) local marketing programs. We act as agent for the fund and coordinate its activities. We and our Popeyes franchisees made contributions to the advertising fund of approximately $61.2 million in 2008, $57.6 million in 2007, and $57.7 million in 2006.

During the third and fourth quarters of 2008, the Company and the majority of Popeyes franchisees contributed additional funds in support of the Company's shift in advertising funds from local media to national cable advertising.

Fiscal Year and Seasonality

Our fiscal year is composed of 13 four-week accounting periods and ends on the last Sunday in December. The first quarter of our fiscal year has four periods, or 16 weeks. All other quarters have three periods, or 12 weeks. Fiscal 2008, which ended on December 28, 2008, consisted of 52 weeks. Fiscal 2007 consisted of 52 weeks. Fiscal 2006 consisted of 53 weeks (including one five-week accounting period in our fiscal fourth quarter).

Seasonality has little effect on our operations.

Employees

As of February 22, 2009, we had approximately 1,300 hourly employees working in our company-operated restaurants. Additionally, we had approximately 60 employees involved in the management of our company-operated restaurants, composed of restaurant managers, multi-unit managers and field management employees. We also had approximately 150 employees responsible for corporate administration, franchise services and business development.

None of our employees are covered by a collective bargaining agreement. We believe that the dedication of our employees is critical to our success and that our relationship with our employees is good.

Intellectual Property and Other Proprietary Rights

We own a number of trademarks and service marks that have been registered with the U.S. Patent and Trademark Office, or for which we have made application to register, including the marks "AFC," "AFC Enterprises," "Popeyes," "Popeyes Chicken & Biscuits," and the brand logo for Popeyes and Popeyes Louisiana Kitchen. In addition, we have registered, or made application to register, one or more of these marks and others, or their linguistic equivalents, in foreign countries in which we do business, or are contemplating doing business. There is no assurance that we will be able to obtain the registration for the marks in every country where registration has been sought. We consider our intellectual property rights to be important to our business and we actively defend and enforce them.

Copeland Formula Agreement. We have a formula licensing agreement with the estate of Alvin C. Copeland, the founder of Popeyes. Under this agreement, we have the worldwide exclusive rights to the Popeyes fried chicken recipe and certain other ingredients used in Popeyes' products. The agreement provides that we pay the estate of Mr. Copeland approximately $3.1 million annually through March 2029.

King Features Agreements. We have several agreements with the King Features Syndicate Division ("King Features") of Hearst Holdings, Inc. under which we have the non-exclusive license to use the image and likeness of the cartoon character "Popeye" in the United States. Popeyes locations outside the United States have the non-exclusive use of the image and likeness of the cartoon character "Popeye" and certain companion characters. We are obligated to pay King Features a royalty of approximately $1.0 million annually, as adjusted for fluctuations in the Consumer Price Index, plus twenty percent of our gross revenues from the sale of products outside of the Popeyes restaurant system, if any. These agreements extend through June 30, 2010.

International Operations

We continue to expand our international operations through franchising. As of December 28, 2008, we franchised 340 international restaurants. During 2008, franchise revenues from these operations represented approximately 11.3% of our total franchise revenues. For each of 2008, 2007, and 2006, international revenues represented 5.7%, 4.5%, and 4.7%, of total revenues, respectively.

Insurance

We carry property, general liability, business interruption, crime, directors and officers liability, employment practices liability, environmental and workers’ compensation insurance policies, which we believe are customary for businesses of our size and type. Pursuant to the terms of their franchise agreements, our franchisees are also required to maintain certain types and levels of insurance coverage, including commercial general liability insurance, workers’ compensation insurance, all risk property and automobile insurance.

Competition

The foodservice industry, and particularly the QSR industry, is intensely competitive with respect to price, quality, name recognition, service and location. We compete against other QSRs, including chicken, hamburger, pizza, Mexican and sandwich restaurants, other purveyors of carry-out food and convenience dining establishments, including national restaurant chains. Many of our competitors possess substantially greater financial, marketing, personnel and other resources than we do.

Government Regulation

We are subject to various federal, state and local laws affecting our business, including various health, sanitation, fire and safety standards. Newly constructed or remodeled restaurants are subject to state and local building code and zoning requirements. In connection with the re-imaging and alteration of our company-operated restaurants, we may be required to expend funds to meet certain federal, state and local regulations, including regulations requiring that remodeled or altered restaurants be accessible to persons with disabilities. Difficulties or failures in obtaining the required licenses or approvals could delay or prevent the opening of new restaurants in particular areas.

We are also subject to the Fair Labor Standards Act and various other laws governing such matters as minimum wage requirements, overtime and other working conditions and citizenship requirements. A significant number of our foodservice personnel are paid at rates related to the federal minimum wage, and increases in the minimum wage have increased our labor costs.

Many states and the Federal Trade Commission, as well as certain foreign countries, require franchisors to transmit specified disclosure documents to potential franchisees before granting a franchise. Additionally, some states and certain foreign countries require us to register our franchise disclosure documents before we may offer a franchise.

We have franchise agreements related to the operation of restaurants located on various military bases abroad which are with certain governmental agencies and are subject to renegotiation of profits or termination at the election of the U.S. government. During 2008, royalty revenues from these restaurants were approximately $1.1 million.

Environmental Matters

We are subject to various federal, state and local laws regulating the discharge of pollutants into the environment. We believe that we conduct our operations in substantial compliance with applicable environmental laws and regulations. Certain of our current and formerly owned and/or leased properties are known or suspected to have been used by prior owners or operators as retail gas stations and a few of these properties may have been used for other environmentally sensitive purposes. Certain of these properties previously contained underground storage tanks (“USTs”) and some of these properties may currently contain abandoned USTs. It is possible that petroleum products and other contaminants may have been released at these properties into the soil or groundwater. Under applicable federal and state environmental laws, we, as the current or former owner or operator of these sites, may be jointly and severally liable for the costs of investigation and remediation of any such contamination, as well as any other environmental conditions at its properties that are unrelated to USTs. We have obtained insurance coverage that we believe is adequate to cover any potential environmental remediation liabilities.

Available Information

We file our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports with the Securities and Exchange Commission (the "SEC"). You may obtain copies of these documents by visiting the SEC's Public Reference Room at 100 F. Street, N.E., Room 1580, Washington, DC 20549, by calling the SEC at 1-800-SEC-0330 or by accessing the SEC's website at http://www.sec.gov. In addition, as soon as reasonably practicable after such materials are filed with, or furnished to, the SEC, we make copies of these documents (except for exhibits) available to the public free of charge through our web site at www.afce.com or by contacting our Secretary at our principal offices, which are located at 5555 Glenridge Connector, NE, Suite 300, Atlanta, Georgia 30342, telephone number (404) 459-4450.

Item 1A. RISK FACTORS

Certain statements we make in this filing, and other written or oral statements made by or on our behalf, may constitute "forward-looking statements" within the meaning of the federal securities laws. Words or phrases such as "should result," "are expected to," "we anticipate," "we estimate," "we project," "we believe," or similar expressions are intended to identify forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. We believe that these forward-looking statements are reasonable; however, you should not place undue reliance on such statements. Such statements speak only as of the date they are made, and we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of future events, new information or otherwise. The following risk factors, and others that we may add from time to time, are some of the factors that could cause our actual results to differ materially from the expected results described in our forward-looking statements.

If we are unable to compete successfully against other companies in the QSR industry or develop new products that appeal to consumer preferences, we could lose customers and our revenues may decline.

The QSR industry is intensely competitive with respect to price, quality, brand recognition, menu offerings, service and location. If we are unable to compete successfully against other foodservice providers, we could lose customers and our revenues may decline. We compete against other QSRs, including chicken, hamburger, pizza, Mexican and sandwich restaurants, other purveyors of carry out food and convenience dining establishments, including national restaurant chains. Many of our competitors possess substantially greater financial, marketing, personnel and other resources than we do. There can be no assurance that consumers will continue to regard our products favorably, that we will be able to develop new products that appeal to consumer preferences, or that we will be able to continue to compete successfully in the QSR industry.

Disruptions in the financial markets may adversely affect the availability and cost of credit and the slower economy may impact consumer spending patterns.

The ability of our franchisees and prospective franchisees to obtain financing for development of new restaurants or reinvestment in existing restaurants depends in part upon financial and economic conditions which are beyond their control. If our franchisees are unable to obtain financing on acceptable terms to develop new restaurants or reinvest in existing restaurants, our business and financial results could be adversely affected.

Disruptions in the financial markets and the slower economy may also adversely affect consumer spending patterns. There can be no assurances that governmental, or other responses to the challenging credit environment will restore consumer confidence, stabilize the markets or increase liquidity and the availability of credit. Declines in or displacement of our guests' discretionary spending could reduce traffic in our system's restaurants and/or limit our ability to raise prices.

Because our operating results are closely tied to the success of our franchisees, the failure or loss of one or more franchisees, operating a significant number of restaurants, could adversely affect our operating results.

Our operating results are dependent on our franchisees and, in some cases, on certain franchisees that operate a large number of restaurants. How well our franchisees operate their restaurants and their desire to maintain their franchise relationship with us is outside of our direct control. In addition, economic conditions and the availability of credit may have an adverse impact on our franchisees. Any failure of these franchisees to operate their franchises successfully or the loss of these franchisees could adversely affect our operating results. As of December 28, 2008, we had 350 franchisees operating restaurants within the Popeyes system and several preparing to become operators. The largest of our domestic franchisees operates 165 Popeyes restaurants; and the largest of our international franchisees operates 94 Popeyes restaurants. Typically, each of our international franchisees is responsible for the development of significantly more restaurants than our domestic franchisees. As a result, our international operations are more closely tied to the success of a smaller number of franchisees than our domestic operations. There can be no assurance that our domestic and international franchisees will operate their franchises successfully.

If our franchisees are unable or unwilling to open a sufficient number of restaurants, our growth strategy could be at risk.

As of December 28, 2008, we franchised 1,527 restaurants domestically and 340 restaurants in Puerto Rico, Guam and 25 foreign countries. Our growth strategy is significantly dependent on increasing the number of our franchised restaurants. If our franchisees are unable to open a sufficient number of restaurants, our growth strategy could be significantly impaired.

Our ability to successfully open additional franchised restaurants will depend on various factors, including the availability of suitable sites, the negotiation of acceptable leases or purchase terms for new locations, permitting and regulatory compliance, the ability to meet construction schedules, the financial and other capabilities of our franchisees, and general economic and business conditions. Many of the foregoing factors are beyond the control of our franchisees. Further, there can be no assurance that our franchisees will successfully develop or operate their restaurants in a manner consistent with our concepts and standards, or will have the business abilities or access to financial resources necessary to open the restaurants required by their agreements. Historically, there have been many instances in which Popeyes franchisees have not fulfilled their obligations under their development agreements to open new restaurants.

Our 2005 Credit Facility may limit our ability to expand our business, and our ability to comply with the repayment requirements, covenants, tests and restrictions contained the 2005 Credit Facility may be affected by events that are beyond our control.

The 2005 Credit Facility contains financial and other covenants, including covenants requiring us to maintain various financial ratios described in more detail under “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources,” limiting our ability to incur additional indebtedness, restricting the amount of capital expenditures that may be incurred, restricting the payment of cash dividends and limiting the amount of debt which can be loaned to our franchisees or guaranteed on their behalf. This facility also limits our ability to engage in mergers or acquisitions, sell certain assets, repurchase our stock and enter into certain lease transactions. The 2005 Credit Facility includes customary events of default, including, but not limited to, the failure to pay any interest, the failure to maintain the financial ratios described above, principal or fees when due, the failure to perform certain covenant agreements, inaccurate or false representations or warranties, insolvency or bankruptcy, change of control, the occurrence of certain ERISA events and judgment defaults. The restrictive covenants in our 2005 Credit Facility may limit our ability to expand our business, and our ability to comply with these provisions may be affected by events beyond our control. A failure to comply with any of the financial and operating covenants included in the 2005 Credit Facility would result in an event of default, permitting the lenders to accelerate the maturity of outstanding indebtedness. This acceleration could also result in the acceleration of other indebtedness that we may have outstanding at that time. Were we to default on the terms and conditions of the 2005 Credit Facility and the debt were accelerated by the facility’s lenders, such developments would have a material adverse impact on our financial condition and our liquidity.

Additionally, future debt maturities under the 2005 Credit Facility include payments of approximately $28.1 million in 2010 and approximately $82.1 million in 2011. The current financial environment has resulted in diminished and more expensive credit availability, and could make it more difficult for us to refinance our existing credit facility. A lack of availability and increased cost of refinancing could have a material adverse impact on our financial condition and our liquidity.

Changes in consumer preferences and demographic trends, as well as concerns about health or food safety and quality, could result in a loss of customers and reduce our revenues.

Foodservice businesses are often affected by changes in consumer tastes, national, regional and local economic conditions, discretionary spending priorities, demographic trends, traffic patterns and the type, number and location of competing restaurants. Our franchisees, and we, are from time to time, the subject of complaints or litigation from guests alleging illness, injury or other food quality, health or operational concerns. Adverse publicity resulting from these allegations may harm our reputation or our franchisees’ reputation, regardless of whether the allegations are valid or not, whether we are found liable or not, or those concerns relate only to a single restaurant or a limited number of restaurants or many restaurants. In addition, the restaurant industry is currently under heightened legal and legislative scrutiny resulting from the perception that the practices of restaurant companies have contributed to the obesity of their guests. Additionally, some animal rights organizations have engaged in confrontational demonstrations at certain restaurant companies across the country. As a multi-unit restaurant company, we can be adversely affected by the publicity surrounding allegations involving illness, injury, or other food quality, health or operational concerns. Complaints, litigation or adverse publicity experienced by one or more of our franchisees could also adversely affect our business as a whole. If we are unable to adapt to changes in consumer preferences and trends, or we have adverse publicity due to any of these concerns, we may lose customers and our revenues may decline.

If the cost of chicken increases, our cost of sales will increase and our operating results could be adversely affected.

The principal raw material for Popeyes is fresh chicken. Any material increase in the costs of fresh chicken could adversely affect our operating results. Our company-operated and franchised restaurants purchase fresh chicken from various suppliers who service us from various plant locations. 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 grain, disease, declining market supply of fast-food sized chickens and other factors that affect availability. Because our purchasing agreements for fresh chicken allow the prices that we pay for chicken to fluctuate, a rise in the prices of chicken products could expose us to cost increases. If we fail to anticipate and react to increasing food costs by adjusting our purchasing practices or increasing our sales prices, our cost of sales may increase and our operating results could be adversely affected.

If we face labor shortages or increased labor costs, our growth and operating results could be adversely affected.

Labor is a primary component in the cost of operating our restaurants. As of February 22, 2009, we employed approximately 1,300 hourly employees in our company-operated restaurants. If we face labor shortages or increased labor costs because of increased competition for employees, higher employee turnover rates, increases in the federal minimum wage or increases in other employee benefits costs (including costs associated with health insurance coverage), our operating expenses could increase and our growth could be adversely affected. Our success depends in part upon our and our franchisees' ability to attract, motivate and retain a sufficient number of qualified employees, including restaurant managers and crew members, necessary to keep pace with our expansion schedule. The number of qualified individuals needed to fill these positions is in short supply in some areas.

Instances of food-borne illness or avian flu could adversely affect the price and availability of poultry and other foods and create negative publicity which could result in a decline in our sales.

Instances of food-borne illness or avian flu could adversely affect the price and availability of poultry and other foods. As a result, Popeyes restaurants could experience a significant increase in food costs if there are additional instances of avian flu or food-borne illnesses. 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. This negative publicity, as well as any other negative publicity concerning food products we serve, may reduce demand for our food and could result in a decrease in guest traffic to our restaurants. A decrease in guest traffic to Popeyes restaurants as a result of these health concerns or negative publicity could result in a decline in our sales.

Currency, economic, political and other risks associated with our international operations could adversely affect our operating results.

As of December 28, 2008, we had 340 franchised restaurants in Puerto Rico, Guam and 25 foreign countries. Business at these operations is conducted in the respective local currency. The amount owed us is based on a conversion of the royalties and other fees to U.S. dollars using the prevailing exchange rate. In particular, the royalties are based on a percentage of net sales generated by our foreign franchisees' operations. Consequently, our revenues from international franchisees are exposed to the potentially adverse effects of our franchisees' operations, currency exchange rates, local economic conditions, political instability and other risks associated with doing business in foreign countries. We expect that our franchise revenues generated from international operations will increase in the future, thus increasing our exposure to changes in foreign economic conditions and currency fluctuations.

Our quarterly results and same-store sales may fluctuate significantly and could fall below the expectations of securities analysts and investors, which could cause the market price of our common stock to decline.

Our quarterly operating results and same-store sales have fluctuated significantly in the past and may continue to fluctuate significantly in the future as a result of a variety of factors, many of which are outside of our control. If our quarterly results or same-store sales fluctuate or fall below the expectations of securities analysts and investors, the market price of our common stock could decline.

Factors that may cause our quarterly results or same-store sales to fluctuate include the following:

- the opening of new restaurants by us or our franchisees;
- the closing of restaurants by us or our franchisees;
- volatility of gasoline prices;
- increases in labor costs;
- increases in the cost of commodities and paper products;
- the ability of our franchisees to meet their future commitments under development agreements;
- consumer concerns about food quality or food safety;
- the level of competition from existing or new competitors in the QSR industry;
- inclement weather patterns; and
- economic conditions generally, and in each of the markets in which we, or our franchisees, are located.

Accordingly, results for any one quarter are not indicative of the results to be expected for any other quarter or for the full year, and same-store sales for any future period may decrease.

Shortages or interruptions in the supply or delivery of fresh food products could adversely affect our operating results.

We, and our franchisees, are dependent on frequent deliveries of fresh food products that meet our specifications. Shortages or interruptions in the supply of fresh food products caused by unanticipated demand, problems in production or distribution, declining number of distributors, inclement weather or other conditions could adversely affect the availability, quality and cost of ingredients, which would adversely affect our operating results.

If we and our franchisees fail to purchase chicken at quantities specified in SMS's poultry contracts, we may have to purchase the commitment short-fall and this could adversely affect our operating results.

In order to ensure favorable pricing for fresh chicken purchases and to maintain an adequate supply of fresh chicken for us and our Popeyes franchisees, SMS has entered into poultry supply contracts with various suppliers. These contracts establish pricing arrangements, as well as purchase commitments. AFC has agreed to indemnify SMS as it concerns any shortfall of annual purchase commitments entered into by SMS on behalf of the Popeyes restaurant system. If we and our Popeyes franchisees fail to purchase fresh chicken at the commitment levels, and our suppliers are unable to mitigate damages, AFC may be required to purchase the commitment shortfall. This may result in losses as AFC would then need to find uses for the excess chicken purchases or to resell the excess purchases at spot market prices. This could adversely affect our operating results.

We are subject to government regulation, and our failure to comply with existing regulations or increased regulations could adversely affect our business and operating results.

We are subject to numerous federal, state, local and foreign government laws and regulations, including those relating to:

- the preparation and sale of food;
- franchising;
- building and zoning requirements;
- environmental protection;
- minimum wage, overtime and other labor requirements;
- compliance with the Americans with Disabilities Act; and
- working and safety conditions.

If we fail to comply with existing or future regulations, we may be subject to governmental or judicial fines or sanctions, or we could suffer business interruption or loss. In addition, our capital expenses could increase due to remediation measures that may be required if we are found to be noncompliant with any of these laws or regulations.

We are also subject to regulation by the Federal Trade Commission and to state and foreign laws that govern the offer, sale and termination of franchises and the refusal to renew franchises. The failure to comply with these regulations in any jurisdiction or to obtain required approvals could result in a ban or temporary suspension on future franchise sales or fines or require us to make a rescission offer to franchisees, any of which could adversely affect our business and operating results.

If any member of our senior management left us, our operating results could be adversely affected, and we may not be able to attract and retain additional qualified management personnel.

We are dependent on the experience and industry knowledge of the members of our senior management team. If, for any reason, our senior executives do not continue to be active in management or if we are unable to retain qualified new members of senior management, our operating results could be adversely affected. We cannot guarantee that we will be able to attract and retain additional qualified senior executives as needed. We have employment agreements with certain executives; however, these agreements do not ensure their continued employment with us.

We may not be able to adequately protect our intellectual property, which could harm the value of our Popeyes brand and branded products and adversely affect our business.

We depend in large part on our Popeyes brand and branded products and believe that it is very important to the conduct of our business. We rely on a combination of trademarks, copyrights, service marks, trade secrets and similar intellectual property rights to protect our Popeyes brand and branded products. The success of our expansion strategy depends on our continued ability to use our existing trademarks and service marks in order to increase brand awareness and further develop our branded products in both domestic and international markets. We also use our trademarks and other intellectual property on the Internet. If our efforts to protect our intellectual property are not adequate, or if any third party misappropriates or infringes on our intellectual property, either in print or on the Internet, the value of our Popeyes brand may be harmed, which could have a material adverse effect on our business, including the failure of our Popeyes brand and branded products to achieve and maintain market acceptance.

We franchise our restaurants to various franchisees. While we try to ensure that the quality of our Popeyes brand and branded products is maintained by all of our franchisees, we cannot be certain that these franchisees will not take actions that adversely affect the value of our intellectual property or reputation.

We have registered certain trademarks and have other trademark registrations pending in the U.S. and foreign jurisdictions. The trademarks that we currently use have not been registered in all of the countries in which we do business and may never be registered in all of these countries. We cannot be certain that we will be able to adequately protect our trademarks or that our use of these trademarks will not result in liability for trademark infringement, trademark dilution or unfair competition.

There can be no assurance that all of the steps we have taken to protect our intellectual property in the U.S. and foreign countries will be adequate. In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent as the laws of the U.S. Further, through acquisitions of third parties, we may acquire brands and related trademarks that are subject to the same risks as the brand and trademarks we currently own.

Because certain of our current or former properties were used as retail gas stations in the past, we may incur substantial liabilities for remediation of environmental contamination at our properties.

Certain of our currently or formerly owned and/or leased properties (including certain Church's locations formerly owned) are known or suspected to have been used by prior owners or operators as retail gas stations, and a few of these properties may have been used for other environmentally sensitive purposes. Certain of these properties previously contained underground storage tanks, and some of these properties may currently contain abandoned underground storage tanks. It is possible that petroleum products and other contaminants may have been released at these properties into the soil or groundwater. Under applicable federal and state environmental laws, we, as the current or former owner or operator of these sites, may be jointly and severally liable for the costs of investigation and remediation of any contamination, as well as any other environmental conditions at our properties that are unrelated to underground storage tanks. If we are found liable for the costs of remediation of contamination at any of these properties, our operating expenses would likely increase and our operating results would be materially adversely affected. We have obtained insurance coverage that we believe will be adequate to cover any potential environmental remediation liabilities. However, there can be no assurance that the actual costs of any potential remediation liabilities will not materially exceed the amount of our policy limits.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

We own, lease or sublease the land and buildings for our company-operated restaurants. In addition, we own, lease or sublease land and buildings, which we lease or sublease to our franchisees and third parties.

The following table sets forth the locations by state of our domestic company-operated restaurants as of December 28, 2008:

	Land and Buildings Owned	Land and/or Buildings Leased	Total
Louisiana	3	21	24
Georgia	2	13	15
Tennessee	2	10	12
Mississippi	0	3	3
Arkansas	0	1	1
Total	7	48	55

On January 26, 2009, we completed the re-franchising and sale of three company-operated restaurants in Tennessee, which are included above under “Land and/or Buildings Leased.”

We typically lease our restaurants under “triple net” leases that require us to pay minimum rent, real estate taxes, maintenance costs and insurance premiums and, in some cases, percentage rent based on sales in excess of specified amounts. Generally, our leases have initial terms of 20 years, with options to renew for one or more additional periods, although the terms of our leases vary depending on the facility.

Within our franchise operations segment, our typical restaurant leases or subleases to franchisees are triple net to the franchisee, that require them to pay minimum rent (based upon prevailing market rental rates), real estate taxes, maintenance costs and insurance premiums, as well as percentage rents based on sales in excess of specified amounts. The subleases have a term that usually coincides with the term of the underlying base lease for the location. These leases are typically cross-defaulted with the corresponding franchise agreement for that site. As of December 28, 2008, we leased 21 restaurants and subleased 46 restaurants to franchisees. Additionally, we leased two properties to unrelated third parties. Of the restaurants leased or subleased to franchisees, 48 were located in Texas.

As of December 28, 2008, we owned four additional and leased two additional surplus properties.

As discussed in Note 9 to the Consolidated Financial Statements, all owned property is pledged as security under our 2005 Credit Facility.

As of December 28, 2008, we leased approximately 33,002 square feet of office space in a facility located in Atlanta, Georgia that is the headquarters for the Company. This lease is subject to extensions through 2016.

We believe that our leased and owned facilities provide sufficient space to support our corporate and operational needs.

Item 3. LEGAL PROCEEDINGS

We are 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. We have established adequate reserves to provide for the defense and settlement of such matters, and we believe their ultimate resolution will not have a material adverse effect on our financial condition or our results of operations.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

Item 4A. EXECUTIVE OFFICERS

The following table sets forth the name, age (as of the date of this filing) and position of our current executive officers:

Name	Age	Position
Cheryl A. Bachelder	52	President and Chief Executive Officer
H. Melville Hope, III	47	Senior Vice President and Chief Financial Officer
Richard H. Lynch	54	Chief Marketing Officer
Harold M. Cohen	45	Senior Vice President, General Counsel, Chief Administrative Officer and Corporate Secretary

Cheryl A. Bachelder, age 52, has served as our Chief Executive Officer and as President of Popeyes since November 2007. Ms. Bachelder has served on the Board of AFC Enterprises, Inc since November 2006 and on the Board of True Value Corporation since July 2006. From January 2001 to September 2003, she was the President and Chief Concept Officer for KFC Corporation in Louisville, Kentucky. While at KFC, she was responsible for leading their U.S. restaurants, including operations and all other functional areas of the business. From June 1995 to December 2000, Ms Bachelder served as Vice President, Marketing and Product Development for Domino’s Pizza, Inc.

H. Melville Hope, III, age 47, has served as our Chief Financial Officer since December 2005. From February 2004 until December 2005, Mr. Hope served as our Senior Vice President, Finance and Chief Accounting Officer. From April 2003 to February 2004, Mr. Hope was our Vice President of Finance. Prior to joining AFC, he was an independent consultant in Atlanta, Georgia from January 2003 to April 2003. From April 2002 to January 2003, Mr. Hope was Chief Financial Officer for First Cambridge HCI Acquisitions, LLC, a real estate investment firm, located in Birmingham, Alabama. From November 2001 to April 2002, Mr. Hope was a financial and business advisory consultant in Atlanta, Georgia. From July 1984 to July 2001, Mr. Hope was an accounting, auditing and business advisory professional for PricewaterhouseCoopers, LLP in Atlanta, Georgia, in Savannah, Georgia and in Houston, Texas where he was admitted to the partnership in 1998.

Richard H. Lynch, age 54, was appointed to the position of our Chief Marketing Officer effective March 1, 2008, following his consultancy as interim CMO. Mr. Lynch served as Principal of Go LLC, a marketing consulting firm specializing in restaurant and food retail from July 2003 to February 2008, where he developed brand strategy and innovation plans for concepts including Burger King, Ruby Tuesday, and Buffalo Wild Wings. From November 1982 to June 2003, Mr. Lynch served as Executive Vice President at Campbell Mithun Advertising where he led the development of brand architecture and positioning for brands such as Domino’s Pizza, Martha Stewart Everyday and Betty Crocker.

Harold M. Cohen, age 45, has served as our Senior Vice President of Legal Affairs, Corporate Secretary and General Counsel since September 2005. Mr. Cohen has served as our Chief Administrative Officer since May 2008. Mr. Cohen has been General Counsel of Popeyes, a division of AFC Enterprises, Inc., since January 2005. He also has served as Vice President of AFC since July 2000. From April 2001 to December 2004, he served as Deputy General Counsel of AFC. From August 1995 to June 2000, he was Corporate Counsel for AFC.

PART II.

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock currently trades on the Nasdaq Global Market under the symbol "AFCE."

The following table sets forth the high and low per share sales prices of our common stock, by quarter, for fiscal years 2008 and 2007.

	2008		2007	
(Dollars per share)	High	Low	High	Low
First Quarter	$ 11.35	$ 7.07	$ 20.18	$ 15.10
Second Quarter	$ 10.68	$ 7.79	$ 21.10	$ 17.04
Third Quarter	$ 9.56	$ 6.43	$ 17.88	$ 13.11
Fourth Quarter	$ 6.45	$ 2.85	$ 15.66	$ 10.41

Share Repurchases

During fiscal year 2008, we repurchased and retired 2,120,401 shares of our common stock for approximately $19.0 million under our share repurchase program, primarily under an accelerated share repurchase program executed in the first quarter and settled during the second quarter of 2008. During the second, third and fourth quarters of 2008, we did not repurchase any additional shares of our common stock.

As originally announced on July 22, 2002, and subsequently amended and expanded, the Company's board of directors has approved a share repurchase program. As of December 28, 2008, the remaining shares that may be repurchased under the program was approximately $38.9 million. See Note 12 to our Consolidated Financial Statements.

Pursuant to the terms of the Company's 2005 Credit Facility, the Company is subject to a repurchase limit of approximately $27.6 million for the remainder of fiscal 2009.

