

DOMINOS PIZZA INC
Form 10-Q
April 30, 2009
[Table of Contents](#)

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 22, 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 file number 001-32242

Domino s Pizza, Inc.

(Exact name of registrant as specified in its charter)

Edgar Filing: DOMINOS PIZZA INC - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

38-2511577
(I.R.S. Employer

Identification Number)

30 Frank Lloyd Wright Drive

Ann Arbor, Michigan 48106

(Address of principal executive offices)

(734) 930-3030

(Registrant's telephone number, including area code)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

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

As of April 23, 2009, Domino's Pizza, Inc. had 57,365,416 shares of common stock, par value \$0.01 per share, outstanding.

Table of Contents

Domino s Pizza, Inc.

TABLE OF CONTENTS

	Page No.
PART I. <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets (Unaudited) March 22, 2009 and December 28, 2008</u>	3
<u>Condensed Consolidated Statements of Income (Unaudited) Fiscal quarter ended March 22, 2009 and March 23, 2008</u>	4
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) Fiscal quarter ended March 22, 2009 and March 23, 2008</u>	5
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	6
Item 2. <u>Management s Discussion and Analysis of Financial Condition and Results of Operations</u>	10
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	16
Item 4. <u>Controls and Procedures</u>	16
PART II. <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	17
Item 1A. <u>Risk Factors</u>	17
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	17
Item 3. <u>Defaults Upon Senior Securities</u>	17
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	17
Item 5. <u>Other Information</u>	17
Item 6. <u>Exhibits</u>	18
<u>SIGNATURES</u>	18

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Domino's Pizza, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets****(Unaudited)**

(In thousands)	March 22, 2009	December 28, 2008 (Note)
Assets		
Current assets:		
Cash and cash equivalents	\$ 67,851	\$ 45,372
Restricted cash and cash equivalents	65,860	78,871
Accounts receivable	66,461	69,390
Inventories	28,937	24,342
Notes receivable	615	630
Prepaid expenses and other	5,742	6,236
Advertising fund assets, restricted	32,468	20,377
Deferred income taxes	9,219	9,033
Total current assets	277,153	254,251
Property, plant and equipment:		
Land and buildings	22,063	22,063
Leasehold and other improvements	83,483	83,362
Equipment	168,853	167,470
Construction in progress	2,115	1,881
	276,514	274,776
Accumulated depreciation and amortization	(170,913)	(166,346)
Property, plant and equipment, net	105,601	108,430
Other assets:		
Deferred financing costs	22,192	24,457
Goodwill	17,675	17,675
Capitalized software, net	3,481	3,672
Other assets	12,187	12,260
Deferred income taxes	35,140	43,049
Total other assets	90,675	101,113
Total assets	\$ 473,429	\$ 463,794
Liabilities and stockholders' deficit		
Current liabilities:		
Current portion of long-term debt	\$ 25,347	\$ 340

Edgar Filing: DOMINOS PIZZA INC - Form 10-Q

Accounts payable	46,580	56,906
Accrued income taxes	972	1,167
Insurance reserves	10,044	10,056
Advertising fund liabilities	32,468	20,377
Other accrued liabilities	62,183	60,708
Total current liabilities	177,594	149,554
Long-term liabilities:		
Long-term debt, less current portion	1,657,450	1,704,444
Insurance reserves	20,290	20,369
Other accrued liabilities	14,799	14,050
Total long-term liabilities	1,692,539	1,738,863
Stockholders' deficit:		
Common stock	573	570
Additional paid-in capital	5,742	1,853
Retained deficit	(1,397,935)	(1,421,705)
Accumulated other comprehensive loss	(5,084)	(5,341)
Total stockholders' deficit	(1,396,704)	(1,424,623)
Total liabilities and stockholders' deficit	\$ 473,429	\$ 463,794

Note: The balance sheet at December 28, 2008 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

See accompanying notes.

