



Ropeyes®

Accelerating Growth

Blending of
Seasonings





Restaurant Openings

2004, 2005 and 2006 Popeyes new global restaurant openings were 109, 123 and 142, respectively.

Firing on all cylinders

When it comes to growth, Popeyes® Chicken & Biscuits has the pedal to the metal. Today, our restaurants number 1,878 worldwide, and our system-wide sales are growing. We've built our brand on flavor and fun. And it's never been stronger. We continue to make our signature Louisiana flavor the unique taste attraction in every market we serve — from New Orleans to Hong Kong.

To Our Stakeholders

There is a good reason why we chose accelerating growth as the theme for this year's annual report. Put simply, it is an apt metaphor for the winning performance of our AFC team in 2006. Propelled by the momentum generated in 2005, 2006 was a year of accomplishment for Popeyes® – fueled by new restaurant openings, a growing development pipeline, new product news, a new advertising campaign, positive same-store sales, and strong support from our Popeyes operators around the globe.

2006 results

2006 turned out to be a very successful year for Popeyes. At year-end, our Company revenues had grown approximately 7 percent to \$153 million, yielding an operating profit of slightly over \$45 million and net income of \$22.4 million, or \$0.75 per diluted share. We've spoken in the past about our two primary strategies for accelerating Popeyes growth – driving average unit volume and accelerating new restaurant development in both domestic and international markets. We saw positive momentum in both of these areas in 2006. Popeyes domestic system average unit volume increased by 4.6 percent to slightly over \$1 million in 2006. This

improvement was driven by domestic same-store sales growth of 1.6 percent, closure of underperforming restaurants, and the fact that our new freestanding restaurant sales are annualizing at approximately \$1.3 million.

Maintaining momentum

At Popeyes, our positioning comes down to five simple words: "It's all about the food." Our operators know that; our employees know that; the marketplace knows that; and I hope after reading this annual report, you will, too. In 2006, we introduced a new advertising campaign, "Food with 'Tude™," based on the brand's superior quality and an array of flavorful menu items. It was a message that resonated with our core consumer demographic, who, as gasoline and other living expenses increased, were beginning to tighten their belts. Our core customers are still watching their spending carefully and consequently, demanding more value from every Quick Service Restaurant (QSR). Our food-focused positioning and strong line-up of new product concepts help us deliver it.

An emphasis on quality, limited time offers, including our seafood offerings of Butterfly Shrimp, Catfish and Popcorn Shrimp and our new



Frank J. Belatti, Chairman

Sweet Heat® boneless wings, as well as a continued focus on our core traditional chicken offerings, played an integral part in brand growth over the past two years. Going forward, we will continue to strengthen sales through a focus on value propositions and new product news that reinforce our brand heritage. New, appealing menu items – such as wings and onion rings, catfish strips, popcorn chicken and spicy new sauces that complement all of our menu items – will help drive traffic into our restaurants. We plan to continue our strategy to mix our messaging to include our best in class chicken, chicken strips, flavored nuggets and seafood items, all of which feature our unique spices and sauces that are only available at Popeyes.

Driving new growth

During fiscal year 2006, the Popeyes system opened 142 new restaurants, a 15.4 percent increase year-over-year in openings, with net new openings of 46 units. More importantly, the development team has put in place a robust pipeline to support approximately 20 percent more new domestic and international openings in 2007. We expect increased new openings and fewer closings to double the number of net openings for 2007. Our franchisees continue



Our growth strategy is two-pronged:

1) Drive system volumes of existing and newly opened restaurants.

2) Drive new store openings worldwide.

to be positive about growth and appreciate the variety of design and venue options available to them to spur new restaurant development.

Although damage from Hurricane Katrina necessitated the closing of 36 company-operated locations, by year-end 2006, we were operating 20 of those restaurants at significantly higher volumes than prior to the disaster. New Orleans is coming back, and we are proud to be part of that effort!

Our heritage

As the birthplace of Popeyes®, New Orleans and the surrounding communities of the Gulf Coast hold special meaning for us. In partnership with America's Second Harvest® - The Nation's Food Bank Network™, Popeyes franchisees, vendor partners and Company employees donated \$265,000 earmarked for communities across the Gulf Coast. We are committed to working with America's Second Harvest to help win the battle against hunger.