Shareholders of Record

As of February 22, 2009, we had 58 shareholders of record of our common stock.

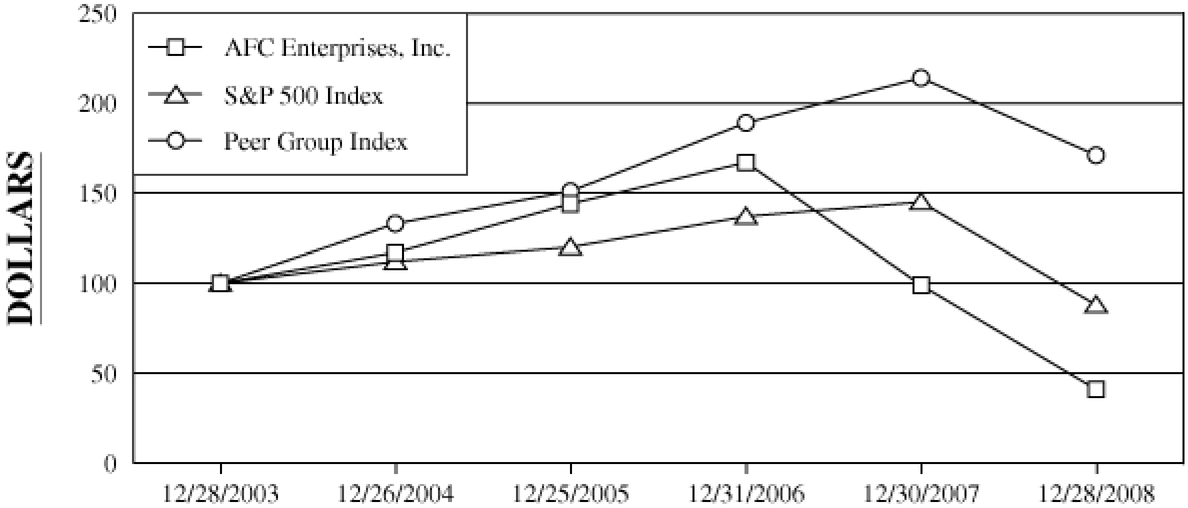
Dividend Policy

We anticipate that we will retain any future earnings to support operations and to finance the growth and development of our business, and we do not expect to pay cash dividends in the foreseeable future. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions, plans for share repurchases, future prospects and other factors that the board of directors may deem relevant. Other than the special cash dividend, we have never declared or paid cash dividends on our common stock. Additionally, our 2005 Credit Facility restricts the extent to which we may declare or pay a cash dividend.

Stock Performance Graph

The following stock performance graph compares the performance of our common stock to the Standard & Poor's 500 Stock Index ("S&P 500 Index") and a peer group index for the period from December 28, 2003 through December 28, 2008 and further assumes the reinvestment of all dividends.

Comparison of Cumulative Five Year Total Return



Company Name/Index	12/28/2003	12/26/2004	12/25/2005	12/31/2006	12/30/2007	12/28/2008
AFC Enterprises, Inc.	$100	$117	$144	$167	$ 99	$ 41
S&P 500 INDEX	$100	$112	$120	$137	$145	$ 88
Peer Group	$100	$133	$151	$189	$214	$171

Our Peer Group Index is composed of the following quick service restaurant companies: CKE Restaurants Inc., Jack In the Box Inc., Papa Johns International Inc., Sonic Corp., Wendy's International Inc. (included through 9/29/08, when it was acquired by Triarc Companies, Inc.), and YUM! Brands Inc.

Item 6. SELECTED FINANCIAL DATA

The following data was derived from our Consolidated Financial Statements. Such data should be read in conjunction with our Consolidated Financial Statements and the notes thereto and our “Management’s Discussion and Analysis of Financial Condition and Results of Operations” at Item 7 of this Annual Report.

(Dollars in millions, except per share data)	2008	2007	2006	2005	2004
Summary of operations:					
Revenues(1)					
Sales by company-operated restaurants	$ 78.3	$ 80.0	$ 65.2	$ 60.3	$ 85.8
Franchise revenues(2)	84.6	82.8	82.6	77.5	72.8
Rent and other revenues	3.9	4.5	5.2	5.6	5.3
Total revenues	$166.8	$167.3	$153.0	$143.4	$163.9
Operating profit (loss)(3)	$ 40.3	$ 45.6	$ 45.3	$ (6.9)	$ (19.4)
Income (loss) before discontinued operations(4)	19.4	23.1	22.2	(8.4)	(14.3)
Net income(5)	19.4	23.1	22.4	149.6	24.6
Earnings per common share, basic: (6)					
Income (loss) before discontinued operations	$ 0.76	$ 0.81	$ 0.75	$ (0.29)	$ (0.51)
Net income	0.76	0.81	0.76	5.14	0.87
Earnings per common share, diluted: (6)					
Income (loss) before discontinued operations	$ 0.76	$ 0.80	$ 0.74	$ (0.29)	$ (0.51)
Net income	0.76	0.80	0.75	5.14	0.87
Year-end balance sheet data:					
Total assets	$132.0	$155.0	$163.1	$212.7	$361.9
Total debt(7)	119.2	132.8	134.0	191.4	94.0
Total shareholders’ equity (deficit)(8)	(39.3)	(40.3)	(31.2)	(48.7)	140.9

(1) Factors that impact the comparability of revenues for the years presented include:

(a) The effects of restaurant openings, closings, unit conversions and same-store sales (see “Summary of System-Wide Data” later in this Item 6).

(b) During the third quarter of 2005, the company-operated restaurants in the City of New Orleans were adversely affected by Hurricane Katrina. The timing of restaurant closures and re-openings resulted in: a decrease in company-operated restaurant sales of approximately $8.7 million in 2005 as compared to 2004; a decrease in company-operated restaurant sales of approximately $9.9 million in 2006 as compared to 2005; and an increase in company-operated restaurant sales of approximately $13.1 million in 2007 as compared to 2006.

(c) The Company’s fiscal year ends on the last Sunday in December. The 2006 fiscal year consisted of 53 weeks. All other fiscal years presented consisted of 52 weeks each. The 53rd week in 2006 increased sales by company-operated restaurants by approximately $1.2 million and increased franchise revenues by approximately $1.3 million.

(d) On May 1, 2006, the Company completed an acquisition of 13 franchised restaurants from a Popeyes franchisee in the Memphis and Nashville, Tennessee markets. The results of operations of the acquired restaurants are included in the consolidated financial statements since that date. The acquired units increased 2006 revenues by approximately $10.0 million (net of lost franchise revenues attributable to these restaurants) and increased 2007 revenues by approximately $5.3 million as compared to 2006 (net of lost franchise revenues attributable to these restaurants). Additional information concerning this acquisition can be found at Note 24 to our Consolidated Financial Statements.

(e) On September 6, 2008, the Company completed the re-franchising and sale of 11 company-operated restaurants in its Atlanta, Georgia market resulting in a decrease in 2008 revenues of approximately $4.0 million (net of franchise royalties earned) as compared to 2007.

(f) During 2004, the Company adopted Financial Accounting Standards Board Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* , as revised in December 2003 ("FIN 46R") and began consolidating three franchisees that qualified for consolidation under FIN 46R. These franchisees were not retroactively consolidated for years prior to 2004. Since adoption of FIN 46R, due to changes in the ownership structure of these franchisees, our relationship to each of the franchisees has substantially changed, and they are no longer VIEs. During 2006, 2005 and 2004, the consolidation of these franchisees increased sales by company-operated restaurants by approximately $1.2 million, $2.7 million, and $12.6 million, respectively. Additional information with respect to theses entities is discussed in Note 2 to our Consolidated Financial Statements.

(2) Franchise revenues are principally composed of royalty payments from franchisees that are determined based upon franchisee sales. While franchisee sales are not recorded as revenues by the Company, management believes they are important in understanding the Company's financial performance because these sales are indicative of the Company's financial health, given the Company's strategic focus on growing its overall business through franchising. Total franchisee sales were $1.663 billion in 2008, $1.651 billion in 2007, $1.661 billion in 2006, $1.552 billion in 2005, and $1.452 billion in 2004. Fiscal year 2006 included a 53rd week which increased franchisee sales by approximately $27.9 million. All other fiscal years presented consisted of 52 weeks.

(3) Additional factors that impact the comparability of operating profit (loss) for the years presented include:

(a) During 2005, general and administrative expenses included approximately $8.3 million relating to corporate restructuring charges as well as stay bonuses and severance costs paid to the Company's former Chief Executive Officer, former Chief Financial Officer and former General Counsel. During 2004, general and administrative expenses included approximately $10.8 million relating to corporate severances, initial costs for Sarbanes-Oxley controls documentation and compliance, implementation of a new information technology system and legal and other costs associated with the settlement of certain franchisee disputes.

(b) During 2008, 2007, 2006, 2005, and 2004, our expenses (income) associated with litigation related costs (proceeds) were approximately $(12.9) million, $(0.9) million, $(0.3) million, $21.8 million, and $3.8 million, respectively. The substantially higher costs in 2005 relate to the settlement of certain shareholder litigation. The substantially higher income in 2008 relates to recoveries from claims against certain director and officers liability insurance policies.

(c) During 2008, 2007, 2006, 2005, and 2004, impairments and disposals of fixed assets were approximately $9.5 million, $1.9 million, $0.1 million, $5.8 million, and $4.8 million, respectively. Of the 2008 impairments, $9.2 million was associated with the re-franchising of company-operated restaurants in Atlanta, Georgia and Nashville, Tennessee. See further discussion in Note 2 to our Consolidated Financial Statements. Of the 2005 impairments, $4.1 million was due to the adverse effects of Hurricane Katrina, $0.6 million of which were subsequently reversed due to adjustments to damage estimates in 2006.

(d) During 2006 and 2005, our expenses (income), net associated with hurricane related costs (other than impairments of long-lived assets) associated with Hurricane Katrina were approximately $0.7 million and $(2.5) million, respectively. During 2007, the Company also recognized approximately $4.8 million of income from insurance proceeds related to property damage and business interruption claims.

(e) During 2004, the Company incurred approximately $9.0 million of net costs associated with the termination of the lease for our AFC corporate headquarters.

(f) Effective December 26, 2005, the Company adopted SFAS No. 123(R), *Share-Based Payment* ("SFAS 123R"), which requires the measurement and recognition of compensation cost at fair value for all share-based payments, including stock options and restricted stock awards. The Company adopted SFAS 123R using the modified prospective transition method and, as a result, did not retroactively adjust results from prior periods. For further discussion regarding SFAS 123R see the section entitled "Stock-Based Employee Compensation" in Note 2 to our Consolidated Financial Statements. The Company recorded $2.5 million, $1.7 million, $3.4 million, $2.9 million, and $0.4 million, in total stock compensation expense during 2008, 2007, 2006, 2005, and 2004, respectively.

(4) During 2008, 2007, 2006, 2005, and 2004, income (loss) before discontinued operations and accounting change includes "interest expense, net" of approximately $8.1 million, $8.7 million, $11.1 million, $6.8 million, and $5.5 million, respectively.

(5) Historically, the Company also developed, operated and franchised quick-service restaurants and bakeries under the trade names Church's Chicken ® ("Church's") (sold December 28, 2004) and Cinnabon ® ("Cinnabon") (sold November 4, 2004). For a discussion of these divestitures, see Note 21 to our Consolidated Financial Statements. In our Consolidated Financial Statements, financial results relating to these divested operations are presented as discontinued operations. Net income includes discontinued operations which provided income of $0.2 million in 2006, $158.0 million in 2005, and $39.1 million in 2004. Discontinued operations, in 2005, represent a $158.0 million gain on sale of Church's, net of income taxes.

(6) Weighted average common shares for the computation of basic earnings per common share were 25.6 million, 28.6 million, 29.5 million, 29.1 million, and 28.1 million for 2008, 2007, 2006, 2005, and 2004, respectively. Weighted average common shares for the computation of diluted earnings per common share were 25.7 million, 28.8 million, 29.8 million, 29.1 million, and 28.1 million, for 2008, 2007, 2006, 2005, and 2004, respectively. For fiscal years 2005 and 2004, potentially dilutive employee stock options were excluded from the computation of dilutive earnings per share due to the anti-dilutive effect they would have on "loss before discontinued operations."

(7) Total debt includes the long-term and current portions of our debt facilities, capital lease obligations, outstanding lines of credit, and other borrowings associated with both continuing and discontinued operations.

(8) During 2008, we repurchased approximately 2.1 million shares of our common stock for approximately $19.0 million. During 2007, we repurchased approximately 2.5 million shares of our common stock for approximately $39.4 million. During 2006, we repurchased approximately 1.5 million shares of our common stock for approximately $20.3 million. During 2005, we repurchased approximately 1.5 million shares of common stock for approximately $19.5 million and we paid a special cash dividend of approximately $352.9 million. No repurchases were made during 2004.

Summary of System-Wide Data

The following table presents financial and operating data for the Popeyes restaurants we operate and those that we franchise. The data presented is unaudited. Data for franchised restaurants is derived from information provided by our franchisees. We present this data because it includes important operational measures relevant to the QSR industry.

	2008	2007	2006	2005	2004
Global system-wide sales increase (1)	0.6%	0.3%	7.0%	4.8%	4.5%
Domestic same-store sales increase (decrease) for company-operated restaurants (2)	(5.6)%	(7.8)%	9.0%	6.5%	0.9%
Domestic same-store sales increase (decrease) for franchised restaurants (2)	(2.1)%	(2.1)%	1.3%	3.2%	1.4%
Total domestic same-store sales increase (decrease) for company-operated and franchised restaurants	(2.2)%	(2.3)%	1.6%	3.3%	1.3%
International same-store sales increase (decrease) for franchised restaurants (2)	4.1%	1.1%	(3.2)%	(4.2)%	(6.0)%
Total global same-store sales increase (decrease)	(1.7)%	(2.0)%	1.1%	2.6%	0.6%
Company-operated restaurants (all domestic)					
Restaurants at beginning of year	65	56	32	56	80
New restaurant openings	1	5	3	1	—
Unit conversions, net(3)	(11)	1	12	2	(19)
Permanent closings	(3)	(3)	(3)	(7)	(4)
Temporary (closings)/re-openings, net(4)	3	6	12	(20)	(1)
Restaurants at end of year	55	65	56	32	56
Franchised restaurants (domestic and international)					
Restaurants at beginning of year	1,840	1,822	1,796	1,769	1,726
New restaurant openings	139	119	139	122	109
Unit conversions, net(3)	11	(1)	(12)	(2)	19
Permanent closings	(117)	(106)	(93)	(95)	(77)
Temporary (closings)/re-openings, net(4)	(6)	6	(8)	2	(8)
Restaurants at end of year	1,867	1,840	1,822	1,796	1,769
Total system restaurants	1,922	1,905	1,878	1,828	1,825
New franchised restaurant openings					
Domestic	72	77	97	71	57
International	67	42	42	51	52
Total new franchised restaurant openings	139	119	139	122	109
Franchised restaurants (end of year)					
Domestic	1,527	1,518	1,503	1,451	1,416
International	340	322	319	345	353
Restaurants at end of year	1,867	1,840	1,822	1,796	1,769

(1) Fiscal year 2006 consisted of 53 weeks. All other fiscal years presented consisted of 52 weeks each. The 53rd week in 2006 contributed approximately 1.8% to global system-wide sales growth. Excluding the impact of the 53rd week in 2006, global system-wide sales growth in 2007 was approximately 2.1%.

(2) New restaurants are included in the computation of same-store sales after they have been open 15 months. Unit conversions are included immediately upon conversion.

(3) Unit conversions include the sale or purchase of company-operated restaurants to/from a franchisee.

(4) Temporary closings are presented net of re-openings. Most temporary closings arise due to the re-imaging or the rebuilding of older restaurants. In 2005, there were significant temporary closings related to Hurricane Katrina. Re-openings of temporarily closed restaurants also include stores shown as re-opened and then transferred to the permanent closure category for purposes of the unit roll forward.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our Selected Financial Data, our Consolidated Financial Statements and our Risk Factors that are included elsewhere in this filing.

Our discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements, as a result of a number of factors including those factors set forth in Item 1A. of this Annual Report and other factors presented throughout this filing.

Nature of Business

AFC develops, operates, and franchises quick-service restaurants under the trade names Popeyes ® Chicken & Biscuits and Popeyes ® Louisiana Kitchen (collectively "Popeyes") in 44 states, the District of Columbia, Puerto Rico, Guam, and 25 foreign countries. Popeyes has two reportable business segments: franchise operations and company-operated restaurants. Financial information concerning these business segments can be found at Note 23 to our Consolidated Financial Statements.

Management Overview of 2008 Operating Results

Our fiscal year 2008 results and highlights include the following.

- We reported net income of $19.4 million, or diluted earnings per share of $0.76 (approximately $0.65 without the impact of other expenses (income), net which includes insurance recovery benefits and asset impairments).
- Total system-wide sales grew by 0.6%.
- Total domestic same-store sales decreased by 2.2% and international same-store sales increased by 4.1%, resulting in a global same-store sales decrease of 1.7%.
- Our global restaurant system grew by 17 net restaurants.
- We repurchased approximately 2.1 million shares of our common stock.
- We repaid $13.4 million, net in debt under our 2005 credit facility.
- We received $12.9 million in proceeds related to certain directors and officers liability insurance policies.
- We completed the re-franchising of 11 restaurants in our Atlanta market for cash proceeds of $3.5 million.
- We recorded $9.2 million in impairment charges associated with the re-franchising of company-operated restaurants in Atlanta, Georgia and Nashville, Tennessee. See further discussion under the heading entitled "Critical Accounting Policies and Significant Estimates" within this Item 2 and in Note 2 to our Consolidated Financial Statements.
- We invested $2.0 million in Popeyes' new national cable advertising strategy launched in support of new value, portability, and lunch and snack menu items. This investment resulted in the majority of our franchisees committing to contribute an additional 1.0% to the national ad fund. In 2009, we will continue to invest in national advertising to expand media reach.

2008 Same-Store Sales

During 2008, total domestic same-store sales decreased 2.2% resulting from a decrease in transaction counts, partially offset by an increase in check average. Domestic same-store sales decreased 2.1% for our domestic franchised restaurants and decreased 5.6% for our company-operated restaurants. We remain focused on increasing traffic by offering compelling value, distinctive Louisiana food, and an improved guest experience. For additional information on our business strategies, see the discussion of Our Business Strategy in Item 1 to this Form 10-K.

Within our international operations, same-store sales increased by 4.1% during fiscal 2008 due primarily to strong sales in the Middle East, Canada, Korea and Latin America, partially offset by negative performance in Mexico. Our international franchisees face similar economic conditions to the U.S. including higher commodity costs. They are responding with similar strategies: raising prices where necessary due to commodity costs and offering strong value in promotional events.

As it concerns our expected same-store sales results for 2009, see the discussion under the heading “Operating and Financial Outlook for 2009” later in this Item 7.

2008 Unit Growth

During 2008, our global restaurant system grew by 17 net restaurants. We opened 139 new franchised restaurants and 1 new company-operated restaurant. These openings during 2008 were offset by 117 permanent closures of franchised restaurants and 3 permanent closures of company-operated restaurants. In addition, our year-end restaurant count for 2008 includes 3 temporary closures (net of re-opened restaurants).

As it concerns our expected openings and closings for 2009, see the discussion under the heading “Operating and Financial Outlook for 2009” later in this Item 7.

Factors Affecting Comparability of Consolidated Results of Operations: 2008, 2007, and 2006,

For 2008, 2007, and 2006, the following items and events affect comparability of reported operating results:

- During the third quarter of 2005, the company-operated restaurants in the City of New Orleans were adversely affected by Hurricane Katrina. The timing of restaurant closures and re-openings resulted in: a decrease in company-operated restaurant sales of approximately $8.7 million in 2005 as compared to 2004; a decrease in company-operated restaurant sales of approximately $9.9 million in 2006 as compared to 2005; and an increase in company-operated restaurant sales of approximately $13.1 million in 2007 as compared to 2006.
- The Company’s fiscal year ends on the last Sunday in December. The 2006 fiscal year consisted of 53 weeks. Fiscal years 2008 and 2007 both consisted of 52 weeks each. The 53rd week in 2006 increased sales by company-operated restaurants by approximately $1.2 million and increased franchise revenues by approximately $1.3 million.
- On May 1, 2006, the Company completed an acquisition of 13 franchised restaurants from a Popeyes franchisee in the Memphis and Nashville, Tennessee markets. The results of operations of the acquired restaurants are included in the consolidated financial statements since that date. The acquired units increased 2006 revenues by approximately $10.0 million (net of lost franchise revenues attributable to these restaurants) and increased 2007 revenues by approximately $5.3 million as compared to 2006 (net of lost franchise revenues attributable to these restaurants). Additional information concerning this acquisition can be found at Note 24 to our Consolidated Financial Statements.
- On September 6, 2008, the Company completed the re-franchising and sale of 11 company-operated restaurants in its Atlanta, Georgia market resulting in a decrease in 2008 revenues of approximately $4.0 million as compared to 2007.
- During 2004, we adopted Financial Accounting Standards Board Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* , as revised in December 2003 (“FIN 46R”) and began consolidating three franchisees that qualified for consolidation under FIN 46R. Since adoption of FIN 46R, due to changes in the ownership structure of these franchisees, our relationship to each of the franchisees has substantially changed, and they are no longer VIEs. During 2006, the consolidation of these franchisees increased sales by company-operated restaurants by approximately $1.2 million. Additional information with respect to these entities is discussed in Note 2 to our Consolidated Financial Statements.
- During 2008, 2007, and 2006, our income associated with litigation related proceeds was approximately $12.9 million, $0.9 million, and $0.3 million, respectively.

- During 2008, 2007, and 2006, impairments and disposals of fixed assets were approximately \$9.5 million, \$1.9 million, and \$0.1 million, respectively.
- During 2006, our expenses (income), net associated with hurricane-related costs (other than impairments of long-lived assets) associated with Hurricane Katrina were approximately \$0.7 million. During 2007, the Company also recognized approximately \$4.8 million of income from insurance proceeds related to property damage and business interruption claims.
- Effective December 26, 2005, the Company adopted SFAS No. 123(R), *Share-Based Payment* ("SFAS 123R"), which requires the measurement and recognition of compensation cost at fair value for all share-based payments, including stock options and restricted stock awards. The Company adopted SFAS 123R using the modified prospective transition method and, as a result, did not retroactively adjust results from prior periods. For further discussion regarding SFAS 123R see the section entitled "Stock-Based Employee Compensation" in Note 2 to our Consolidated Financial Statements. The Company recorded \$2.5 million, \$1.7 million, and \$3.4 million, in total stock compensation expense during 2008, 2007, and 2006, respectively.
- Net income includes discontinued operations which provided income of \$0.2 million in 2006.

The following table presents selected revenues and expenses as a percentage of total revenues (or, in certain circumstances, as a percentage of a corresponding revenue line item).

	2008	2007	2006
Revenues:			
Sales by company-operated restaurants	47 %	48 %	43 %
Franchise revenues	51 %	49 %	54 %
Rent and other revenues	2 %	3 %	3 %
Total revenues	100 %	100 %	100 %
Expenses:			
Restaurant employee, occupancy and other expenses(1)	53 %	51 %	52 %
Restaurant food, beverages and packaging(1)	35 %	34 %	33 %
Rent and other occupancy expenses(2)	1 %	1 %	2 %
General and administrative expenses	32 %	28 %	30 %
Depreciation and amortization	4 %	4 %	4 %
Other expenses (income), net	(3)%	(2)%	(1)%
Total expenses	76 %	73 %	70 %
Operating profit	24 %	27 %	30 %
Interest expense, net	5 %	5 %	8 %
Income before income taxes and discontinued operations	19 %	22 %	22 %
Income tax expense	7 %	8 %	7 %
Income before discontinued operations	12 %	14 %	15 %
Discontinued operations, net of income taxes	—	—	—
Net income	12 %	14 %	15 %

(1) Expressed as a percentage of sales by company-operated restaurants.

(2) The Company reclassified rent and other occupancy expenses associated with properties leased or subleased to franchisees and other third parties from “General and administrative expenses” to “Rent and other occupancy expenses” in its Consolidated Statements of Operations. Previously reported results have been reclassified to conform to the current year’s presentation.

Comparisons of Fiscal Years 2008 and 2007

Sales by Company-Operated Restaurants

Sales by company-operated restaurants were $78.3 million in 2008, a $1.7 million decrease from 2007. The decrease was primarily due to:

- a $4.2 million decrease due to the re-franchising and sale on September 8, 2008 of 11 company-operated restaurants in our Atlanta, Georgia market, and
- a $4.0 million decrease due to a 5.6% decrease in same-store sales in fiscal 2008 as compared to fiscal 2007,

partially offset by:

- a $3.5 million increase due to the opening of new company-operated restaurants and the acquisition of one restaurant during the second quarter of 2007 which was previously owned by a franchisee, and
- a net $3.0 million increase due primarily to the timing and duration of temporary restaurant closures during both 2008 and 2007.

Franchise Revenues

Franchise revenues have three basic components: (1) ongoing royalty payments that are determined based on a percentage of franchisee sales; (2) franchise fees associated with new restaurant openings; and (3) development fees associated with the opening of new franchised restaurants in a given market. Royalty revenues are the largest component of franchise revenues, constituting more than 90% of franchise revenues.

Franchise revenues were $84.6 million in 2008, a $1.8 million increase from 2007. The increase in revenue was primarily due to a net $3.1 million increase in royalties and fees, primarily from new franchised restaurants and termination fees realized during 2008, partially offset a 2.1% decrease in domestic franchise same-store sales.

Rent and Other Revenues

Rent and other revenues are primarily composed of rental income associated with properties leased or subleased to franchisees and is recognized on the straight-line basis over the lease term. Rent and other revenues were $3.9 million in 2008, a $0.6 million decrease from 2007, primarily as a result of a reduction in the number of leased or subleased properties.

Restaurant Employee, Occupancy and Other Expenses

Restaurant employee, occupancy and other expenses were $41.4 million in 2008, a $0.7 million increase from 2007. Restaurant employee, occupancy and other expenses were approximately 53% and 51% of sales from company-operated restaurants in 2008 and 2007, respectively. The 2% increase as a percent of sales resulted primarily from 1) a 1% increase in restaurant management personnel costs due primarily to manager positions which were unfilled during 2007; 2) a 0.5% increase in utilities costs; and 3) a 0.5% increase in insurance costs and other net operating expenses.

Restaurant Food, Beverages and Packaging

Restaurant food, beverages and packaging expenses were $27.1 million in 2008, a $0.2 million decrease from 2007. Restaurant food, beverages and packaging expenses were approximately 35% and 34% of sales from company-operated restaurants in 2008 and 2007, respectively, increasing primarily due to higher costs during 2008 for poultry, wheat, shortening and other commodities.

Rent and Other Occupancy Expenses

Rent and other occupancy expenses were $2.4 million in 2008, a $0.1 million increase from 2007.

General and Administrative Expenses

General and administrative expenses were $53.9 million in 2008, a $6.7 million increase from 2007. The increase was primarily due to:

- a $2.4 million increase due to marketing and menu initiatives including national cable advertising, new menu board development, product research and other marketing related costs,
- a $1.5 million increase in international expenses including salary and personnel related costs, travel and other net general and administrative costs,
- a $1.0 million increase due to higher domestic salary, employee relocation and other personnel related costs,
- a $0.8 million increase in stock-based compensation expense, and
- a $1.0 million increase in travel, business conference expenses and other net general and administrative costs.

General and administrative expenses were approximately 32% and 28% of total revenues in 2008 and 2007, respectively. General and administrative expenses were approximately 3.1% and 2.7% of system-wide sales in 2008 and 2007, respectively.

Depreciation and Amortization

Depreciation and amortization was $6.3 million in 2008, a $0.6 million decrease from 2007. The decrease was principally due to the reclassification of certain company-operated assets as “Assets held for sale”, resulting in the discontinuation of depreciation on these assets, and the related sale of the 11 company-operated restaurants in our Atlanta, Georgia market.

Other Expenses (Income), Net

Other expenses (income), net was $4.6 million of income in 2008 as compared to $2.7 million of income in 2007.

The income in 2008 resulted primarily from $12.9 million in recoveries from directors and officers insurance claims, $0.9 million in gain on the sale of assets and $0.5 million from in insurance recoveries related to property damages, partially offset by $9.5 million in impairments and disposals of fixed assets, including $0.6 million in goodwill impairment and $2.4 million in impairment of re-acquired franchise rights.

The income in 2007 resulted primarily from $4.8 million in insurance recoveries related to property damage and business interruption claims and $0.9 million in litigation related proceeds, partially offset by $1.9 million in impairments and disposals of fixed assets and $0.8 million of costs related to restaurant closures.

See Note 16 to our Consolidated Financial Statements for a description of other expenses (income), net for 2008 and 2007.

Operating Profit

On a consolidated basis, operating profit was $40.3 million in 2008, a $5.3 million decrease when compared to 2007. Fluctuations in the various components of revenue and expense giving rise to this change are discussed above. The following is a general discussion of the fluctuations in operating profit by business segment.

