AFC ENTERPRISES INC

FORM 10-K
(Annual Report)

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Address	5555 GLENRIDGE CONNECTOR, NE, SUITE 300 ATLANTA, GA 30342
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Industry	Restaurants
Sector	Services
Fiscal Year	12/30

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 27, 2009

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission files number 000-32369

AFC ENTERPRISES

AFC Enterprises, Inc.

Minnesota *(State or other jurisdiction of incorporation or organization)*	**58-2016606** *(I.R.S. Employer Identification No.)*
5555 Glenridge Connector, NE, Suite 300 **Atlanta, Georgia** *(Address of principal executive offices)*	**30342** *(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 whether the registrant has submitted electronically and posted to its web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to post such files). 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 12, 2009 (the last day of the registrant's second quarter for 2009), 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 $161,823,534.

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 19, 2010
Common stock, $0.01 par value per share	**25,455,917 shares**

Documents incorporated by reference: Portions of our 2010 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 names 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 21 to our Consolidated Financial Statements.

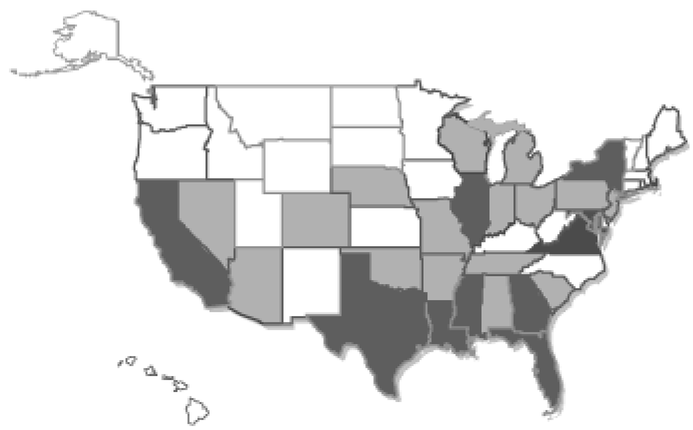
Popeyes Profile

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 27, 2009, we operated and franchised 1,943 Popeyes restaurants in 44 states, the District of Columbia, Puerto Rico, Guam and 27 foreign countries. The map below shows the concentration of our domestic restaurants, by state.

Total Operating Restaurants as of December 27, 2009

Domestic restaurants:	
Company-Operated	37
Franchised	1,539
International restaurants:	
Franchised	367
Worldwide restaurants	1,943



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 27, 2009, of our 1,539 domestic franchised restaurants, approximately 70% were concentrated in Texas, California, Louisiana, Florida, Illinois, Maryland, New York, Georgia, Virginia and Mississippi. Of our 367 international franchised restaurants, approximately 60% were located in Korea, Canada, Turkey, and Indonesia. Of our 37 company-operated restaurants, approximately 90% were concentrated in Louisiana and Tennessee.

Financial information concerning our domestic and international operations can be found in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Annual Report on Form 10-K.

Our Business Strategy

Our business strategy, announced at the beginning of 2008, capitalizes on our strengths as a highly franchised restaurant system. The model provides diverse and reliable earnings with steady cash flow, and low capital spending requirements. The cash flow provided by our model has primarily been used to pay down debt and repurchase stock to enhance shareholder value. With the successful launch of this new long-term growth strategy, during 2009 and 2008, we re-directed capital and resources to fund strategic growth initiatives, reduced our long term debt by $50.2 million, repurchased 2.1 million shares of our common stock for $19 million, and refranchised 27 company-operated restaurants.

Our strategic plan is built on the foundation of aligning and collaborating with our stakeholders, and is focused on the four pillars. We believe our execution of these strategies gained traction in 2009, making Popeyes more competitive and better positioned to gain market share and accelerate long-term growth as the consumer environment improves.

- ***Build the Popeyes Brand*** **—** offering a distinctive brand and menu with superior food at affordable prices.
  - In 2009, Popeyes promoted its flavorful Bonafide ® chicken and seafood offerings at value price points, supported by its successful new Louisiana Fast advertising campaign and national media. These marketing initiatives delivered strong positive guest counts resulting in positive full year same-store sales.
  - In 2010, Popeyes will continue to promote its core chicken and seafood offerings and periodically introduce new innovative products. Popeyes will continue the use of national advertising to efficiently expand media reach and build additional brand awareness.
- ***Run Great Restaurants*** **—** improving restaurant operations and Popeyes' guest experience by delighting the guest with "service as distinctive as our food".
  - Popeyes restaurants steadily improved our Guest Experience Monitor (GEM) scores, with "Overall Delighted" and "Intent to Return" scores at the end of 2009 up significantly since the beginning of the year.
  - With newly required drive-thru equipment substantially in place throughout the system, we are rolling out a new speed of service training program system-wide in the first half of 2010. Longer-term, we believe an increase in speed of service will provide a significant benefit to Popeyes' customers and restaurant sales performance.
  - In 2009, we successfully completed our re-franchising strategy with the sale of company-operated restaurants in Atlanta and Nashville. Going forward, the Company intends to own and operate its remaining company-operated restaurants in New Orleans and Memphis, which are high volume, profitable stores.
- ***Strengthen Unit Economics*** **—** lowering restaurant operating costs and improving profitability while maintaining excellent food quality for our guests.
  - In 2009, Popeyes restaurants benefited from a 3 percent decrease in commodity costs which translated to approximately a 100 basis point improvement in restaurant operating margins. This overall benefit was partially offset, however, by increases in national minimum wage.
  - During 2009, we also completed a diagnostic analysis of our supply chain system, identifying significant cost-savings opportunities in packaging, shipping, and sourcing alternatives which will benefit the entire system in 2010 and beyond.
- ***Ramp Up New Unit Growth*** **—** building more restaurants across the U.S. and abroad with superior profits and investment returns.
  - We are generating a strong pipeline of current and new franchise developers to open new restaurants and enter new markets, and will be better positioned to accelerate new unit development as the economy recovers.

- Our site modeling software investment is helping to strengthen real-estate site selection by identifying higher quality sites with higher sales volume potential and more attractive returns for our franchise owners.
- Our build-out costs remain competitive. In January of this year, QSR Magazine named Popeyes as one of the 10 great franchise deals. The magazine stated, “Popeyes is a good deal because the build-out cost is reasonable for a drive-thru, stand-alone building.”

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. As of December 27, 2009, we had 347 franchisees operating restaurants within the Popeyes system, and several preparing to become operators. The largest of our domestic franchisees operates 162 restaurants and the largest of our international franchisees operates 97 restaurants. 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 are typically 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 with development fees of up to $20,000 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 a 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 4% 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 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 27, 2009, we held one of seven seats on the SMS board of directors. Our Popeyes franchise agreements require that each domestic 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.

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 an exclusive supplier of certain proprietary products for the Popeyes system. This supplier 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, including 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 $67.7 million in 2009, $61.2 million in 2008, and $57.6 million in 2007.

During 2009 and 2008, the Company and the majority of Popeyes franchisees contributed additional funds above those required under applicable franchise agreements in support of the Company's shift in advertising funds from local media to national media 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.

Seasonality has little effect on our operations.

Employees

As of February 21, 2010, we had approximately 1,000 hourly employees working in our company-operated restaurants. Additionally, we had approximately 40 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 160 employees responsible for corporate administration, franchise services and business development.

None of our employees is 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 and we are presently discussing extensions of these agreements with King Features.

International Operations

We continue to expand our international operations through franchising. As of December 27, 2009, we have 367 franchised international restaurants. During 2009, franchise revenues from these operations represented approximately 10.9% of our total franchise revenues. For each of 2009, 2008, and 2007, international revenues represented 6.3%, 5.7%, and 4.5%, of total revenues, respectively.

Insurance

We carry property, general liability, business interruption, crime, directors and officer’s 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 and grocery 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, labor, 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 U.S. 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 2009, royalty revenues from these restaurants were approximately $1.2 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 our 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., 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, convenience dining establishments and other home meal replacement alternatives, including national restaurant and grocery store 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.

Continued 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 restaurants successfully or the loss of these franchisees could adversely impact our operating results. As of December 27, 2009, we had 347 franchisees operating restaurants within the Popeyes system and several preparing to become operators. The largest of our domestic franchisees operates 162 Popeyes restaurants; and the largest of our international franchisees operates 97 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 or continue to maintain their franchise relationships with us.

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

As of December 27, 2009, we franchised 1,576 restaurants domestically and 367 restaurants in Puerto Rico, Guam and 27 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.

Changes in consumer preferences and demographic trends 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. In addition, the restaurant industry is currently under heightened legal and legislative scrutiny related to menu labeling and resulting from the perception that the practices of restaurant companies have contributed to nutritional, caloric intake, obesity, or other health concerns of their guests. If we are unable to adapt to changes in consumer preferences and trends, we may lose customers and our revenues may decline.

Adverse publicity related to food safety and quality could result in a loss of customers and reduce our revenues.

We and our franchisees 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 whether those concerns relate only to a single restaurant or a limited number of restaurants or many restaurants. We are also subject to potentially negative publicity from various sources, including social media sites, which are beyond the control of the Company. 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 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.

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.

If we face labor shortages or increased labor costs, our growth and operating results 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. Additionally, as of February 21, 2010, we employed approximately 1,000 hourly employees in our company-operated restaurants. Labor is a primary component in the cost of operating our restaurants. If we or our franchisees 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), operating expenses could increase and our growth could be adversely affected.

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

We also face currency, economic, political, and other risks associated with our international operations. As of December 27, 2009, we had 367 franchised restaurants in Puerto Rico, Guam and 27 foreign countries. Business at these operations is conducted in the respective local currency. The amount owed to 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 operating 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.

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;
- information security and data protection;
- minimum wage, overtime, immigration, unions and other labor issues;
- 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.

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, natural disasters, 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 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 attract and 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 they are 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.

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

The 2005 Credit Facility, as amended and restated in August 2009, contains financial and other covenants, including covenants which require us to maintain various financial ratios, limit our ability to incur additional indebtedness, restrict the amount of capital expenditures that may be incurred, restrict the payment of cash dividends and limit 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, as amended and restated, includes customary events of default, including, but not limited to, the failure to maintain the financial ratios described above, 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. The restrictive covenants in our 2005 Credit Facility, as amended and restated, may limit our ability to expand our business, and our ability to comply with these provisions may be impacted by events beyond our control. A failure to comply with any of the financial and operating covenants included in the 2005 Credit Facility, as amended and restated, 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, as amended and restated, 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, as amended and restated, include payments of approximately $19.5 million in 2012 and approximately $56.9 million in 2013. The current financial environment has resulted in diminished and more expensive credit availability, and could make it more difficult for us to refinance our amended and restated credit facility in the future. A lack of availability and increased cost of refinancing could have a material adverse impact on our financial condition and our liquidity.

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 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 for the next five years 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 27, 2009:

	Land and Buildings Owned	Land and/or Buildings Leased	Total
Louisiana	3	21	24
Tennessee	2	7	9
Mississippi	0	3	3
Arkansas	0	1	1
Total	5	32	37

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 27, 2009, we leased 12 restaurants and subleased 57 restaurants to franchisees. Additionally, we leased three properties to unrelated third parties. Of the restaurants leased or subleased to franchisees, 37 were located in Texas.

As of December 27, 2009, we owned three other properties and leased one additional surplus property.

As discussed in Note 10 to the Consolidated Financial Statements, all owned property is pledged as security under our 2005 Credit Facility, as amended and restated.

As of December 27, 2009, we leased 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. RESERVED

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	53	President and Chief Executive Officer
H. Melville Hope, III	48	Senior Vice President and Chief Financial Officer
Richard H. Lynch	55	Chief Marketing Officer
Harold M. Cohen	46	Senior Vice President, General Counsel, Chief Administrative Officer and Corporate Secretary
Ralph W. Bower	47	Chief Operating Officer

Cheryl A. Bachelder, age 53, 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 its 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 48, 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 55, has served as 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 46, 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.

Ralph W. Bower , age 47, was appointed to the position of our Chief Operating Officer effective March 2009. From February 2008 to March 2009, Mr. Bower served as our chief operations officer. From February 2006 to January 2008, Mr. Bower was the KFC operations leader responsible for more than 1,300 KFC franchised restaurants in the western United States. Prior to this position, he led KFC company operations in Pennsylvania, New Jersey and Delaware. From February 2002 to February 2003, Mr. Bower directed the guest satisfaction function for KFC. Before joining KFC, Mr. Bower was Vice President of Operations for Western Ohio Pizza, a franchisee of Domino’s Pizza, overseeing operations in Dayton, OH, and Indianapolis, IN.

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 2009 and 2008.