Our brand growth

Along with accelerating growth, we are also accelerating value creation. We have the operational systems in place for peak performance at every step of fulfilling a guest's order – from more cost-effective product sourcing to better training of our operators and their staffs. To drive traffic, we are launching a new advertising campaign and using national cable to help deliver the message. To ensure consistency throughout the system, we have developed an overarching set of quality standards to which all Popeyes restaurants will adhere. We have strengthened our restaurant operations by holding regional operations meetings and inter-regional operations knowledge competitions. We continue to generate substantial free cash, thereby strengthening our credit position in the financial markets and giving us the benefit of financial flexibility for the future.

Of course, there are challenges ahead, also. Improving operating margins in 2007 and strengthening sales by daypart are high priorities.

So, too, is improving the guest experience. People are looking for exceptional food that's also an exceptional value. The key to making that happen is a continued focus on our food and the development of value offerings that appeal to our consumer.

2006 was a busy, productive year for us, one made possible only with the support of our shareholders, our operators, our people and our guests. For that, I thank all of you. We continue to make Popeyes better – a better place to work, a better brand to own, a better stock to hold, and a better place to eat for more people in more places than ever before.

Frank J. Belatti
Chairman
AFC Enterprises, Inc.



Accelerating performance



The power of our brand

What's the driving force behind AFC's strengthening pace in 2006? More than anything, it's the singular power of the Popeyes® brand. We own one of the most highly differentiated brands in the Quick Service Restaurant (QSR) industry. And we continue to add value to the Popeyes brand by focusing our resources and energy on new and better ways to connect with our customers. In 2006, that included opening 142 new restaurants worldwide.

It's all about the food

Whether it's our world famous chicken, seafood or jambalaya, we deliver something no one else in the QSR industry does – the special taste of New Orleans. The food turns first-time customers into loyal, repeat guests. The food fuels system-wide sales, which increased 7.0 percent versus fiscal 2005. And the food unites us with approximately 350 Popeyes franchisees worldwide.

Putting business on the fast track

We're developing new ways to increase performance at Popeyes – from improving speed of service to helping

operators increase the profitability of their restaurants. We've enhanced unit economics, strengthening the domestic and international franchisee business model by developing more efficient kitchen, food preparation and food delivery processes. We're addressing and improving food costs by streamlining and centralizing our supply chain. And we're aggressively pursuing promising, new top-line marketing opportunities, such as text messaging and national cable advertising. Our overall efforts are already beginning to pay off. We experienced 1.6 percent same-store sales growth in 2006.

A little something extra

At Popeyes, our brand personality is rooted in the lively Cajun culture of Louisiana. Part of that heritage is "Lagniappe" (pronounced LAN-yap), a word that means "a little something extra," which is what we deliver with every meal we serve. It is so important that every Popeyes employee takes the Lagniappe Pledge, which promises something extra in every guest experience: hot, fresh, flavorful food on every visit; a clean, comfortable, welcoming environment; and a promise to serve guests quickly, accurately and with a smile.

Racing towards the future





We're good to grow

At Popeyes®, we're building on the momentum of 2005 and 2006. In addition to strengthening our franchisee economic model, we also made improvements to our supply chain management system. The result: higher quality, fresher products delivered to our restaurants.

Popeyes franchisees are good to grow, too. And there's plenty of room to accommodate them, especially in our under-penetrated existing markets, both domestically and internationally. That expansion is already underway. We opened 142 new restaurants in 2006, a 15.4 percent increase over 2005, and many of them were higher volume restaurants. We've also closed some underperforming locations. On top of that, we've expanded our range of building types and operating systems. Put simply, now there's a Popeyes facility design for just about every venue.