During the fourth quarter 2008, the Company changed the basis in which it measures reportable segment profit or loss in order to improve the alignment between its strategy to re-franchise its company-operated restaurants and the basis management uses to allocate resources and assess performance. 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. Previously reported results have been reclassified to conform to current year’s presentation.

(Dollars in millions)	2008	2007	Fluctuation	As a Percent
Franchise operations	$38.9	$45.1	$ (6.2)	(13.7)%
Company-operated restaurants	3.1	4.7	(1.6)	(34.0)%
Operating profit before unallocated expenses	42.0	49.8	(7.8)	(15.7)%
Less unallocated expenses:				
Depreciation and amortization	6.3	6.9	0.6	4.3%
Other expenses (income), net	(4.6)	(2.7)	1.9	34.0%
Total	$40.3	$45.6	$ (5.3)	(11.6)%

The $6.2 million decrease in operating profit associated with our franchise operations was principally due to higher costs primarily for domestic franchise operations support and field training, salary and other personnel related costs; marketing and menu initiatives including national cable advertising, new menu board development, product research and other marketing related activities; stock-based compensation expense; and an increase in travel, business conference expenses and other net general and administrative costs partially offset by higher net operating profit from international franchising activities and gains on the sale of real estate assets.

The $1.6 million decrease in operating profit associated with our company-operated restaurants was principally due to the re-franchising and sale of 11 company-operated restaurants in our Atlanta, Georgia market, a decrease in same-store sales in fiscal 2008 as compared to fiscal 2007, and increases in operating expense.

Fluctuations in Depreciation and amortization and Other expenses (income), net are discussed above.

Interest Expense, Net

Interest expense, net was $8.1 million in 2008, a $0.6 million decrease from 2007 resulting primarily from lower average debt balances and lower average interest rates on debt as compared to 2007.

Income Tax Expense

In 2008, we had an income tax expense associated with our continuing operations of $12.8 million compared to $13.8 million in 2007. Our effective tax rate for 2008 was 39.8% compared to 37.4% for 2007 (see a reconciliation of these effective rates in Note 18 to our Consolidated Financial Statements). The prior year's effective tax rate benefited from the reversal of tax reserves due to the expiration of the statute of limitation. Had the statute not expired during the prior year, the effective tax rate for fiscal 2007 would have been 38.5%. The effective tax rate for 2008 was unfavorably impacted by 0.7% associated with the impairment of non-deductible goodwill. Other differences between the effective tax rate and the statutory tax rate are principally attributable to estimated tax reserves, other permanent differences and inter-period allocations.

Comparisons of Fiscal Years 2007 and 2006

Sales by Company-Operated Restaurants

Sales by company-operated restaurants were $80.0 million in 2007, a $14.8 million increase from 2006. The increase was primarily due to:

- a $13.1 million increase due to the reopening of 14 of our New Orleans restaurants throughout 2006 and 2007 closed as a result of Hurricane Katrina,
- a $5.6 million increase due to the full year's operations of 13 restaurants acquired on May 1, 2006, in the Memphis and Nashville, Tennessee markets which were previously owned by a franchisee, and
- a $3.9 million increase due to the opening of new company-operated restaurants,

partially offset by:

- a $5.2 million decrease in same-store sales in fiscal 2007 as compared to fiscal 2006,

- a $1.2 million decrease attributable to a 53rd week in fiscal year 2006 (fiscal 2007 consisted of 52 weeks), and
- a $1.2 million decrease due to the termination of a VIE relationship (as described in Note 2 to the Consolidated Financial Statements) in the second quarter of 2006.

The remaining fluctuation was due to various factors, including restaurant openings, restaurant transfers, and the timing and duration of temporary restaurant closings, in both 2007 and 2006.

Franchise Revenues

Franchise revenues were $82.8 million in 2007, a $0.2 million increase from 2006. The increase in revenue was primarily due to: (1) a $1.5 million net increase in royalties and fees due principally to a net increase in franchised restaurants partially offset by a 1.8% decrease in same-store sales, and (2) a decrease of approximately $1.3 million in royalties associated with the 53rd week in fiscal year 2006. Fiscal year 2007 consisted of 52 weeks.

Rent and Other Revenues

Rent and other revenues were $4.5 million in 2007, a $0.7 million decrease from 2006, primarily as a result of a reduction in the number of leased or subleased properties.

Restaurant Employee, Occupancy and Other Expenses

Restaurant employee, occupancy and other expenses were $40.7 million in 2007, a $7.0 million increase from 2006. The increase was principally attributable to the increase in sales from company-operated restaurants (discussed above). Restaurant employee, occupancy and other expenses were approximately 51% and 52% of sales from company-operated restaurants in 2007 and 2006, respectively.

Restaurant Food, Beverages and Packaging

Restaurant food, beverages and packaging expenses were $27.3 million in 2007, a $6.0 million increase from 2006. The increase was principally attributable to the increase in sales from company-operated restaurants (discussed above). Restaurant food, beverages and packaging expenses were approximately 34% and 33% of sales from company-operated restaurants in 2007 and 2006, respectively.

Rent and Other Occupancy Expenses

Rent and other occupancy expenses were $2.3 million in 2007, a $0.4 million decrease from 2006.

General and Administrative Expenses

General and administrative expenses were $47.2 million in 2007, a $1.8 million increase from 2006. The increase was primarily due to:

- $1.9 million of higher salary and other personnel related costs, including severance payments in 2007,
- $0.9 million of higher professional costs (primarily for marketing related services partially offset by lower net legal (including settlements) and IT related costs), and
- $0.7 million of higher bad debt expense,

partially offset by:

- $1.7 million of lower stock-based employee compensation expense.

General and administrative expenses were approximately 28% of total revenues in 2007, compared to approximately 30% in 2006.

Depreciation and Amortization

Depreciation and amortization was $6.9 million in 2007, a $0.5 million increase from 2006. The increase was principally due to depreciation and intangible amortization related to the 2006 acquisition of the 13 restaurants in the Memphis and Nashville, Tennessee markets which were previously owned by a franchisee.

Other Expenses (Income), Net

Other expenses (income), net was $2.7 million of income in 2007 as compared to $1.8 million of income in 2006. The $0.9 million increase in income was primarily due to:

- $4.8 million of higher income recognized from insurance proceeds related to property damage and business interruption claims,
- $0.7 million of lower (non-impairment related) hurricane related costs, and
- $0.6 million of higher net litigation related proceeds,

partially offset by:

- $2.0 million of lower net gains on sale of assets,
- $1.8 million of higher charges for impairments and disposals of fixed assets,
- $0.8 million of higher costs associated with restaurant closures, and
- $0.6 million of other expenses.

See Note 16 to our Consolidated Financial Statements for a description of other expenses (income), net for 2007 and 2006.

Operating Profit

On a consolidated basis, operating profit was $45.6 million in 2007, a $0.3 million improvement when compared to 2006. Fluctuations in the various components of revenue and expense giving rise to this change are discussed above. The following is a general discussion of the fluctuations in operating profit by business segment.

During the fourth quarter 2008, the Company changed the basis in which it measures reportable segment profit or loss in order to improve the alignment between its strategy to re-franchise all of its company-operated restaurants and the basis management uses to allocate resources and assess performance. 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. Previously reported results have been reclassified to conform to current year's presentation.

(Dollars in millions)	2007	2006	Fluctuation	As a Percent
Franchise operations	$45.1	$45.4	$ (0.3)	(0.1)%
Company-operated restaurants	4.7	4.5	0.2	4.4%
Operating profit before unallocated expenses	49.8	49.9	(0.1)	(0.0)%
Less unallocated expenses:				
Depreciation and amortization	6.9	6.4	(0.5)	(7.8)%
Other expenses (income), net	(2.7)	(1.8)	0.9	50.0%
Total	$45.6	$45.3	$ 0.3	0.1%

The $0.3 million decrease in operating profit associated with our franchise operations was principally due to higher costs primarily for franchise operations support and field training; salary and other personnel related costs, marketing activities and IT related costs, partially offset by lower stock-based compensation expense.

The $0.2 million increase in operating profit associated with our company-operated restaurants was principally due to more company-operated restaurants (related primarily to re-openings of our restaurants in New Orleans throughout 2006 and 2007 closed as a result of Hurricane Katrina and to the full year operations of 13 restaurants acquired on May 1, 2006 in the Memphis and Nashville markets from a franchisee) contributing to our net operating performance.

Fluctuation in Depreciation and amortization and Other expenses (income), net are discussed above.

Interest Expense, Net

Interest expense, net was $8.7 million in 2007, a $2.4 million decrease from 2006 resulting primarily from lower average debt balances as compared to 2006 and lower amortization and write-offs of debt issuance costs.

Income Tax Expense

In 2007, we had an income tax expense associated with our continuing operations of $13.8 million compared to $12.0 million in 2006. Our effective tax rate for 2007 was 37.4% compared to 35.1% for 2006 (see a reconciliation of these effective rates in Note 18 to our Consolidated Financial Statements). Our effective tax rate increased in 2007 compared to 2006 primarily due to provision-to-return adjustments and increases in state income taxes, partially offset by adjustments to estimated tax reserves and valuation allowances.

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.

Based primarily upon our generation of cash flows from operations, coupled with our existing cash reserves (approximately $2.1 million available as of December 28, 2008), and available borrowings under our 2005 Credit Facility (approximately $57.4 million available as of December 28, 2008), we believe that we will have adequate cash flow (primarily from operating cash flows) to meet our anticipated future requirements for working capital, various contractual obligations and expected capital expenditures for 2009.

Our franchise model provides diverse and reliable cash flows. Net cash provided by operating activities of the Company was $27.1 million and $40.4 million for 2008 and 2007, respectively. The decrease in cash provided by operating activities was primarily attributable to: (1) increases in general and administrative expenses; (2) higher income tax payments; (3) timing of interest payments; (4) timing of accounts payables; (5) partially offset by litigation related proceeds in 2008 (see Note 16 to our Consolidated Financial Statements). See our Company's Consolidated Statements of Cash Flows in our Consolidated Financial Statements.

During 2008, the Company completed the sale and re-franchising of 11 company-operated restaurants in Atlanta, Georgia for proceeds of $3.5 million.

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

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

Information regarding capital spending is discussed under the heading entitled Capital Expenditures within this Item 7.

Under the terms of the Company's 2005 Credit Facility, as amended, 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 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 the amounts set forth below:

Total Leverage Ratio	Prepayment
≥ 3.00 to 1.0	**50% of the Consolidated Excess Cash Flow**
< 3.00 to 1.0 but > 2.00 to 1.0	**25% of the Consolidated Excess Cash Flow**
≤ 2.00 to 1.0	**No debt prepayment**

Total Leverage Ratio is defined as the ratio of the Company's Consolidated Total Indebtedness to Consolidated EBITDA for the four immediately proceeding fiscal quarters. Consolidated Total Indebtedness means, as at any date of determination, the aggregate principal amount of Indebtedness of the Company and its Subsidiaries. For fiscal 2008, the Company is subject to a mandatory prepayment of approximately $2.8 million (25% of Consolidated Excess Cash Flow), which is recorded as a component of Current debt maturities in the Consolidated Balance Sheet as of December 28, 2008.

Pursuant to the 2005 Credit Facility, the Company is subject to a Total Leverage Ratio requirement of ≤ 3.25 to 1.0 at December 28, 2008, ≤ 3.00 to 1.0 in the first two fiscal quarters of 2009 and ≤ 2.75 to 1.0 in the third and fourth fiscal quarters of 2009. As of December 28, 2008, the Company's Total Leverage Ratio was 2.72 to 1.0. In 2009, the Company intends to apply cash realized from operations and the proceeds from sales of selected restaurant properties to make voluntary debt prepayments. The intended effect of these prepayments is to secure our planned compliance with the Total Leverage Ratio requirement.

Future debt maturities under the 2005 Credit Facility include four designated quarterly payments of approximately one fourth of the outstanding principal, beginning in the 3 rd quarter of 2010. See the Contractual Obligations table within this Item 7. The Company intends to refinance the 2005 Credit Facility in advance of these maturities at a cost and interest rate that reflect market conditions.

During fiscal 2008, we paid principal on term loan borrowings under our 2005 Credit Facility in the amount of $8.9 million, including a $7.7 million mandatory prepayment of Consolidated Excess Cash Flow on behalf of fiscal 2007. During fiscal 2008, the Company borrowed $20.0 million under the 2005 revolving credit facility (primarily in conjunction with our accelerated stock repurchase program executed in the first quarter of 2009) and paid down $24.5 million under the 2005 revolving credit facility. As of December 28, 2008, the Company had outstanding borrowings under the revolving credit facility of $0.5 million.

During fiscal year 2008, the Company repurchased and retired approximately 2.1 million shares of common stock for approximately $19.0 million, primarily under an accelerated stock repurchase program in the first quarter of 2008 which was funded from short-term borrowings under its revolving credit facility. The remaining value of shares that may be repurchased under the Company's share repurchase program was $38.9 million. Pursuant to the terms of the Company's 2005 Credit Facility, the Company is subject to a repurchase limit of approximately $27.6 million for the remainder of fiscal 2009.

Operating and Financial Outlook for 2009

During 2009, the Company will emphasize Popeyes superior food matched with greater QSR value and speed of service. The Company's goal is to build guest traffic and increase market share. Given the intense value competition in the marketplace, the Company is conservatively projecting global same-store sales for the year of negative 1.0 to negative 3.0 percent.

The Company plans to slow its global new openings to 90-110 restaurants in 2009, focusing on the improvement of core operations and unit economics. Management believes this decision positions the Company for more rapid growth once economic conditions improve. Popeyes expects system-wide unit closings in the range of 140-160 restaurants, resulting in a decrease of 30-70 net restaurant openings in 2009. The Company's guidance for a higher closure rate in 2009 reflects the continuation of more stringent enforcement of operating standards. Popeyes restaurant closures typically have sales significantly lower than the system average.

The Company expects fiscal 2009 general and administrative expenses, excluding rent and other occupancy expenses, to be consistent with the prior year's expenses of 3.1-3.2 percent of system-wide sales. During 2009, the Company will continue to tightly manage general and administrative expenses and invest in key strategic initiatives, including its continued commitment to national advertising and operations improvements which management believes are essential for the long-term growth of the brand.

Based on operating guidance, the Company expects 2009 earnings to be in the range of $0.62-$0.67 per diluted share, compared to fiscal 2008 earnings of $0.65 per diluted share, excluding $0.11 of other non-operating income. The Company's fiscal 2009 earnings per diluted share guidance excludes the impact of one-time items and other non-operational income or expenses.

Under the heading "Our Business Strategy" in Item 1 of this Annual Report, we discuss our key operational strategies.

Under the heading "Risks Factors" in Item 1A of this Annual Report, we discuss various factors that could adversely impact us and hinder our ability to achieve our projected results, including general economic factors and competition from the dominant brands in the QSR industry.

Contractual Obligations

The following table summarizes our contractual obligations, due over the next five years and thereafter, as of December 28, 2008:

(In millions)	2009	2010	2011	2012	2013	There-after	Total
Long-term debt, excluding capital leases(1)	$ 4.7	$28.3	$82.3	$0.2	$0.2	$ 1.9	$117.6
Interest on long-term debt, excluding capital leases(1)	6.8	6.7	2.6	0.2	0.2	0.8	17.3
Leases(2)	6.3	5.8	5.4	4.4	4.1	80.7	106.7
Copeland formula agreement(3)	3.1	3.1	3.1	3.1	3.1	46.2	61.7
King Features agreements(3)	1.0	0.5	—	—	—	—	1.5
Information technology outsourcing — IBM(3)	2.4	—	—	—	—	—	2.4
Business process services(3)	1.0	1.0	0.3	—	—	—	2.3
Total(4)(5)	$25.3	$45.4	$93.7	$7.9	$7.6	$129.6	$309.5

(1) For variable rate debt, the Company estimated average outstanding balances for the respective periods and applied interest rates in effect at December 28, 2008. See Note 9 to our Consolidated Financial Statements for information concerning the terms of our 2005 Credit Facility and the 2005 interest rate swap agreements.

(2) Of the $106.7 million of minimum lease payments, $102.1 million of those payments relate to operating leases and the remaining $4.6 million of payments relate to capital leases. See Note 10 to our Consolidated Financial Statements.

(3) See Note 15 to our Consolidated Financial Statements.

(4) The above table excludes certain volume purchase commitments existing between SMS and certain chicken suppliers. AFC has agreed to indemnify SMS for any shortfall between actual purchases by the Popeyes system and the annual purchase commitments entered into by SMS on behalf of the Popeyes restaurant system. This indemnification agreement is discussed under the heading entitled Off-Balance Sheet Arrangements within this Item 7 and in Note 15 to our Consolidated Financial Statements.

(5) We have not included in the contractual obligations table approximately $4.7 million for unrecognized tax benefits for various tax positions we have taken. These liabilities may increase or decrease over time as a result of tax examinations, and given the status of the examinations, we cannot reliably estimate the amount or period of cash settlement, if any, with the respective taxing authorities. These liabilities also include amounts that are temporary in nature and for which we anticipate that over time there will be no net cash outflow.

Share Repurchase Program

As originally announced on July 22, 2002, and subsequently amended and expanded, the Company's board of directors has approved a share repurchase program of up to $215.0 million. The program, which is open-ended, allows the Company to repurchase shares of the its common stock from time to time. During 2008, 2007 and 2006, the Company repurchased and retired 2,120,401 shares, 2,496,030 shares and 1,486,714 shares of common stock for approximately $19.0 million, $39.4 million, and $20.3 million, respectively, under this program.

The remaining value of shares that may be repurchased under the program was $38.9 million. Pursuant to the terms of the Company's 2005 Credit Facility, the Company is subject to a repurchase limit of approximately $27.6 million for the remainder of fiscal 2009.

Capital Expenditures

Our capital expenditures consist of re-imaging activities associated with company-operated restaurants, new restaurant construction and development, equipment replacements, the purchase of new equipment for our company-operated restaurants, investments in information technology, accounting systems and improvements at our corporate offices. Capital expenditures related to re-imaging activities consist of significant renovations, upgrades and improvements, which on a per restaurant basis typically cost between $70,000 and $160,000. Capital expenditures associated with new restaurant construction and rebuilding activities, typically cost, on a per restaurant basis, between $0.7 million and $1.0 million.

During 2008, we invested approximately $2.7 million in various capital projects, comprised of $0.7 million in new restaurant locations, $0.4 million for information technology hardware and software including new restaurant site modeling software, and $1.6 million in other capital assets to repair and rebuild damaged restaurants, and to maintain, replace and extend the lives of company-operated QSR equipment and facilities.

During 2007, we invested approximately $10.4 million in various capital projects, comprised of $6.3 million in new restaurant locations (including $0.4 million for the acquisition of a previously franchised location), $0.9 million in the repair and replacement of property and equipment damaged by Hurricane Katrina, $0.6 million for information technology hardware and software, $0.3 million in our re-imaging program, and $2.3 million in other capital assets to repair and rebuild damaged restaurants, and to maintain, replace and extend the lives of company-operated QSR equipment and facilities.

During 2006, we invested approximately $7.0 million in various capital projects, including $2.6 million in repair and replacement of property and equipment damaged by Hurricane Katrina, $1.6 million in new restaurant locations, $0.6 million for information technology systems, $0.5 million in our re-imaging program, and $1.7 million in other capital assets to maintain, replace and extend the lives of company-operated QSR equipment and facilities.

Substantially all of our capital expenditures have been financed using cash provided from operating activities and borrowings under our bank credit facilities.

As to capital expenditures during 2009 (which we expect to be primarily for equipment replacements and upgrades, and information technology system upgrades), we expect such costs to range from $1.5 to $2.5 million and to be funded from operating cash flows. These expenditures are discretionary in nature and would likely have minimal impact on the business if not made.

Acquisition of Previously Franchised Restaurants

On May 1, 2006, we completed an acquisition of 13 previously franchised restaurants from a Popeyes franchisee in the Memphis and Nashville, Tennessee markets. The total consideration was $15.8 million consisting of (1) $9.3 million in cash, (2) $3.3 million of assumed long-term debt obligations, (3) $2.9 million in above market rent obligations, and (4) $0.3 million in legal and professional fees associated with the transaction. The acquired units provide regional diversity and additional company-operated test markets for our new menu items, promotional concepts and new restaurant designs for the benefit of the entire Popeyes system.

Effects of Hurricane Katrina and Insurance Proceeds

During the third quarter of 2005, the company-operated restaurants in the New Orleans market were adversely affected by Hurricane Katrina. There were 36 company-operated restaurants which were temporarily closed as a result of Hurricane Katrina. Twenty-four of these restaurants re-opened and 12 permanently closed.

We maintain insurance coverage which provides for reimbursement from losses resulting from property damage, including flood, loss of product, and business interruption. Our insurance policy entitles us to receive reimbursement for approximate replacement value for the damaged real and personal property as well as certain business interruption losses, net of applicable deductibles and subject to insurable limits. The insurance coverage is limited to $25.0 million, with a $10.0 million flood sub limit.

During 2006 and 2007, the company received a total of $11.5 million from its insurance carriers in settlement of all claims resulting from Hurricane Katrina. See Note 16 to our Consolidated Financial Statements for further information regarding other expenses and income recognized as a result of Hurricane Katrina.

Off-Balance Sheet Arrangements

SMS Indemnity Agreement. In order to ensure favorable pricing for fresh chicken purchases and to maintain an adequate supply of fresh chicken for the Company and its Popeyes franchisees, SMS has entered into purchase contracts with chicken suppliers. The contracts which pertain to the 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. These contracts include volume purchase commitments that are adjustable at the election of SMS (which is done in consultation with and under the direction of the Company and its Popeyes franchisees). In a given year, that year’s commitment may be adjusted by up to 10%, if notice is given within specified time frames; and the commitment levels for future years may be adjusted based on revised estimates of need, whether due to restaurant openings and closings, changes in SMS’s membership, changes in the business, or changes in general economic conditions.

The estimated minimum level of purchases under these contracts is $155.3 million for 2009. AFC has agreed to indemnify SMS for any shortfall between actual purchases by the Popeyes system and the annual purchase commitments entered into by SMS on behalf of the Popeyes restaurant system. The indemnification has not been recorded as an obligation in the Company’s balance sheets. The Company does not expect any material loss to result from the indemnification since we do not believe that performance, on our part, will be required.

AFC Loan Guarantee Programs. In March 1999, we implemented a program to assist qualified current and prospective franchisees in obtaining the financing needed to purchase or develop franchised restaurants at competitive rates. Under the program, we guarantee up to 20% of the loan amount toward a maximum aggregate liability for the entire pool of $1.0 million. For loans within the pool, we assume a first loss risk until the maximum liability for the pool has been reached. Such guarantees typically extend for a three-year period. As of December 28, 2008, approximately $0.3 million was borrowed under this program, of which we were contingently liable for approximately $0.1 million in the event of default.

In November 2002, we implemented a second loan guarantee program to provide qualified franchisees with financing to fund new construction, re-imaging and facility upgrades. Under the program, we assume a first loss risk on the portfolio up to 10% of the sum of the original funded principal balances of all program loans. As of December 28, 2008, approximately $0.4 million was borrowed under this program, of which we were contingently liable for approximately $0.1 million in the event of default.

These loan guarantees have not been recorded as an obligation in our consolidated balance sheets. We do not expect any material loss to result from these guarantees because we do not believe that any indemnity under this agreement will be necessary.

Long Term Debt

2 ***005 Credit Facility.*** On May 11, 2005, and as amended on April 14, 2006 and April 27, 2007, we entered into a bank credit facility (the "2005 Credit Facility") with J.P. Morgan Chase Bank and certain other lenders, which consists of a $60.0 million, five-year revolving credit facility and a six-year $190.0 million term loan.

The revolving credit facility and term loan bear interest based upon alternative indices (LIBOR, Federal Funds Effective Rate, Prime Rate and a Base CD rate) plus an applicable margin as specified in the facility. The margins on the revolving credit facility may fluctuate because of changes in certain financial leverage ratios and the Company's compliance with applicable covenants of the 2005 Credit Facility. The Company also pays a quarterly commitment fee of 0.125% on the unused portions of the revolving credit facility.

As of December 28, 2008, the Company had loans outstanding under its revolving credit facility totaling $0.5 million. 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 December 28, 2008, the Company had $2.1 million of outstanding letters of credit. Availability for short-term borrowings and letters of credit under the revolving credit facility was $57.4 million.

The 2005 Credit Facility is secured by a first priority security interest in substantially all of our assets. The 2005 Credit Facility contains financial and other covenants, including covenants requiring us to maintain various financial ratios, limiting our ability to incur additional indebtedness, restricting the amount of capital expenditures that may be incurred, restricting the payment of cash dividends, and limiting the amount of debt which can be loaned to our franchisees or guaranteed on their behalf. This facility also limits our ability to engage in mergers or acquisitions, sell certain assets, repurchase our stock and enter into certain lease transactions. The 2005 Credit Facility includes customary events of default, including, but not limited to, the failure to pay any interest, principal or fees when due, the failure to perform certain covenant agreements, inaccurate or false representations or warranties, insolvency or bankruptcy, change of control, the occurrence of certain ERISA events and judgment defaults.

In addition to the scheduled payments of principal on the term loan, at the end of each fiscal year, we are subject to mandatory prepayments in those situations when consolidated cash flows for the year, as defined pursuant to the terms of the facility, exceed specified amounts (see additional information under the heading entitled Liquidity and Capital Resources within this Item 7). Whenever any prepayment is made, subsequent scheduled payments of principal are ratably reduced.

As of December 28, 2008, we were in compliance with the financial and other covenants of the 2005 Credit Facility. As of December 28, 2008, the Company's weighted average interest rate for all outstanding indebtedness under the 2005 Credit Facility, including the effect of the interest swap agreements, was approximately 5.8%.

2005 Interest Rate Swap Agreements. Effective May 12, 2005, we entered into two interest rate swap agreements with a combined notional amount of $130.0 million. Effective December 29, 2006, the Company reduced the notional amounts of the combined agreements to $110.0 million. The agreements terminated on June 30, 2008. The effect of the agreements was to limit the interest rate exposure on a portion of the 2005 credit facility to a fixed rate of 6.4%.

Effective for the period June 30, 2008 through June 30, 2010, the Company entered into an interest rate swap agreement with a notional amount of $100.0 million. Pursuant to this agreement, the Company pays a fixed rate of interest and receives a floating rate of interest. The effect of the agreement is to limit the interest rate exposure on a portion of the Term B debt outstanding under the 2005 Credit Facility to a fixed rate of 4.87%. Effective December 15, 2008, the Company reduced the notional amount of the agreement to $25 million. The effective portion of the loss associated with the termination of the $75 million notional amount, approximately $1.3 million, will be amortized into interest expense over the remaining life of the hedge.

Net interest income associated with these agreements was approximately zero, $1.5 million and $1.3 million for 2008, 2007 and 2006, respectively. The agreement is accounted for as an effective cash flow hedge. At December 28, 2008, the fair value of the agreement was a liability to the Company of approximately $0.5 million, which was recorded as a component of "Deferred credits and other long-term liabilities." At December 27, 2007, the fair value of the agreements was recorded as a component of "Other long term assets, net" and was approximately $0.2 million. The changes in fair value are recognized in accumulated other comprehensive income in the Consolidated Balance Sheets.

Impact of Inflation

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

Tax Matters

We are continuously involved in U.S., state and local tax audits for income, franchise, property and sales and use taxes. In general, the statute of limitations remains open with respect to tax returns that were filed for each fiscal year after 2003. However, upon notice of a pending tax audit, we often agree to extend the statute of limitations to allow for complete and accurate tax audits to be performed. The U.S. federal tax years 2004 and 2005 are currently under examination.

Market Risk

We are exposed to market risk from changes in certain commodity prices, foreign currency exchange rates and interest rates. All of these market risks arise in the normal course of business, as we do not engage in speculative trading activities. The following analysis provides quantitative information regarding these risks.

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 fluctuations in the cost of chicken, which can result from a number of factors, including increases in the cost of grain, disease, declining market supply of fast-food sized chickens and other factors that affect availability, and greater international demand for domestic chicken products. We are affected by fluctuations 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 purchasing contracts with chicken suppliers. The contracts, which pertain to the 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 2009 for certain commodities including corn and soy, which impact the price of poultry and other food cost.

Foreign Currency Exchange Rate Risk. We are exposed to foreign currency exchange risk from the potential changes in foreign currency rates that directly impact our royalty revenues and cash flows from our international franchise operations. In 2008, franchise revenues from these operations represented approximately 11.3% of our total franchise revenues. For each of 2008, 2007, and 2006, foreign-sourced revenues represented approximately 5.7%, 4.5%, and 4.7%, of our total revenues, respectively. All other things being equal, for the fiscal year ended December 28, 2008, operating profit would have decreased by approximately $0.4 million if all foreign currencies had uniformly weakened 10% relative to the U.S. Dollar.

As of December 28, 2008, approximately $0.8 million of our accounts receivable were denominated in foreign currencies. During 2008, the net loss from the exchange rate was approximately $0.1 million. Our international franchised operations are in 25 foreign countries with approximately 30% or our revenues from international royalties originating from restaurants in Korea and Canada.