	2009		2008	
(Dollars per share)	High	Low	High	Low
First Quarter	$7.09	$3.72	$11.35	$7.07
Second Quarter	$7.37	$4.96	$10.68	$7.79
Third Quarter	$9.10	$6.26	$ 9.56	$6.43
Fourth Quarter	$9.13	$7.58	$ 6.45	$2.85

Share Repurchases

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 27, 2009, the remaining shares that may be repurchased under the program was approximately $38.9 million. See Note 13 to our Consolidated Financial Statements.

During fiscal 2009, no shares of common stock were repurchased or retired. 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.

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

Shareholders of Record

As of February 21, 2010, we had 117 shareholders of record of our common stock.

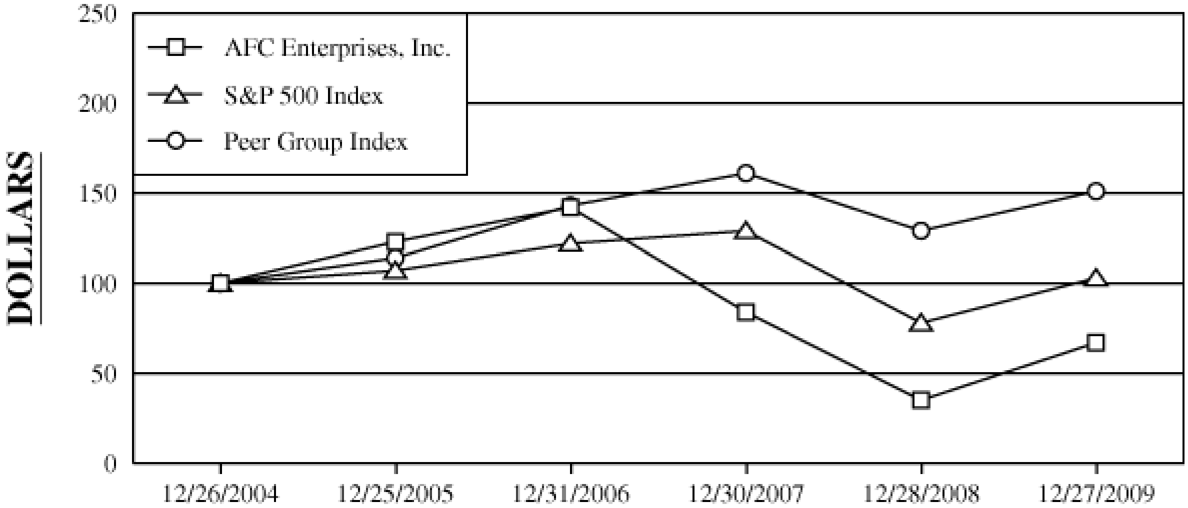
Dividend Policy

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 a special cash dividend, we have never declared or paid cash dividends on our common stock. Additionally, our 2005 Credit Facility, as amended and restated, 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 26, 2004 through December 27, 2009 and further assumes the reinvestment of all dividends.

Comparison of Cumulative Five Year Total Return



Company Name / Index	12/26/2004	12/25/2005	12/31/2006	12/30/2007	12/28/2008	12/27/2009
AFC Enterprises, Inc.	$100	$123	$142	$ 84	$ 35	$ 67
S&P 500 Index	$100	$107	$122	$129	$ 78	$103
Peer Group Index	$100	$114	$143	$161	$129	$151

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)	2009	2008	2007	2006	2005
Summary of continuing operations:					
Revenues:(1)					
Sales by company-operated restaurants	$ 57.4	$ 78.3	$ 80.0	$ 65.2	$ 60.3
Franchise revenues(2)	86.0	84.6	82.8	82.6	77.5
Rent and other revenues	4.6	3.9	4.5	5.2	5.6
Total revenues	148.0	166.8	167.3	153.0	143.4
Expenses:					
Restaurant employee, occupancy and other expenses	29.5	41.4	40.7	33.7	30.5
Restaurant food, beverages and packaging	18.9	27.1	27.3	21.3	20.6
Rent and other occupancy expenses	2.6	2.4	2.3	2.7	3.2
General and administrative expenses(3)	56.0	53.9	47.2	45.4	65.5
Depreciation and amortization	4.4	6.3	6.9	6.4	7.3
Other expenses (income), net(4)	(2.1)	(4.6)	(2.7)	(1.8)	23.2
Total expenses	109.3	126.5	121.7	107.7	150.3
Operating profit (loss)	38.7	40.3	45.6	45.3	(6.9)
Interest expense, net(5)	8.4	8.1	8.7	11.1	6.8
Income (loss) before income taxes	30.3	32.2	36.9	34.2	(13.7)
Income tax expense	11.5	12.8	13.8	12.0	(5.3)
Net income (loss)	$ 18.8	$ 19.4	$ 23.1	$ 22.2	$ (8.4)
Earnings per common share, basic	$ 0.74	$ 0.76	$ 0.81	$ 0.75	$ (0.29)
Earnings per common share, diluted	$ 0.74	$ 0.76	$ 0.80	$ 0.74	$ (0.29)
Weighted average shares outstanding:					
Basic	25.3	25.6	28.6	29.5	29.1
Diluted	25.4	25.7	28.8	29.8	29.1
Summary of cash flow data:					
Special cash dividend	$ —	$ 0.5	$ 0.7	$ 0.7	$352.9
Share repurchases	—	19.0	39.4	20.3	19.5
Year-end balance sheet data:					
Total assets	$116.6	$132.0	$155.0	$163.1	$212.7
Total debt(6)	82.6	119.2	132.8	134.0	191.4

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

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

(b) On January 26, 2009, the Company completed the re-franchising of 3 company-operated restaurants in its Nashville, Tennessee market resulting in a decrease in 2009 revenues of $3.1 million (net of franchise royalties earned) as compared to 2008.

(c) On June 8, 2009, the Company completed the re-franchising of 13 company-operated restaurants in its Atlanta, Georgia market resulting in a decrease in 2009 revenues of $6.8 million (net of franchise royalties earned) as compared to 2008.

(d) On September 8, 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; and a decrease in 2009 revenue of $9.2 million (net of franchise royalties earned) compared to 2008.

(e) 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 $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.

(f) 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.

(g) 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).

(h) The consolidated financial results include the accounts of the Company and the accounts of any franchisee entity deemed a variable interest entity ("VIE") where we are the primary beneficiary. During 2006 and 2005, the consolidation of a VIE increased sales by company-operated restaurants by approximately $1.2 million and $2.7 million, respectively.

(2) Franchise revenues are principally composed of royalty payments from franchisees that are determined based on franchise net restaurant sales and are generally 5% of franchise net restaurant sales. While franchise sales are not recorded as revenue by the Company, management believes they are important in understanding the Company's financial performance because these sales are indicative of the Company's health, given the Company's strategic focus on growing its overall business through franchising. Total franchisee sales were $1.716 billion in 2009, $1.663 billion in 2008, $1.651 billion in 2007, $1.661 billion in 2006, and $1.552 billion in 2005. 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) 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.

(4) Factors that impact the comparability of other expenses (income) for the years presented include:

(a) During 2009 there were no significant expenses (income) associated with shareholder litigation. During 2008, 2007, 2006, and 2005, our expenses (income) associated with litigation related costs (proceeds) were approximately $(12.9) million, $(0.9) million, $(0.3) million, and $21.8 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.

(b) During 2009 the Company sold ten real estate properties for a gain of approximately $3.6 million.

(c) During 2009, 2008, 2007, 2006, and 2005, impairments and disposals of fixed assets were approximately $0.6 million, $9.5 million, $1.9 million, $0.1 million, and $5.8 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. 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.

(5) During 2009, we expensed $1.9 million as a component of Interest expense, net in connection with the third amendment and restatement of the 2005 Credit Facility. See Note 10 for a description of the amendment and restatement transaction.

(6) Total debt includes the long-term and current portions of our debt facilities, capital lease obligations, outstanding lines of credit, and other borrowings.

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.

	2009	2008	2007	2006	2005
Global system-wide sales increase(1)	1.8%	0.6%	0.3%	7.0%	4.8%
Total domestic same-store sales increase (decrease)	0.6%	(2.2)%	(2.3)%	1.6%	3.3%
International same-store sales increase (decrease)	1.9%	4.1%	1.1%	(3.2)%	(4.2)%
Total global same-store sales increase (decrease)(2)	0.7%	(1.7)%	(2.0)%	1.1%	2.6%
Company-operated restaurants (all domestic)					
Restaurants at beginning of year	55	65	56	32	56
New restaurant openings	0	1	5	3	1
Restaurant conversions, net(3)	(16)	(11)	1	12	2
Permanent closings	(2)	(3)	(3)	(3)	(7)
Temporary (closings)/re-openings, net(4)	0	3	6	12	(20)
Restaurants at end of year	37	55	65	56	32
Franchised restaurants (domestic and international)					
Restaurants at beginning of year	1,867	1,840	1,822	1,796	1,769
New restaurant openings	95	139	119	139	122
Restaurant conversions, net(3)	16	11	(1)	(12)	(2)
Permanent closings	(79)	(117)	(106)	(93)	(95)
Temporary (closings)/re-openings, net(4)	7	(6)	6	(8)	2
Restaurants at end of year	1,906	1,867	1,840	1,822	1,796
Total system restaurants	1,943	1,922	1,905	1,878	1,828
New franchised restaurant openings					
Domestic	39	72	77	97	71
International	56	67	42	42	51
Total new franchised restaurant openings	95	139	119	139	122
Franchised restaurants					
Domestic	1,539	1,527	1,518	1,503	1,451
International	367	340	322	319	345
Restaurants at end of year	1,906	1,867	1,840	1,822	1,796

(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.

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 27 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 21 to our Consolidated Financial Statements.

Management Overview of 2009 Results:

Our fiscal year 2009 results and highlights include the following:

- Reported net income was $18.8 million, or $0.74 per diluted share, compared to $19.4 million, or $0.76 per diluted share, last year. Adjusted earnings per diluted share were $0.74 in 2009, compared to $0.65 in 2008, an increase of 14 percent. Adjusted earnings per diluted share is a supplemental non-GAAP measure of performance. Please see "Non-GAAP Financial Measures" in this Item 7 for a definition of adjusted earnings per diluted share and a reconciliation to the most comparable GAAP measure.
- Total system-wide sales increased 1.8 percent compared to a 0.6 percent increase last year.
- Global same-store sales increased 0.7 percent compared to a 1.7 percent decrease last year. Total domestic same-store sales increased 0.6 percent, compared to a 2.2 percent decrease last year, outpacing both the QSR and chicken QSR categories. International same-store sales increased 1.9 percent, compared to a 4.1 percent increase last year, the third consecutive year of positive same-store sales.
- The Popeyes system opened 95 restaurants globally and entered two new countries, Malaysia and Egypt. 81 restaurants were permanently closed, resulting in net openings of 14 restaurants, which exceeded our previous guidance of 0-10 net openings.
- We successfully completed our re-franchising strategy with the sale of our 27 company-operated restaurants in Atlanta and Nashville. The year over year impact of re-franchising was favorable to operating profit by approximately $1.7 million, including franchise fees and royalties, general and administrative savings, and lower depreciation and amortization.
- Outstanding debt was reduced by $36.6 million to $82.6 million.
- On August 14, 2009, we entered into a third amendment and restatement to the 2005 Credit Facility to, among other things, extend the maturity dates of our revolving credit facility and term loan by two years to May 2012 and May 2013, respectively. For a discussion of the terms see "Long Term Debt" within this Item 7.

2009 Same-Store Sales

During 2009, total domestic same-store sales increased 0.6% resulting from the Company's strategy of advertising more compelling price points and using more efficient media. In 2009, we promoted our famous Bonafide ® bone-in chicken and seafood offerings at compelling price points for both the single and family-user. These promotions, supported by national media advertising, delivered positive guest counts. According to independent data, Popeyes' domestic same-store sales outpaced both the QSR and chicken QSR categories. We remain focused on increasing traffic by offering distinctive Louisiana food, compelling value, and an improved guest experience. For additional information on our business strategies, see the discussion under the heading “Our Business Strategy” in Item 1 to this Annual Report on Form 10-K.

Within our international operations, same-store sales increased by 1.9% during fiscal 2009 due primarily to strong sales in Korea, Canada, Turkey and overseas U.S. military bases, partially offset by negative performance in Latin America and the Middle East. Similar to the U.S., we are working with our international franchisees to implement distinctive new products and core menu value promotions to drive traffic gains in the restaurants.

As it concerns our expected same-store sales results for 2010, see the discussion under the heading “Operating and Financial Outlook for 2010” later in this Item 7.

2009 Unit Growth

During 2009, our global restaurant system grew by 21 net restaurants. In 2009, we opened 95 new franchised restaurants, offset by 79 permanent closures of franchised restaurants and 2 permanent closures of company-operated restaurants. In addition, our year-end restaurant count for 2009 includes 7 net re-opened restaurants.