Putting operations in the driver's seat

In the QSR industry, no matter how good your food and service are, the customer's opinion is the only one that counts. So, in 2006, we focused on enhancing the guest experience in our restaurants. Naturally, operators were critical to the success of that initiative. So much so, that we named 2006 "The Year of the Operator." Through special system-wide initiatives, such as an operations knowledge competition called the Popeyes Bowl and the annual Popeyes Operations Meeting, we strengthened our teamwork with our franchisees. Through these initiatives, we helped operators improve their system knowledge and execution. Just as importantly, we reinforced the need for consistent national quality standards and system-wide testing throughout the year. Working as a team, we also developed more efficient kitchen, food preparation and delivery processes – helping to ensure that Popeyes guests enjoy their favorite menu selections hot, fresh and flavorful.

Moving out in front

As a QSR concept, Popeyes breaks away from the pack. Today, we are using our flavor difference to strengthen our advertising. Our new broadcast campaign focuses on the quality and uniqueness of Popeyes flavorful food as well as our brand's New Orleans culinary heritage, something no other restaurant chain in the segment can claim. Building on the Popeyes "Big Flava™" platform, we launched our "Food with 'Tude™" advertising campaign

emphasizing Popeyes spicy flavor profile. Together, the two messages are intended to drive more traffic into our restaurants.

Adding more to our brand

In the spirit of Lagniappe, Popeyes is exploring and testing new ways of bringing a little something extra to our guests. From our "menu of venues" to our new Popeyes® Louisiana Kitchen test concept, we are keeping our eye on the horizon, focusing on the Popeyes of tomorrow.

Popeyes "menu of venues" is a critical component of our strategy to ensure continued growth of the brand domestically and internationally. We provide our franchisees with the options and flexibility to develop different types of restaurants for different locations. The traditional freestanding Popeyes restaurant is now available in 28-seat, 48-seat and 66-seat configurations. In addition to the traditional freestanding Popeyes restaurant, franchisees can open smaller walk-up locations which are ideal for urban settings, or they can develop in-line formats for a strip mall.

In addition to venue alternatives, we are also exploring new formats for delivering the flavor our customers crave. This exploration includes a limited menu approach designed to give our customers our world-famous chicken and biscuits faster than ever before!

Popeyes® Louisiana Kitchen, a fast-casual hybrid concept, is another option we are exploring. Serving as a research and development platform, the restaurant provides opportunities to test variations of Cajun cuisine with our customers, as well as to experiment with new restaurant technologies, alternative service systems, marketing approaches, and menu items that have application in our Popeyes restaurants. The concept also offers an array of convenient ordering options including front counter, drive-thru, a self-serve kiosk inside the restaurant, and call ahead service for car-side "To Geaux" pick-up. A Popeyes® Louisiana Kitchen test unit opened on December 12, 2006, in Norcross, Georgia.

As we continue to test venues, menus and technology, we are gaining valuable insights that will ultimately help the Popeyes system overall and provide a unique glimpse into the potential future of Popeyes.

Financial Highlights (Continuing Operations) & Key Operational Metrics⁽¹⁾

(Dollars in millions, except per common share data)	2006	2005	2004
Franchise revenues	\$ 82.6	\$ 77.5	\$ 72.8
Total revenues ⁽²⁾	\$ 153.0	\$ 143.4	\$ 163.9
Income (loss) before discontinued operations and accounting change	\$ 22.2	\$ (8.4)	\$ (14.3)
Net income ⁽³⁾	\$ 22.4	\$ 149.6	\$ 24.6
Diluted earnings per common share: Net income ⁽⁴⁾	\$ 0.75	\$ 5.14	\$ 0.87
Global system-wide sales growth ⁽⁵⁾	7.0%	4.8%	4.5%
Domestic system-wide same-store sales growth	1.6%	3.3%	1.3%
New restaurant openings	142	123	109
Total restaurants	1,878	1,828	1,825