Interest Rate Risk. Our net exposure to interest rate risk consists of our borrowings under our 2005 Credit Facility. Borrowings made pursuant to that facility include interest rates that are benchmarked to U.S. and European short-term floating-rate interest rates. As of December 28, 2008, the balances outstanding under our 2005 Credit Facility totaled $114.7 million. The impact on our annual results of operations of a hypothetical one-point interest rate change on the outstanding balances under our 2005 Credit Facility would be approximately $0.9 million, taking into account our interest rate swap agreements.

Critical Accounting Policies and Estimates

Our significant accounting policies are presented in Note 2 to our Consolidated Financial Statements. Of our significant accounting policies, we believe the following involve a higher degree of risk, judgment and/or complexity. These policies involve estimations of the effect of matters that are inherently uncertain and may significantly impact our quarterly or annual results of operations or financial condition. Changes in the estimates and judgments could significantly affect our results of operations, financial condition and cash flows in future years.

Assets Held for Sale. Assets held for sale consists of property and equipment related to restaurants and land that are currently being marketed for re-franchising. Assets held for sale are reported at the lower of carrying value or estimated fair value less costs to sell.

In the first quarter of 2008, the Company commenced a process to identify experienced and qualified operators to enter into long-term franchising agreements and to purchase certain of its company-operated restaurant assets. During the second and third quarters of 2008, the Company's Board of Directors authorized the negotiation of definitive agreements for the re-franchising and sale of 25 company-operated restaurant assets in Atlanta, Georgia and four company-operated restaurants in Nashville, Tennessee. As a result, the Company recognized an impairment charge of $9.2 million during 2008 which represents the excess of the carrying values of the property and equipment, goodwill and other intangible assets associated with the restaurants over their estimated fair values, less cost to sell. The fair value of the disposal groups were estimated using a market approach in which the Company considered prices and other relevant information generated by market transactions. The impairment charge is recorded as a component of "Other expenses (income), net" in the fiscal year 2008 Consolidated Statements of Operations. During the third quarter of 2008, the Company completed the re-franchising and sale of 11 company-operated restaurants in Atlanta, Georgia for net proceeds of $3.5 million from the sale of assets and new franchise agreements. On January 26, 2009, the company completed the re-franchising and sale of three company-operated restaurants in Nashville, Tennessee for net proceeds of $1.1 million from the sale of assets and new franchise agreements. The remaining Nashville restaurant was permanently closed on December 28, 2008.

The Company continues to negotiate definitive agreements for the remaining 14 company-operated restaurants in Atlanta, Georgia; however, at this time the Company is unable to predict the timing of when a sale will be completed. The adjusted carrying value of the remaining Atlanta and Nashville restaurant assets as of December 28, 2008 was $4.5 million and is classified as "Assets held for sale" on the condensed consolidated balance sheet.

Impairment of Long-Lived Assets. We evaluate property and equipment for impairment on an annual basis (during the fourth quarter of each year) or when circumstances arise indicating that a particular asset may be impaired. For property and equipment at company-operated restaurants, we perform our annual impairment evaluation on a site-by-site basis. We evaluate restaurants using a "two-year history of operating losses" as our primary indicator of potential impairment. Based on the best information available, we write-down an impaired restaurant to its estimated fair market value, which becomes its new cost basis. We generally measure the estimated fair market value by discounting estimated future cash flows. In addition, when we decide to close a restaurant, it is reviewed for impairment and depreciable lives are adjusted. The impairment evaluation is based on the estimated cash flows from continuing use through the expected disposal date and the expected terminal value.

Impairment of Goodwill and Trademarks. We evaluate goodwill and trademarks for impairment on an annual basis (during the fourth quarter of each year) or more frequently when circumstances arise indicating that a particular asset may be impaired. Our impairment evaluation includes a comparison of the fair value of our reporting units with their carrying value. Our reporting units are our business segments. Intangible assets, including goodwill, are allocated to each reporting unit. The estimated fair value of each reporting unit is the amount for which the reporting unit could be sold in a current transaction between willing parties. We estimate the fair value of our reporting units using a discounted cash flow model or market price, if available. The operating assumptions used in the discounted cash flow model are generally consistent with the reporting unit's past performance and with the projections and assumptions that are used in our current operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions. The discount rate is our estimate of the required rate of return that a third-party buyer would expect to receive when purchasing a business from us that constitutes a reporting unit. We believe the discount rate is commensurate with the risks and uncertainty inherent in the forecasted cash flows. If a reporting unit's carrying value exceeds its fair value, goodwill and trademarks are written down to their implied fair value. During 2008, 2007 and 2006, there was no impairment of goodwill or trademarks identified during the Company's annual impairment testing.

Our Company-operated restaurants segment has goodwill of $2.2 million as of the end of 2008. During 2008, we recorded an impairment charge of $0.6 million as a result of the selling and re-franchising of company-operated restaurants. See Assets Held for Sale discussion above. The assumptions used in determining fair value for this reporting unit reflect our belief that the remaining goodwill of this business segment is not impaired. While our operating assumptions reflect what we believe are reasonable and achievable growth rates, failure to realize these growth rates could result in future impairment of the recorded goodwill. If we believe the risks inherent in the business increase, the resulting change in the discount rate could also result in future impairment of the recorded goodwill.

Allowances for Accounts and Notes Receivable and Contingent Liabilities. We reserve a franchisee's receivable balance based upon pre-defined aging criteria and upon the occurrence of other events that indicate that we may or may not collect the balance due. In the case of notes receivable, we perform this evaluation on a note-by-note basis, whereas this analysis is performed in the aggregate for accounts receivable. We evaluate our notes receivable for uncollectibility each reporting period, on a note-by-note basis. We provide for an allowance for uncollectibility based on such reviews. See Note 2 to the Consolidated Financial Statements for information concerning our allowance account for both accounts receivable and notes receivable.

With respect to contingent liabilities, we similarly reserve for such contingencies when we are able to assess that an expected loss is both probable and reasonably estimable.

Leases. The Company accounts for leases in accordance with SFAS No. 13, *Accounting for Leases* , and other related authoritative guidance. When determining the lease term, the Company often includes option periods for which failure to renew the lease imposes a penalty on the Company in such an amount that a renewal appears, at the inception of the lease, to be reasonably assured. The primary penalty to which we are subject is the economic detriment associated with the existence of leasehold improvements which might be impaired if we choose not to continue the use of the leased property.

The Company records rent expense for leases that contain scheduled rent increases on a straight-line basis over the lease term, including any option periods considered in the determination of that lease term. Contingent rentals are generally based on sales levels in excess of stipulated amounts, and thus are not considered minimum lease payments and are included in rent expense as they accrue.

Deferred Tax Assets and Tax Reserves. We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes.

We assess the likelihood that we will be able to recover our deferred tax assets. We consider historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. If recovery is not likely, we increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. We carried a valuation allowance on our deferred tax assets of $4.0 million and $3.7 million at December 28, 2008 and December 30, 2007, respectively, based on our view that it is more likely than not that we will not be able to take a tax benefit for certain state operating loss carryforwards which continue to expire.

As a matter of course, we are regularly audited by federal, state and foreign tax authorities. Effective January 1, 2007, we adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" an interpretation of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("FIN 48"). FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. Since adopting FIN 48, we have evaluated unrecognized tax benefits, including interest thereon, on a quarterly basis to insure that they have been appropriately adjusted for events, including audit settlements, which may impact our ultimate payment for such exposures. At December 28, 2008, we had approximately $4.7 million of unrecognized tax benefits, $1.2 million of which, if recognized, would affect the effective tax rate. At December 28, 2008, the Company had approximately $1.0 million of accrued interest and penalties related to uncertain tax positions.

See Note 18 to the Consolidated Financial Statements for a further discussion of our income taxes.

Stock-Based Employee Compensation. Effective December 26, 2005, the Company adopted SFAS No. 123 (R), *Share-Based Payment* ("SFAS 123R"), which requires the measurement and recognition of compensation cost at fair value for all share-based payments, including stock options, restricted stock awards and restricted share units. The Company adopted SFAS 123R using the modified prospective transition method and, as a result, did not retroactively adjust results from prior periods. Under this transition method, stock-based compensation is recognized for: (1) expense related to the remaining non-vested portion of all stock awards granted prior to December 26, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123") and the same straight-line attribution method used to determine the pro forma disclosures under SFAS 123; and (2) expense related to all stock awards granted on or subsequent to December 26, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. The fair value of stock options with only service conditions is estimated using a Black-Scholes option-pricing model. The fair value of stock options with service and market conditions is valued utilizing a Monte Carlo simulation embedded in a lattice model. The fair value of stock-based compensation is amortized on the graded vesting attribution method. Our option pricing models require various highly subjective and judgmental assumptions including risk-free interest rates, expected volatility of our stock price, expected forfeiture rates, expected dividend yield and expected term. If any of the assumptions used in the models change significantly, share-based compensation expense may differ materially in the future from that recorded in the current period. Our specific weighted average assumptions used to estimate the fair value of stock-based employee compensation are documented in Note 13 to the Consolidated Financial Statements.

Accounting Standards Adopted in 2008

Fair Value Measurements. In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements; rather, it applies to other accounting pronouncements that require or permit fair value measurements. The provisions of SFAS No. 157, as issued, were effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* , which allows entities to defer the effective date of SFAS No. 157, for one year, for certain non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (i.e., at least annually). The Company adopted SFAS No. 157 as of December 31, 2007 and elected the deferral for non-financial assets and liabilities. The effect of adopting this standard was not significant. We currently anticipate that full adoption in 2009 will not materially impact the Company's results of operations or financial condition.

SFAS No. 157 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following categories:

- Level 1 — inputs to the valuation methodology are quoted prices (unadjusted) for an identical asset or liability in an active market
- Level 2 — inputs to the valuation methodology include quoted prices for a similar asset or liability in an active market or model-derived valuations in which all significant inputs are observable for substantially the full term of the asset or liability
- Level 3 — inputs to the valuation methodology are unobservable and significant to the fair value measurement of the asset or liability

As of December 28, 2008, the Company's financial assets that are measured at fair value on a recurring basis consisted of $2.2 million of short-term investments (Level 1) recorded in "Cash and cash equivalents" and a liability for an interest rate swap agreement with a market value of $0.5 million (Level 2) recorded in "Deferred credits and other long-term liabilities."

Fair Value Option for Financial Assets and Financial Liabilities. In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 provides companies with an option to report selected financial assets and financial liabilities at fair value with changes in the fair value recognized in earnings. The statement's objective is to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without applying complex hedge accounting provisions. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company did not elect to begin reporting any financial assets or liabilities at fair value upon adoption of SFAS 159; therefore, the standard did not have any effect on the consolidated financial statements.

Accounting Standards That We Have Not Yet Adopted

For a discussion of recently issued accounting standards that we have not yet adopted, see Note 3 to our Consolidated Financial Statements. That note is hereby incorporated by reference into this Item 7.

Forward-Looking Statements

This annual report on Form 10-K 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 annual report on Form 10-K include discussions regarding the Company's planned implementation of its new strategic plan including the re-franchising of company-operated restaurants, projections and expectations regarding same-store sales for fiscal 2009 and beyond, the Company's ability to improve restaurant level margins, guidance for new openings and restaurant closures, and the Company's anticipated 2009 performances including projections regarding general and administrative expenses, 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, the loss of franchisees and other business partners, labor shortages or increased labor costs, increased costs of our principal food products, changes in consumer preferences and demographic trends, as well as concerns about health or food quality, instances of avian flu or other food-borne illnesses, disruptions in the financial markets, general economic conditions, the loss of senior management and the inability to attract and retain additional qualified management personnel, limitations on our business under our 2005 Credit Facility, our ability to comply with the repayment requirements, covenants, tests and restrictions contained in the 2005 Credit Facility, our ability to refinance our outstanding indebtedness, failure of our franchisees, a decline in the number of franchised units, a decline in our ability to franchise new units, slowed expansion into new markets, unexpected and adverse fluctuations in quarterly results, increased government regulation, adverse effects of regulatory actions arising in connection with the restatement of our previously issued financial statements, effects of 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 Item 1.A. of this 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information about market risk can be found in Item 7 of this report under the caption “Market Risk” and is hereby incorporated by reference into this Item 7A.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our Consolidated Financial Statements can be found beginning on Page F-1 of this Annual Report, and the relevant portions of those statements and the accompanying notes are hereby incorporated by reference into this Item 8.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. 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”) is properly recorded, processed, summarized and reported, within the time periods specified in the SEC’s 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) Our Evaluation of AFC’s Disclosure Controls and Procedures

We evaluated the effectiveness of the design and operation of AFC’s disclosure controls and procedures as of the end of our fiscal year 2008, 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 management’s assessment, the CEO and CFO concluded that the Company’s disclosure controls and procedures were effective as of December 28, 2008 to ensure that information required to be disclosed 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 and accumulated and communicated to the Company’s management, including its principal executive and principal financial officers as appropriate to allow timely decisions regarding required disclosures.

(c) Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a — 15(f) under the Exchange Act. The Company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company’s financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 28, 2008, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework* . This evaluation was carried out under the supervision and with the participation of our management, including our CEO and CFO. Based on this assessment, management believes that as of December 28, 2008, the Company's internal control over financial reporting is effective.

Grant Thornton, LLP, our independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report, has issued an audit report on the operating effectiveness of the Company's internal control over financial reporting. This report can be found in section (e) below.

(d) Changes in Internal Control Over Financial Reporting

During the fourth quarter of 2008, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

(e) Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

Board of Directors and
Shareholders AFC Enterprises, Inc.

We have audited AFC Enterprises Inc.'s (a Minnesota Corporation, the "Company") internal control over financial reporting as of December 28, 2008, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 28, 2008, based on criteria established in Internal Control — Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 28, 2008 and December 30, 2007, and the related consolidated statements of operations, shareholders' equity (deficit), and cash flows for each of the three fiscal years in the period ended December 28, 2008 and our report dated March 11, 2009 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Atlanta, Georgia
March 11, 2009

Item 9B. OTHER INFORMATION

None

PART III.

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding our directors, executive officers, audit committee and our audit committee financial expert required by this Item 10 is included in our definitive Proxy Statement for the 2009 Annual Meeting of Stockholders and such disclosure is incorporated herein by reference. Biographical information on our executive officers is contained in Item 4A of this Annual Report on Form 10-K and is incorporated herein by reference.

We have adopted an Honor Code that applies to our directors and all of our employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of the Honor Code is available on our website at www.afce.com. Copies will be furnished upon request. You may mail your requests to the following address: Attn: Office of General Counsel, 5555 Glenridge Connector, NE, Suite 300, Atlanta GA, 30342. If we make any amendments to the Honor Code other than technical, administrative, or other non-substantive amendments, or grant any waivers, from the Honor Code, we will disclose the nature of the amendment or waiver, its effective date and to who it applies on our website or in a report on Form 8-K filed with the SEC.

Item 11. EXECUTIVE COMPENSATION

Information regarding executive compensation required by this Item 11 is included in our definitive Proxy Statement for the 2009 Annual Meeting of Stockholders and such disclosure is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding security ownership of certain beneficial owners and management and related stockholder matters required by this Item 12 is included in our definitive Proxy Statement for the 2009 Annual Meeting of Stockholders and such disclosure is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions and director independence required by this Item 13 is included in our definitive Proxy Statement for the 2009 Annual Meeting of Stockholders and such disclosure is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The Company’s independent registered public accounting firm is Grant Thornton LLP. Information regarding principal accountant fees and services required by this Item 14 is included in our definitive Proxy Statement for the 2009 Annual Meeting of Stockholders and such disclosure is incorporated herein by reference.

PART IV.

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements

The following consolidated financial statements appear beginning on Page F-1 of the report:

We have omitted all other schedules because the conditions requiring their filing do not exist or because the required information appears in our Consolidated Financial Statements, including the notes to those statements.

(b) Exhibits

Exhibit Number	Description
2.1(h)	Stock Purchase Agreement between AFC Enterprises, Inc. and Starbucks Corporation, dated as of April 15, 2003.
2.2(n)	First Amendment to Stock Purchase Agreement between AFC Enterprises, Inc. and Starbucks Corporation, dated as of June 30, 2003.
2.3(n)	Second Amendment to Stock Purchase Agreement between AFC Enterprises, Inc. and Starbucks Corporation, dated as of July 11, 2003.
2.4(n)	Third Amendment to Stock Purchase Agreement between AFC Enterprises, Inc. and Starbucks Corporation, dated as of November 19, 2003.
2.5(j)	Stock Purchase Agreement by and between AFC Enterprises, Inc. and Focus Brands Inc. dated as of September 3, 2004.
2.6(j)	First Amendment to Stock Purchase Agreement by and between AFC Enterprises, Inc. and Focus Brands Inc. dated as of November 1, 2004.
2.7(j)	Second Amendment to Stock Purchase Agreement by and between AFC Enterprises, Inc. and Focus Brands Inc. dated as of November 4, 2004.
2.8(k)	Asset Purchase Agreement by and among AFC Enterprises, Inc. and Cajun Holding Company dated as of October 30, 2004.
2.9(l)	First Amendment to Asset Purchase Agreement by and between AFC Enterprises, Inc. and Cajun Holding Company dated as of December 28, 2004.
3.1(c)	Articles of Incorporation of AFC Enterprises, Inc., as amended, dated June 24, 2002.
3.2(y)	Amended and Restated Bylaws of AFC Enterprises, Inc.
4.1(o)	Form of registrant's common stock certificate.
10.1(e)	Form of Popeyes Development Agreement, as amended.
10.2(e)	Form of Popeyes Franchise Agreement.
10.3(a)	Formula Agreement dated July 2, 1979 among Alvin C. Copeland, Gilbert E. Copeland, Mary L. Copeland, Catherine Copeland, Russell J. Jones, A. Copeland Enterprises, Inc. and Popeyes Famous Fried Chicken, Inc., as amended to date.
10.4(a)	Supply Agreement dated March 21, 1989 between New Orleans Spice Company, Inc. and Biscuit Investments, Inc.

Exhibit Number	Description
10.5(a)	Recipe Royalty Agreement dated March 21, 1989 by and among Alvin C. Copeland, New Orleans Spice Company, Inc. and Biscuit Investments, Inc.
10.6(a)	Licensing Agreement dated March 11, 1976 between King Features Syndicate Division of The Hearst Corporation and A. Copeland Enterprises, Inc.
10.7(a)	Assignment and Amendment dated January 1, 1981 between A. Copeland Enterprises, Inc., Popeyes Famous Fried Chicken, Inc. and King Features Syndicate Division of The Hearst Corporation.
10.8(a)	Letter Agreement dated September 17, 1981 between King Features Syndicate Division of The Hearst Corporation, A. Copeland Enterprises, Inc. and Popeyes Famous Fried Chicken, Inc.
10.9(a)	License Agreement dated December 19, 1985 by and between King Features Syndicate, Inc., The Hearst Corporation, Popeyes, Inc. and A. Copeland Enterprises, Inc.
10.10(a)	Letter Agreement dated July 20, 1987 by and between King Features Syndicate, Division of The Hearst Corporation, Popeyes, Inc. and A. Copeland Enterprises, Inc.
10.11(n)	Amendment dated January 1, 2002 by and between Hearst Holdings, Inc., King Features Syndicate Division and AFC Enterprises, Inc.
10.12(a)	1992 Stock Option Plan of AFC, effective as of November 5, 1992, as amended to date.*
10.13(a)	1996 Nonqualified Performance Stock Option Plan — Executive of AFC, effective as of April 11, 1996.*
10.14(a)	1996 Nonqualified Performance Stock Option Plan — General of AFC, effective as of April 11, 1996.*
10.15(a)	1996 Nonqualified Stock Option Plan of AFC, effective as of April 11, 1996.*
10.16(a)	Form of Nonqualified Stock Option Agreement — General between AFC and stock option participants.*
10.17(a)	Form of Nonqualified Stock Option Agreement — Executive between AFC and certain key executives.*
10.18(a)	1996 Employee Stock Bonus Plan — Executive of AFC effective as of April 11, 1996.*
10.19(a)	1996 Employee Stock Bonus Plan — General of AFC effective as of April 11, 1996.*
10.20(a)	Form of Stock Bonus Agreement — Executive between AFC and certain executive officers.*
10.21(a)	Form of Stock Bonus Agreement — General between AFC and certain executive officers.*
10.22(a)	Form of Secured Promissory Note issued by certain members of management.*
10.23(a)	Form of Stock Pledge Agreement between AFC and certain members of management.*
10.24(a)	Settlement Agreement between Alvin C. Copeland, Diversified Foods and Seasonings, Inc., Flavorite Laboratories, Inc. and AFC dated May 29, 1997.
10.25(a)	Indemnification Agreement dated April 11, 1996 by and between AFC and John M. Roth.*
10.26(a)	Indemnification Agreement dated May 1, 1996 by and between AFC and Kelvin J. Pennington.*
10.27(a)	Indemnification Agreement dated April 11, 1996 by and between AFC and Frank J. Belatti.*
10.28(e)	Substitute Nonqualified Stock Option Plan, effective March 17, 1998.*
10.29(f)	Indemnification Agreement dated May 16, 2001 by and between AFC and Victor Arias Jr.*
10.30(f)	Indemnification Agreement dated May 16, 2001 by and between AFC and Carolyn Hogan Byrd.*
10.31(f)	Indemnification Agreement dated August 9, 2001 by and between AFC and R. William Ide, III.*
10.32(g)	AFC Enterprises, Inc. Employee Stock Purchase Plan.*
10.33(g)	AFC Enterprises, Inc. 2002 Incentive Stock Plan.*
10.34(g)	AFC Enterprises, Inc. Annual Executive Bonus Program.*
10.35(n)	Employment Agreement effective as of February 12, 2004 between AFC Enterprises, Inc. and Henry Hope, III.*
10.36(p)	Indemnity Agreement dated October 14, 2004 by and between AFC Enterprises, Inc. and Supply Management Services, Inc.
10.37(p)	Indemnity Agreement dated February 5, 2004 by and between AFC Enterprises, Inc., Cajun Operating Company and Supply Management Services, Inc.

Exhibit Number	Description
10.38(d)	Second Amended and Restated Credit Agreement dated as of May 11, 2005 among AFC Enterprises, Inc., JPMorgan Chase and certain other lenders.
10.39(i)	Fourth Amendment to the 1992 Stock Option Plan of America's Favorite Chicken Company.
10.40(i)	Fifth Amendment to the America's Favorite Chicken Company 1996 Nonqualified Performance Stock Option Plan — General.*
10.41(i)	Amendment No. 1 to the America's Favorite Chicken Company 1996 Nonqualified Stock Option Plan.
10.42(i)	Second Amendment to the America's Favorite Chicken Company 1996 Nonqualified Performance Stock Option Plan — Executive.*
10.43(i)	Second Amendment to the AFC Enterprises, Inc. 2002 Incentive Stock Plan.*
10.44(i)	Indemnification Agreement between AFC and Peter Starrett.
10.45(s)	Indemnification Agreement dated November 28, 2006 by and between AFC and John M. Cranor, III.*
10.46(s)	Indemnification Agreement dated November 28, 2006 by and between AFC and Cheryl A. Bachelder.*
10.47(t)	Popeyes Chicken and Biscuits 2006 Bonus Plan.*
10.48(t)	Employment Agreement dated as of March 14, 2007 between AFC Enterprises, Inc. and James W. Lyons.*
10.49(t)	Employment Agreement dated as of March 14, 2007 between AFC Enterprises, Inc. and Robert Calderin.*
10.50(u)	Second Amendment to Second Amended and Restated Credit Agreement dated as of April 25, 2007.
10.51(v)	Non-Qualified Stock Option Certificate for Cheryl Bachelder (time-based vesting).*
10.52(v)	Non-Qualified Stock Option Certificate for Cheryl Bachelder (performance-based vesting).*
10.53(w)	Employment Agreement dated as of October 9, 2007 between AFC Enterprises, Inc. and Cheryl A. Bachelder.
10.54(m)	Accelerated Stock Repurchase Agreement by and between AFC Enterprises, Inc. and J.P. Morgan Securities Inc., as agent for JPMorgan Chase Bank, National Association, London Branch dated March 12, 2008.
10.55(x)	Amended and Restated Employment Agreement dated as of November 12, 2008 between the Company and Harold M. Cohen (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended October 5, 2008).
10.56(x)	Amended and Restated Employment Agreement dated as of November 12, 2008 between the Company and Henry Hope, III (incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended October 5, 2008).
10.57	Employment Agreement effective as of February 4, 2008 between the Company and Richard Lynch.
11.1**	Statement regarding computation of per share earnings.
23.1	Consent of Grant Thornton LLP
31.1	Certification Pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

† Certain portions of this exhibit have been granted confidential treatment.

* Management contract, compensatory plan or arrangement required to be filed as an exhibit.

** Data required by SFAS No. 128, *Earnings per Share* , is provided in Note 19 to our Consolidated Financial Statements in this Annual Report.

(a) Filed as an exhibit to the Registration Statement of AFC on Form S-4/A (Registration No. 333-29731) on July 2, 1997 and incorporated by reference herein.

(c) Filed as an exhibit to the Form 10-Q of AFC for the quarter ended July 14, 2002, on August 14, 2002 and incorporated by reference herein.

(d) Filed as an exhibit to the Form 8-K of AFC filed May 16, 2005 and incorporated by reference herein.

(e) Filed as an exhibit to the Registration Statement of AFC on Form S-1/A (Registration No. 333-52608) on January 22, 2001 and incorporated by reference herein.

(f) Filed as an exhibit to the Registration Statement of AFC on Form S-1 (Registration No. 333-73182) on November 13, 2001 and incorporated by reference herein.

(g) Filed as an exhibit to the Proxy Statement and Notice of 2002 Annual Shareholders Meeting of AFC on April 12, 2002 and incorporated by reference herein.

(h) Filed as an exhibit to the Form 8-K of AFC filed April 16, 2003 and incorporated by reference herein.

(i) Filed as an exhibit to the Form 10-Q of AFC for the quarter ended April 17, 2005, on May 27, 2005, and incorporated by reference herein.

(j) Filed as an exhibit to the Form 8-K of AFC filed November 5, 2004 and incorporated herein by reference.

(k) Filed as an exhibit to the Form 8-K of AFC filed November 2, 2004 and incorporated herein by reference.

(l) Filed as an exhibit to the Form 8-K of AFC filed January 5, 2005 and incorporated herein by reference.

(m) Filed as an exhibit to the Form 8-K of AFC filed on August 13, 2008 and incorporated herein by reference

(o) Filed as an exhibit to the Registration Statement of AFC on Form S-1/A (Registration No. 333-52608) on February 28, 2001 and incorporated by reference herein.

(p) Filed as an exhibit to the Form 8-K of AFC filed on August 21, 2007 and incorporated herein by reference.

(s) Filed as an exhibit to the Form 8-K of AFC filed November 29, 2006 and incorporated herein by reference.

(t) Filed as an exhibit to the Form 10-K of AFC for the fiscal year ended December 31, 2006 and incorporated herein by reference.

(u) Filed as an exhibit to the Form 8-K of AFC filed April 30, 2007 and incorporated herein by reference.

(v) Filed as an exhibit to the Form 8-K of AFC filed November 7, 2007 and incorporated herein by reference.

(w) Filed as an exhibit to the Form 8-K of AFC filed October 12, 2007 and incorporated herein by reference.

(x) Filed as an exhibit to the Form 10-Q of AFC for the quarter ended October 5, 2008 on November 12, 2008 and incorporated herein by reference.

(y) Filed as an exhibit to the Form 8-K of AFC filed on April 16, 2008 and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 11th day of March 2009.

AFC ENTERPRISES, INC.

By: /s/ CHERYL A. BACHELDER
Cheryl A. Bachelder
Chief Executive Officer

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

Signature	Title(s)	Date
/s/ CHERYL A. BACHELDER Cheryl A. Bachelder	Chief Executive Officer *(Principal Executive Officer)*	March 11, 2009
/s/ H. MELVILLE HOPE H. Melville Hope	Chief Financial Officer *(Principal Financial and Accounting Officer)*	March 11, 2009
/s/ JOHN M. CRANOR, III John M. Cranor, III	Director, Chairman of the Board	March 11, 2009
/s/ VICTOR ARIAS, JR. Victor Arias, Jr.	Director	March 11, 2009
/s/ CAROLYN H. BYRD Carolyn H. Byrd	Director	March 11, 2009
/s/ R. WILLIAM IDE, III R. William Ide, III	Director	March 11, 2009
/s/ KELVIN J. PENNINGTON Kelvin J. Pennington	Director	March 11, 2009
/s/ JOHN F. HOFFNER John F. Hoffner	Director	March 11, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
AFC Enterprises, Inc.

We have audited the accompanying consolidated balance sheets of AFC Enterprises, Inc. (a Minnesota Corporation) and subsidiaries (the "Company") as of December 28, 2008 and December 30, 2007, and the related consolidated statements of operations, shareholders' equity (deficit), and cash flows for each of the three years in the periods ended December 28, 2008, December 30, 2007 and December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AFC Enterprises, Inc. and subsidiaries as of December 28, 2008 and December 30, 2007, and the consolidated results of its operations and its consolidated cash flows for each of the three fiscal years in the period ended December 28, 2008 in conformity with accounting principles generally accepted in the United States of America.

As described in Notes 2, 13 and 18 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment", effective December 26, 2005 and Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109", effective January 1, 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AFC Enterprises Inc. and subsidiaries' internal control over financial reporting as of December 28, 2008, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 11, 2009 expressed an unqualified opinion.