As it concerns our expected openings and closings for 2010, see the discussion under the heading “Operating and Financial Outlook for 2010” later in this Item 7.

Factors Affecting Comparability of Consolidated Results of Operations: 2009, 2008, and 2007

For 2009, 2008, and 2007, the following items and events affect comparability of reported operating results:

- During 2009 we re-franchised 13 company-operated restaurants in Atlanta, Georgia, and during 2008 we re-franchised 11 company-operated restaurants in Atlanta, Georgia. In 2009 we also re-franchised 3 company-operated restaurants in Nashville, Tennessee. The re-franchising resulted in a decrease in 2009 revenues of $19.1 million (net of franchise royalties earned) as compared to 2008 and a decrease in 2008 revenues of $4.0 million (net of franchise royalties earned) as compared to 2007.
- During 2009 we sold 10 real estate properties for a gain of approximately $3.6 million.
- During 2008 and 2007, our income associated with litigation related proceeds was $12.9 million and $0.9 million, respectively.
- During 2009, 2008 and 2007, impairments and disposals of fixed assets were $0.6 million, $9.5 million and $1.9 million, respectively.
- During 2007, we recognized approximately $4.8 million of income from insurance proceeds related to property damage and business interruption claims associated with Hurricane Katrina.

Comparisons of Fiscal Years 2009 and 2008

Sales by Company-Operated Restaurants

Sales by company-operated restaurants were $57.4 million in 2009, a $20.9 million decrease from 2008. The decrease was due to:

The successful re-franchising and sales of 11 company-operated restaurants in the Atlanta, Georgia market in the third quarter of 2008, 3 company-operated restaurants in the Nashville, Tennessee market in the first quarter of 2009, and 13 company-operated restaurants in the Atlanta, Georgia market in the second quarter of 2009.

The operating profit impact of re-franchising the company-operated restaurants was favorable during 2009 when compared to 2008 by approximately $1.7 million.

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 constituting more than 90% of franchise revenues.

Franchise revenues were $86.0 million in 2009, a $1.4 million increase from 2008. The increase was primarily due to a net $2.8 million increase in royalties, primarily from new franchised restaurants and an increase in franchise same-store sales during 2009, partially offset by a $1.4 million reduction in franchise fees.

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 $4.6 million in 2009, a $0.7 million increase from 2008, due primarily to an increase in the number of leased or subleased properties as a result of the re-franchising and sale of company-operated restaurants in the Atlanta, Georgia and Nashville, Tennessee markets.

Restaurant Employee, Occupancy and Other Expenses

Restaurant employee, occupancy and other expenses were $29.5 million in 2009, an $11.9 million decrease from 2008. This decrease was principally due to a reduction in the number of company-operated restaurants as discussed above. Restaurant employee, occupancy and other expenses were approximately 51% and 53% of sales from company-operated restaurants in 2009 and 2008, respectively. This 2% improvement was primarily attributable to lower business insurance expense, utility costs, other net operating costs, and the re-franchising of company-operated restaurants.

Restaurant Food, Beverages and Packaging

Restaurant food, beverages and packaging expenses were $18.9 million in 2009, an $8.2 million decrease from 2008. This decrease was principally due to a reduction in the number of company-operated restaurants as discussed above. Restaurant food, beverages and packaging expenses were approximately 33% and 35% of sales from company-operated restaurants in 2009 and 2008, respectively. This 2% improvement was primarily attributable to lower commodity costs and the re-franchising of company-operated restaurants.

Rent and Other Occupancy Expenses

Rent and other occupancy expenses were $2.6 million in 2009, a $0.2 million increase from 2008.

General and Administrative Expenses

General and administrative expenses were $56.0 million in 2009, a $2.1 million increase from 2008. The increase was primarily due to:

- a $2.0 million increase in bad debt expense,
- a $0.8 million increase in personnel expense, primarily related to employee incentive accruals, and
- a $0.4 million increase due to $1.4 million net of national media advertising expenses, partially offset by non-recurring marketing expenses incurred during 2008,

partially offset by:

- a $0.8 million decrease in business conference and travel expenses, and
- a $0.3 million decrease in professional fees and other net general and administrative costs.

General and administrative expenses were approximately 3.2% and 3.1% of system-wide sales in 2009 and 2008, respectively.

Depreciation and Amortization

Depreciation and amortization was $4.4 million in 2009, a $1.9 million decrease from 2008. The decrease was principally due to certain fully depreciated information technology assets in 2009 and the reclassification and subsequent sale of certain company-operated assets in our Atlanta, Georgia and Nashville, Tennessee markets as “Assets held for sale” in 2008, resulting in the discontinuation of depreciation on these assets.

Other Expenses (Income), Net

Other expenses (income), net was $2.1 million of income in 2009 as compared to $4.6 million of income in 2008.

The income in 2009 primarily resulted from $3.6 million in gain on the sale of real estate properties partially offset by a $0.4 million loss on insurance recoveries related to asset damages, a $0.2 million impairment of a company-operated restaurant in Memphis, Tennessee and $0.9 million in other net expenses associated with the closure and disposal of company-operated restaurants and assets.

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 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.

See Note 17 to our Consolidated Financial Statements for a description of Other expenses (income), net for 2009 and 2008.

Operating Profit

On a consolidated basis, operating profit was $38.7 million in 2009, a $1.6 million decrease when compared to 2008. 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.

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.

(Dollars in millions)	2009	2008	Fluctuation	As a Percent
Franchise operations	$36.8	$38.9	$ (2.1)	(5.4)%
Company-operated restaurants	4.2	3.1	1.1	35.5%
Operating profit before unallocated expenses	41.0	42.0	(1.0)	(2.4)%
Less unallocated expenses:				
Depreciation and amortization	4.4	6.3	1.9	30.2%
Other expenses (income), net	(2.1)	(4.6)	(2.5)	(54.3)%
Total	$38.7	$40.3	$ (1.6)	(4.0)%

The $2.1 million decrease in operating profit associated with our franchise operations was principally due to lower franchise fees and an increase in general and administrative expenses as discussed above, partially offset by higher royalty revenues from new franchised restaurants and an increase in franchise same-store sales during 2009.

The $1.1 increase in operating profit associated with our company-operated restaurants was principally due to higher restaurant operating profit margins as discussed above and lower general and administrative support costs, partially offset by the impact of refranchising restaurants in the Atlanta, Georgia and Nashville, Tennessee markets.

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

Interest Expense, Net

Interest expense, net was $8.4 million in 2009, a $0.3 million increase from 2008. The increase results primarily from the $1.9 million expensed in connection with the third amendment and restatement of the 2005

Credit Facility, partially offset by lower average debt balances as compared to 2008. A schedule of the components of interest expense, net can be found at Note 18 to our Consolidated Financial Statements.

Income Tax Expense

In 2009, we had an income tax expense of $11.5 million compared to $12.8 million in 2008. Our effective tax rate for 2009 was 38.0% compared to 39.8% for 2008 (see a reconciliation of these effective rates in Note 19 to our Consolidated Financial Statements). The effective tax rate for 2009 was unfavorably impacted by 0.4% associated with limitations on deductibility of executive compensation. 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 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 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 by a 2.1% decrease in domestic franchise same-store sales.

Rent and Other Revenues

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 media 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 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 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 17 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	8.7%
Other expenses (income), net	(4.6)	(2.7)	1.9	70.4%
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 for domestic franchise operations support and field training, salary and other personnel related costs; marketing and menu initiatives including national media 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 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 19 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.

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, as amended and restated.

Based primarily upon our generation of cash flows from operations, coupled with our existing cash reserves (approximately $4.1 million available as of December 27, 2009), and available borrowings under our 2005 Credit Facility, as amended and restated (approximately $46.7 million available as of December 27, 2009), 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 2010.

On August 14, 2009, the Company entered into the third amendment and restatement to the 2005 Credit Facility. The terms of the third amendment and restatement gave the Company more flexibility regarding cash usage and delayed the timing of more restrictive total leverage ratio covenant requirements.

Key term changes in the amended and restated facility include the following:

- The term loan and revolving credit facility maturity dates were extended by two years to May 2013 and May 2012, respectively.
- The Company must maintain a Total Leverage Ratio of 3.00 to 1 or less through the end of the first quarter of 2012 and 2.75 to 1 or less thereafter.

See Note 10 for a discussion of the debt amendment and restatement transaction.

Our franchise model provides diverse and reliable cash flows. Net cash provided by operating activities of the Company was $23.2 million and $29.7 million for 2009 and 2008, respectively. The decrease in cash provided by operating activities was primarily attributable to: (1) litigation related proceeds received in 2008 (see Note 17 to our Consolidated Financial Statements) and (2) increases in general and administrative expenses; partially offset by (3) higher franchise revenues; (4) lower income tax payments; and (5) timing of interest payments. See our Company's Consolidated Statements of Cash Flows in our Consolidated Financial Statements.

During 2009, the Company received a payment of $10.2 million under the terms of a receivable which was recorded as a component of "Other long-term assets, net" in the Consolidated balance sheet as of December 28, 2008. During 2009, the Company realized $7.1 million in combined cash proceeds from the re-franchising of 13 company-operated restaurants in the Atlanta, Georgia market and the sale of nine properties. These proceeds were used to make debt prepayments during 2009.

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 (subject to the restrictions under our 2005 Credit Facility, as amended and restated).

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 and restated, 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, as amended and restated, 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, as amended and restated, when the Company's Total Leverage Ratio equals or exceeds the amounts set forth below:

Total Leverage Ratio	Prepayment
> 2.00 to 1.0	**50% of the Consolidated Excess Cash Flow**
≤ 2.00 to 1.0	**25% of the Consolidated Excess Cash Flow**

Total Leverage Ratio is defined as the ratio of the Company's Consolidated Total Indebtedness to Consolidated EBITDA for the four immediately preceding fiscal quarters. Consolidated Total Indebtedness means, as at any date of determination, the aggregate principal amount of Indebtedness of the Company and its Subsidiaries. For fiscal 2009, the Company is subject to a mandatory prepayment of approximately $0.3 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 27, 2009.

Pursuant to the 2005 Credit Facility, as amended and restated, the Company is subject to a Total Leverage Ratio requirement of ≤ 3.00 to 1.0 at December 27, 2009, ≤ 3.00 to 1.0 through the first fiscal quarter of 2012 and ≤ 2.75 to 1.0 thereafter. As of December 27, 2009, the Company's Total Leverage Ratio was 1.95 to 1.0. In 2010, the Company intends to apply cash realized from operations to make voluntary debt prepayments or repurchase shares of our common stock, subject to the restrictions in the Credit Facility, as amended and restated.

Future debt maturities under the 2005 Credit Facility, as amended and restated, include four designated quarterly payments of approximately one fourth of the outstanding principal, beginning in the 3 rd quarter of 2012. See the Contractual Obligations table within this Item 7. The Company intends to refinance the 2005 Credit Facility, as amended and restated, in advance of these maturities at a cost and interest rate that reflect market conditions.

During fiscal 2009, we paid principal on term loan borrowings under our 2005 Credit Facility, as amended and restated, in the amount of $35.9 million, including a $2.8 million mandatory prepayment of Consolidated Excess Cash Flow on behalf of fiscal 2008. The Company also paid $0.5 million under the revolving credit facility. As of December 27, 2009, the Company had no outstanding borrowings under the revolving credit facility.

The Company did not repurchase any shares of our common stock during 2009. 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, as amended and restated, the Company is subject to a repurchase limit of approximately $47.3 million for the remainder of fiscal 2010. The Company is permitted to resume its common stock repurchase program once the Total Leverage Ratio is less than 1.75 to 1. As of December 27, 2009, the Company's Total Leverage Ratio was 1.95 to 1.

Operating and Financial Outlook for 2010

We project global same-store sales to be in the range of negative 1.0 to positive 2.0 percent for 2010, given the continuing challenges of the global economic environment and increased competition on value within the restaurant industry.

With our stronger new opening pipeline, Popeyes projects our global new openings to be in the range of restaurants in 2010. Similar to the past few years, we will continue to close underperforming restaurants and enforce higher operating standards throughout the system. As a result, we project system-wide unit closings to be approximately 100 restaurants, yielding 10-30 net restaurant openings in 2010. Popeyes restaurant closures typically have sales significantly lower than the system average.

We expect our fiscal 2010 general and administrative expense rate to be consistent with last year's rate of 3.1-3.2 percent of system-wide sales, among the lowest in the restaurant industry. During 2010, we will continue to tightly manage general and administrative expenses and invest in our international business and core initiatives of our strategic plan, including new product innovation to drive traffic, operational tools and training to improve speed of service, and productivity initiatives to strengthen restaurant profitability. We believe these strategic investments are essential and beneficial for the long-term growth of the brand.