- (1) The financial information presented in the table relates to AFC's continuing operations with the exception of net income and diluted earnings per common share. The Company sold its former Church's Chicken® and Cinnabon® divisions in 2004, and results of those operations have been excluded from the above statistics. Please refer to AFC's Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations in the attached Annual Report on Form 10-K for additional information concerning financial performance.
- (2) Total revenues for 2006 included a 53rd week which increased sales by \$2.5 million. Total revenues for 2006, 2005, and 2004 included approximately \$1.1 million, \$2.7 million, and \$12.6 million, respectively, in sales related to Popeyes franchisees that were consolidated as part of AFC's adoption of FIN 46R.
- (3) Discontinued operations provided after-tax income of \$0.2 million in 2006, \$158.0 million in 2005 (all of which was associated with a gain on the sale of Church's Chicken) and provided after-tax income of \$39.1 million in 2004 (principally related to the gain on the sale of Cinnabon together with Church's Chicken operating results).
- (4) Weighted average common shares for the computation of diluted earnings per common share were 29.8 million, 29.1 million, and 28.1 million for 2006, 2005, and 2004, respectively. For 2005 and 2004, potentially dilutive employee stock options were excluded from the computation of diluted earnings per share due to the anti-dilutive effect they would have on "loss before discontinued operations and accounting change."
- (5) System-wide sales increase calculates combined sales of all restaurants that we operate or franchise. Sales information for franchised restaurants is provided by our franchisees. System-wide sales are unaudited. Total system-wide sales in 2006 included a 53rd week which increased system-wide sales by 1.8 percent.

Cautionary Note Regarding Forward-Looking Statements

Certain statements in this release, and other written or oral statements made by or on behalf of AFC or its brand are "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. Among the important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are: competition from other restaurant concepts and food retailers, the loss of franchisees and other business partners, labor shortages or increased labor costs, increased costs of our principal food products, changes in consumer preferences and demographic trends, as well as concerns about health or food quality, instances of avian flu or other food-borne illnesses, our ability to recover hurricane related losses from our insurers and the economic impact on consumer spending in markets

affected by Hurricane Katrina, 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, failure of our franchisees, a decline in the number of franchised units, a decline in our ability to franchise new units, slowed expansion into new markets, unexpected and adverse fluctuations in quarterly results, increased government regulation, adverse effects of regulatory actions arising in connection with the restatement of our previously issued financial statements, effects of increased gasoline prices, general economic conditions, supply and delivery shortages or interruptions, currency, economic and political factors that affect our international operations, inadequate protection of our intellectual property and liabilities for environmental contamination and the other risk factors detailed in our 2006 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.

Board of Directors



Left to right: Victor Arias, Jr., Kelvin J. Pennington, R. William Ide, III, Frank J. Belatti, John M. Cranor, III, Carolyn Hogan Byrd, Cheryl A. Bachelder, John F. Hoffner. Not pictured: John M. Roth.

Frank J. Belatti

Chairman: AFC Enterprises, Inc.
Director since: 1992 Age: 59

Victor Arias, Jr.

Executive Search Consultant:
Heidrick & Struggles
Director since: 2001 Age: 50

Cheryl A. Bachelder

Director: AFC Enterprises, Inc.
Director since: 2006 Age: 50

Carolyn Hogan Byrd

Founder, Chair & Chief Executive Officer:
GlobalTech Financial, LLC
Director since: 2001 Age: 58

John M. Cranor, III

President & Chief Executive Officer:
New College Foundation
Director since: 2006 Age: 60

John F. Hoffner

Director: AFC Enterprises, Inc.
Director since: 2006 Age: 59

R. William Ide, III

Partner: McKenna Long & Aldridge, LLP
Director since: 2001 Age: 66

Kelvin J. Pennington

President: Pennington Partners & Co.
Director since: 1996 Age: 48

John M. Roth

Principal: Freeman Spogli & Co.
Director since: 1996 Age: 48

Shareholder Information

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Stock Transfer Agent

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312-588-4990
www.computershare.com

Other Information

The Company's press releases, annual reports and other information can be accessed through the Company's website: www.afce.com

Annual Meeting

AFC's 2007 Annual Meeting will be held at:
Hilton Garden Inn – Atlanta
Perimeter Center
1501 Lake Hearn Drive
Atlanta, GA 30319
9:00 AM ET, May 24, 2007
404-459-0500

Form 10-K

The Company's 2006 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is being delivered with this Letter to Our Stakeholders.

Copies of the Annual Report on Form 10-K are also available without charge upon written request to:

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5555 Glenridge Connector NE
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www.investor.afce.com