/s/ Grant Thornton LLP

Atlanta, GA
March 11, 2009

AFC Enterprises, Inc.

Consolidated Balance Sheets
As of December 28, 2008 and December 30, 2007
(In millions, except share data)

	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2.1	$ 5.0
Accounts and current notes receivable, net	13.6	13.1
Assets held for sale	4.5	—
Other current assets	13.8	17.1
Total current assets	34.0	35.2
Long-term assets:		
Property and equipment, net	25.3	42.4
Goodwill	11.1	11.7
Trademarks and other intangible assets, net	48.2	51.6
Other long-term assets, net	13.4	14.1
Total long-term assets	98.0	119.8
Total assets	$ 132.0	$ 155.0
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 19.3	$ 26.1
Other current liabilities	13.6	14.9
Current debt maturities	4.7	14.0
Total current liabilities	37.6	55.0
Long-term liabilities:		
Long-term debt	114.5	118.8
Deferred credits and other long-term liabilities	19.2	21.5
Total long-term liabilities	133.7	140.3
Commitments and contingencies		
Shareholders' deficit:		
Preferred stock ($.01 par value; 2,500,000 shares authorized; 0 issued and outstanding)	—	—
Common stock ($.01 par value; 150,000,000 shares authorized; 25,294,973 and 27,356,105 shares issued and outstanding at the end of fiscal years 2008 and 2007, respectively)	0.3	0.3
Capital in excess of par value	110.5	127.7
Notes receivable from officers, including accrued interest	—	—
Accumulated deficit	(149.1)	(168.5)
Accumulated other comprehensive income (loss)	(1.0)	0.2
Total shareholders' deficit	(39.3)	(40.3)
Total liabilities and shareholders' deficit	$ 132.0	$ 155.0

See accompanying notes to consolidated financial statements.

AFC Enterprises, Inc.

Consolidated Statements of Operations
For Fiscal Years 2008, 2007 and 2006
(In millions, except per share data)

	2008	2007	2006
Revenues:			
Sales by company-operated restaurants	$ 78.3	$ 80.0	$ 65.2
Franchise revenues	84.6	82.8	82.6
Rent and other revenues	3.9	4.5	5.2
Total revenues	166.8	167.3	153.0
Expenses:			
Restaurant employee, occupancy and other expenses	41.4	40.7	33.7
Restaurant food, beverages and packaging	27.1	27.3	21.3
Rent and other occupancy expenses	2.4	2.3	2.7
General and administrative expenses	53.9	47.2	45.4
Depreciation and amortization	6.3	6.9	6.4
Other expenses (income), net	(4.6)	(2.7)	(1.8)
Total expenses	126.5	121.7	107.7
Operating profit	40.3	45.6	45.3
Interest expense, net	8.1	8.7	11.1
Income before income taxes and discontinued operations	32.2	36.9	34.2
Income tax expense	12.8	13.8	12.0
Income before discontinued operations	19.4	23.1	22.2
Discontinued operations, net of income taxes	—	—	0.2
Net income	$ 19.4	$ 23.1	$ 22.4
Earnings per common share, basic:			
Income before discontinued operations	$ 0.76	$ 0.81	$ 0.75
Discontinued operations, net of income taxes	—	—	0.01
Net income	$ 0.76	$ 0.81	$ 0.76
Earnings per common share, diluted:			
Income before discontinued operations	$ 0.76	$ 0.80	$ 0.74
Discontinued operations, net of income taxes	—	—	0.01
Net income	$ 0.76	$ 0.80	$ 0.75
Weighted-average shares outstanding:			
Basic	25.6	28.6	29.5
Diluted	25.7	28.8	29.8

See accompanying notes to consolidated financial statements.

AFC Enterprises, Inc.

Consolidated Statements of Changes in Shareholders' Deficit
For Fiscal Years 2008, 2007 and 2006
(In millions, except share data)

	Common Stock Number of Shares	Common Stock Amount	Capital in Excess of Par Value	Officer Notes Receivable	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 25, 2005	30,001,877	$ 0.3	$ 167.8	$ (1.1)	$ (216.8)	$ 1.1	$(48.7)
Net income	—	—	—	—	22.4	—	22.4
Net change in fair value of cash flow hedge, net of tax	—	—	—	—	—	0.1	0.1
Total comprehensive income							22.5
Issuance of common stock under stock option plans	1,012,480	—	10.5	—	—	—	10.5
Excess tax benefits from stock-based compensation	—	—	1.8	—	—	—	1.8
Repurchases and retirement of shares	(1,486,714)	—	(20.3)	—	—	—	(20.3)
Cancellation of shares	(21,839)	—	(0.4)	—	—	—	(0.4)
Issuance of restricted stock awards, net of forfeitures	55,896	—	—	—	—	—	—
Notes and interest receivable payments	(74,052)	—	(1.1)	1.1	—	—	—
Stock-based payment expense	—	—	3.4	—	—	—	3.4
Balance at December 31, 2006	29,487,648	0.3	161.7	—	(194.4)	1.2	(31.2)
Cumulative effect of adjustment from adoption of FIN 48 (Note 2)	—	—	—	—	2.6	—	2.6
Net income	—	—	—	—	23.1	—	23.1
Other comprehensive income:							
Net change in fair value of cash flow hedge, net of tax	—	—	—	—	—	(0.8)	(0.8)
Derivative loss realized in earnings during the period	—	—	—	—	—	(0.2)	(0.2)
Total comprehensive income							22.1
Issuance of common stock under stock option plans	333,933	—	3.3	—	—	—	3.3
Repurchases and retirement of shares	(2,496,030)	—	(39.4)	—	—	—	(39.4)
Excess tax benefits from stock-based compensation	—	—	0.9	—	—	—	0.9
Special cash dividend forfeited	—	—	—	—	0.2	—	0.2
Cancellation of shares	(33,916)	—	(0.5)	—	—	—	(0.5)
Issuance of restricted stock awards, net of forfeitures	64,470	—	—	—	—	—	—
Stock-based payment expense	—	—	1.7	—	—	—	1.7
Balance at December 30, 2007	27,356,105	0.3	127.7	—	(168.5)	0.2	(40.3)
Net income	—	—	—	—	19.4	—	19.4
Other comprehensive income:							
Net change in fair value of cash flow hedge, net of tax	—	—	—	—	—	(1.3)	(1.3)
Derivative loss realized in earnings during the period	—	—	—	—	—	0.1	0.1
Total comprehensive income							18.2
Repurchases and retirement of shares	(2,120,401)	—	(19.0)	—	—	—	(19.0)
Excess tax liabilities from stock-based compensation	—	—	(0.5)	—	—	—	(0.5)
Cancellation of shares	(31,031)	—	(0.2)	—	—	—	(0.2)
Issuance of restricted stock awards, net of forfeitures	90,300	—	—	—	—	—	—
Stock-based payment expense	—	—	2.5	—	—	—	2.5
Balance at December 28, 2008	25,294,973	$ 0.3	$ 110.5	$ —	$ (149.1)	$ (1.0)	$(39.3)

See accompanying notes to consolidated financial statements.

AFC Enterprises, Inc.

Consolidated Statements of Cash Flows
For Fiscal Years 2008, 2007 and 2006
(In millions)

	2008	2007	2006
Cash flows provided by (used in) operating activities:			
Net income	$ 19.4	$ 23.1	$ 22.4
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Discontinued operations	—	—	(0.2)
Depreciation and amortization	6.3	6.9	6.4
Asset write-downs	9.5	1.9	0.1
Net gain on sale of assets	(0.9)	(0.3)	(2.3)
Gain on insurance recoveries related to asset damages, net	(0.5)	(3.2)	—
Deferred income taxes	—	(0.5)	2.2
Non-cash interest, net	(0.1)	(0.3)	0.4
Provision for credit losses	0.1	0.4	(0.3)
Excess tax benefits from stock-based compensation	—	(0.9)	(1.8)
Stock-based compensation expense	2.5	1.7	3.4
Change in operating assets and liabilities:			
Accounts receivable	(0.6)	(0.6)	2.0
Prepaid income taxes	(0.4)	7.8	25.8
Other operating assets	1.1	0.4	(0.4)
Accounts payable and other operating liabilities	(9.3)	4.0	(9.0)
Net cash provided by operating activities of continuing operations	27.1	40.4	48.7
Cash flows provided by (used in) investing activities:			
Capital expenditures	(2.7)	(10.0)	(7.0)
Proceeds from dispositions of property and equipment	3.8	0.3	4.3
Property insurance proceeds	—	4.5	3.5
Acquisition of franchised restaurants	—	(0.4)	(9.3)
Purchases of short-term investments	—	—	(5.9)
Sales and maturities of short-term investments	—	—	36.7
Proceeds from notes receivable	0.8	0.8	0.8
Net cash provided by (used in) investing activities	1.9	(4.8)	23.1
Cash flows provided by (used in) financing activities:			
Principal payments — 2005 credit facility (term loan)	(8.9)	(6.9)	(59.5)
Borrowings under 2005 revolving credit facility	20.0	9.5	—
Principal payments — 2005 revolving credit facility	(24.5)	(4.5)	—
Principal payments — other notes (including VIEs)	(0.2)	(0.1)	(1.3)
Special cash dividend	(0.5)	(0.7)	(0.7)
Share repurchases	(19.0)	(39.4)	(24.4)
Proceeds from exercise of employee stock options	—	3.3	10.7
Excess tax benefits from stock-based compensation	—	0.9	1.8
Decrease in restricted cash	2.6	1.1	0.7
Debt issuance costs	—	(0.2)	(0.1)
Other, net	(1.4)	(0.3)	(0.5)
Net cash (used in) financing activities	(31.9)	(37.3)	(73.3)
Net (decrease) in cash and cash equivalents	(2.9)	(1.7)	(1.5)
Cash and cash equivalents at beginning of year	5.0	6.7	8.2
Cash and cash equivalents at end of year	$ 2.1	$ 5.0	$ 6.7

See accompanying notes to consolidated financial statements.

AFC ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2008, 2007 and 2006

Note — 1 Description of Business

Continuing Operations. AFC Enterprises, Inc. ("AFC" or "the Company") develops, operates and franchises quick-service restaurants under the trade name Popeyes ® Chicken & Biscuits and Popeyes ® Louisiana Kitchen (collectively "Popeyes") in 44 states, the District of Columbia, Puerto Rico, Guam and 25 foreign countries.

Discontinued Operations. On December 28, 2004, the Company sold its Church's Chicken ® ("Church's") division to an affiliate of Crescent Capital Investments, Inc. On November 4, 2004, the Company sold its Cinnabon ® ("Cinnabon") subsidiary to Focus Brands, Inc. See Note 21 for information concerning these divestitures.

In the accompanying consolidated financial statements, financial information relating to the Company's divested businesses are presented as discontinued operations. Unless otherwise noted, discussions and amounts throughout these notes relate to AFC's continuing operations.

Note — 2 Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of AFC Enterprises, Inc. and certain variable interest entities that the Company is required to consolidate pursuant to Financial Accounting Standards Board Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* , as revised in December 2003 ("FIN 46R"). All significant intercompany balances and transactions are eliminated in consolidation.

As of the beginning of the Company's first fiscal quarter of 2004, the Company adopted FIN 46R and began consolidating three franchisees. The Company allocates earnings and losses of these franchisees to the common equity holders as a component of minority interest. However, the Company does not allocate any losses to the common equity holders if doing so would reduce their common equity interests below zero. During 2004, two of these VIE relationships were terminated.

During the second quarter of 2006, the Company purchased all the assets of the third previously consolidated variable interest entity and discontinued consolidating its balance sheet and operations. The assets were purchased for the assumption of the variable interest entity's long-term debt and the forgiveness of the outstanding payable balance owed to the Company. Subsequent to the purchase of the assets, the Company closed one of the restaurants and sold the remaining two restaurants to an existing franchisee for approximately $2.5 million. The sale transaction qualified for full accrual method accounting under Statement of Financial Accounting Standards ("SFAS") No. 66, *Accounting for Sales of Real Estate* . Accordingly, the Company recognized a net gain on the sale of the assets of approximately $1.4 million.

During 2006, amounts included in sales by company-operated restaurants associated with VIE operations were $1.2 million. During 2006, royalties and rents of $0.1 million were eliminated in consolidation.

The Company has other VIE relationships for which it is not the primary beneficiary. These relationships arose in connection with certain loan guarantees that are described in Note 15.

Use of Estimates. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 at the date of the consolidated financial statements and the reported amounts of revenues and expenses during each reporting period. Actual results could differ from those estimates.

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

AFC ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2008, 2007 and 2006 — (Continued)

The Company also reclassified rent and other occupancy expenses associated with properties leased or subleased to franchisees and other third parties from “General and administrative expenses” to a “Rent and other occupancy expenses” in its Consolidated Statements of Operations. For fiscal years 2007 and 2006, these expenses were approximately $2.3 million and $2.7 million, respectively. The reclassification had no impact on operating profit or net income.

Fiscal Year. The Company has a 52/53-week fiscal year that ends on the last Sunday in December. The 2008, 2007 and 2006 fiscal years consist of 52 weeks, 52 weeks, and 53 weeks, respectively.

Cash and Cash Equivalents. The Company considers all money market investment instruments and certificates of deposit with original maturities of three months or less to be cash equivalents. Under the terms of the Company’s bank agreements, outstanding checks in excess of the cash balances in the Company’s primary disbursement accounts create a bank overdraft liability. Bank overdrafts were insignificant at December 28, 2008 and December 30, 2007.

Supplemental Cash Flow Information.

(in millions)	2008	2007	2006
Interest paid, net of capitalized amounts	$ 8.9	$7.1	$ 14.1
Income taxes (refunded)/paid, net	13.2	5.8	(16.9)
Property acquired under capital lease obligations	—	0.9	0.2

Accounts Receivable, Net. At December 28, 2008 and December 30, 2007, accounts receivable, net were $12.8 million and $12.3 million, respectively. Accounts receivable consist primarily of amounts due from franchisees related to royalties, and rents, amounts due from insurance carriers, and various miscellaneous items. The accounts receivable balance is stated net of an allowance for doubtful accounts. The Company reserves a franchisee’s receivable balance based upon pre-defined aging criteria and upon the occurrence of other events that indicate that it may or may not collect the balance due. During 2008, 2007 and 2006, changes in the allowance for doubtful accounts were as follows:

(in millions)	2008	2007	2006
Balance, beginning of year	$ 0.6	$0.1	$ 1.7
Provisions for loss	0.1	0.4	(0.3)
Write-offs	(0.1)	—	(0.2)
Fully reserved accounts receivable converted to notes receivable	—	—	(1.0)
Other (principally associated with the advertising fund)	0.1	0.1	(0.1)
Balance, end of year	$ 0.7	$0.6	$ 0.1

Notes Receivable, Net. At December 28, 2008 and December 30, 2007, notes receivable, net, were approximately $12.4 million and $12.4 million, respectively, of which $0.8 million and $0.8 million, respectively, was current.

At December 28, 2008, several notes aggregating approximately $1.0 million had zero percent interest rates and the remaining notes had fixed interest rates that ranged from 6% to 10%. The zero percent interest rate notes are primarily past due royalties converted from accounts receivable and are substantially reserved for in the allowance for uncollectible notes receivable.

Notes receivable consist primarily of consideration received in conjunction with the sale of Company assets in three distinct transactions: (1) the sale of Church’s to an affiliate of Crescent Capital Investments, Inc. during 2005; (2) the sale of 24 Popeyes company-operated restaurants to a franchisee during 2001; and (3) the sale of an equipment manufacturing operation during 2000. Notes receivable also include notes from franchisees to finance certain past due franchise revenues, rents and interest. The notes receivable balance is stated net of an allowance for uncollectibility, which is evaluated each reporting period on a note-by-note basis. The balance in the allowance account at December 28, 2008 and December 30, 2007, was approximately $0.9 million and $1.0 million, respectively. The 2008 activity represents $0.1 million in net recovery of fully reserved notes receivable.

Inventories. Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value and consist principally of food, beverage items, paper and supplies. Inventories of $0.5 million at both December 28, 2008 and December 30, 2007 were included as a component of “Other current assets.”

Assets Held for Sale. Assets held for sale consists of property and equipment related to restaurants and land that are currently being marketed for re-franchising. Assets held for sale are reported at the lower of carrying value or estimated fair value less costs to sell.

In the first quarter of 2008, the Company commenced a process to identify experienced and qualified operators to enter into long-term franchising agreements and to purchase certain of its company-operated restaurant assets. During the second and third quarters of 2008, the Company’s Board of Directors authorized the negotiation of definitive agreements for the re-franchising and sale of 25 company-operated restaurant assets in Atlanta, Georgia and four company-operated restaurants in Nashville, Tennessee. As a result, the Company recognized an impairment charge of $9.2 million during 2008 which represents the excess of the carrying values of the property and equipment, goodwill and other intangible assets associated with the restaurants over their estimated fair values, less cost to sell. The fair value of the disposal groups were estimated using a market approach in which the Company considered prices and other relevant information generated by market transactions. The impairment charge is recorded as a component of “Other expenses (income), net” in the fiscal year 2008 Consolidated Statements of Operations. During the third quarter of 2008, the Company completed the re-franchising and sale of 11 company-operated restaurants in Atlanta, Georgia for net proceeds of $3.5 million from the sale of assets and new franchise and development agreements. On January 26, 2009, the company completed the re-franchising and sale of three company-operated restaurants in Nashville, Tennessee for net proceeds of $1.1 million from the sale of assets and new franchise agreements. The remaining Nashville restaurant was permanently closed on December 28, 2008. The Company continues to negotiate definitive agreements for the remaining 14 company-operated restaurants in Atlanta, Georgia; however, at this time the Company is unable to predict the timing of when a sale will be completed. The adjusted carrying value of the remaining Atlanta and Nashville restaurant assets as of December 28, 2008 was $4.5 million and is classified as “Assets held for sale” on the consolidated balance sheet.

Property and Equipment. Property and equipment is stated at cost less accumulated depreciation.

Provisions for depreciation are made using the straight-line method over an asset’s estimated useful life: 7-35 years for buildings; 5-15 years for equipment; and in the case of leasehold improvements and capital lease assets, the lesser of the economic life of the asset or the lease term (generally 3-20 years). During 2008, 2007 and 2006, depreciation expense was approximately $5.6 million $6.1 million, and $5.9 million, respectively.

The Company evaluates property and equipment for impairment on an annual basis (during the fourth quarter of each year) or when circumstances arise indicating that a particular asset may be impaired. For property and equipment at company-operated restaurants, the Company performs its annual impairment evaluation on a site-by-site basis. The Company evaluates restaurants using a “two-year history of operating losses” as its primary indicator of potential impairment. Based on the best information available, the Company writes down an impaired restaurant to its estimated fair market value, which becomes its new cost basis. The Company generally measures the estimated fair market value of a restaurant by discounting its estimated future cash flows. In addition, when the Company decides to close a restaurant, the restaurant is reviewed for impairment and depreciable lives are re-evaluated. The impairment evaluation is based on the estimated cash flows from continuing use through the expected disposal date and the expected terminal value.

AFC ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2008, 2007 and 2006 — (Continued)

Goodwill, Trademarks, and Other Intangible Assets. Amounts assigned to goodwill arose from the allocation of reorganization value when the Company emerged from bankruptcy in 1992 and from business combinations accounted for by the purchase method. Amounts assigned to trademarks arose from the allocation of reorganization value when the Company emerged from bankruptcy in 1992. These assets are deemed indefinite-lived assets and are not amortized for financial reporting purposes.

The Company's finite-lived intangible assets (primarily re-acquired franchise rights) are amortized on a straight-line basis over 10 to 20 years based on the remaining life of the original franchise agreement or lease agreement.

During 2008, the Company impaired $0.6 million of its company-operated restaurant segment goodwill in connection with the re-franchising of its Atlanta, Georgia and Nashville, Tennessee markets. See Assets Held for Sale discussion above.

The Company evaluates goodwill and trademarks for impairment on an annual basis (during the fourth quarter of each year) or more frequently when circumstances arise indicating that a particular asset may be impaired. The impairment evaluation for goodwill includes a comparison of the fair value of each of the Company's reporting units with their carrying value. The Company's reporting units are its business segments. Goodwill is allocated to each reporting unit for purposes of this analysis. Goodwill associated with bankruptcy reorganization value is assigned to reporting units using a relative fair value approach. Goodwill associated with a business combination is allocated to the reporting unit or a component of the reporting unit expected to benefit from the synergies of the combination. For goodwill impairment testing purposes, goodwill is assigned to the component of the reporting unit associated with a business combination for a two year period following the combination. After two years, goodwill from a business combination is allocated to the reporting unit for impairment evaluation purposes. The fair value of each reporting unit is the amount for which the reporting unit could be sold in a current transaction between willing parties. The Company estimates the fair value of its reporting units using a discounted cash flow model. The operating assumptions used in the discounted cash flow model are generally consistent with the reporting unit's past performance and with the projections and assumptions that are used in the Company's current operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions. If a reporting unit's carrying value exceeds its fair value, goodwill is written down to its implied fair value. The Company follows a similar analysis for the evaluation of trademarks, but that analysis is performed on a company-wide basis. During 2008, 2007 and 2006, there was no impairment of goodwill or trademarks identified during the Company's annual impairment testing.

Costs incurred to renew or extend the term of recognized intangibles are expensed as incurred and reported as a component of "General and administrative expenses."

Debt Issuance Costs. Costs incurred securing new debt facilities are capitalized and then amortized, utilizing a method that approximates the effective interest method. Absent a basis for cost deferral, debt amendment fees are expensed as incurred. In the Company's Consolidated Statements of Operations, the amortization of debt issuance costs, any write-off of debt issuance costs when a debt facility is modified or prematurely paid off, and debt amendment fees are included as a component of "Interest expense, net."

Advertising Fund. The Company maintains a cooperative advertising fund that receives contributions from the Company and from its franchisees, based upon a percentage of restaurant sales, as required by their franchise agreements. This fund is used exclusively for marketing of the Popeyes brand. The Company acts as an agent for the franchisees with regards to their contributions to the fund.

In the Company's consolidated financial statements, the advertising fund is accounted for in accordance with SFAS No. 45, *Accounting for Franchise Fee Revenue* . Contributions received and expenses of the advertising fund are excluded from the Company's Consolidated Statements of Operations. The balance sheet components of the fund are consolidated by line item in the Company's consolidated balance sheets with the exception of (1) cash, which is restricted as to use and included as a component of “Other current assets” and (2) the net fund balance, which is included in the Company’s consolidated balance sheets as a component of “Accounts payable.” The net fund balance was approximately $2.8 million at December 28, 2008 and $5.8 million at December 30, 2007.

Amounts associated with the advertising fund included in our balance sheets at December 28, 2008 and December 30, 2007 were as follows:

(in millions)	2008	2007
Accounts and notes receivable, net	$ 4.2	$ 3.7
Other current assets	8.6	11.4
	$12.8	$15.1
Accounts payable	$10.0	$ 9.3
Net fund balance	2.8	5.8
	$12.8	$15.1

The Company’s contributions to the advertising fund based on company-operated restaurant sales are reflected in the Company’s Consolidated Statements of Operations as a component of “Restaurant employee, occupancy and other expenses.” Additional contributions to the advertising fund for national cable advertising and other marketing related costs are expensed as a component of “General and administrative expenses.” Advertising fund contributions and other advertising costs are expensed as incurred. During 2008, 2007 and 2006, the Company’s advertising costs were approximately $5.4 million, $3.5 million and $3.3 million, respectively.

Leases. The Company accounts for leases in accordance with SFAS No. 13, *Accounting for Leases* , and other related authoritative guidance. When determining the lease term, the Company includes option periods for which failure to renew the lease imposes economic penalty on the Company in such an amount that a renewal appears, at the inception of the lease, to be reasonably assured. The primary economic penalty is associated with the loss of use of leasehold improvements which might be impaired if the Company chooses not to exercise the renewal options.

The Company records rent expense for leases that contain scheduled rent increases on a straight-line basis over the lease term, including any option periods considered in the determination of that lease term. Contingent rentals are generally based on sales levels in excess of stipulated amounts, and thus are not considered minimum lease payments and are included in rent expense as they accrue.

Accumulated Other Comprehensive Income (Loss). Comprehensive income (loss) is net income plus the change in fair value of the Company’s cash flow hedge discussed in Note 9 plus derivative (gains) or losses realized in earnings during the period. Amounts included in accumulated other comprehensive income (loss) for the Company’s derivative instruments are recorded net of the related income tax effects.

Revenue Recognition — Sales by Company-Operated Restaurants. Revenues from the sale of food and beverage products are recognized on a cash basis. The Company presents sales net of sales tax and other sales related taxes.

Revenue Recognition — Franchise Operations. Revenues from franchising activities include development fees associated with a franchisee’s planned development of a specified number of restaurants within a defined geographic territory, franchise fees associated with the opening of new restaurants, and ongoing royalty fees which are based on a percentage of restaurant sales. Development fees and franchise fees are recorded as deferred franchise revenue when received and are recognized as revenue when the restaurants covered by the fees are opened or all material services or conditions relating to the fees have been substantially performed or satisfied by the Company. The Company recognizes royalty revenues as earned. Franchise renewal fees are recognized when a renewal agreement becomes effective.

Rent and Other Revenues. Rent and other revenues are composed of rental income associated with properties leased or subleased to franchisees. Rental income is recognized on the straight-line basis over the lease term.

Cash Consideration from Vendors. The Company has entered into long-term beverage supply agreements with certain major beverage vendors. Pursuant to the terms of these arrangements, marketing rebates are provided to the Company and its advertising fund from the beverage vendors based upon the dollar volume of purchases for company-operated restaurants and franchised restaurants. For Company-operated restaurants, these incentives are recognized as earned and in accordance with Emerging Issues Task Force Issue 02-16, *"Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor,"* and are classified as a reduction of "Restaurant food, beverages and packaging" in the Consolidated Statements of Operations. The incentives recognized by company-operated restaurants were approximately $0.9 million, $0.7 million and $0.4 million in 2008, 2007 and 2006, respectively. Rebates earned and contributed to the cooperative advertising fund are excluded from the Company's Consolidated Statements of Operations.

Gains and Losses Associated With Unit Conversions. From time to time, AFC engages in transactions that are commonly referred to as unit conversions. Typically, these transactions involve the sale of a company-operated restaurant to an existing or new franchisee or the purchase of a restaurant from a franchisee.

The Company defers gains on the sale of company-operated restaurants when the Company has continuing involvement in the assets sold beyond the customary franchisor role. The Company's continuing involvement generally includes seller financing or the leasing of real estate to the franchisee. Deferred gains are recognized over the remaining term of the continuing involvement. Losses are recognized immediately.

In 2008, there was a deferred gain of $0.1 million associated with the sale of company stores. There were no sales of company-operated restaurants in 2007. During 2006, gains and losses associated with the sale of company-operated restaurants were insignificant. During 2008, 2007 and 2006, previously deferred gains of approximately $0.5 million, $0.2 million, and $0.7 million, respectively, were recognized in income as a component of "Other expenses (income), net" in the accompanying Consolidated Statements of Operations.

Research and Development. Research and development costs are expensed as incurred. During 2008, 2007 and 2006, such costs were approximately $1.3 million, $1.2 million, and $1.1 million, respectively.

Foreign Currency Transactions. Substantially all of the Company's foreign-sourced revenues (principally royalties from international franchisees) are recorded in U.S. dollars. The aggregate effects of any exchange gains or losses associated with continuing operations are included in the accompanying Consolidated Statements of Operations as a component of "General and administrative expenses." During 2008 the net loss from the exchange rate was $0.1 million. During 2007 and 2006, net foreign currency gains and losses were insignificant.

Income Taxes. The Company accounts for income taxes in accordance with SFAS No. 109, *"Accounting for Income Taxes" ("SFAS 109").* Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss, capital loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company provides a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes" ("FIN 48"), an interpretation of SFAS 109.* FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e. a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. FIN 48 also requires that changes in judgment that result in subsequent recognition, derecognition or change in a measurement of a tax position taken in a prior annual period (including any related interest and penalties) be recognized as a discrete item in the interim period in which the change occurs. Prior to 2007, tax liabilities had been recorded when, in management's judgment, it was not probable that the Company's tax position would ultimately be sustained. As a result of implementing FIN 48, the Company recognized a $2.6 million decrease in its liability for uncertain tax positions, which was accounted for as an adjustment to the beginning balance of accumulated deficit.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits as components of "Income tax expense."

See Note 18 for additional information regarding income taxes.

Stock-Based Employee Compensation. Effective December 26, 2005, the Company adopted SFAS No. 123 (R), *Share-Based Payment* ("SFAS 123R"), which requires the measurement and recognition of compensation cost at fair value for all share-based payments, including stock options, restricted stock awards and restricted share units. The Company adopted SFAS 123R using the modified prospective transition method and, as a result, did not retroactively adjust results from prior periods. Under this transition method, stock-based compensation is recognized for: (1) expense related to the remaining non-vested portion of all stock awards granted prior to December 26, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123") and the same straight-line attribution method used to determine the pro forma disclosures under SFAS 123; and (2) expense related to all stock awards granted on or subsequent to December 26, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. The fair value of stock options with service and market conditions is valued utilizing a Monte Carlo simulation embedded in a lattice model. The fair value of all other stock options is estimated using a Black-Scholes option-pricing model. The fair value of stock-based compensation is amortized on the graded vesting attribution method. The Company issues new shares for common stock upon exercise of stock options. SFAS 123R requires the Company to estimate forfeitures in calculating the expense relating to stock-based compensation rather than recognizing forfeitures as they occur. The adjustment to apply estimated forfeitures to previously recognized stock-based compensation was considered immaterial and as such was not classified as a cumulative effect of a change in accounting principle.