We expect 2010 diluted earnings per share to be in the range of $0.73-$0.77, compared to $0.74 last year.

Long-Term Guidance

Over the course of the next five years, we believe execution of our Strategic Plan will deliver on an average annualized basis the following results: same-store sales growth of 1 to 3 percent; net new unit growth of 4 to 6 percent; and earnings per diluted share growth of 13 to 15 percent.

Contractual Obligations

The following table summarizes our contractual obligations, due over the next five years and thereafter, as of December 27, 2009:

(In millions)	2010	2011	2012	2013	2014	There-after	Total
Long-term debt, excluding capital leases(1)	$ 1.3	$ 1.0	$19.7	$57.1	$0.3	$ 1.6	$ 81.0
Interest on long-term debt, excluding capital leases(1)	5.7	5.6	5.5	2.1	0.2	0.5	19.6
Leases(2)	6.0	6.0	4.8	4.5	4.3	55.5	81.1
Copeland formula agreement(3)	3.1	3.1	3.1	3.1	3.1	43.1	58.6
King Features agreements(3)	0.5	—	—	—	—	—	0.5
Information technology outsourcing(3)	1.3	1.4	1.4	—	—	—	4.1
Business process services(3)	1.0	0.3	—	—	—	—	1.3
Total(4)	$18.9	$17.4	$34.5	$66.8	$7.9	$100.7	$246.2

(1) For variable rate debt, the Company estimated average outstanding balances for the respective periods and applied interest rates in effect at December 27, 2009. See Note 10 to our Consolidated Financial Statements for information concerning the terms of our 2005 Credit Facility, as amended and restated, and the 2005 interest rate swap agreements.

(2) Of the $81.1 million of minimum lease payments, $76.7 million of those payments relate to operating leases and the remaining $4.4 million of payments relate to capital leases. See Note 11 to our Consolidated Financial Statements.

(3) See Note 16 to our Consolidated Financial Statements.

(4) We have not included in the contractual obligations table approximately $4.9 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 its common stock from time to time. During 2008 and 2007 the Company repurchased and retired 2,120,401 shares and 2,496,030 shares of common stock for $19.0 million and $39.4 million, respectively, under this program. There were no share repurchases under the program in 2009.

The remaining value of shares that may be repurchased under the program is $38.9 million. Pursuant to the terms of the Company's 2005 Credit Facility, as amended and restated, the Company is subject to a repurchase limit of approximately $47.3 million for the remainder of fiscal 2010. The Company may resume its common stock repurchase program once the Total Leverage Ratio is less than 1.75 to 1.

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 2009, we invested approximately $1.4 million in various capital projects, comprised of $0.3 million for information technology hardware and software including new restaurant site modeling software, and $1.1 million in other capital assets to maintain, replace and extend the lives of company-operated QSR equipment and facilities.

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.

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 2010 (which we expect to be primarily for equipment replacements and upgrades, and information technology system upgrades), we expect such costs to range from $3.0 million to $4.0 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.

Off-Balance Sheet Arrangements

The Company has no significant Off-Balance Sheet Arrangements.

Long Term Debt

2005 Credit Facility. On May 11, 2005, and as amended and restated on April 14, 2006, April 27, 2007 and August 14, 2009, the Company entered into a bank credit facility (the “2005 Credit Facility”) with a group of lenders, which consisted of a $60.0 million, five-year revolving credit facility and a six-year $190.0 million term loan.

On August 14, 2009, the Company entered into the third amendment and restatement to the 2005 Credit Facility. Key terms of the amended and restated facility include the following:

- The term loan and revolving credit facility maturity dates were extended by two years to May 2013 and May 2012, respectively.
- The revolving credit facility commitment was reduced from $60.0 million to $48.0 million.
- The applicable interest rate for the term loan and revolving credit facility was set at LIBOR plus 4.50%, with a minimum LIBOR of 2.50%.
- The Company must maintain a Total Leverage Ratio of 3.00 to 1 or less through the end of first quarter of 2012 and 2.75 to 1 or less thereafter.
- The Company must prepay (i) 50% of Consolidated Excess Cash Flow (as defined in the 2005 Credit Facility) for such fiscal year if the Total Leverage Ratio is greater than 2.00 to 1 on the last day of such fiscal year or (ii) 25% of Consolidated Excess Cash Flow for such year if the Total Leverage Ratio is equal to or less than 2.00 to 1.
- The Company is permitted to resume its common stock repurchase program once the Total Leverage Ratio is less than 1.75 to 1. As of December 27, 2009, the Company’s Total Leverage Ratio was 1.95 to 1.
- To reduce interest rate risk, derivative instruments are required to be maintained on no less than 30% of the outstanding debt (see discussion below under the heading “Interest Rate Swap Agreements”).

In connection with the third amendment, the Company expensed $1.9 million, which is reported as a component of “Interest expense, net.” Additionally, the Company capitalized approximately $1.8 million of fees related to the new amendment as debt issuance costs which will be amortized over the remaining life of the facility utilizing the effective interest method.

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 0.625% on the unused portions of the revolving credit facility.

As of December 27, 2009, the Company had no loans outstanding under its revolving credit facility. 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 27, 2009, the Company had $1.3 million of outstanding letters of credit. Availability for short-term borrowings and letters of credit under the revolving credit facility was $46.7 million.

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 $0.3 million and $2.8 million for fiscal year 2009 and 2008, respectively, which is recorded as a component of "Current debt maturities" in the Consolidated Balance Sheets.

As of December 27, 2009, the Company was in compliance with the financial and other covenants of the 2005 Credit Facility, as amended and restated. As of December 27, 2009 and December 28, 2008, the Company's weighted average interest rate for all outstanding indebtedness under the 2005 Credit Facility was 7.2% and 5.8%, respectively.

Interest Rate Swap Agreements. In accordance with the 2005 Credit Facility, as amended and restated, the Company uses interest rate swaps to fix the interest rate exposure on a portion of its outstanding term loan. As interest rate swaps are terminated, the effective portion of the termination loss is amortized as interest expense over the unexpired term of the swap.

As required by the third amendment and restatement to the 2005 Credit Facility, on September 10, 2009, the Company entered into new interest rate swap agreements limiting the interest rate exposure on $30.0 million of the term loan debt to a fixed rate of 7.40%. The term of the swap agreements expires August 31, 2011.

Net interest expense associated with these agreements was $1.3 million in 2009. Net interest income associated with these agreements was zero and $1.5 million for 2008, and 2007, respectively. The agreements are accounted for as an effective cash flow hedge. The changes in fair value are recognized in Accumulated other comprehensive loss in the Consolidated Balance Sheets. At December 27, 2009 and December 28, 2008, the fair value of the agreement was a liability to the Company of approximately $0.1 million and $0.5 million, respectively, which was recorded as a component of "Deferred credits and other long-term liabilities."

Impact of Inflation

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

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 tax year after 2005. 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 through 2008 are open to audit, with tax years 2004 and 2005 currently under examination. In general, the state tax years open to audit range from 2004 through 2008.

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 prices. 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 first half of 2010 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 2009, franchise revenues from these operations represented approximately 10.9% of our total franchise revenues. For each of 2009, 2008, and 2007, foreign-sourced revenues represented approximately 6.3%, 5.7%, and 4.5%, of our total revenues, respectively. All other things being equal, for the fiscal year ended December 27, 2009, 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 27, 2009, approximately $1.1 million of our accounts receivable were denominated in foreign currencies. During 2009 the net loss from the exchange rate was insignificant. Our international franchised operations are in 27 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, as amended and restated. Borrowings made pursuant to that facility include interest rates that are benchmarked to U.S. and European short-term floating interest rates. As of December 27, 2009, the balances outstanding under our 2005 Credit Facility, as amended and restated, totaled $78.3 million. There would be no impact on our annual results of operations of a hypothetical one-point interest rate change on the outstanding balances under our 2005 Credit Facility, as amended and restated, since we have an interest rate floor that is more than 2.0% above the applicable LIBOR base rate.

However the impact of a hypothetical one-point interest rate change on the outstanding balances under our 2005 Credit Facility, as amended and restated, above the interest rate floor would be approximately $0.5 million, taking into consideration 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.

Impairment of Long-Lived Assets. We evaluate property and equipment for impairment 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 an individual restaurant basis. We evaluate restaurants using a "two-year history of operating losses" as our primary indicator of potential impairment. We evaluate recoverability based on the restaurant's forecasted undiscounted cash flows for the expected remaining useful life of the unit, which incorporate our best estimate of sales growth and margin improvement based upon our plans for the restaurant and actual results at comparable restaurants. The carrying values of restaurant assets that are not considered recoverable are written down to their estimated fair market value, which we generally measure by discounting estimated future cash flows.

Estimates of future cash flows are highly subjective judgments and can be significantly impacted by changes in the business or economic conditions. The discount rate used in the fair value calculations is our estimate of the required rate of return that a third party would expect to receive when purchasing a similar restaurant and the related long-lived assets. We believe the discount is commensurate with the risks and uncertainty inherent in the forecasted cash flows.

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 goodwill 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 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 the fourth quarter of fiscal year 2009, we performed our annual assessment of recoverability of goodwill and trademarks and determined that no impairment was indicated. Our Company-operated restaurants segment has goodwill of $2.2 million as of the end of 2009. 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 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. When determining the lease term, we often include option periods for which failure to renew the lease imposes a penalty in such an amount that a renewal appears, at the inception of the lease, to be reasonably assured. We record 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 $4.7 million and $4.0 million at December 27, 2009 and December 28, 2008, 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”) authoritative guidance which 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 the guidance, 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 27, 2009, we had approximately $4.9 million of unrecognized tax benefits, $1.3 million of which, if recognized, would impact the effective tax rate. At December 27, 2009, the Company had approximately $0.1 million of accrued interest and penalties related to uncertain tax positions.

See Note 19 to the Consolidated Financial Statements for a further discussion of our income taxes.

Stock-Based Employee Compensation. At the beginning of fiscal year 2006, we adopted the fair value recognition provisions as required by the FASB authoritative guidance on stock compensation, 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. We used the modified prospective transition method and, as a result, did not retroactively adjust results from prior periods. The fair value of stock options with only service conditions are estimated using a Black-Scholes option-pricing model. The fair value of stock options with service and market conditions are 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 14 to the Consolidated Financial Statements.

Derivative Financial Instruments We use interest rate swap agreements to reduce our interest rate risk on our floating rate debt under the terms of the 2005 Credit Facility, as amended and restated. We recognize all derivatives on the balance sheet at fair value. At inception and on an on-going basis, we assess whether each derivative that qualifies for hedge accounting continues to be highly effective in offsetting changes in the cash flows of the hedged item. If the derivative meets the hedge criteria as defined by certain accounting standards, changes in the fair value of the derivative are recognized in accumulated other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value, if any, is immediately recognized in earnings.

As a result of the use of derivative instruments, we are exposed to risk that the counterparties will fail to meet their contractual obligations. Recent adverse developments in the global financial and credit markets could negatively impact the creditworthiness of our counterparties and cause one or more of our counterparties to fail to perform as expected. To mitigate the counterparty credit risk, we only enter into contracts with carefully selected major financial institutions based upon their credit ratings and other factors, and continually assess the creditworthiness of counterparties. To date, all counterparties have performed in accordance with their contractual obligations.

Recent Accounting Standards

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

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 expected to have no material impact on our consolidated financial statements upon adoption.

Non-GAAP Financial Measures

Adjusted earnings per diluted share: Calculation and Definition

(dollars in millions)	2009	2008
Net income	$ 18.8	$ 19.4
Other income, net	$ (2.1)	$ (4.6)
Interest expense associated with credit facility amendment	$ 1.9	—
Tax effect	$ 0.1	$ 2.0
Adjusted net income	$ 18.7	$ 16.8
Adjusted earnings per diluted share	$ 0.74	$ 0.65
Weighted-average diluted shares outstanding	25.4	25.7

Adjusted earnings per diluted share: Calculation and Definition

We define adjusted earnings for the periods presented as our reported net income after adjusting for certain non-operating items consisting of (i) other income, net (which for 2009 includes $3.3 million on the sale of assets partially offset by a $0.4 million loss on insurance recoveries related to asset damages, a $0.2 million impairment related to restaurant closures and $0.6 million in related to impairments and disposals of fixed assets and for 2008 includes $12.9 million from recoveries from directors and officers insurance claims, $0.9 million in gain on the sale of assets and $0.5 million in insurance recoveries related to property damages, partially offset by $9.5 million of impairments of fixed assets and goodwill impairment and $0.2 million of other expenses), (ii) interest expenses associated with the amendment and restatement of our 2005 Credit Facility, and (iii) the tax effect of these adjustments. Adjusted earnings per diluted share provides the per share effect of adjusted net income on a diluted basis. Management uses adjusted earnings and adjusted earnings per diluted share, in addition to net income and earnings per share to assess its performance without the effect of certain non-operating items and believes it is important for investors to be able to evaluate the Company using the same measures used by management. Management believes these measures are an important indicator of the operational strength and performance of its business. Adjusted earnings and adjusted earnings per diluted share as calculated by the Company are not necessarily comparable to similarly titled measures reported by other companies. In addition, adjusted earnings and adjusted earnings per diluted share: (a) do not represent net income or earnings per share as defined by GAAP and (b) should not be considered as an alternative to net income, earnings per share or other financial information.