The Company recorded $2.5 million ($1.5 million net of tax), $1.7 million ($1.1 million net of tax), and $3.4 million ($2.1 million net of tax), in total stock-based compensation expense during 2008, 2007 and 2006, respectively.

Fair Value Measurements. Effective December 31, 2007, the Company determines the fair market values of its financial assets and liabilities, as well as non-financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis, based on the fair value hierarchy established in SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). The standard describes three levels of inputs that may be used to measure fair value.

SFAS No. 157 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following categories:

- Level 1 — inputs to the valuation methodology are quoted prices (unadjusted) for an identical asset or liability in an active market
- Level 2 — inputs to the valuation methodology include quoted prices for a similar asset or liability in an active market or model-derived valuations in which all significant inputs are observable for substantially the full term of the asset or liability

- Level 3 — inputs to the valuation methodology are unobservable and significant to the fair value measurement of the asset or liability

Pursuant to the Financial Accounting Standards Boards ("FASB") Staff Position No. 157-2, "Effective Date of FASB Statement No. 157" ("FSB No. 157-2"), the effective date of SFAS No. 157 for certain non-financial assets and liabilities that are measured at fair value but are recognized or disclosed at fair value on a non-recurring basis has been deferred to fiscal years beginning after November 15, 2008. The Company is primarily impacted by this deferral as it relates to non-financial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) and fair value measurements in impairment testing. The Company will adopt these remaining provisions of SFAS No. 157 effective December 29, 2008. The Company does not expect the impact to be significant on its financial position, results of operations and cash flows.

The following table reflects assets and liabilities that are measured and carried at fair value on a recurring basis as of December 28, 2008:

(in millions)	Fair Value Measurement Using Level 1	Level 2	Level 3	Carrying Value
Financial Assets				
Cash equivalents	$ 2.2	$ —	$ —	$ 2.2
Total assets at fair value	**$ 2.2**	**$ —**	**$ —**	**$ 2.2**
Financial Liabilities				
Interest rate swap agreement (Note 9)	$ —	$ 0.5	$ —	$ 0.5
Total liabilities at fair value	**$ —**	**$ 0.5**	**$ —**	**$ 0.5**

At December 28, 2008 and December 30, 2007, 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 that it is not practicable to estimate the fair value of its notes receivable, because there is no ready market for sale of these instruments. The counterparties to these notes are private business enterprises. 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. See Note 9 for a discussion of the fair value of the Company's interest rate swap agreements.

Fair Value Option for Financial Assets and Financial Liabilities. In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 provides companies with an option to report selected financial assets and financial liabilities at fair value with changes in the fair value recognized in earnings. The statement's objective is to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without applying complex hedge accounting provisions. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company did not elect to begin reporting any financial assets or liabilities at fair value upon adoption of SFAS 159; therefore the standard did not have any effect on the consolidated financial statements.

Note — 3 Recent Accounting Pronouncements That the Company Has Not Yet Adopted

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities ("SFAS 161"). SFAS 161 amends and expands the disclosure requirements in SFAS 133, Accounting for Derivative Instruments and Hedging Activities. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, the year beginning December 29, 2008 for the Company. The implementation of this statement will not have a material impact on the consolidated financial statements.

AFC ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2008, 2007 and 2006 — (Continued)

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

Note — 4 Other Current Assets

(in millions)	2008	2007
Restricted cash	$ 6.7	$ 9.3
Other current assets of the advertising fund	1.9	2.1
Prepaid insurance	0.5	1.7
Deferred tax assets	1.6	1.9
Prepaid income taxes	0.9	0.5
Prepaid expenses and other current assets	2.2	1.6
	$13.8	$17.1

At December 28, 2008 and December 30, 2007, all of the restricted cash related to the Popeyes' cooperative advertising fund.

Note — 5 Property and Equipment, Net

(in millions)	2008	2007
Land	$ 4.0	$ 4.5
Buildings and improvements	23.2	36.9
Equipment	22.6	28.7
Properties held for sale and other	0.1	0.1
	49.9	70.2
Less accumulated depreciation and amortization	(24.6)	(27.8)
	$ 25.3	$ 42.4

At December 28, 2008 and December 30, 2007, property and equipment, net included capital lease assets with a gross book value of $0.8 million and $1.9 million, respectively, and accumulated amortization of zero and $0.6 million, respectively.

Note — 6 Trademarks and Other Intangible Assets, Net

(in millions)	2008	2007
Non-amortizable intangible assets:		
Trademarks	$42.0	$42.0
Other	0.6	0.6
	42.6	42.6
Amortizable intangible assets:		
Re-acquired franchise rights	7.1	10.7
Accumulated amortization	(1.5)	(1.7)
	5.6	9.0
	$48.2	$51.6

AFC ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2008, 2007 and 2006 — (Continued)

Amortization expense was approximately $0.7 million, $0.8 million and $0.5 million for 2008, 2007 and 2006, respectively. For each of the upcoming five years, estimated amortization expense is expected to be approximately $0.6 million per year. The remaining weighted average amortization period for these assets is 11 years.

During 2008, the Company impaired $2.4 million of re-acquired franchise rights in connection with re-franchising its Atlanta, Georgia and Nashville, Tennessee markets. As of December 28, 2008, the Company classified $0.3 million of re-acquired franchise rights in the Nashville market as "Assets held for sale." See Note 2 for further discussion.

Note — 7 Other Long-Term Assets, Net

(in millions)	2008	2007
Noncurrent notes receivable, net	$11.6	$11.6
Debt issuance costs, net	1.1	1.7
Interest rate swap agreements	—	0.2
Other	0.7	0.6
	$13.4	$14.1

Note — 8 Other Current Liabilities

(in millions)	2008	2007
Accrued wages, bonuses and severances	$ 3.1	$ 1.9
Accrued income taxes payable and income tax reserves	5.8	6.2
Accrued interest	1.7	2.2
Other	3.0	4.6
	$13.6	$14.9

Note — 9 Long-Term Debt and Other Borrowings

(in millions)	2008	2007
2005 Credit Facility:		
Revolving credit facility	$ 0.5	$ 5.0
Term B loan	114.2	123.1
Capital lease obligations	1.6	1.6
Other notes	2.9	3.1
	119.2	132.8
Less current portion	(4.7)	(14.0)
	$114.5	$118.8

2005 Credit Facility. On May 11, 2005, and as amended April 14, 2006 and April 27, 2007, the Company entered into a bank credit facility (the "2005 Credit Facility") with J.P. Morgan Chase Bank and certain other lenders, which consists of a $60.0 million, five-year revolving credit facility and a six-year $190.0 million term loan.

The revolving credit facility and term loan bear interest based upon alternative indices (LIBOR, Federal Funds Effective Rate, Prime Rate and a Base CD rate) plus an applicable margin as specified in the facility. The margins on the revolving credit facility may fluctuate because of changes in certain financial leverage ratios and the Company's compliance with applicable covenants of the 2005 Credit Facility. The Company also pays a quarterly commitment

fee of 0.125% on the unused portions of the revolving credit facility. As of December 28, 2008, the Company had loans outstanding under its revolving credit facility totaling $0.5 million. 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 December 28, 2008, the Company had $2.1 million of outstanding letters of credit. Availability for short-term borrowings and letters of credit under the revolving credit facility was $57.4 million.

The 2005 Credit Facility is secured by a first priority security interest in substantially all of the Company's assets. The 2005 Credit Facility contains financial and other covenants, including covenants requiring the Company to maintain various financial ratios, limiting its ability to incur additional indebtedness, restricting the amount of capital expenditures that may be incurred, restricting the payment of cash dividends, and limiting the amount of debt which can be loaned to the Company's franchisees or guaranteed on their behalf. This facility also limits the Company's ability to engage in mergers or acquisitions, sell certain assets, repurchase its common stock and enter into certain lease transactions. The 2005 Credit Facility includes customary events of default, including, but not limited to, the failure to pay any interest, principal or fees when due, the failure to perform certain covenant agreements, inaccurate or false representations or warranties, insolvency or bankruptcy, change of control, the occurrence of certain ERISA events and judgment defaults.

In addition to the scheduled payments of principal on the term loan, at the end of each fiscal year, the Company is subject to mandatory prepayments in those situations when consolidated cash flows for the year, as defined pursuant to the terms of the facility, exceed specified amounts. Whenever any prepayment is made, subsequent scheduled payments of principal are ratably reduced. The Company was subject to a mandatory prepayment of approximately $2.8 million and $7.7 million for fiscal year 2008 and 2007, respectively, which is recorded as a component of current debt maturities in the consolidated balance sheets.

As of December 28, 2008, the Company was in compliance with the financial and other covenants of the 2005 Credit Facility. As of December 28, 2008 and December 30, 2007, the Company's weighted average interest rate for all outstanding indebtedness under the 2005 Credit Facility was 5.8% and 6.5%, respectively.

2005 Interest Rate Swap Agreements. Effective May 12, 2005, the Company entered into two interest rate swap agreements with a combined notional amount of $130.0 million. Effective December 29, 2006, the Company reduced the notional amounts of the combined agreements to $110.0 million. The agreements terminated on June 30, 2008. The effect of the agreements was to limit the interest rate exposure on a portion of the 2005 credit facility to a fixed rate of 6.4%.

Effective for the period June 30, 2008 through June 30, 2010, the Company entered into an interest rate swap agreement with a notional amount of $100.0 million. Pursuant to this agreement, the Company pays a fixed rate of interest and receives a floating rate of interest. The effect of the agreement is to limit the interest rate exposure on a portion of the Term B debt outstanding under the 2005 Credit Facility to a fixed rate of 4.87%. Effective December 15, 2008, the Company reduced the notional amount of the agreement to $25 million. The effective portion of the loss associated with the termination of the $75 million notional amount, approximately $1.3 million, will be amortized into interest expense over the remaining life of the hedge.

Net interest income associated with these agreements was approximately zero, $1.5 million and $1.3 million for 2008, 2007, and 2006, respectively. The agreement is accounted for as an effective cash flow hedge. At December 28, 2008, the fair value of the agreement was a liability to the Company of approximately $0.5 million, which was recorded as a component of "Deferred credits and other long-term liabilities." At December 27, 2007, the fair value of the agreements were recorded as a component of "Other long-term assets, net" and was approximately $0.2 million. The changes in fair value are recognized in accumulated other comprehensive income in the Consolidated Balance Sheets.

AFC ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2008, 2007 and 2006 — (Continued)

Future Debt Maturities. At December 28, 2008, aggregate future debt maturities, excluding capital lease obligations, were as follows:

(in millions)	
2009	$ 4.7
2010	28.3
2011	82.3
2012	0.2
2013	0.2
Thereafter	1.9
	$117.6

Note — 10 Leases

The Company leases property and equipment associated with its (1) corporate facilities; (2) company-operated restaurants; (3) certain former company-operated restaurants that are now operated by franchisees and the property subleased to the franchisee; and (4) certain former company-operated restaurants that are now subleased to a third party.

At December 28, 2008, future minimum payments under capital and non-cancelable operating leases were as follows:

(in millions)	Capital Leases	Operating Leases
2009	$ 0.2	$ 6.1
2010	0.2	5.6
2011	0.2	5.2
2012	0.2	4.2
2013	0.2	3.9
Thereafter	3.6	77.1
Future minimum lease payments	4.6	102.1
Less amounts representing interest	(3.0)	—
	$ 1.6	$ 102.1

During 2008, 2007 and 2006, rental expense was approximately $6.2 million, $6.8 million, and $6.8 million, respectively, including contingent rentals of $0.1 million, $0.1 million, and $0.2 million, respectively. At December 28, 2008, the implicit rate of interest on capital leases ranged from 8.1% to 11.3%.

The Company leases certain restaurant properties and subleases other restaurant properties to franchisees. At December 28, 2008, the aggregate gross book value and net book value of owned properties that were leased to franchisees was approximately $3.1 million and $2.6 million, respectively. During 2008, 2007 and 2006, rental income from these leases and subleases was approximately $3.9 million, $4.5 million, and $5.2 million, respectively. At December 28, 2008, future minimum rental income associated with these leases and subleases, are approximately $3.5 million in 2009, $3.1 million in 2010, $2.7 million in 2011, $2.3 million in 2012, $1.8 million in 2013, and $6.8 million thereafter.

AFC ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2008, 2007 and 2006 — (Continued)

Note — 11 Deferred Credits and Other Long-Term Liabilities

(in millions)	2008	2007
Deferred franchise revenues	$ 3.9	$ 5.5
Deferred gains on unit conversions	2.7	3.2
Deferred rentals	4.7	4.4
Above-market rent obligations	2.9	2.9
Deferred income taxes	1.9	2.9
Other	3.1	2.6
	$19.2	$21.5

Note — 12 Common Stock

Share Repurchase Program. Effective July 22, 2002 and as subsequently amended and expanded, the Company's board of directors approved a share repurchase program of up to $215.0 million. The program, which is open-ended, allows the Company to repurchase shares of the Company's common stock from time to time. During 2008 and 2007, the Company repurchased and retired 2,120,401 and 2,496,030 shares of common stock for approximately $19.0 million and $39.4 million, respectively, under this program.

The remaining value of shares that may be repurchased under the program was $38.9 million. Pursuant to the terms of the Company's 2005 Credit Facility, the Company is subject to a repurchase limit of approximately $27.6 million for the remainder of fiscal 2009.

Dividends. During 2008, 2007 and 2006, the Company paid dividends of approximately $0.5 million, $0.7 million and $0.7 million, respectively, associated with vested restricted share awards. As of December 28, 2008 there were no longer any accrued dividends associated with unvested restricted share awards.

Note — 13 Stock Option Plans

The 1996 Nonqualified Performance Stock Option Plan. In April 1996, the Company created the 1996 Nonqualified Performance Stock Option Plan. This plan authorized the issuance of options to purchase approximately 1.6 million shares of the Company's common stock. As of November 13, 2002, the Company no longer grants options from this plan. During 2008, the remaining options outstanding under this plan expired unexercised.

The 1996 Nonqualified Stock Option Plan. In April 1996, the Company created the 1996 Nonqualified Stock Option Plan. This plan authorized the issuance of approximately 4.1 million options. As of November 13, 2002, the Company no longer grants options from this plan. The options currently granted and outstanding as of December 28, 2008 allow certain employees of the Company to purchase approximately 98,000 shares of common stock. All of the outstanding options were fully vested as of December 28, 2008.

The 2002 Incentive Stock Plan. In February 2002, the Company created the 2002 Incentive Stock Plan. This plan authorized the issuance of 4.5 million shares of the Company's common stock. All grants have been at prices which approximate the fair market value of the Company's common stock at the date of grant. The options currently granted and outstanding as of December 28, 2008 allow certain employees of the Company to purchase approximately 143,000 shares of common stock (which vest at 25% per year) and 77,000 shares of common stock (which vest at 33.3% per year). If not exercised, the options expire seven years from the date of issuance. As of May 25, 2006, the Company no longer grants options under this plan.

AFC ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2008, 2007 and 2006 — (Continued)

The 2006 Incentive Stock Plan. In May 2006, the Company created the 2006 Incentive Stock Plan. The plan authorizes the issuance of approximately 3.3 million shares of the Company's common stock. The plan replaces the existing 2002 Incentive Stock Plan and no further grants will be made under the 2002 Incentive Stock Plan. The 2006 Incentive Stock Plan did not increase the number of shares of stock available for grant under the 2002 Incentive Stock Plan. Options and other awards such as restricted stock, stock appreciation rights, stock grants, and stock unit grants under the plan generally may be granted to any of the Company's employees and non-employee directors.

The options currently granted and outstanding under this plan as of December 28, 2008 allow certain employees of the Company to purchase approximately 260,000 shares of common stock which vest at 25% per year. As of December 28, 2008, an additional 200,000 options were granted and outstanding which vest at 25% per year but are exercisable provided that certain performance criteria with regard to the Company's common stock price are met within five years of the grant date. A third of the options are exercisable if the Company's common stock price maintains an average of $20.00 per share for twenty consecutive trading days, a third of the options are exercisable if the Company's common stock price maintains an average of $25.00 per share for twenty consecutive trading days, and a third of the options are exercisable if the Company's common stock price maintains an average of $30.00 per share for twenty consecutive trading days. During 2008, an additional 45,000 options were granted and outstanding which vest at 25% per year but are exercisable provided that the Company achieves certain annual domestic same store sales growth targets in fiscal years 2008 through 2011. If not exercised, the options under these grants expire seven years from the date of issuance.

A Summary of Stock Option Plan Activity. The table below summarizes the activity within the Company's stock option plans for the 52 week period ended December 28, 2008.

(shares in thousands)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (millions)
Stock options:				
Outstanding at beginning of year	764	$ 12.62		
Granted options	105	8.50		
Exercised options	—	—		
Cancelled and expired options	(46)	11.40		
Outstanding at end of year	823	$ 12.16	6.1	$ —
Exercisable at end of year	418	$ 12.62	3.4	$ —
Shares available for future grants under the plans at end of year	2,558			

The aggregate intrinsic value in the above table represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading date of 2008 and the exercise price, multiplied by the number of options). The amount of aggregate intrinsic value will change based on the fair market value of the Company's common stock.

The Company recognized approximately $1.4 million, $0.7 million, and $1.2 million in stock-based compensation expense associated with its stock option grants during 2008, 2007 and 2006, respectively. As of December 28, 2008, there was approximately $1.4 million of total unrecognized compensation costs related to unvested stock options which are expected to be recognized over a weighted average period of approximately 2.0 years. The total fair value at grant date of awards which vested during 2008, 2007 and 2006 was $1.0 million, $0.7 million and $1.3 million, respectively.

The weighted average grant date fair value of awards granted during 2008 and 2007 was $3.86 and $5.96, respectively. There were no options granted in 2006. The total intrinsic value of stock options exercised during 2007 and 2006 was $3.2 million, and $6.6 million, respectively. There were no options exercised in 2008.

During 2007, the fair value of each option with service and market conditions was estimated on the date of grant using a Monte Carlo simulation embedded in a lattice model. During 2008 and 2007, the fair value of all other option awards was estimated on the date of grant using a Black-Scholes option-pricing model. The fair value of stock-based compensation is amortized on the graded vesting attribution method. The following weighted average assumptions were used for the grants:

	2008 Black-Scholes	2007 Monte Carlo	2007 Black-Scholes
Risk-free interest rate	2.9%	4.2%	4.2%
Expected dividend yield	0.0%	0.0%	0.0%
Expected term (in years)	6.25	6.25	7.00
Expected volatility	41.9%	42.0%	41.9%

The risk-free interest rate is based on the United States treasury yields in effect at the time of grant. The expected term of options represents the period of time that options granted are expected to be outstanding based on the vesting period, the term of the option agreement and historical exercise patterns. The estimated volatility is based on the historical volatility of the Company's stock price and other factors.

The following table summarizes the non-vested stock option activity for the 52 week period ended December 28, 2008:

(shares in thousands)	Shares	Weighted Average Grant Date Value
Unvested stock options outstanding at beginning of period	474	$ 5.84
Granted	105	3.86
Vested	(174)	5.68
Forfeited	—	—
Unvested stock options outstanding at end of period	405	$ 5.41

Restricted Share Awards

The Company has granted 335,000 restricted shares pursuant to the 2006 Incentive Stock Plan and 2002 Incentive Stock Plan. These awards are amortized as expense on a graded vesting basis. The Company recognized approximately $0.8 million, $0.6 million, and $2.0 million, in stock-based compensation expense associated with these awards during 2008, 2007 and 2006, respectively. During the vesting period, recipients of the shares are entitled to dividends on such shares, provided that such shares are not forfeited. Dividends are accumulated and paid out at the end of the vesting period. The Company paid dividends of approximately $0.5 million, $0.7 million and $0.7 million associated with vested awards during fiscal years 2008, 2007 and 2006, respectively.

The following table summarizes the restricted share awards activity for the 52 week period ended December 28, 2008:

(share awards in thousands)	Shares	Weighted Average Grant Date Fair Value
Unvested restricted share awards:		
Outstanding beginning of year	114	$ 17.52
Granted	90	8.77
Vested	(95)	17.65
Cancelled	(19)	16.70
Outstanding end of year	90	$ 8.76

The weighted average grant date fair value of restricted share awards granted during 2007 and 2006 was $15.54 and $13.45, respectively.

As of December 28, 2008, there was approximately $0.4 million of total unrecognized compensation cost related to unvested restricted stock awards which are expected to be recognized over a weighted average period of approximately 0.6 years. The total fair value at grant date of awards which vested during 2008, 2007 and 2006 was $1.7 million, $2.3 million and $1.5 million, respectively.

Restricted Share Units

The Company has granted 83,000 restricted stock units (RSUs) to members of its board of directors pursuant to the 2006 Incentive Stock Plan. Vested RSUs are convertible into shares of the Company's common stock on a 1:1 basis at such time the director no longer serves on the board of the Company. The Company recognized $0.3 million, $0.4 million and $0.2 million in stock based compensation expense associated with these awards during the 2008, 2007 and 2006, respectively. As of December 28, 2008, there was approximately $0.2 million of total unrecognized compensation cost related to unvested RSUs, which is expected to be recognized over a weighted average period of approximately 0.5 years. The total fair value at grant date of awards vested during 2008, 2007 and 2006 was zero, $0.1 million and zero, respectively.

The following table summarizes the restricted share unit activity for the 52 week period ended December 28, 2008.

(share awards in thousands)	Units	Weighted Average Grant Date Fair Value
Unvested restricted stock units:		
Outstanding beginning of year	37	$17.49
Granted	37	8.02
Vested	—	—
Outstanding end of year	74	$12.70

The weighted average grant date fair value of restricted share units granted during 2007 and 2006 was $19.79 and $15.25, respectively.

Note — 14 401(k) Savings Plan

The Company maintains a qualified retirement plan ("Plan") under Section 401(k) of the Internal Revenue Code of 1986, as amended, for the benefit of employees meeting certain eligibility requirements as outlined in the Plan document. All Company employees are subject to the same contribution and vesting schedules. Under the Plan, non-highly compensated employees may contribute up to 75.0% of their eligible compensation to the Plan on a pre-tax basis up to statutory limitations. Highly compensated employees are limited to 5.0% of their eligible compensation beginning in 2007 (increasing from 4.0% in 2006). The Company may make both voluntary and matching contributions to the Plan. The Company expensed approximately $0.2 million, $0.3 million, and $0.2 million, during 2008, 2007 and 2006, respectively, for its contributions to the Plan.

Note — 15 Commitments and Contingencies

Supply Contracts. Supplies are generally provided to Popeyes franchised and company-operated restaurants, pursuant to supply agreements negotiated by Supply Management Services, Inc. ("SMS"), a not-for-profit purchasing cooperative. The Company, its franchisees and the owners of Cinnabon bakeries hold membership interests in SMS in proportion to the number of restaurants they own. At December 28, 2008, the Company held one of SMS's seven board seats. The operations of SMS are not included in the consolidated financial statements and the investment is accounted for using the cost method.

The principal raw material for a Popeyes restaurant operation is fresh chicken. Company-operated and franchised restaurants purchase their chicken from suppliers who service AFC and its franchisees from various plant locations. These costs are significantly affected by increases in the cost of fresh chicken, which can result from a number of factors, including increases in the cost of grain, disease, declining market supply of fast-food sized chickens and other factors that affect availability.

In order to ensure favorable pricing for fresh chicken purchases and to maintain an adequate supply of fresh chicken for the Company and its Popeyes franchisees, SMS has entered into purchase contracts with chicken suppliers. The contracts which pertain to the vast majority of the Company's 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. These contracts include volume purchase commitments that are adjustable at the election of SMS (which is done in consultation with and under the direction of the Company and its Popeyes franchisees). In a given year, that year's commitment may be adjusted by up to 10%, if notice is given within specified time frames; and the commitment levels for future years may be adjusted based on revised estimates of need, whether due to restaurant openings and closings, changes in SMS's membership, changes in the business, or changes in general economic conditions.

The estimated minimum level of purchases under these contracts is $155.3 million for 2009. AFC has agreed to indemnify SMS for any shortfall between actual purchases by the Popeyes system and the annual purchase commitments entered into by SMS on behalf of the Popeyes restaurant system. The indemnification has not been recorded as an obligation in the Company's balance sheets. The Company does not expect any material loss to result from the indemnification because it does not believe that performance, on its part, will be required.

The Company has entered into long-term beverage supply agreements with certain major beverage vendors. Pursuant to the terms of these arrangements, marketing rebates are provided to the Company and its franchisees from the beverage vendors based upon the dollar volume of purchases for company-operated restaurants and franchised restaurants, respectively, which will vary according to their demand for beverage syrup and fluctuations in the market rates for beverage syrup.

Formula and Supply Agreements with Former Owner. The Company has a formula licensing agreement with the estate of Alvin C. Copeland, the founder of Popeyes and the present primary owner of Diversified Foods and Seasonings, Inc. ("Diversified"). Under this agreement, the Company has the worldwide exclusive rights to the

Popeyes fried chicken recipe and certain other ingredients used in Popeyes products. The agreement provides that the Company pay the estate of Mr. Copeland approximately $3.1 million annually until March 2029. During each of 2008, 2007 and 2006, the Company expensed approximately $3.1 million under this agreement. The Company also has a supply agreement with Diversified through which the Company purchases certain proprietary spices and other products made exclusively by Diversified.

King Features Agreements. The Company has several agreements with the King Features Syndicate Division ("King Features") of Hearst Holdings, Inc. under which they have the non-exclusive license to use the image and likeness of the cartoon character "Popeye" in the United States. Popeyes locations outside the United States have the non-exclusive use of the image and likeness of the cartoon character "Popeye" and certain companion characters. The Company is obligated to pay King Features a royalty of approximately $1.0 million annually, as adjusted for fluctuations in the Consumer Price Index, plus twenty percent of the Company's gross revenues from the sale of products outside of the Popeyes restaurant system, if any. These agreements extend through June 30, 2010.

During 2008, 2007 and 2006, payments made to King Features were $1.1 million, $1.0 million; and $1.0 million, respectively. A portion of these payments was made from the Popeyes cooperative advertising fund (Note 2) and the remainder by the Company.

Business Process Services. Certain accounting and information technology services are provided to the Company under an agreement with Convergys Corporation which expires April 30, 2011. At December 28, 2008, future minimum payments under this contract are $1.0 million in 2009, $1.0 million in 2010 and $0.3 million in 2011. During 2008, 2007 and 2006, the Company expensed $1.5 million, $1.4 million, and $1.9 million, respectively, under this agreement.

Information Technology Outsourcing. Certain information technology services are provided to the Company under an Information Technology Services Agreement with IBM which expires December 28, 2009. At December 28, 2008, future minimum payments under this contract are $2.4 million in 2009. During 2008, 2007 and 2006, the Company expensed $2.1 million, $2.0 million, and $2.9 million, respectively, under this agreement.

Employment Agreements. As of December 28, 2008, the Company had employment agreements with 4 senior executives which provide for annual base salaries ranging from $280,000 to $650,000, subject to annual adjustment by the Board of Directors, an annual incentive bonus, fringe benefits, participation in Company-sponsored benefit plans and such other compensation as may be approved by the Board of Directors. The terms of the agreements end in 2009, unless earlier terminated or otherwise renewed pursuant to the terms thereof and are automatically extended for successive one-year periods following the expiration of each term unless notice is given by the Company or the executive not to renew. Pursuant to the terms of the agreements, if employment is terminated without cause or if written notice not to renew employment is given by the Company, the terminated executive would in certain cases be entitled to, among other things, one or two times annual base salary, as applicable, and one or two times the bonus payable, as applicable, to the individual for the fiscal year in which such termination occurs. Under the agreements, upon a change of control of the Company and a significant reduction in the executive's responsibilities or duties, the executive may terminate employment and would be entitled to receive the same severance pay the executive would have received had the executive's employment been terminated without cause.

AFC Loan Guarantee Programs. In March 1999, the Company implemented a program to assist qualified current and prospective franchisees in obtaining the financing needed to purchase or develop franchised restaurants at competitive rates. Under the program, the Company guarantees up to 20% of the loan amount toward a maximum aggregate liability for the entire pool of $1.0 million. For loans within the pool, the Company assumes a first loss risk until the maximum liability for the pool has been reached. Such guarantees typically extend for a three-year period. At December 28, 2008, approximately $0.3 million was borrowed under this program, of which the Company was contingently liable for approximately $0.1 million in the event of default.

In November 2002, the Company implemented a second loan guarantee program to provide qualified franchisees with financing to fund new construction, re-imaging and facility upgrades. Under the program, the Company assumes a first loss risk on the portfolio up to 10% of the sum of the original funded principal balances of all program loans. At December 28, 2008, approximately $0.4 million was borrowed under this program, of which the Company was contingently liable for approximately $0.1 million in the event of default. During 2004, the re-imaging and facility upgrade portions of this program were canceled.

The loan guarantees under both these programs have not been recorded as an obligation in the Company's consolidated balance sheets. The Company does not expect any material loss to result from these guarantees because it does not believe that any indemnity under this agreement will be necessary.

Litigation. The Company is a defendant in various legal proceedings arising in the ordinary course of business, including claims resulting from "slip and fall" accidents, employment-related claims, claims from guests or employees alleging illness, injury or other food quality, health or operational concerns and claims related to franchise matters. The Company 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.

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

The Company has established reserves with respect to the programs described above based on the estimated total losses the Company will experience. At December 28, 2008, the Company's insurance reserves of approximately $2.0 million were partially collateralized by letters of credit and/or cash deposits of $2.1 million.

Environmental Matters. The Company is subject to various federal, state and local laws regulating the discharge of pollutants into the environment. The Company believes that it conducts its operations in substantial compliance with applicable environmental laws and regulations. Certain of the Company's current and formerly owned and/or leased properties (including certain Church's locations) are known or suspected to have been used by prior owners or operators as retail gas stations, and a few of these properties may have been used for other environmentally sensitive purposes. Certain of these properties previously contained underground storage tanks ("USTs"), and some of these properties may currently contain abandoned USTs. It is possible that petroleum products and other contaminants may have been released at these properties into the soil or groundwater. Under applicable federal and state environmental laws, the Company, as the current or former owner or operator of these sites, may be jointly and severally liable for the costs of investigation and remediation of any such contamination, as well as any other environmental conditions at its properties that are unrelated to USTs. The Company has obtained insurance coverage that it believes is adequate to cover any potential environmental remediation liabilities.

Foreign Operations. The Company's international operations are limited to franchising activities. During 2008, 2007 and 2006, such operations represented approximately 11.3%, 9.2%, and 8.8%, of total franchise revenues, respectively; and approximately 5.7%, 4.5%, and 4.7%, of total revenues, respectively. At December 28, 2008, approximately $0.8 million of the Company's accounts receivable were related to its international franchise operations.

Significant Franchisee. During 2008, 2007 and 2006, one domestic franchisee accounted for approximately 10.0%, 10.5%, and 11.0%, respectively of the Company's royalty revenues.

Geographic Concentrations. Of AFC's domestic company-operated and franchised restaurants, the majority are located in the southern and southwestern United States. The Company's international franchisees operate in Korea, Indonesia, Canada, Turkey and various countries throughout Central America, Asia and Europe.

Note — 16 Other Expenses (Income), Net

(in millions)	2008	2007	2006
Net recoveries of directors and officers liability insurance claims and shareholder litigation	$(12.9)	$(0.9)	$(0.3)
Impairments and disposals of fixed assets	9.5	1.9	0.1
Gain on insurance recoveries related to asset damages, net	(0.5)	(3.2)	—
Income from business interruption insurance recoveries	—	(1.6)	—
Costs related to restaurant closures	—	0.8	—
Net gain on sale of assets	(0.9)	(0.3)	(2.3)
Other	0.2	0.6	0.7
	$ (4.6)	$(2.7)	$(1.8)

In September 2007, a federal court in Atlanta returned a favorable decision in a lawsuit by the Company against a former insurance carrier that provided primary liability coverage for its directors and officers. The Company was awarded $20 million in damages (representing the full liability of the policy) and approximately $4 million in pre-judgment interest. During the first quarter of 2008, the Company received $0.6 million in net proceeds from the settlement of other insurance claims related to directors and officers liability policies. After payment of settlement amounts to the counterparties to certain joint settlement agreements, legal expenses and fees, the Company received $12.3 million during the second quarter of 2008. Total related recoveries received during fiscal years 2008 and 2007 were $12.9 million and $0.9 million, respectively.

During 2008, the Company recognized $9.2 million in impairment charges associated with the re-franchising of company-operated restaurants in Atlanta, Georgia and Nashville, Tennessee. See Note 2 for further discussion of impairment charges related to company-operated restaurants.

The Company recognized approximately $2.9 million in net gains on insurance recoveries related to asset damages and approximately $1.6 million in income from business interruption insurance recoveries during 2007 resulting from Hurricane Katrina. During 2006 and 2007, the company received a total of $11.5 million from its insurance carriers in settlement of all claims resulting from Hurricane Katrina. Hurricane related costs and related recoveries include relief and other payments to employees, ongoing rental expense for temporarily idled restaurants, costs associated with exit and disposal activities for permanently closed restaurants, clean-up costs, and restaurant pre-opening costs for re-opened restaurants, net of estimated insurance recoveries including recoveries for property and equipment damages.

Costs related to restaurant closures include the accrual of future lease obligations on closed facilities and other charges associated with the closing of company-operated restaurants.

Table of Contents

Note — 17 Interest Expense, Net

(in millions)	2008	2007	2006
Interest on debt, less capitalized amounts	$ 8.1	$ 9.0	$11.1
Amortization and write-offs of debt issuance costs	0.6	0.6	1.3
Other debt related charges	0.6	0.4	0.3
Interest income	(1.2)	(1.3)	(1.6)
	$ 8.1	$ 8.7	$11.1

Note — 18 Income Taxes

Total income taxes for fiscal years 2008, 2007 and 2006, were allocated as follows:

(in millions)	2008	2007	2006
Income taxes in the statements of operations, net	$12.8	$13.8	$12.0
Income taxes charged (credited) to statements of shareholders' equity (deficit):			
Compensation expense for tax purposes less than (in excess of) amounts recognized for financial reporting purposes	0.5	(0.9)	(1.8)
Other comprehensive income	(0.7)	(0.6)	—
Total	$12.6	$12.3	$10.2

Total U.S. and foreign income before income taxes and discontinued operations for fiscal years 2008, 2007 and 2006, were as follows:

(in millions)	2008	2007	2006
United States	$26.6	$31.8	$29.8
Foreign	5.6	5.1	4.4
Total	$32.2	$36.9	$34.2

The components of income tax expense associated with continuing operations were as follows:

(in millions)	2008	2007	2006
Current income tax expense:			
Federal	$10.5	$11.9	$ 7.7
Foreign	0.9	0.8	0.6
State	1.4	1.6	1.5
	12.8	14.3	9.8
Deferred income tax expense (benefit):			
Federal	—	(0.5)	2.1
State	—	—	0.1
	—	(0.5)	2.2
	$12.8	$13.8	$12.0

Applicable foreign withholding taxes are generally deducted from royalties and certain other revenues collected from international franchisees. Foreign taxes withheld are generally eligible for credit against the Company's U.S. income tax liabilities.

AFC ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2008, 2007 and 2006 — (Continued)

Reconciliations of the Federal statutory income tax rate to the Company's effective tax rate associated with continuing operations are presented below:

	2008	2007	2006
Federal income tax rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	1.5	1.7	1.1
Valuation allowance	0.8	0.9	4.4
Tax free interest income	—	—	(0.2)
Provision to return adjustments	0.2	(0.1)	(5.8)
Adjustments to estimated tax reserves	1.4	(0.5)	0.3
Non-deductible goodwill impairment	0.7	—	—
Other items, net	0.2	0.4	0.3
Effective income tax benefit rate	39.8%	37.4%	35.1%

Provision to return adjustments include the effects of the reconciliation of income tax amounts recorded in our Consolidated Statements of Operations to amounts reflected on our tax returns.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

(in millions)	2008	2007
Deferred tax assets:		
Deferred franchise fee revenue	$ 2.6	$ 3.4
State net operating loss carry forwards	4.0	3.7
Deferred rentals	3.1	3.1
Deferred compensation	1.4	1.2
Property, plant and equipment	1.5	—
Allowance for doubtful accounts	0.5	0.6
Insurance accruals	0.4	0.5
Other accruals	1.7	1.4
Reorganization costs	4.0	4.0
Total gross deferred tax assets	19.2	17.9
Deferred tax liabilities:		
Franchise value and trademarks	(15.5)	(14.7)
Property, plant and equipment	—	(0.4)
Other	—	(0.1)
Total gross deferred liabilities	(15.5)	(15.2)
Valuation allowance	(4.0)	(3.7)
Net deferred tax liability	$ (0.3)	$ (1.0)

The Company assesses quarterly the likelihood that the deferred tax assets will be recovered. To make this assessment, historical levels of income, expectations and risks associated with estimates of future taxable income are considered. If recovery is not likely, the Company increases its valuation allowance for the deferred tax assets that it estimates will not be recovered.

AFC ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2008, 2007 and 2006 — (Continued)

At December 28, 2008, the Company had state net operating losses (“NOLs”) of approximately $76.9 million which continue to expire. The Company established a full valuation allowance on the deferred tax asset related to these NOLs as it is more likely than not that such tax benefit will not be realized. As such, the Company has established a valuation allowance of approximately $4.0 million at December 28, 2008 and $3.7 million at December 30, 2007.

During July, 2006, the Company received a tax assessment from the Canadian Revenue Authority (“CRA”). The assessment related to a voluntary disclosure filed by the Company during 2003 on behalf of its former Seattle Coffee subsidiary, and the payment of $1.0 million of estimated tax liabilities. The CRA had assessed $0.3 million of interest associated with the earlier payment and an additional $0.5 million of taxes associated with certain disallowed deductions. The Company appealed the assessment and during November, 2007, received notification from the Canadian Revenue Authority (“CRA”) that they were allowing most of the G&A costs that were initially disallowed on the originally filed VDA (Voluntary Disclosure Agreement). The Company received a payment of approximately $0.6 million in December 2007 in settlement of the tax assessment.

Included in accrued liabilities at December 28, 2008 and December 30, 2007 are accrued income tax reserves of $5.7 million and $5.2 million, respectively.

The amount of unrecognized tax benefits were approximately $4.7 million as of December 28, 2008 of which approximately $1.2 million, if recognized, would impact the effective income tax rate. A reconciliation of the beginning and ending amount of unrecognized tax benefits as of December 28, 2008 is as follows (in millions):

(in millions)	
Balance as of December 30, 2007	$4.5
Gross additions related to current year	0.2
Expirations of statutes of limitation	—
Balance as of December 28, 2008	$4.7

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 for the fiscal years ended December 28, 2008 and December 30, 2007 were approximately $0.3 million and $0.2 million, respectively. The Company had approximately $1.0 million and $0.7 million of accrued interest and penalties related to uncertain tax positions as of December 28, 2008 and December 30, 2007, respectively.

The Company files income tax returns in the United States and various state jurisdictions. The U.S. federal tax years 2004 through 2007 are open to audit, with 2004 and 2005 currently under examination. The Company has unrecognized tax benefits of approximately $0.7 million related to the period being examined which may be recognized once the federal income tax audit is closed. In general, the state tax years open to audit range from 2004 through 2007.

Note — 19 Components of Earnings Per Share Computation

(in millions)	2008	2007	2006
Numerators for income per share computation:			
Income before discontinued operations	$19.4	$23.1	$22.2
Discontinued operations, net of income taxes	—	—	0.2
Net income	$19.4	$23.1	$22.4
Denominator for basic earnings per share — weighted average shares	25.6	28.6	29.5
Dilutive employee stock options	0.1	0.2	0.3
Denominator for diluted earnings per share	25.7	28.8	29.8

Note — 20 Related Party Transactions

In October 1998, the Company loaned certain officers of the Company an aggregate of $1.3 million to pay for shares of common stock offered by AFC in connection with the acquisition of Cinnabon. All the individual notes had similar terms. Each full recourse note bears interest at 7.0% per annum with principal and interest payable at December 31, 2005. The remaining note receivable balances and interest receivable balances, net of payments, at December 25, 2005 were included as a reduction to shareholders' deficit in the accompanying Consolidated Statements of Changes in Shareholders' Deficit.

The $1.1 million of notes receivable (including accrued interest) due from officers outstanding at December 25, 2005 was satisfied in full on December 31, 2005 through the transfer of 74,052 shares of the Company's common stock.

Note — 21 Discontinued Operations

Church's Chicken. On December 28, 2004, the Company sold its Church's brand to an affiliate of Crescent Capital Investments, Inc. for approximately $379.0 million in cash and a $7.0 million subordinated note, subject to customary closing adjustments. Concurrent with the sale of Church's, the Company sold certain real property to a Church's franchisee for approximately $3.7 million in cash. Cash proceeds of these two sales, net of transaction costs and adjustments, were approximately $367.6 million.

The subordinated note bears interest at 8% per year, and is due in full on December 31, 2012. The payment of interest is accomplished by the issuance of additional subordinated notes on each June 30th and December 31st up to but not including the maturity date. The issuer may choose to make voluntary payments in cash on the interest date beginning with December 31, 2008, provided that all obligations to Senior Creditors have been indefeasibly paid in full in cash and all other commitments to the Senior Creditors have been terminated. The note is subordinated to all other debt obligations related to AFC Enterprises, Inc.'s sale of Church's to an affiliate of Crescent Capital Investments, Inc.

Cinnabon. On November 4, 2004, the Company sold its Cinnabon subsidiary to Focus Brands, Inc. for approximately $21.0 million in cash, subject to customary closing adjustments. Proceeds of the sale, net of transaction costs and adjustments, were approximately $19.6 million. The sale included certain franchise rights for Seattle's Best Coffee which were retained following the sale of Seattle's Best Coffee in July 2003.

Summary operating results for these discontinued operations were as follows:

(in millions)	2008	2007	2006
Income (loss) from operations:			
Church's	$ —	$ —	$(0.1)
Cinnabon	—	—	0.3
Income tax benefit (expense)	—	—	—
Income from operations, net	$ —	$ —	$ 0.2
Discontinued operations, net of income taxes	$ —	$ —	$ 0.2

Note — 22 Restructuring of Corporate Operations

During 2004, the Company began a restructuring of its corporate operations which it completed in 2006. The restructuring included: (1) the reduction of AFC's corporate staffing in concert with the divestiture of Cinnabon and Church's, (2) the closure of AFC's corporate offices, (3) the integration of AFC's corporate function into the Popeyes corporate function, and (4) the termination or restructuring of certain outsourcing and other contractual arrangements. Total restructuring costs were approximately $15.9 million through the end of 2006 of which $1.0 million was recorded in 2006.

Note — 23 Segment Information

FASB Statement No. 131, *"Disclosures about Segments of an Enterprise and Related Information" ("FAS 131")* establishes annual and interim reporting standards for an enterprise's operating segments. Operating segments are generally defined as components of an enterprise about which separate discrete financial information is available as the basis for management to allocate resources and assess performance.

Based on its internal reporting and management structure, the Company has determined that it has two reportable segments: franchise operations and its company-operated restaurants. The company-operated restaurant segment derives its revenues from the operation of company owned restaurants. The franchise segment consist 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.

During the fourth quarter 2008, the Company changed the basis in which it measures reportable segment profit or loss in order to improve the alignment between its strategy to re-franchise all of its company-operated restaurants and the basis management uses to allocate resources and assess performance. 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. Previously reported results have been reclassified to conform to current year's presentation.

AFC ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2008, 2007 and 2006 — (Continued)

	2008	2007	2006
Revenues			
Franchise operations(a)	$ 88.5	$ 87.3	$ 87.8
Company-operated restaurants	78.3	80.0	65.2
	$166.8	$167.3	$153.0
Operating profit before unallocated expenses			
Franchise operations	$ 38.9	$ 45.1	$ 45.4
Company-operated restaurants	3.1	4.7	4.5
	42.0	49.8	49.9
Less unallocated expenses			
Depreciation and amortization	6.3	6.9	6.4
Other expenses (income), net	(4.6)	(2.7)	(1.8)
Operating profit	$ 40.3	$ 45.6	$ 45.3
Capital expenditures			
Franchise operations	$ 0.2	$ 0.6	$ 0.7
Company-operated restaurants	2.5	9.4	6.3
	$ 2.7	$ 10.0	$ 7.0
Goodwill — year end			
Franchise operations	$ 8.9	$ 8.9	$ 8.9
Company-operated restaurants	2.2	2.8	2.8
	$ 11.1	$ 11.7	$ 11.7
Total assets — year end			
Franchise operations	$ 98.6	$106.6	$115.2
Company-operated restaurants	33.4	48.4	47.9
	$132.0	$155.0	$163.1

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

Note — 24 Acquisition

On May 1, 2006, the Company completed an acquisition of 13 franchised restaurants from a Popeyes franchisee in the Memphis and Nashville, Tennessee markets. The results of operations of the acquired restaurants are included in the consolidated financial statements since that date. The acquired units provide regional diversity and additional company-operated test markets for our new menu items, promotional concepts and new restaurant designs for the benefit of the entire Popeyes system.

AFC ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2008, 2007 and 2006 — (Continued)

The following table summarizes the purchase price consideration and the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

(in millions)	May 1, 2006
Cash	$ 9.3
Long-term debt assumed	3.3
Above-market rent obligations	2.9
Transaction costs	0.3
Total purchase price	$15.8
Assets acquired	
Property and equipment	$ 3.7
Goodwill	2.0
Reacquired franchise rights	9.0
Deferred tax asset	1.1
Total assets acquired	$15.8

The reacquired franchise rights are amortized over the remaining life of the franchise agreements. The weighted average life of the reacquired franchise rights at the date of acquisition was 14 years.

The following unaudited pro forma condensed consolidated summary operating results of the Company for fiscal year 2006 have been prepared by adjusting the historical data as set forth in the accompanying condensed consolidated statement of operations to give effect to the acquisition as if it had been consummated as of December 25, 2005. The pro forma results include adjustments to recognize depreciation and amortization expense on the allocated purchase price of the acquired assets, interest expense on debt assumed, rent expense on properties leased from the seller, and the elimination of royalty revenues and expenses. The pro forma information does not necessarily reflect the actual results that would have been attained nor necessarily indicative of future results of the operations of the combined companies:

(in millions, except per share data)	2006
Total revenues	$158.1
Operating (loss) profit	45.7
Income (loss) before discontinued operations	22.2
Net income	$ 22.4
Basic earnings per common share	
Income (loss) before discontinued operations	$ 0.75
Discontinued operations, net of income taxes	0.1
Net income	$ 0.76
Diluted earnings per common share	
Income (loss) before discontinued operations	$ 0.74
Discontinued operations, net of income taxes	0.1
Net income	$ 0.75

AFC ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2008, 2007 and 2006 — (Continued)

Note — 25 Quarterly Financial Data (Unaudited)

(in millions, except per share data)	2008 First(a) Quarter	2008 Second Quarter	2008 Third Quarter	2008 Fourth(b) Quarter
Results of Operations				
Total revenues	$ 53.3	$ 39.3	$ 38.3	$ 35.9
Operating profit	13.3	12.9	8.1	6.0
Net income	6.4	6.6	4.0	2.4
Basic earnings per common share	0.24	0.26	0.16	0.10
Diluted earnings per common share	0.24	0.26	0.16	0.10

	2007 First(a) Quarter	2007 Second Quarter	2007 Third Quarter	2007 Fourth(c) Quarter
Results of Operations				
Total revenues	$ 51.0	$ 38.3	$ 38.9	$ 39.1
Operating profit	13.0	12.7	11.9	8.0
Net income	6.4	6.6	6.5	3.6
Basic earnings per common share	0.22	0.22	0.23	0.14
Diluted earnings per common share	0.22	0.22	0.23	0.13

(a) The Company's first quarters for 2008 and 2007 contained sixteen weeks. The remaining quarters of 2008 and 2007 contained twelve weeks each.

(b) Significant fourth quarter adjustments and unusual or infrequently incurred items recognized in 2008 include: $1.1 million in asset impairments of company-operated restaurants and $0.8 million of income recognized from insurance proceeds related to property damage and business interruption claims.

(c) Significant fourth quarter adjustments and unusual or infrequently incurred items recognized in 2007 include: (i) $1.0 million in asset impairments of company-operated restaurants, (ii) severances of $0.6 million, (iii) $0.5 million for future lease obligations on closed facilities, (iv) $1.0 million of shareholder litigation proceeds, and (v) $1.7 million of income recognized from insurance proceeds related to property damage and business interruption claims.

Exhibit 10.57

EMPLOYMENT AGREEMENT
Effective as of February 4, 2008 between
AFC Enterprises, Inc. (the "Company") and
Richard Lynch ("Employee")

WHEREAS, the Company desires to employ Employee and to enter into an agreement embodying the terms of such employment (the "Agreement"); and

WHEREAS, Employee desires to accept such employment and to enter into such agreement;

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein and for other good and valuable consideration, the parties agree as follows:

1. Term of Agreement.

This Agreement shall be effective as of the date hereof and, unless earlier terminated pursuant to Section 8 or Section 9 hereof, shall be for an initial term of one (1) year (the "Term"). The Term of this Agreement and Employee's employment hereunder will automatically be extended for an additional one-year period following the expiration of each year of employment hereunder (the "Renewal Date"), without further action by Employee or the Company. Such automatic one-year renewal shall continue from year to year unless and until either the Company or Employee gives to the other written notice not less than thirty (30) days prior to the applicable Renewal Date of its decision not to renew for an additional one year.

For purposes of this Section 1 only, the first "year" of the Term shall be deemed to begin as of the Start Date (as hereinafter defined) and end on December 28, 2008, and each one (1) year period thereafter shall coincide with the Company's fiscal year.

2. Employment.

2.01 Position. Beginning on March 1, 2008 (the "Start Date"), Employee shall serve as Chief Marketing Officer of the Company and its Popeyes Chicken & Biscuits division, and shall perform such duties consistent with his position as may be assigned to him from time to time by the Chief Executive Officer of the Company (the "CEO") or the Board of Directors of the Company (the "Board"). Employee shall perform his duties hereunder at the Company's offices at 5555 Glenridge Connector, NE, Suite 300, Atlanta, Georgia, subject to such reasonable amount of travel as is necessary to render the services provided hereunder.

2.02 Time and Efforts. Employee, so long as he is employed hereunder, shall devote his full business time and attention to the services required of him hereunder, except as otherwise agreed and for vacation time and reasonable periods of absence due to sickness or personal injury, and shall use his best efforts, judgment and energy to perform, improve and advance the business and interests of the Company in a manner consistent with the duties of his position.

Anything herein to the contrary notwithstanding, nothing shall preclude Employee from (i) serving on the boards of directors of trade associations, (ii) engaging in charitable activities and community affairs; or (iii) managing his personal investments and affairs, provided that the activities described in the preceding clauses (i) through (iii) do not interfere with the proper performance of his duties and responsibilities hereunder.

3. Base Salary.

Beginning on the Start Date, the Company shall pay Employee, in equal installments no less frequently than monthly, a base salary at the rate of Three Hundred Thousand Dollars ($300,000) per annum (the "Base Salary") during the Term hereof. Employee's Base Salary shall be reviewed by the Board on an annual basis.

4. Incentive Pay and Special Bonus Pay.

4.01 Annual Plan. The Board, acting in its sole discretion, shall annually, at the beginning of each fiscal year of the Company, approve an annual incentive plan (the "Annual Incentive Plan") for Employee, which Plan shall contain such terms and provisions as the Board shall determine. The Annual Incentive Plan shall set forth the specific financial and performance goals which must be achieved for Employee to be entitled to receive payment under such Annual Incentive Plan. Any amounts payable to Employee pursuant to the Annual Incentive Plan is hereinafter referred to as "Incentive Pay".

4.02 Target Incentive Pay. The target Incentive Pay ("Target Incentive Pay") for Employee for the 2008 fiscal year of the Company shall be as follows: One Hundred Eighty Thousand Dollars ($180,000); provided, however, that the Target Incentive Pay with respect to any fiscal year is subject to, and may be modified by, the Annual Incentive Plan approved by the Board pursuant to Section 4.01 above and this Section 4.02 shall be read accordingly. For the 2008 fiscal year, Employee's Target Incentive Pay, if earned, shall be prorated for the amount of time remaining in the Company's 2008 fiscal year by dividing the actual number of days of Employee's employment with the Company hereunder during fiscal 2008 by the total number of days in the Company's fiscal 2008. After 2008, the Target Incentive Pay for Employee will be set by the Board for each fiscal year and will be included in the Annual Incentive Plan for such year.

4.03 Payment of Incentive Pay. If Employee is entitled to payment of any Incentive Pay for any fiscal year, an accounting will be furnished and payment will be made to Employee as set forth in the Annual Incentive Plan, but in no event later than two and one-half months following the end of each fiscal year.

4.04 Termination of Employment. If Employee's employment hereunder shall terminate other than pursuant to Sections 8.03 or 8.04, Employee shall receive, at the time contemplated by the Annual Incentive Plan, such Incentive Pay, if any, to which he would have been entitled under the terms of the Annual Incentive Plan had Employee remained in the employ of the Company for the entire fiscal year in which such termination occurs. If Employee's employment hereunder shall terminate pursuant to (a) Section 8.03, the provisions of Section 8.03 shall determine the amount of Incentive Pay payable to Employee; or (b) Section 8.04, no Incentive Pay shall be payable to Employee after such termination.

4.05 Special Bonus Pay . In addition to any Annual Incentive Pay that Employee may earn pursuant to Employee's Annual Incentive Plan, Employee shall receive a one-time guaranteed payment in the amount of Twenty Five Thousand Dollars ($25,000), less applicable withholdings, payable within thirty (30) days of Employee's Start Date.

4.06 Relocation and Temporary Living Expenses . Employee shall be entitled to receive reimbursement of miscellaneous relocation expenses in accordance with the terms and conditions of the Company's executive relocation package. Additionally, Employee shall be entitled to receive reimbursement for temporary living expenses, personal travel expenses, and other related expenses as incurred by Employee after the Start Date and pending Employee's relocation to Atlanta, Georgia. The total amount of temporary living expenses to be reimbursed shall not exceed Twenty Five Thousand Dollars ($25,000). Employee shall be grossed up in order to pay all federal, state and local income tax and social security and other employment tax on the reimbursed amounts.

5. Stock Options and Restricted Stock Grants.

Effective upon the Employee's Start Date, the Company shall grant to Employee certain restricted stock shares and stock options, pursuant to the Company's 2006 Incentive Stock Plan, as hereinafter set forth.

(a) The Company shall grant to Employee 11,500 shares of restricted stock which shall vest 100% on the first anniversary of Employee's Start Date, provided he is still employed by the Company on such anniversary date.

(b) The Company shall grant to Employee an option to purchase 30,000 shares of the Company's common stock ("Stock") which shall have an exercise price equal to the closing price of the Stock on the date of the grant, and shall vest over four years, with one-fourth vesting on each anniversary date of Employee's Start Date, provided he is still employed by the Company on such anniversary date.

(c) The Company shall grant to Employee an additional option to purchase 20,000 shares of Stock which shall have an exercise price equal to the closing price of the Stock on the date of the grant, and shall vest over four years, with one-fourth vesting on each anniversary date of the Employee's Start Date provided he is still employed by the Company on such anniversary date; further provided, however, the option to purchase such Stock to the extent so vested, shall only be exercisable, in whole or in part, if the Popeyes Chicken & Biscuits domestic restaurant system achieves the annual Board approved plan for same stores sales growth for the applicable vesting year.

Once a performance criterion has been satisfied, Employee shall have the right to exercise his option with respect to those shares, notwithstanding the satisfaction of performance criteria for subsequent vesting years.

The terms of this Section 5 are subject to the applicable provisions of Section 8 hereof.

As part of Employee's compensation after the foregoing grants of restricted stock shares and stock options have been made, Employee may be granted additional stock options, restricted stock shares and/or other forms of equity compensation based upon Employee's performance as determined in the sole discretion of the Board.

6. Employee Benefits.

6.01 Life Insurance. During the Term and any renewal term of this Agreement, Employee shall be entitled to term life insurance coverage paid by the Company with a death benefit in an amount of $1,500,000 (the "Death Benefit"), payable solely from, and to the extent of, the Death Benefit proceeds payable under such life insurance policy.

6.02 Disability Insurance.

(a) During the Term and any renewal term of this Agreement, Employee shall be entitled to disability insurance coverage in an amount not less than his disability coverage on the Start Date of this Agreement and the Company shall maintain in full force and effect during the Term a Supplemental Disability Policy which will supplement the benefits payable under any disability benefit provided to Employee by the Company under its basic employee health care benefit program. Subject to Section 6.06 below, with respect to a disability as defined in the Supplemental Disability Policy (a "Policy Disability") occurring after the Company has obtained the Supplemental Disability Policy, the total monthly disability benefit (the "Disability Benefit") payable to Employee under all disability policies maintained by the Company, after a maximum elimination period of ninety (90) days, shall be in accordance with the terms and conditions of the Company's executive disability program.

(b) Notwithstanding anything herein to the contrary, if the premiums for the Supplemental Disability Policy for Employee shall exceed regular, non-rated premiums, the Company may, but shall have no obligation to, fund such excess. In the event the Company determines not to fund such excess it shall promptly notify Employee and Employee may, at his option, elect to pay the excess. If Employee fails to pay such excess or if for any other reason the Company, after reasonable efforts, is not able to obtain the Supplemental Disability Policy required herein, then Employee shall not be entitled to the Supplemental Disability Policy Benefit hereunder except as may otherwise be determined in the discretion of the Company and set forth in writing.

(c) If the definition of a Policy Disability does not satisfy the requirements for a payment based on a "disability" under § 409A of the Code and the related tax regulations, the payment of his Disability Benefit shall begin when he has a Separation from Service (as defined in Section 8.01) as a result of his being Disabled or, if he is a Specified Employee (as defined in Section 8.01), shall begin on his Delayed Payment Date (as defined in Section 8.01), and the payment made on his Delayed Payment Date shall include all the payments which would have been made on and after the date of his Separation from Service but for his status as a Specified Employee.