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 strategic plan, the Company’s plan to own and operate its current company-operated restaurants, projections and expectations regarding same-store sales for fiscal 2010 and beyond, the Company’s ability to improve restaurant level margins, guidance for restaurant openings and closures, and the Company’s anticipated 2010 performance, including projections regarding general and administrative expenses, net earnings per diluted share and similar statements of belief or expectations regarding future events. Among the important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are: competition from other restaurant concepts and food retailers, continuing disruptions in the financial markets, the loss of franchisees and other business partners, labor shortages or increased labor costs, increased costs of our principal food products, changes in consumer preferences and demographic trends, as well as concerns about health or food quality, instances of avian flu or other food-borne illnesses, general economic conditions, the loss of senior management and the inability to attract and retain additional qualified management personnel, limitations on our business under our 2005 Credit Facility, as amended and restated, our ability to comply with the repayment requirements, covenants, tests and restrictions contained in our 2005 Credit Facility, as amended and restated, failure of our franchisees, a decline in the number of franchised units, a decline in our ability to franchise new units, slowed expansion into new markets, unexpected and adverse fluctuations in quarterly results, increased government regulation, effects of increased gasoline prices, supply and delivery shortages or interruptions, currency, economic and political factors that affect our international operations, inadequate protection of our intellectual property and liabilities for environmental contamination and the other risk factors detailed in Item 1A 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 heading “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 2009, as required by Rule 13a-15(b) and 15d-15(b) of the Exchange Act. This evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO").

Based on management's assessment, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of December 27, 2009 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 Rule 13a — 15(f) and 15d — 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 27, 2009, 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 27, 2009, 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 2009, 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. (a Minnesota Corporation) and subsidiary's internal control over financial reporting as of December 27 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). AFC Enterprises, Inc. and subsidiary'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 AFC Enterprises, Inc. and subsidiary'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, AFC Enterprises, Inc. and subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 27, 2009, 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 AFC Enterprises, Inc. and subsidiary as of December 27, 2009 and December 28, 2008, and the related consolidated statements of operations, changes in shareholders' deficit, and cash flows for each of the three fiscal years in the period ended December 27, 2009 and our report dated March 10, 2010 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Atlanta, Georgia
March 10, 2010

Item 9B. OTHER INFORMATION

Amended and Restated Employment Agreement with Henry Hope, III

On March 9, 2010, we entered into an amended and restated employment agreement with Henry Hope, III that provides for the terms of Mr. Hope's employment as Chief Financial Officer of the Company. The amended and restated employment agreement is substantially similar to the employment agreement that it replaces, except that the amended and restated employment agreement (i) provides for an annual base salary of $320,000, (ii) the target incentive pay for Mr. Hope was increased from $159,500 to $192,000 for the 2010 fiscal year of the Company and (iii) the termination without cause benefit payable to Mr. Hope upon a triggering event under the employment agreement was increased from one times Mr. Hope's base salary plus one times Mr. Hope's target incentive pay to 1.5 times Mr. Hope's base salary plus 1.5 times Mr. Hope's target incentive pay.

A copy of Mr. Hope's employment agreement is filed as an exhibit to this annual report on Form 10-K.

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 2010 Annual Meeting of Shareholders 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 whom 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 2010 Annual Meeting of Shareholders 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 2010 Annual Meeting of Shareholders 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 2010 Annual Meeting of Shareholders 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 2010 Annual Meeting of Shareholders 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
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.
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.*

Exhibit Number	Description
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.*
10.36(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.
10.38(z)	Third Amended and Restated Credit Agreement dated as of August 14, 2009 among AFC Enterprises, Inc., the Lenders party thereto, JPMorgan Chase Bank, NA, JP Morgan Securities Inc. and Bank of America, N.A.
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 dated December 1, 2000.
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.*

Exhibit Number	Description
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.*
10.56	Amended and Restated Employment Agreement dated as of November 12, 2008 between the Company and Henry Hope, III.*
10.57(bb)	Employment Agreement effective as of February 4, 2008 between the Company and Richard Lynch.*
10.58(aa)	Employment Agreement effective as of April 20, 2009 between the Company and Ralph Bower.*
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 FASB authoritative guidance for Earnings per Share, is provided in Note 20 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 an exhibit to the Form 8-K of AFC filed on April 16, 2008 and incorporated herein by reference.

(z) Filed as an exhibit to the Form 8-K of AFC filed on August 20, 2009 and incorporated herein by reference.

(aa) Filed as an exhibit to the Form 8-K of AFC filed on April 21, 2009 and incorporated herein by reference.

(bb) Filed as an exhibit to the Form 10-K of AFC for the fiscal year ended December 28, 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 10th day of March 2010.

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 10, 2010
/s/ H. MELVILLE HOPE H. Melville Hope	Chief Financial Officer *(Principal Financial and Accounting Officer)*	March 10, 2010
/s/ JOHN M. CRANOR, III John M. Cranor, III	Director, Chairman of the Board	March 10, 2010
/s/ VICTOR ARIAS, JR. Victor Arias, Jr.	Director	March 10, 2010
/s/ CAROLYN H. BYRD Carolyn H. Byrd	Director	March 10, 2010
/s/ R. WILLIAM IDE, III R. William Ide, III	Director	March 10, 2010
/s/ KELVIN J. PENNINGTON Kelvin J. Pennington	Director	March 10, 2010
/s/ JOHN F. HOFFNER John F. Hoffner	Director	March 10, 2010

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 subsidiary as of December 27, 2009 and December 28, 2008, and the related consolidated statements of operations, changes in shareholders' deficit, and cash flows for each of the three years in the periods ended December 27, 2009, December 28, 2008, and December 30, 2007. 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 subsidiary as of December 27, 2009 and December 28, 2008, and the results of its operations and its cash flows for each of the three fiscal years in the period ended December 27, 2009 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AFC Enterprises Inc. and subsidiary's internal control over financial reporting as of December 27, 2009, 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 10, 2010 expressed an unqualified opinion.

/s/ Grant Thornton LLP

Atlanta, GA
March 10, 2010

AFC Enterprises, Inc.
Consolidated Balance Sheets
As of December 27, 2009 and December 28, 2008
(In millions, except share data)

	2009	2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4.1	$ 2.1
Accounts and current notes receivable, net	9.1	9.4
Assets held for sale	—	4.5
Other current assets	3.9	5.2
Advertising cooperative assets, restricted	16.0	12.8
Total current assets	33.1	34.0
Long-term assets:		
Property and equipment, net	21.5	25.3
Goodwill	11.1	11.1
Trademarks and other intangible assets, net	47.6	48.2
Other long-term assets, net	3.3	13.4
Total long-term assets	83.5	98.0
Total assets	$ 116.6	$ 132.0
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 4.8	$ 6.5
Other current liabilities	13.7	13.6
Current debt maturities	1.3	4.7
Advertising cooperative liabilities	16.0	12.8
Total current liabilities	35.8	37.6
Long-term liabilities:		
Long-term debt	81.3	114.5
Deferred credits and other long-term liabilities	17.7	19.2
Total long-term liabilities	99.0	133.7
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; 25,455,917 and 25,294,973 shares issued and outstanding at the end of fiscal years 2009 and 2008, respectively)	0.3	0.3
Capital in excess of par value	112.3	110.5
Accumulated deficit	(130.3)	(149.1)
Accumulated other comprehensive loss	(0.5)	(1.0)
Total shareholders' deficit	(18.2)	(39.3)
Total liabilities and shareholders' deficit	$ 116.6	$ 132.0

See accompanying notes to consolidated financial statements.

AFC Enterprises, Inc.
Consolidated Statements of Operations
For Fiscal Years 2009, 2008 and 2007
(In millions, except per share data)

	2009	2008	2007
Revenues:			
Sales by company-operated restaurants	$ 57.4	$ 78.3	$ 80.0
Franchise revenues	86.0	84.6	82.8
Rent and other revenues	4.6	3.9	4.5
Total revenues	148.0	166.8	167.3
Expenses:			
Restaurant employee, occupancy and other expenses	29.5	41.4	40.7
Restaurant food, beverages and packaging	18.9	27.1	27.3
Rent and other occupancy expenses	2.6	2.4	2.3
General and administrative expenses	56.0	53.9	47.2
Depreciation and amortization	4.4	6.3	6.9
Other expenses (income), net	(2.1)	(4.6)	(2.7)
Total expenses	109.3	126.5	121.7
Operating profit	38.7	40.3	45.6
Interest expense, net	8.4	8.1	8.7
Income before income taxes	30.3	32.2	36.9
Income tax expense	11.5	12.8	13.8
Net income	$ 18.8	$ 19.4	$ 23.1
Earnings per common share, basic:	$ 0.74	$ 0.76	$ 0.81
Earnings per common share, diluted:	$ 0.74	$ 0.76	$ 0.80
Weighted-average shares outstanding:			
Basic	25.3	25.6	28.6
Diluted	25.4	25.7	28.8

See accompanying notes to consolidated financial statements.

Table of Contents

AFC Enterprises, Inc.
Consolidated Statements of Changes in Shareholders' Deficit
For Fiscal Years 2009, 2008 and 2007
(In millions, except share data)

	Common Stock Number of Shares	Common Stock Amount	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2006	29,487,648	$ 0.3	$ 161.7	$ (194.4)	$ 1.2	$(31.2)
Cumulative effect of liability for uncertain tax positions (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 impact of $0.5 million)	—	—	—	—	(0.9)	(0.9)
Derivative loss realized in earnings during the period (net of tax impact of $0.1 million)	—	—	—	—	(0.1)	(0.1)
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 compensation 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 impact of $0.7 million)	—	—	—	—	(1.3)	(1.3)
Derivative loss realized in earnings during the period, net of tax	—	—	—	—	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 compensation expense	—	—	2.5	—	—	2.5
Balance at December 28, 2008	25,294,973	0.3	110.5	(149.1)	(1.0)	(39.3)
Net income	—	—	—	18.8	—	18.8
Other comprehensive income:						
Net change in fair value of cash flow hedge (net of tax impact of $0.1 million)	—	—	—	—	(0.2)	(0.2)
Derivative loss realized in earnings during the period (net of tax impact of $0.4 million)	—	—	—	—	0.7	0.7
Total comprehensive income						19.3
Cancellation of shares	(32,914)	—	(0.1)	—	—	(0.1)
Issuance of restricted stock awards, net of forfeitures	193,858	—	—	—	—	—
Stock-based compensation expense	—	—	1.9	—	—	1.9
Balance at December 27, 2009	25,455,917	$ 0.3	$ 112.3	$ (130.3)	$ (0.5)	$(18.2)

See accompanying notes to consolidated financial statements.

AFC Enterprises, Inc.
Consolidated Statements of Cash Flows
For Fiscal Years 2009, 2008 and 2007
(In millions)

	2009	2008	2007
Cash flows provided by (used in) operating activities:			
Net income	$ 18.8	$ 19.4	$ 23.1
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	4.4	6.3	6.9
Asset write-downs	0.6	9.5	1.9
Net gain on sale of assets	(3.3)	(0.9)	(0.3)
(Gain) loss on insurance recoveries related to asset damages, net	0.4	(0.5)	(3.2)
Deferred income taxes	1.0	—	(0.5)
Non-cash interest, net	1.9	(0.1)	(0.3)
Provision for credit losses	2.1	0.1	0.4
Excess tax benefits from stock-based compensation	—	—	(0.9)
Stock-based compensation expense	1.9	2.5	1.7
Change in operating assets and liabilities:			
Accounts receivable	(1.5)	—	(0.5)
Prepaid income taxes	0.9	(0.4)	7.8
Other operating assets	0.4	0.8	0.3
Accounts payable and other operating liabilities	(4.4)	(7.0)	5.1
Net cash provided by operating activities	23.2	29.7	41.5
Cash flows provided by (used in) investing activities:			
Capital expenditures	(1.4)	(2.7)	(10.0)
Proceeds from dispositions of property and equipment	7.9	3.8	0.3
Property insurance proceeds	0.2	—	4.5
Acquisition of franchised restaurants	—	—	(0.4)
Proceeds from notes receivable	11.0	0.8	0.8
Net cash provided by (used in) investing activities	17.7	1.9	(4.8)
Cash flows provided by (used in) financing activities:			
Principal payments — 2005 credit facility (term loan)	(35.9)	(8.9)	(6.9)
Borrowings under 2005 revolving credit facility	—	20.0	9.5
Principal payments — 2005 revolving credit facility	(0.5)	(24.5)	(4.5)
Principal payments — other notes	(0.2)	(0.2)	(0.1)
Special cash dividend	—	(0.5)	(0.7)
Share repurchases	—	(19.0)	(39.4)
Proceeds from exercise of employee stock options	—	—	3.3
Excess tax benefits from stock-based compensation	—	—	0.9
Debt issuance costs	(1.8)	—	(0.2)
Other, net	(0.5)	(1.4)	(0.3)
Net cash used in financing activities	(38.9)	(34.5)	(38.4)
Net increase (decrease) in cash and cash equivalents	2.0	(2.9)	(1.7)
Cash and cash equivalents at beginning of year	2.1	5.0	6.7
Cash and cash equivalents at end of year	$ 4.1	$ 2.1	$ 5.0

See accompanying notes to consolidated financial statements.