6.03 Employee Medical Benefit. The Company, at its expense, shall provide Employee with an annual physical examination to be conducted by a physician or physicians as determined by Employee, subject to the reasonable approval of the Company.

6.04 Other Benefits. Employee shall be provided additional employee benefits in addition to those identified in Sections 6.01 – 6.03, including, without limitation, participation in the Company's 401(k) plan beginning on the Start Date with immediate full vesting in the Company's matching contributions beginning with any matching contribution made for fiscal year 2008, health, accident and disability insurance under the Company's regular and ongoing plans, policies and programs available, from time to time, to senior officers of the Company, in accordance with the provisions of such plans, policies and programs governing eligibility and participation; provided, however, that such benefits may be modified, amended or rescinded by

the Board subject to applicable law and the terms of such plans. The Company shall also pay Employee's initiation fee as well as monthly membership dues at the Ashford Club, Atlanta, Georgia.

6.05 Vacation. Employee shall be entitled to four (4) weeks paid vacation and three (3) days of paid personal business time each year during the Term hereof and any renewal hereof. Any vacation or personal business days not used in any year shall be subject to forfeiture or accrual pursuant to the Company's then-current vacation policy.

6.06 Paramount Provisions .

(a) Notwithstanding anything in Sections 6.01 and 6.02 above or any other provision of this Agreement to the contrary, if the Company has met all of its obligations under this Agreement (and provided that such obligations are not relieved in accordance with the terms hereof), with respect to obtaining and maintaining in force (i) the life insurance policy described in Section 6.01 hereof on the life of Employee to fund the minimum death benefit, or (ii) the Supplemental Disability Policy maintained for Employee pursuant to Section 6.02 hereof to fund such Employee's Disability Benefit, but all or any portion of the proceeds under any such policy are not actually received by the Employee for any reason whatsoever, including without limitation the insolvency of the insurer or any misrepresentation made by Employee in the application for such insurance, then the right of Employee or his designated beneficiary to receive a Disability Benefit or a death benefit, as the case may be, shall be reduced (but not below zero) by the amount by which the Disability Benefit or death benefit otherwise payable exceeds the insurance proceeds actually received. The Company agrees that any insurance company issuing the life insurance policy described in Section 6.01 shall have at least an "A" rating by the Best Rating Service.

(b) Anything in Sections 6.01, 6.02, 6.03, and 6.04 to the contrary notwithstanding, the amount of the benefits provided for in Section 6 are subject to adjustment as shall be provided for in the plan or insurance contract, as the case may be, pursuant to which such benefit is being paid and the Employee will be given written notice of any such change. Anything in this Agreement to the contrary notwithstanding, the Board shall have full authority to make all determinations deemed necessary or advisable for the administration of the benefits described in this Section 6. The good faith interpretation and construction by the Board of the terms of this Section 6 or the benefit programs described herein shall be final, conclusive and binding on Employee.

7. Business Expenses.

All reasonable and customary business expenses incurred by Employee in the performance of his duties hereunder shall be paid or reimbursed by the Company in accordance with the Company's policies in effect, from time to time. The amount of reasonable business expenses eligible for reimbursement in any taxable year of Employee shall not affect the amount of reasonable business expenses eligible for reimbursement in any other taxable year of Employee.

8. Termination of Employment.

8.01 Definitions. For purposes of this Agreement, the following terms shall have the following meanings:

The term "Cause" shall mean (i) Employee commits fraud or is convicted of a crime involving moral turpitude, (ii) Employee, in carrying out his duties hereunder, has been guilty of gross neglect or gross misconduct resulting in harm to the Company or any of its subsidiaries or affiliates, (iii) Employee shall have failed to materially comply with the policies of the Company or shall have refused to follow or comply with the duly promulgated directives of the Chief Executive Officer of the Company or the Board, (iv) Employee has breached any of the provisions of Sections 10.02 through and including 10.04 or (v) Employee otherwise materially breaches a material term of this Agreement.

The term "Code" shall mean the Internal Revenue Code of 1986, as amended.

The term "Constructive Discharge" shall mean a Separation from Service by the Employee on account of a material diminution of or change in his responsibilities or duties; provided, however, that no Separation from Service by the Employee shall be considered a Constructive Discharge unless, within one hundred eighty (180) days of the initial existence of such diminution or change Employee has first provided written notice to the Chairman of the Company's Board of Directors of the factual circumstances forming the basis for the claim of constructive discharge and of his intent to treat those circumstances as a Constructive Discharge under this Agreement, and has further provided the Company with a period of at least thirty (30) days in which to cure such alleged breach.

The term "Delayed Payment Date" shall mean the date that is six (6) months and one (1) day after the date of Employee's Separation from Service.

The term "Disability" shall mean the good faith determination by the Chief Executive Officer of the Company or the Board that Employee has failed to or has been unable to perform his duties as the result of any physical or mental disability for a period of ninety (90) consecutive days during any one period of Disability.

The term “Separation from Service” shall mean a “separation from service” with the Company within the meaning of § 409A of the Code and the related income tax regulations.

The term “Specified Employee” shall mean a “specified employee” within the meaning of § 409A of the Code and the related income tax regulations.

8.02 Termination upon Death or Disability. If Employee has a Separation from Service due to his death or Disability, the Company shall pay to the estate of the Employee or to the Employee, as the case may be, within fifteen (15) days following Employee’s death or upon his termination in the event of Disability, all amounts then payable to Employee pro rated through the date of termination pursuant to Section 3, and the amount of any accrued but unused vacation under Section 6.05 for the year in which such termination occurs and any reimbursable amounts owed Employee under Section 7. However, if the definition of a Disability does not satisfy the requirements for a payment based on a “disability” under § 409A of the Code and the related tax regulations, any payments due hereunder shall begin when he has a Separation from Service as a result of his being Disabled or, if he is a Specified Employee, shall begin on his Delayed Payment Date, and the payment made on his Delayed Payment Date shall include all the payments which would have been made on and after the date of his Separation from Service but for his status as a Specified Employee. Finally, the Company shall pay to Employee any Incentive Pay payable pursuant to Section 4.03 hereof. Such payment shall be made in a lump sum in cash at Employee’s Separation from Service or, if Employee is a Specified Employee, on Employee’s Delayed Payment Date.

8.03 Termination by the Company without Cause or Employee’s Resignation for a Constructive Discharge. The Company may terminate Employee’s employment under this Agreement without Cause at any time upon written notice to Employee. If Employee has a Separation from Service as a result of a termination without Cause (other than a Separation from Service described in Section 8.02) or as a result of his resignation because he has experienced a Constructive Discharge or as a result of the Company’s decision not to renew the Term pursuant to Section 1, the Company shall pay or provide to Employee, in lieu of all other amounts payable hereunder or benefits to be provided hereunder the following: (a) a payment equal to the sum of (x) and (y) where (x) is one (1) times Employee’s Base Salary at the time of termination, and (y) is one (1) times Employee’s Target Incentive Pay for the year in which such termination occurs (or, if no Target Incentive Pay has been designated for such year, then the Target Incentive Pay for the last year in which it was designated prior to such termination); and (b) the acceleration of any unvested rights of Employee under any restricted stock, stock options (other than stock options described in Section 5(c) for which the performance criterion required for exercise has not been previously satisfied) or other equity incentive awards such that they shall immediately vest under the terms of such awards. As a condition precedent to the requirement of Company to make such payment or grant such accelerated vesting, Employee shall not be in breach of his obligations under Section 10 hereof and Employee shall execute and deliver to Company a general release in favor of the Company in substantially the same form as the general release then being used by the Company.

Any payment required to be made under this Section 8.03 shall be made to Employee in a lump sum in cash on his Separation from Service or, if he is a Specified Employee, on his Delayed Payment Date.

8.04 Voluntary Termination by Employee or Termination for Cause. Employee may resign his employment hereunder at any time whatsoever, with or without cause, upon thirty (30) days prior written notice to the Company. The Company may terminate Employee's employment hereunder at any time without notice for Cause. In the event Employee has a Separation from Service as a result of his resignation (other than as a result of a Constructive Discharge) or as a result of a termination by the Company for Cause:

(a) The Company shall pay to Employee in a lump sum in cash on his Separation from Service or, if he is a Specified Employee, on his Delayed Payment Date all amounts then due under Sections 3, 4 (but only to the extent of earned but unpaid Incentive Pay), 6 and 7, prorated, through the date of termination for the year in which he is terminated; and

(b) The Company shall be under no obligation to make severance payments to Employee or continue any benefits being provided to Employee beyond the date of such termination other than benefits to which Employee may be entitled as a result of Federal or state law.

If Employee is terminated by the Company for Cause, Employee may within the ten (10) business day period immediately following such termination request in writing that the Chairman of the Board of Directors provide a written statement of the facts supporting his termination for Cause, and Employee during the ten (10) business day period immediately following the delivery of such statement may submit a written petition to the Chairman of the Board of Directors that his employment be reinstated with full pay retroactive to the date of his termination of employment. Any such petition shall set forth his reason or reasons why there was no Cause for his termination, and he may request that he be granted a meeting with the Board of Directors so he (or Employee and his attorney) can present such reason or reasons in person and answer any questions which any of the members of the Board of Directors want to ask Employee. The Board of Directors will promptly act on his petition, and the decision of the Board of Directors shall be final and binding on the Company and on Employee.

9. Change of Control, Change in Responsibilities.

Upon the occurrence of both of the following events:

(a) The dissolution or liquidation of the Company, or a reorganization, merger or consolidation of the Company with one or more corporations as a result of which the owners of all of the outstanding shares of Stock immediately prior to such reorganization, merger or consolidation own in the aggregate, directly and indirectly, less than 50% of the outstanding shares of Stock of the Company or any other entity into which the Company shall be merged or consolidated immediately following the consummation thereof, or the sale, transfer or other disposition of all or substantially all of the assets or more than 50% of the then outstanding shares of Stock of the Company in a single transaction or series of related transactions (a “Change in Control”); and

(b) Within one (1) year of such Change in Control (1) there is a termination of employment without Cause or (2) there is a material diminution of or change in Employee’s responsibilities or duties and Employee elects, in writing, within ninety (90) days following the occurrence of such diminution or change to resign effective thirty (30) days after the Company’s receipt of such notice, then, if Employee has a Separation from Service as a result of such termination or resignation, he shall be deemed to have been terminated by the Company other than for Cause and all amounts payable to Employee pursuant to Section 8.03 shall become payable in a lump sum in cash on his Separation from Service or, if he is a Specified Employee, on his Delayed Payment Date.

A Change in Control of the Company shall not be deemed to occur by reason of any public offering of the Stock of the Company.

Except as expressly contemplated by this Agreement, or in any other agreement referred to in Section 5 hereof, no merger, reorganization, recapitalization, sale of stock, sale of assets or other change in the capital structure of the Company or in the identity of the legal or beneficial owners of the Company shall affect the rights or obligations of the Company or Employee hereunder.

10. Confidentiality and Non-Competition.

10.01 Definitions. For purposes of this Section 10, the following terms shall have the following meanings:

“Affiliate” means any corporation, limited liability company, partnership or other entity of which the Company owns at least fifty percent (50%) of the outstanding equity and voting rights, directly or indirectly, through any other corporation, limited liability company, partnership or other entity.

“Businesses” means the businesses engaged in by the Company directly or through its Affiliates immediately prior to termination of employment.

“Confidential Information” means information which does not rise to the level of a Trade Secret, but is valuable to the Company or any Affiliate and provided in confidence to Employee.

“Proprietary Information” means, collectively, Trade Secrets and Confidential Information.

“Restricted Period” means the period commencing as of the date hereof and ending on that date two years (2) year after the termination of Employee’s employment with the Company for any reason, whether voluntary or involuntary.

“Trade Secrets” means information which derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

10.02 Covenant Not-To-Disclose . The Company and Employee recognize that, during the course of Employee’s employment with the Company, the Company has disclosed and will continue to disclose to Employee Proprietary Information concerning the Company and the Affiliates, their products, their franchisees, their services and other matters concerning their Businesses, all of which constitute valuable assets of the Company and the Affiliates. The Company and Employee further acknowledge that the Company has, and will, invest considerable amounts of time, effort and corporate resources in developing such valuable assets and that disclosure by Employee of such assets to the public shall cause irreparable harm, damage and loss to the Company and the Affiliates. Accordingly, Employee acknowledges and agrees that, except as may be required by law:

(a) that the Proprietary Information is and shall remain the exclusive property of the Company (or the applicable Affiliate);

(b) to use the Proprietary Information exclusively for the purpose of fulfilling the obligations under this Agreement;

(c) to return the Proprietary Information, and any copies thereof, in his possession or under his control, to the Company (or the applicable Affiliate) upon request of the Company (or the Affiliate), or expiration or termination of Employee’s employment hereunder for any reason; and

(d) to hold the Proprietary Information in confidence and not copy, publish or disclose to others or allow any other party to copy, publish or disclose to others in any form, any Proprietary Information without the prior written approval of an authorized representative of the Company.

The obligations and restrictions set forth in this Section 10.02 shall survive the expiration or termination of this Agreement, for any reason, and shall remain in full force and effect as follows:

(a) as to Trade Secrets, indefinitely, and

(b) as to Confidential Information, for a period of two (2) years after the expiration or termination of this Agreement for any reason.

The confidentiality, property, and proprietary rights protections available in this Agreement are in addition to, and not exclusive of, any and all other corporate rights, including those provided under copyright, corporate officer or director fiduciary duties, and trade secret and confidential information laws. The obligations set forth in this Section 10.02 shall not apply or shall terminate with respect to any particular portion of the Proprietary Information which (i) was in Employee's possession, free of any obligation of confidence, prior to his receipt from the Company or its Affiliate, (ii) Employee establishes the Proprietary Information is already in the public domain at the time the Company or the Affiliate communicates it to Employee, or becomes available to the public through no breach of this Agreement by Employee, or (iii) Employee establishes that she received the Proprietary Information independently and in good faith from a third party lawfully in possession thereof and having no obligation to keep such information confidential.

10.03 Covenant of Non-Disparagement and Cooperation. Employee agrees that he shall not at any time during or following the Term of this Agreement make any remarks disparaging the conduct or character of the Company or the Affiliates or any of the Company's or the Affiliates' current or former agents, employees, officers, directors, successors or assigns (collectively the "Related Parties"). In addition, Employee agrees to cooperate with the Related Parties, at no extra cost, in any litigation or administrative proceedings (e.g., EEOC charges) involving any matters with which Employee was involved during Employee's employment with the Company. The Company shall reimburse Employee for reasonable expenses incurred by Employee in providing such assistance.

10.04 Covenant Not-To-Induce. Employee covenants and agrees that during the Restricted Period, she will not, directly or indirectly, on his own behalf or in the service or on behalf of others, hire, solicit, take away or attempt to hire, solicit or take away any person who is or was an employee of the Company or any Affiliate during the one (1) year period preceding the termination of Employee's employment.

10.05 Remedies. The Company and Employee expressly agree that a violation of any of the covenants contained in subsections 10.02 through and including 10.04 of this Section 10, or any provision thereof, shall cause irreparable injury to the Company and that, accordingly, the Company shall be entitled, in addition to any other rights and remedies it may have at law or in equity, to an injunction enjoining and restraining Employee from doing or continuing to do any such act and any other violation or threatened violation of said Sections 10.02 through and including 10.04 hereof.

10.06 Severability. In the event any provision of this Agreement shall be found to be void, the remaining provisions of this Agreement shall nevertheless be binding with the same effect as though the void part were deleted; provided, however, if sections 10.02 through and including 10.04 of this Section 10 shall be declared invalid, in whole or in part, Employee shall execute, as soon as possible, a supplemental agreement with the Company, granting the Company, to the extent legally possible, the protection afforded by said subsections. It is expressly understood and agreed by the parties hereto that the Company shall not be barred from enforcing the restrictive covenants contained in each of subsections 10.02 through and including 10.04, as each are separate and distinct, so that the invalidity of any one or more of said covenants shall not affect the enforceability and validity of the other covenants.

10.07 Ownership of Property. Employee agrees and acknowledges that all works of authorship and inventions, including but not limited to products, goods, know-how, Trade Secrets and Confidential Information, and any revisions thereof, in any form and in whatever stage of creation or development, arising out of or resulting from, or in connection with, the services provided by Employee to the Company or any Affiliate under this Agreement are works made for hire and shall be the sole and exclusive property of the Company or such Affiliate. Employee agrees to execute such documents as the Company may reasonably request for the purpose of effectuating the rights of the Company or the Affiliate in any such property.

10.08 No Defense. The existence of any claim, demand, action or cause of action of the Employee against the Company shall not constitute a defense to the enforcement by the Company of any of the covenants or agreements in this Section 10.

11. Gross Up Payment. The term "Gross Up Payment" as used in this Agreement shall mean a payment to or on behalf of Employee which shall be sufficient to pay (1) 100% of any excise tax described in this Section 11, (2) 100% of any federal, state and local income tax and social security and other employment tax on the payment made to pay such excise tax as well as any additional taxes on such payment and (3) 100% of any interest or penalties assessed by the Internal Revenue Service on Employee which are related to the timely payment of such excise tax (unless such interest or penalties are attributable to Employee's willful misconduct or gross negligence with respect to such timely payment). A Gross Up Payment shall be made by the Company in a lump sum at the Company's option either directly to the United States Treasury or to Employee after either the Company or the Company's independent accountants determine that any payments and benefits called for under this Agreement together with any other payments and benefits made available to Employee by the Company and any other person will result in Employee being subject to an excise tax under § 4999 of the Code or such an excise tax is assessed against Employee as a result of any such payments and other benefits if Employee takes such action (other than waiving Employee's right to any payments or benefits in excess of the payments or benefits which Employee has expressly agreed to waive under this Section 11) as the Company reasonably requests under the circumstances to mitigate or challenge such excise tax; provided, however, if the Company or the Company's independent accountants make the determination described in this Section 11 and, further, determine that Employee will not be subject to any such excise tax if Employee waives Employee's right to receive a part of such payments or benefits and such part does not exceed $10,000, Employee shall irrevocably waive Employee's right to receive such part if an independent accountant or lawyer retained by Employee and paid by the Company agrees with the determination made by the Company or the Company's independent accountants with respect to the effect of such reduction in payments or benefits. Any determinations under this Section 11 shall be made in accordance with § 280G of the Code and any applicable related regulations (whether proposed, temporary or final) and any related Internal Revenue Service rulings and any related case law and, if the Company reasonably requests that Employee take action to mitigate or challenge, or to mitigate and challenge, any such tax or assessment (other than waiving Employee's right to any payments or benefits in excess of the payments or benefits which Employee has expressly agreed to waive under this Section 11 and Employee complies with such request, the Company shall provide Employee with such information and such expert advice and assistance from the Company's independent accountants, lawyers and other advisors as Employee may reasonably request and shall pay for all expenses incurred in effecting such compliance and any related fines, penalties, interest and other assessments.

12. Indemnification and Liability Insurance.

12.01 Company Obligations. The Company hereby indemnifies and agrees to hold harmless Employee, to the extent allowed by applicable law, against all liabilities, obligations, claims, demands, actions, causes of action, lawsuits, judgments, expenses and costs, including but not limited to the reasonable costs of investigation and attorney's fees, incurred by the Employee as a result of any threat, demand, claim action or lawsuits, made, instituted or initiated against the Employee, which arises out of, results from or relates to this Agreement or any action taken by Employee in the course of performance of Employee's duties hereunder, except for Employee's own gross negligence or willful misconduct.

12.02 Notice and Defense of Claim. If any claim suit or other legal proceeding shall be commenced, or any claim or demand be asserted against the Employee and Employee desires indemnification pursuant to this paragraph, the Company shall be notified to such effect with reasonable promptness and shall have the right to assume at its full cost and expense the entire control of any legal proceeding, subject to the right of the Employee to participate at his full cost and expense and with counsel of his choice in the defense, compromise or settlement thereof. The Employee shall cooperate fully in all respects with the Company in any such defense, compromise or settlement, including, without limitation, making available to the Company all pertinent information under the control of the Employee. The Company may compromise or settle any such action, suit, proceeding, claim or demand without Employee's approval so long as the Company obtains for Employee's benefit a release of liability with respect to such claim from the claimant and the Company assumes and agrees to pay any amounts due with respect to such settlement. In no event shall the Company be liable for any settlement entered into by the Employee without the Company's prior written consent.

12.03 Survival. The provisions of Sections 12.01 and 12.02 shall survive the termination of this Agreement for a period of four (4) years, unless Employee is terminated for Cause, in which event such provisions shall not survive termination of this Agreement.

12.04 Liability Insurance. The Company shall use commercially reasonable efforts to obtain and maintain directors' and officers' liability insurance covering the Employee to the same extent as the Company covers its other officers and directors.

13. Dispute Resolution.

13.01 Agreement to Arbitrate. In consideration for his continued employment with the Company, and other consideration, the sufficiency of which is hereby acknowledged, Employee acknowledges and agrees that any controversy or claim arising out of or relating to Employee's employment, termination of employment, or this Agreement including, but not limited to, controversies and claims that are protected or covered by any federal, state, or local statute, regulation or common law, shall be settled by arbitration pursuant to the Federal Arbitration Act. This includes, but is not limited to, violations or alleged violations of any federal or state statute or common law (including, but not limited to, the laws of the United States or of any state, or the Constitution of the United States or of any state), or of any other law, statute, ordinance, including but not limited to, the Age Discrimination in Employment Act, Title VII of the Civil Rights Act of 1964, as amended, the Americans with Disabilities Act, the Equal Pay Act, the Employee Retirement Income Security Act of 1972, as amended, the Rehabilitation Act of 1973, and any other statute or common law. This provision shall not, however, preclude the Company from seeking equitable relief as provided in Section 10.06 of this Agreement.

13.02 Procedure. The arbitration shall be conducted in accordance with the Employment Arbitration Rules of the American Arbitration Association: a single arbitrator who is experienced in employment law shall be selected under those Rules, and the arbitration shall be initiated in Atlanta, Georgia, unless the parties agree in writing to a different location or the Arbitrator directs the arbitration to be held at a different location. Except for filing fees, all costs of the arbitrator shall be allocated by the arbitrator. If the arbitrator awards monetary relief to Employee, the arbitrator shall have the discretion to award Employee's attorney's fees and costs if the arbitrator deems it appropriate. The award rendered by the arbitrator shall be final and binding on the parties hereto and judgment thereon may be entered in any court having jurisdiction thereof. In addition to that provided for in the Employment Arbitration Rules, the arbitrator has sole discretion to permit discovery consistent with the Federal Rules of Civil Procedure and the judicial interpretation of those rules upon request by any party; provided, however, it is the intent of the parties that the arbitrator limit the time and scope of any such discovery to the greatest extent practicable and provide a decision as rapidly as possible given the circumstances of the claims to be determined. The arbitrator also shall have the power and authority to grant injunctive relief for any violation of Sections 10.02 through and including 10.04 and the arbitrator's order granting such relief may be entered in any court of competent jurisdiction. The agreement to arbitrate any claim arising out of the employment relationship or termination of employment shall not apply to those claims which cannot be made subject to this provision by statute, regulation or common law. These include, but are not limited to, any claims relating to work related injuries and claims for unemployment benefits under applicable state laws.

13.03 Rights of Parties. Nothing in this clause shall be construed to prevent the Company from asking a court of competent jurisdiction to enter appropriate equitable relief to enjoin any violation of this Agreement by Employee. The Company shall have the right to seek such relief in connection with or apart from the parties' rights under this clause to arbitrate all disputes. With respect to disputes arising under this Agreement that are submitted to a court rather than an arbitrator, including actions to compel arbitration or for equitable relief in aid of arbitration, the parties agree that venue and jurisdiction are proper in any state or federal court lying within Atlanta, Georgia and specifically consent to the jurisdiction and venue of such court for the purpose of any proceedings contemplated by this paragraph. By entering into this Agreement the parties have waived any right which may exist for a trial by jury and have expressly agreed to resolve any disputes covered by this Agreement through the arbitration process described herein.

14. Employee Acknowledgment.

By signing this Agreement, Employee acknowledges that the Company has advised Employee of his right to consult with an attorney prior to executing this Agreement; that she has the right to retain counsel of his own choosing concerning the agreement to arbitrate or any waiver of rights or claims; that she has read and fully understands the terms of this Agreement and/or has had the right to have it reviewed and approved by counsel of choice, with adequate opportunity and time for such review; and that she is fully aware of its contents and of its legal effect. Accordingly, this Agreement shall not be construed against any party on the grounds that the party drafted this Agreement. Instead, this Agreement shall be interpreted as though drafted equally by all parties.

15. Amendments.

This Agreement may not be altered, modified or amended except by a written instrument signed by each of the parties hereto.

16. Successors.

As used in this Agreement, the term the Company shall include any successors to all or substantially all of the business and/or assets of the Company which assumes and agrees to perform this Agreement.

17. Assignment.

Neither this Agreement nor any of the rights or obligations of either party hereunder shall be assigned or delegated by any party hereto without the prior written consent of the other party, except that the Company may without the consent of Employee assign its rights and delegate its duties hereunder to any successor to the business of the Company. In the event of the assignment by the Company of its rights and the delegation of its duties to a successor to the business of the Company and the assumption of such rights and obligations by such successor, the Company shall, effective upon such assumption, be relieved from any and all obligations whatsoever to Employee hereunder.

18. Waiver.

Waiver by any party hereto of any breach or default by any other party of any of the terms of this Agreement shall not operate as a waiver of any other breach or default, whether similar to or different from the breach or default waived.

19. Severability.

In the event that any one or more of the provisions of this Agreement shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not be affected thereby.

20. Survival.

Notwithstanding anything herein to the contrary, the provisions of Sections 6.06, 7, 8.03, 9, 10, 11, 12 and 13 shall survive the termination of this Agreement.

21. Entire Terms.

This Agreement contains the entire understanding of the parties with respect to the employment of Employee by the Company. There are no restrictions, agreements, promises, warranties, covenants or undertakings other than those expressly set forth herein. This Agreement supersedes all prior agreements, arrangements and understandings between the parties, whether oral or written, with respect to the employment of Employee.

22. Notices.

Notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or if mailed in the manner herein specified, five (5) days after postmark of such mailing when mailed by United States registered mail, return receipt requested, postage prepaid, addressed as follows:

If to Employee:

Richard Lynch
5555 Glenridge Connector, NE
Suite 300
Atlanta, Georgia 30342

If to the Company to:

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

or to such other address or such other person as Employee or the Company shall designate in writing in accordance with this Section 22 except that notices regarding changes in notices shall be effective only upon receipt.

23. Headings.

Headings to Sections in this Agreement are for the convenience of the parties only and are not intended to be a part of, or to affect the meaning or interpretation of, this Agreement.

24. Governing Laws.

The Agreement shall be governed by the laws of the State of Georgia without reference to the principles of conflict of laws.

25. Compliance with § 409A of the Code. To the extent this Agreement is subject to § 409A of the Code, the Company and Employee intend all payments under this Agreement to comply with the requirements of such section, and this Agreement shall, to the extent reasonably practicable, be operated and administered to effectuate such intent.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed and Employee has hereunto set his hand as of the day and year first above written.

COMPANY:

AFC ENTERPRISES, INC.

By: /s/ John M. Cranor, III
John M. Cranor, III
Chairman of the Board

EMPLOYEE:

/s/ Richard Lynch
Richard Lynch

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated March 11, 2009, with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report of AFC Enterprises, Inc. and subsidiaries on Form 10-K for the year ended December 28, 2008. We hereby consent to the incorporation by reference of said reports in the Registration Statements of the Company on Forms S-8 (File No. 56444, effective March 2, 2001, File No. 333-98867, effective August 28, 2002, and File No. 333-137087, effective September 1, 2006) and on Form S-3 (File No. 333-86914).

/s/ GRANT THORNTON LLP

Atlanta, Georgia
March 11, 2009

EXHIBIT 31.1

CERTIFICATIONS

I, Cheryl A. Bachelder, certify that:

1. I have reviewed this Annual Report on Form 10-K of AFC Enterprises, Inc.;

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

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

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

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

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

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

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth 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.

/s/ CHERYL A. BACHELDER
Cheryl A. Bachelder
President and Chief Executive Officer

Date: March 11, 2009

EXHIBIT 31.2

CERTIFICATIONS

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

1. I have reviewed this Annual Report on Form 10-K of AFC Enterprises, Inc.;

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

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

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

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

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

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

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth 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.

/s/ H. MELVILLE HOPE, III
H. Melville Hope, III
Chief Financial Officer

Date: March 11, 2009

EXHIBIT 32.1

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Annual Report on Form 10-K of AFC Enterprises, Inc. (the "Corporation") for the period ended December 28, 2008, 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.

/s/ CHERYL A. BACHELDER
Cheryl A. Bachelder
President and Chief Executive Officer

Date: March 11, 2009

EXHIBIT 32.2

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Annual Report on Form 10-K of AFC Enterprises, Inc. (the “Corporation”) for the period ended December 28, 2008, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, the Chief Financial Officer of the Corporation, certifies that:

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

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

/s/ H. MELVILLE HOPE, III
H. Melville Hope, III
Chief Financial Officer

Date: March 11, 2009