AFC ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2009, 2008 and 2007

Note 1 —Description of Business

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 27 foreign countries.

Note 2 —Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of AFC and its wholly-owned subsidiary. All significant intercompany balances and transactions are eliminated in consolidation.

Use of Estimates. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires the Company’s management to make estimates and assumptions that affect the reported amounts of assets and liabilities. These estimates affect the disclosure of contingent assets and liabilities 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.

The Company reclassified the balance sheet components of the cooperative advertising fund previously consolidated by line item to “Advertising cooperative assets, restricted” and “Advertising cooperative liabilities” in its Consolidated Balance Sheets. For fiscal year 2008, “Accounts and current notes receivable, net”, “Other current assets”, “Advertising Cooperative assets, restricted”, “Accounts Payable”, and “Advertising Cooperative liabilities” were $9.4 million, $5.2 million, $12.8 million, $6.5 million and $12.8 million, respectively.

The Company also reclassified the “Decrease in restricted cash” from “Cash flows provided by (used in) financing activities” to “Cash flows provided by (used in) operating activities” on the Consolidated Statements of Cash Flows. The impact of this reclassification increased “Net cash provided by operating activities” and increased “Net cash used in financing activities” by $2.6 million and $1.1 million in 2008 and 2007, respectively.

Fiscal Year. The Company has a 52/53-week fiscal year that ends on the last Sunday in December. The 2009, 2008 and 2007 fiscal years all consisted of 52 weeks.

Codification. The Company follows accounting standards set by the Financial Accounting and Standards Board (“FASB”). The FASB sets GAAP to ensure consistent reporting of the Company’s financial condition, operating results, and cash flows. In June 2009, the FASB released the Accounting Standards Codification (“Codification”) and the Hierarchy of Generally Accepted Accounting Principles which re-organizes the literature and is effective for interim and annual periods ending after September 15, 2009. The Company adopted this standard for the quarter ended October 4, 2009. For reporting purposes, the Company explains its policies in plain English instead of referencing technical accounting standards in order to improve clarity.

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 27, 2009 and December 28, 2008.

Supplemental Cash Flow Information.

(in millions)	2009	2008	2007
Interest paid	$6.6	$ 8.9	$7.1
Income taxes paid, net	8.9	13.2	5.8
Property acquired under capital lease obligations	—	—	0.9

AFC ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2009, 2008 and 2007 — (Continued)

Accounts Receivable, Net. At December 27, 2009 and December 28, 2008, accounts receivable, net were $6.9 million and $8.6 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 2009, 2008 and 2007, changes in the allowance for doubtful accounts were as follows:

(in millions)	2009	2008	2007
Balance, beginning of year	$ 0.5	$0.4	$ 0.1
Provisions for loss	1.9	0.1	0.4
Write-offs	(0.3)	—	(0.1)
Balance, end of year	$ 2.1	$0.5	$ 0.4

Notes Receivable, Net. At December 27, 2009 and December 28, 2008, notes receivable, net, were approximately $2.7 million and $12.4 million, respectively, of which $2.2 million and $0.8 million, respectively, was current.

At December 27, 2009, several notes aggregating approximately $0.9 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 24 Popeyes company-operated restaurants to a franchisee during 2001; (2) the sale of an equipment manufacturing operation during 2000; and (3) the sale of 13 Popeyes company-operated restaurants to a franchisee during 2009. 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 27, 2009 and December 28, 2008, was approximately $1.1 million and $0.9 million, respectively. The 2009 activity represents an increase of $0.2 million in losses net of recoveries.

During the third quarter of 2009, the Company received a payment of $10.2 million associated with the sale of a previously owned operating company to an affiliate of Crescent Capital Investments, Inc. during 2005. At December 28, 2008, $9.3 million of the receivable was recorded in non-current 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. At December 27, 2009 and December 28, 2008, inventories of $0.3 million and $0.5 million, respectively, 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 marketed for re-franchising. Assets held for sale are reported at the lower of carrying value or estimated fair value less costs to sell. On January 26, 2009, the Company completed the re-franchising of three company-operated restaurants in Nashville, Tennessee for net proceeds of $1.1 million from the sale of assets and new franchise agreements. On June 8, 2009, the Company completed the re-franchising of 13 company-operated restaurants in its Atlanta, Georgia market for net proceeds of $3.5 million from the sale of assets and new franchise agreements. The net loss on the sale of these assets was $0.5 million.

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

AFC ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2009, 2008 and 2007 — (Continued)

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 2009, 2008 and 2007, depreciation expense was approximately $3.8 million, $5.6 million, and $6.1 million, respectively.

We evaluate property and equipment for impairment 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 an individual restaurant basis. We evaluate restaurants using a "two-year history of operating losses" as our primary indicator of potential impairment. We evaluate recoverability based on the restaurant's forecasted undiscounted cash flows for the expected remaining useful life of the unit, which incorporate our best estimate of sales growth and margin improvement based upon our plans for the restaurant and actual results at comparable restaurants. The carrying values of restaurant assets that are not considered recoverable are written down to their estimated fair market value, which we generally measure by discounting estimated future cash flows.

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 a 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 2009, 2008 and 2007, 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."

AFC ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2009, 2008 and 2007 — (Continued)

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 Cooperative. The Company maintains an advertising cooperative that receives contributions from the Company and from its franchisees, based upon a percentage of restaurant sales, as required by their franchise agreements. This cooperative 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 advertising cooperative.

In the Company's consolidated financial statements, contributions received and expenses of the advertising cooperative are excluded from the Company's Consolidated Statements of Operations and the Consolidated Statements of Cash Flow. The Company reports all assets and liabilities of the advertising cooperative as "Advertising cooperative assets, restricted" and "Advertising cooperative liabilities" in the Consolidated Balance Sheet. The advertising cooperatives assets, consisting primarily of cash and accounts receivable from the franchisees, can only be used for selected purposes and are considered restricted. The advertising cooperative liabilities represent the corresponding obligation arising from the receipt of the contributions to purchase advertising and promotional programs.

The Company's contributions to the advertising cooperative 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 cooperative for national media advertising and other marketing related costs are expensed as a component of "General and administrative expenses." During 2009, 2008 and 2007, the Company's advertising costs were approximately $6.2 million, $5.4 million, and $3.5 million, respectively.

Leases. 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 lease term commences on the date when the Company has the right to control the use of the leased property, which can occur before the rent payments are due under the terms of the lease.

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 10 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.

The following table gives further detail regarding the composition of accumulated other comprehensive loss at December 27, 2009 and December 28, 2008:

(In millions)	2009	2008
Net unrealized loss on an interest rate swap agreement	$(0.1)	$(0.3)
Unrealized loss on interest rate swaps settled in cash	(0.4)	(0.7)
Total accumulated other comprehensive loss	$(0.5)	$(1.0)

The unrealized loss associated with the interest rate swaps settled in cash will be recognized as a component of interest expense through June 30, 2010, the remaining term of the original hedge. See Note 10 for further discussion of the Company's interest rate swap agreements.

AFC ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2009, 2008 and 2007 — (Continued)

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 generally based on five percent of net 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 respective dollar volume of purchases for company-operated restaurants and franchised restaurants. For Company-operated restaurants, these incentives are recognized as earned throughout the year 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 $0.7 million, $0.9 million, and $0.7 million in 2009, 2008 and 2007, 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 Re-franchising. From time to time, the Company engages in re-franchising transactions. Typically, these transactions involve the sale of a company-operated restaurant to an existing or new 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 2009 and 2008, there were deferred gains of $0.2 million and $0.1 million, respectively, associated with the sale of company stores. There were no sales of company-operated restaurants in 2007. During 2009, 2008 and 2007, previously deferred gains of approximately $0.4 million, $0.5 million, and $0.2 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 2009, 2008 and 2007, such costs were approximately $1.0 million, $1.3 million, and $1.2 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 are included in the accompanying Consolidated Statements of Operations as a component of "General and administrative expenses." The net foreign currency gains and losses were insignificant in 2009 and 2007. The net foreign currency loss was $0.1 million in 2008.

Income Taxes. 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

AFC ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2009, 2008 and 2007 — (Continued)

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.

In fiscal 2007, the Company adopted the authoritative guidance issued by the FASB which 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. 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) is 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 adopting the new guidance, 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 related to unrecognized tax benefits as components of "Income tax expense."

See Note 19 for additional information regarding income taxes.

Stock-Based Compensation Expense. At the beginning of fiscal year 2006, the Company adopted the fair value recognition provisions as required by the FASB authoritative guidance on stock compensation, 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 used the modified prospective transition method and, as a result, did not retroactively adjust results from prior periods. 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.

The Company recorded $1.9 million ($1.2 million net of tax), $2.5 million ($1.5 million net of tax), and $1.7 million ($1.1 million net of tax) in total stock-based compensation expense during 2009, 2008 and 2007, respectively.

Subsequent Events. The Company discloses material events that occur after the balance sheet but before the financial statements are issued. In general, these events are recognized if the condition existed at the date of the balance sheet, but not recognized if the condition did not exist at the balance sheet date. The Company discloses non-recognized events if required to keep the financial statements from being misleading. Management evaluated events occurring subsequent to December 27, 2009 and determined that no subsequent event disclosures were required.

Derivative Financial Instruments. The Company uses interest rate swap agreements to reduce its interest rate risk on its floating rate debt under the terms of its 2005 amended credit facility. We recognize all derivatives on the balance sheet at fair value. At inception and on an on-going basis, we assess whether each derivative that qualifies for hedge accounting continues to be highly effective in offsetting changes in the cash flows of the hedged item. If the derivative meets the hedge criteria as defined by certain accounting standards, changes in the fair value of the derivative are recognized in accumulated other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value, if any, is immediately recognized in earnings. See Note 10 for further discussion of the Company's interest rate swap agreements.

AFC ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2009, 2008 and 2007 — (Continued)

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

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

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 our consolidated financial statements upon adoption.

Note 4 —Other Current Assets

(in millions)	2009	2008
Deferred tax assets	$1.7	$1.6
Prepaid expenses and other current assets	2.2	3.6
	$3.9	$5.2

Note 5 — Property and Equipment, Net

(in millions)	2009	2008
Land	$ 3.2	$ 4.0
Buildings and improvements	23.6	23.2
Equipment	22.6	22.6
Properties held for sale and other	0.1	0.1
	49.5	49.9
Less accumulated depreciation and amortization	(28.0)	(24.6)
	$ 21.5	$ 25.3

At December 27, 2009 and December 28, 2008, property and equipment, net included capital lease assets with a gross book value of $0.8 million and no significant accumulated amortization.

AFC ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2009, 2008 and 2007 — (Continued)

Note 6 —Trademarks and Other Intangible Assets, Net

(in millions)	2009	2008
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	7.1
Accumulated amortization	(2.1)	(1.5)
	5.0	5.6
	$47.6	$48.2

Amortization expense was approximately $0.6 million, $0.7 million, and $0.8 million for 2009, 2008 and 2007, 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 10 years.

Note 7 —Other Long-Term Assets, Net

(in millions)	2009	2008
Noncurrent notes receivable, net	$0.5	$11.6
Debt issuance costs, net	1.7	1.1
Other	1.1	0.7
	$3.3	$13.4

Note 8 —Other Current Liabilities

(in millions)	2009	2008
Accrued wages, bonuses and severances	$ 4.2	$ 3.1
Accrued income taxes payable and income tax reserves	6.0	5.8
Accrued interest	0.7	1.7
Other	2.8	3.0
	$13.7	$13.6

AFC ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2009, 2008 and 2007 — (Continued)

Note 9 —Fair Value Measurements

The following table reflects assets and liabilities that are measured and carried at fair value on a recurring basis as of December 27, 2009 and December 28, 2008:

(in millions)	Quoted Prices in Active Markets for Identical Asset or Liability (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Value
December 27, 2009				
Financial Assets				
Cash equivalents	$ 3.3	$ —	$ —	$ 3.3
Advertising cooperative assets, restricted	3.6	—	—	3.6
Total assets at fair value	$ 6.9	$ —	$ —	$ 6.9
Financial Liabilities				
Interest rate swap agreement (Note 10)	$ —	$ 0.1	$ —	$ 0.1
Total liabilities at fair value	$ —	$ 0.1	$ —	$ 0.1
December 28, 2008				
Financial Assets				
Cash equivalents	$ 2.1	$ —	$ —	$ 2.1
Advertising cooperative assets, restricted	5.4	—	—	5.4
Total assets at fair value	$ 7.5	$ —	$ —	$ 7.5
Financial Liabilities				
Interest rate swap agreement (Note 10)	$ —	$ 0.5	$ —	$ 0.5
Total liabilities at fair value	$ —	$ 0.5	$ —	$ 0.5

At December 27, 2009 and December 28, 2008, 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 10 for a discussion of the fair value of the Company's interest rate swap agreements.

AFC ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2009, 2008 and 2007 — (Continued)

Note 10 —Long-Term Debt and Other Borrowings

(in millions)	2009	2008
2005 Credit Facility:		
Revolving credit facility	$ —	$ 0.5
Term B loan	78.3	114.2
Capital lease obligations	1.6	1.6
Other notes	2.7	2.9
	82.6	119.2
Less current portion	(1.3)	(4.7)
	$81.3	$114.5

2005 Credit Facility. On May 11, 2005, and as amended and restated, on April 14, 2006, April 27, 2007 and August 14, 2009, the Company entered into a bank credit facility (the "2005 Credit Facility") with a group of lenders, which consisted of a $60.0 million, five-year revolving credit facility and a six-year $190.0 million term loan.

On August 14, 2009, the Company entered into the third amendment and restatement to the 2005 Credit Facility. Key terms of the amended and restated facility include the following:

- The term loan and revolving credit facility maturity dates were extended by two years to May 2013 and May 2012, respectively.
- The revolving credit facility commitment was reduced from $60.0 million to $48.0 million.
- The applicable interest rate for the term loan and revolving credit facility was set at LIBOR plus 4.50%, with a minimum LIBOR of 2.50%.
- The Company must maintain a Total Leverage Ratio of 3.00 to 1 or less through the end of the first quarter of 2012 and 2.75 to 1 or less thereafter.
- The Company must prepay (i) 50% of Consolidated Excess Cash Flow (as defined in the 2005 Credit Facility) for such fiscal year if the Total Leverage Ratio is greater than 2.00 to 1 on the last day of such fiscal year or (ii) 25% of Consolidated Excess Cash Flow for such year if the Total Leverage Ratio is equal to or less than 2.00 to 1.
- The Company is permitted to resume its common stock repurchase program once the Total Leverage Ratio is less than 1.75 to 1. As of December 27, 2009, the Company's Total Leverage Ratio was 1.95 to 1.
- To reduce interest rate risk, derivative instruments are required to be maintained on no less than 30% of the outstanding debt (see discussion below under the heading entitled "Interest Rate Swap Agreements").

In connection with the third amendment, the Company expensed $1.9 million, which is reported as a component of "Interest expense, net." Additionally, the Company capitalized approximately $1.8 million of fees related to the new amendment as debt issuance costs which will be amortized over the remaining life of the facility utilizing the effective interest method.

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 0.625% on the unused portions of the revolving credit facility. As of December 27, 2009, the Company had no loans outstanding under its revolving credit facility. 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 27, 2009, the Company had $1.3 million of outstanding letters of credit. Availability for short-term borrowings and letters of credit under the revolving credit facility was $46.7 million.

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 $0.3 million and $2.8 million for fiscal year 2009 and 2008, respectively, which is recorded as a component of current debt maturities in the consolidated balance sheets.

As of December 27, 2009, the Company was in compliance with the financial and other covenants of the 2005 Credit Facility. As of December 27, 2009 and December 28, 2008, the Company's weighted average interest rate for all outstanding indebtedness under the 2005 Credit Facility was 7.2% and 5.8% respectively.

Interest Rate Swap Agreements. In accordance with the 2005 Credit Facility, as amended and restated, the Company uses interest rate swaps to fix the interest rate exposure on a portion of its outstanding term loan. As interest rate swaps are terminated, the effective portion of the termination loss is amortized as interest expense over the unexpired term of the swap.

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

The Company's interest rate swap agreements are derivative instruments that are designated as cash flow hedges. The following tables summarize the fair value of the Company's interest rate swap agreements and the effect on the financial statements:

AFC ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2009, 2008 and 2007 — (Continued)

Fair Values of Derivative Instruments

(in millions)	Derivative Liabilities Balance Sheet Location	12/27/09	12/28/08
Interest rate swap agreements	Deferred credits and other long-term liabilities	$ 0.1	$ 0.5

The Effect of Derivative Instruments on the Statement of Operations

	Amount of Gain (Loss) Recognized into AOCI				Amount of Gain (Loss) Reclassified from AOCI to Income		
(in millions)	2009	2008	2007	Location of Gain (Loss) Reclassified from AOCI to Income	2009	2008	2007
Interest rate swap agreements, net of tax	$(0.2)	$(1.3)	$(0.9)	Interest expense, net	$ (1.1)	$ (0.1)	$ 0.2
	$(0.2)	$(1.3)	$(0.9)		$ (1.1)	$ (0.1)	$ 0.2

In 2009, net interest expense associated with these agreements was approximately $1.3 million. In 2008 and 2007, the Company incurred net interest income associated with these agreements of approximately zero and $1.5 million, respectively.

Future Debt Maturities. At December 27, 2009, aggregate future debt maturities, excluding capital lease obligations, were as follows:

(in millions)	
2010	$ 1.3
2011	1.0
2012	19.7
2013	57.1
2014	0.3
Thereafter	1.6
	$81.0

Note 11 —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.

AFC ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2009, 2008 and 2007 — (Continued)

At December 27, 2009, future minimum payments under capital and non-cancelable operating leases were as follows:

(in millions)	Capital Leases	Operating Leases
2010	$ 0.2	$ 5.8
2011	0.2	5.8
2012	0.2	4.6
2013	0.2	4.3
2014	0.2	4.1
Thereafter	3.4	52.1
Future minimum lease payments	4.4	76.7
Less amounts representing interest	(2.8)	—
	$ 1.6	$ 76.7

During 2009, 2008 and 2007, rental expense was approximately $5.5 million, $6.2 million, and $6.8 million, respectively, including contingent rentals of $0.1 million, $0.1 million and $0.1 million, respectively. At December 27, 2009, 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 27, 2009, the aggregate gross book value and net book value of owned properties that were leased to franchisees was approximately $2.5 million and $2.0 million, respectively. During 2009, 2008 and 2007, rental income from these leases and subleases was approximately $4.6 million, $3.9 million, and $4.5 million, respectively. At December 27, 2009, future minimum rental income associated with these leases and subleases, are approximately $4.1 million in 2010, $4.0 million in 2011, $3.5 million in 2012, and $3.1 million in 2013, $2.3 million in 2014, and $12.7 million thereafter.

Note 12 —Deferred Credits and Other Long-Term Liabilities

(in millions)	2009	2008
Deferred franchise revenues	$ 3.4	$ 3.9
Deferred gains on unit conversions	2.4	2.7
Deferred rentals	4.0	4.7
Above-market rent obligations	2.8	2.9
Deferred income taxes	3.3	1.9
Other	1.8	3.1
	$17.7	$19.2

Note 13 —Common Stock

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 its common stock from time to time. During 2008, and 2007, the Company repurchased and retired 2,120,401 shares and 2,496,030 shares of common stock for $19.0 million and $39.4 million, respectively, under this program. There were no share repurchases under the program in 2009.

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 as amended and restated, the Company is subject to a repurchase limit of approximately $47.3 million for the remainder of fiscal 2010. The Company is permitted to resume its common stock repurchase program once the Total Leverage Ratio is less than 1.75 to 1.

Dividends. During 2009 the Company paid no dividends. During 2008 and 2007, the Company paid dividends of approximately $0.5 million and $0.7 million, respectively, associated with vested restricted share awards.

Note 14 —Stock Option Plans

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. During 2009, the remaining options outstanding under this plan expired unexercised.

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 27, 2009 allow certain employees of the Company to purchase approximately 138,000 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.

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 replaced the 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 27, 2009 allow certain employees of the Company to purchase approximately 260,000 shares of common stock which vest at 25% per year and 155,000 shares of common stock which vest at 33.3% per year.

As of December 27, 2009, an additional 200,000 options were granted and outstanding which vest at 25% per year but are only exercisable provided that certain performance criteria with regard to the Company's common stock price are met before October 31, 2012. 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.

As of December 27, 2009, an additional 34,000 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 2009 through 2012. 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 27, 2009.

AFC ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2009, 2008 and 2007 — (Continued)

(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	823	$ 12.16		
Granted options	155	8.30		
Exercised options	—	—		
Cancelled and expired options	(114)	14.03		
Outstanding at end of year	864	$ 11.22	4.4	$ 0.1
Exercisable at end of year	330	$ 11.79	2.6	$ —
Shares available for future grants under the plans at end of year	2,175			

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 2009 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 $0.9 million, $1.4 million, and $0.7 million, in stock-based compensation expense associated with its stock option grants during 2009, 2008 and 2007, respectively. As of December 27, 2009, there was approximately $1.0 million of total unrecognized compensation costs related to unvested stock options which are expected to be recognized over a weighted average period of approximately 1.7 years. The total fair value at grant date of awards which vested during 2009, 2008 and 2007 was $0.1 million, $1.0 million, and $0.7 million, respectively.

The weighted average grant date fair value of awards granted during 2009, 2008 and 2007 was $4.23, $3.86 and $5.96, respectively. The total intrinsic value of stock options exercised during 2007 was $3.2 million. There were no options exercised in 2009 and 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 2009 and 2008, 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:

	2009 Black-Scholes	2008 Black-Scholes	2007 Monte Carlo	2007 Black-Scholes
Risk-free interest rate	2.6%	2.9%	4.2%	4.2%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Expected term (in years)	4.50	6.25	6.25	7.00
Expected volatility	60.6%	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.

AFC ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2009, 2008 and 2007 — (Continued)

The following table summarizes the non-vested stock option activity for the 52 week period ended December 27, 2009:

(shares in thousands)	Shares	Weighted Average Grant Date Value
Unvested stock options outstanding at beginning of period	405	$ 5.41
Granted	155	4.23
Vested	(15)	3.84
Forfeited	(11)	3.89
Unvested stock options outstanding at end of period	534	$ 5.15

Restricted Share Awards

The Company has granted 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 $0.7 million, $0.8 million, and $0.6 million, in stock-based compensation expense associated with these awards during 2009, 2008 and 2007, 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 and $0.7 million associated with vested awards during fiscal years 2008 and 2007, respectively.

The following table summarizes the restricted share awards activity for the 52 week period ended December 27, 2009:

(share awards in thousands)	Shares	Weighted Average Grant Date Fair Value
Unvested restricted share awards:		
Outstanding beginning of year	90	$ 8.76
Granted	194	8.29
Vested	(86)	8.80
Cancelled	(8)	7.85
Outstanding end of year	190	$ 8.31

The weighted average grant date fair value of restricted share awards granted during 2008 and 2007 was $8.77 and $15.54, respectively.

As of December 27, 2009, there was approximately $1.3 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 1.9 years. The total fair value at grant date of awards which vested during 2009, 2008 and 2007 was $0.8 million, $1.7 million, and $2.3 million, respectively.

Restricted Share Units

The Company has granted 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, $0.3 million, and $0.4 million in stock-based compensation expense associated with these awards during the 2009, 2008 and 2007, respectively. As of December 27, 2009, there was approximately $0.1 million of total unrecognized

AFC ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2009, 2008 and 2007 — (Continued)

compensation cost related to unvested RSUs, which is expected to be recognized over a weighted average period of approximately 0.4 years. The total fair value at grant date of awards vested during 2009, 2008 and 2007 was zero, zero and $0.1 million, respectively.

The following table summarizes the restricted share unit activity for the 52 week period ended December 27, 2009.

(share awards in thousands)	Units	Weighted Average Grant Date Fair Value
Unvested restricted stock units:		
Outstanding beginning of year	74	$ 12.70
Granted	51	5.86
Vested	—	—
Outstanding end of year	125	$ 9.90

The weighted average grant date fair value of restricted share units granted during 2008 and 2007 was $8.02 and $19.79, respectively.

Note 15 —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, $0.2 million, and $0.3 million, during 2009, 2008 and 2007, respectively, for its contributions to the Plan.

Note 16 —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 of which the Company is a member. 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 27, 2009, the Company held one of 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 impacted 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 Popeyes system, SMS 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, SMS has entered into commodity pricing agreements for the first half of 2010 for certain commodities including corn and soy, which impact the price of poultry and other food cost.

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 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 2009, 2008 and 2007, 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 and we are presently discussing extensions of these agreements with King Features.

During 2009, 2008 and 2007, payments made to King Features were $1.1 million, $1.1 million, and $1.0 million; respectively. A portion of these payments were made from the Popeyes advertising cooperative (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 27, 2009, future minimum payments under this contract are $1.0 million in 2010 and $0.3 million in 2011. During 2009, 2008 and 2007, the Company expensed $1.4 million, $1.5 million, and $1.4 million, respectively, under this agreement.

Information Technology Outsourcing. Certain information technology services are provided to the Company under Managed Information Technology Services Agreements with certain third party providers through the end of 2012. The Information Technology Services Agreement with IBM expired December 28, 2009. At December 27, 2009, future minimum payments under these contracts are $1.3 million in 2010, $1.4 million in 2011 and $1.4 million in 2012. During 2009, 2008 and 2007, the Company expensed $2.4 million, $2.1 million, and $2.0 million, respectively, under this agreement.

Employment Agreements. As of December 27, 2009, the Company had employment agreements with seven senior executives which provide for annual base salaries ranging from $240,000 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 2010, 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, one and one-half, or two times annual base salary, as applicable, and one, one and one-half, or two times the bonus payable, as applicable, to the individual for the fiscal year in which such termination occurs. Under the terms of 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.

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 27, 2009, the Company's insurance reserves of approximately $1.4 million were partially collateralized by letters of credit and/or cash deposits of $1.3 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 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 2009, 2008 and 2007, such operations represented approximately 10.9%, 11.3%, and 9.2%, of total franchise revenues, respectively; and approximately 6.3%, 5.7%, and 4.5%, of total revenues, respectively. At December 27, 2009, approximately $1.3 million of the Company's accounts receivable were related to its international franchise operations.

Significant Franchisee. During 2009, 2008 and 2007, one domestic franchisee accounted for approximately 9.7%, 10.0%, and 10.5%, 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.

AFC ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2009, 2008 and 2007 — (Continued)

Note 17 —Other Expenses (Income), Net

(in millions)	2009	2008	2007
Net recoveries of directors and officers liability insurance claims and shareholder litigation	$ —	$(12.9)	$(0.9)
Impairments and disposals of fixed assets	0.6	9.5	1.9
(Gain) loss on insurance recoveries related to asset damages, net	0.4	(0.5)	(3.2)
Income from business interruption insurance recoveries	—	—	(1.6)
Costs related to restaurant closures	0.2	—	0.8
Net gain on sale of assets	(3.3)	(0.9)	(0.3)
Other	—	0.2	0.6
	$(2.1)	$ (4.6)	$(2.7)

During 2009, the Company completed the re-franchising of three company-operated restaurants in its Nashville, Tennessee market and 13 company-operated restaurants in its Atlanta, Georgia market for net proceeds of $4.6 million, of which $0.5 million was recorded as a component of “Franchise revenues” in the Consolidated Statements of Operations. The net loss on the sale of these assets was $0.5 million.

During 2009, the Company sold 10 real estate properties. The Company recognized a net gain on the sale of the related assets of $3.6 million.

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. After payment of settlement amounts to the counterparties to certain joint settlement agreements legal expenses and fees, 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.

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 2007, the company received a total of $6.5 million from its insurance carriers in settlement of all claims resulting from Hurricane Katrina.

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.

Note 18 —Interest Expense, Net

(in millions)	2009	2008	2007
Interest on debt, less capitalized amounts	$ 7.5	$ 8.1	$ 9.0
Amortization and write-offs of debt issuance costs	1.3	0.6	0.6
Other debt related charges	0.5	0.6	0.4
Interest income	(0.9)	(1.2)	(1.3)
	$ 8.4	$ 8.1	$ 8.7

AFC ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2009, 2008 and 2007 — (Continued)

Note 19 —Income Taxes

Total income taxes for fiscal years 2009, 2008 and 2007, were allocated as follows:

(in millions)	2009	2008	2007
Income taxes in the statements of operations, net	$11.5	$12.8	$13.8
Income taxes charged (credited) to statements of shareholders' deficit:			
Compensation expense for tax purposes less than (in excess of) amounts recognized for financial reporting purposes	—	0.5	(0.9)
Other comprehensive income	0.3	(0.7)	(0.6)
Total	$11.8	$12.6	$12.3

Total U.S. and foreign income before income taxes for fiscal years 2009, 2008 and 2007, were as follows:

(in millions)	2009	2008	2007
United States	$24.6	$26.6	$31.8
Foreign	5.7	5.6	5.1
Total	$30.3	$32.2	$36.9

The components of income tax expense were as follows:

(in millions)	2009	2008	2007
Current income tax expense:			
Federal	$ 8.7	$10.5	$11.9
Foreign	0.9	0.9	0.8
State	0.9	1.4	1.6
	10.5	12.8	14.3
Deferred income tax expense (benefit):			
Federal	1.0	—	(0.5)
State	—	—	—
	1.0	—	(0.5)
	$11.5	$12.8	$13.8

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.

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

	2009	**2008**	**2007**
Federal income tax rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	0.1	1.5	1.7
Valuation allowance	2.1	0.8	0.9
Provision to return adjustments	(0.1)	0.2	(0.1)
Adjustments to estimated tax reserves	0.6	1.4	(0.5)
Non-deductible goodwill impairment	—	0.7	—
Other items, net	0.3	0.2	0.4
Effective income tax benefit rate	38.0%	39.8%	37.4%

AFC ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2009, 2008 and 2007 — (Continued)

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)	2009	2008
Deferred tax assets:		
Deferred franchise fee revenue	$ 2.3	$ 2.6
State net operating loss carry forwards	4.7	4.0
Deferred rentals	2.9	3.1
Deferred compensation	1.8	1.4
Property, plant and equipment	1.1	1.5
Allowance for doubtful accounts	1.0	0.5
Insurance accruals	0.5	0.4
Other accruals	1.0	1.7
Reorganization costs	4.0	4.0
Total gross deferred tax assets	19.3	19.2
Deferred tax liabilities:		
Franchise value and trademarks	(16.2)	(15.5)
Total gross deferred liabilities	(16.2)	(15.5)
Valuation allowance	(4.7)	(4.0)
Net deferred tax liability	$ (1.6)	$ (0.3)

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.

At December 27, 2009, the Company had state net operating losses (“NOLs”) of approximately $90.0 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 $4.7 million at December 27, 2009 and $4.0 million at December 28, 2008.

Included in accrued liabilities at December 27, 2009 and December 28, 2008 are accrued income tax reserves of $6.0 million and $5.7 million, respectively.

The amount of unrecognized tax benefits were approximately $4.9 million as of December 27, 2009 of which approximately $1.3 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 27, 2009 is as follows (in millions):

(in millions)	
Balance as of December 28, 2008	$4.7
Gross additions related to current year	0.2
Expirations of statutes of limitation	—
Balance as of December 27, 2009	$4.9

AFC ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2009, 2008 and 2007 — (Continued)

The Company recognizes interest and penalties related to uncertain tax positions as a component of its income tax expense. Interest and penalties on uncertain tax positions were approximately $0.1 million, $0.3 million and $0.2 million for 2009, 2008 and 2007, respectively. The Company had approximately $1.1 million and $1.0 million of accrued interest and penalties related to uncertain tax positions as of December 27, 2009 and December 28, 2008, respectively.

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

Note 20 —Components of Earnings Per Share Computation

(in millions)	2009	2008	2007
Net income	$18.8	$19.4	$23.1
Denominator for basic earnings per share — weighted average shares	25.3	25.6	28.6
Dilutive employee stock options	0.1	0.1	0.2
Denominator for diluted earnings per share	25.4	25.7	28.8

AFC ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2009, 2008 and 2007 — (Continued)

Note 21 —Segment Information

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

(in millions)	2009	2008	2007
Revenues			
Franchise operations(a)	$ 90.6	$ 88.5	$ 87.3
Company-operated restaurants	57.4	78.3	80.0
	$148.0	$166.8	$167.3
Operating profit before unallocated expenses			
Franchise operations	$ 36.8	$ 38.9	$ 45.1
Company-operated restaurants	4.2	3.1	4.7
	41.0	42.0	49.8
Less unallocated expenses			
Depreciation and amortization	4.4	6.3	6.9
Other expenses (income), net	(2.1)	(4.6)	(2.7)
Operating profit	$ 38.7	$ 40.3	$ 45.6
Capital expenditures			
Franchise operations	$ 0.4	$ 0.2	$ 0.6
Company-operated restaurants	1.0	2.5	9.4
	$ 1.4	$ 2.7	$ 10.0
Goodwill — year end			
Franchise operations	$ 8.9	$ 8.9	$ 8.9
Company-operated restaurants	2.2	2.2	2.8
	$ 11.1	$ 11.1	$ 11.7
Total assets — year end			
Franchise operations	$ 90.3	$ 98.6	$106.6
Company-operated restaurants	26.3	33.4	48.4
	$116.6	$132.0	$155.0

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

AFC ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For Fiscal Years 2009, 2008 and 2007 — (Continued)

Note 22 — Quarterly Financial Data (Unaudited)

(in millions, except per share data)	2009 First(a) Quarter	2009 Second Quarter	2009 Third Quarter	2009 Fourth Quarter
Results of Operations				
Total revenues	$ 47.9	$ 35.7	$ 31.9	$ 32.5
Operating profit	9.9	11.4	8.9	8.5
Net income	5.0	6.4	3.4	4.0
Basic earnings per common share	0.20	0.25	0.13	0.16
Diluted earnings per common share	0.20	0.25	0.13	0.16

	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

(a) The Company’s first quarters for 2009 and 2008 contained sixteen weeks. The remaining quarters of 2009 and 2008 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.

AMENDED AND RESTATED EMPLOYMENT AGREEMENT
Effective as of March 9, 2010 between
AFC Enterprises, Inc. (the "Company") and
Henry Hope, III ("Employee")

WHEREAS, the Company desires to continue the employment of Employee and to enter into an agreement embodying the terms of such employment; 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 date hereof and end on December 26, 2010, and each one (1) year period thereafter shall coincide with the Company's fiscal year.

2. Employment.

2.01 Position. Employee shall continue to serve as Senior Vice President and Chief Financial Officer of the Company and its Popeyes Louisiana Kitchen 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 date hereof, the Company shall pay Employee, in equal installments no less frequently than monthly, a base salary at the rate of no less than Three Hundred Twenty Thousand Dollars ($320,000 U.S.) per annum (the "Base Salary") during the term hereof. The Employee's Base Salary shall be reviewed by the Board on an annual basis.

4. Incentive Pay.

4.01 Annual Plan. The Board of Directors of the Company, 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 Pay. 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 2010 fiscal year of the Company shall be as follows: One Hundred Ninety Two Thousand Dollars (U.S. $192,000); 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. After 2010, 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.

5. Equity Compensation.

As part of the Employee's compensation, Employee may be granted stock options, restricted stock or other forms of equity compensation in the future 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 $1,600,000 (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 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 executive disability program.

(b) Notwithstanding anything herein to the contrary, if the premiums for the Supplemental Disability Income 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 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 Section 6.01 — 6.03, including, without limitation, participation in the Company's 401(k) plan with immediate full vesting in the Company's matching contributions beginning with any matching contribution made for fiscal year 2010, 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.

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 CEO 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 Company's Chairman of the Board 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 CEO 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 of 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 and one-half (1.5) times Employee's Base Salary at the time of termination, and (y) is one and one-half (1.5) 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 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 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 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 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 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 he 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, he 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 State 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.

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 he has the right to retain counsel of his own choosing concerning the agreement to arbitrate or any waiver of rights or claims; that he 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 he 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:

Henry Hope, III
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: Chief Executive Officer

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 Law.

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/ Henry Hope, III
Henry Hope, III

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated March 10, 2010, with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report of AFC Enterprises, Inc. and subsidiary on Form 10-K for the year ended December 27, 2009. We hereby consent to the incorporation by reference of said reports in the Registration Statements of AFC Enterprises, Inc. and subsidiary 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) effective May 22, 2002.

/s/ GRANT THORNTON LLP

Atlanta, Georgia
March 10, 2010

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 most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) 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 10, 2010

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 most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) 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 10, 2010

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 27, 2009, 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 10, 2010

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 27, 2009, 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 10, 2010