Table of Contents

Domino's Pizza, Inc. and Subsidiaries
Condensed Consolidated Statements of Income
(Unaudited)

(In thousands, except per share data)	Fiscal Quarter Ended March 22, 2009	March 23, 2008
Revenues:		
Domestic Company-owned stores	\$ 80,996	\$ 93,047
Domestic franchise	36,883	36,386
Domestic supply chain	173,502	176,189
International	30,447	33,390
 Total revenues	 321,828	 339,012
 Cost of sales:		
Domestic Company-owned stores	64,712	75,511
Domestic supply chain	154,982	160,626
International	13,317	14,840
 Total cost of sales	 233,011	 250,977
 Operating margin	 88,817	 88,035
General and administrative	43,899	38,685
 Income from operations	 44,918	 49,350
Interest income	467	890
Interest expense	(26,968)	(26,708)
Other	21,174	
 Income before provision for income taxes	 39,591	 23,532
Provision for income taxes	15,821	9,413
 Net income	 \$ 23,770	 \$ 14,119
 Earnings per share:		
Common stock basic	\$ 0.42	\$ 0.24
Common stock diluted	0.41	0.23

See accompanying notes.

Table of Contents**Domino s Pizza, Inc. and Subsidiaries****Condensed Consolidated Statements of Cash Flows****(Unaudited)**

	Fiscal Quarter Ended	
	March	March
	22,	23,
	2009	2008
(In thousands)		
Cash flows from operating activities:		
Net income	\$ 23,770	\$ 14,119
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,787	7,071
Gains on debt extinguishment	(21,174)	
(Gains) losses on sale/disposal of assets	81	(4,169)
Amortization of deferred financing costs, debt discount and other	2,784	2,255
Provision for deferred income taxes	7,568	1,777
Non-cash compensation expense	2,645	2,065
Other	390	199
Changes in operating assets and liabilities	(9,580)	(3,045)
Net cash provided by operating activities	12,271	20,272
Cash flows from investing activities:		
Capital expenditures	(3,278)	(3,479)
Proceeds from sale of assets	271	8,220
Changes in restricted cash	13,011	(1,803)
Other	(199)	520
Net cash provided by investing activities	9,805	3,458
Cash flows from financing activities:		
Proceeds from issuance of common stock	1,047	1,205
Purchase of common stock		(18,427)
Proceeds from issuance of long-term debt	24,348	3,000
Repayments of long-term debt and capital lease obligation	(25,164)	(18,075)
Proceeds from exercise of stock options	76	413
Tax benefit from stock options	169	97
Net cash provided by (used in) financing activities	476	(31,787)
Effect of exchange rate changes on cash and cash equivalents	(73)	38
Change in cash and cash equivalents	22,479	(8,019)
Cash and cash equivalents, at beginning of period	45,372	11,344
Cash and cash equivalents, at end of period	\$ 67,851	\$ 3,325

See accompanying notes.

Table of Contents**Domino s Pizza, Inc. and Subsidiaries****Notes to Condensed Consolidated Financial Statements**

(Unaudited; tabular amounts in thousands, except percentages, share and per share amounts)

March 22, 2009**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. For further information, refer to the consolidated financial statements and footnotes for the fiscal year ended December 28, 2008 included in our annual report on Form 10-K.

In the opinion of management, all adjustments, consisting of normal recurring items, considered necessary for a fair presentation have been included. Operating results for the fiscal quarter ended March 22, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending January 3, 2010.

2. Comprehensive Income

	Fiscal Quarter Ended	
	March 22, 2009	March 23, 2008
Net income	\$ 23,770	\$ 14,119
Reclassification adjustment for losses included in net income, net of tax	320	303
Currency translation adjustment, net of tax	(63)	(188)
Comprehensive income	\$ 24,027	\$ 14,234

3. Segment Information

The following table summarizes revenues, income from operations and earnings before interest, taxes, depreciation, amortization and other, which is the measure by which management allocates resources to its segments and which we refer to as Segment Income, for each of our reportable segments.

	Fiscal Quarters Ended March 22, 2009 and March 23, 2008					
	Domestic Stores	Domestic Supply Chain	International	Intersegment Revenues	Other	Total
Revenues						
2009	\$ 117,879	\$ 193,885	\$ 30,447	\$ (20,383)	\$	\$ 321,828
2008	129,433	200,651	33,390	(24,462)		339,012
Income from operations						
2009	\$ 30,384	\$ 12,828	\$ 13,178	N/A	\$ (11,472)	\$ 44,918
2008	34,643	10,246	15,331	N/A	(10,870)	49,350
Segment Income						

Edgar Filing: DOMINOS PIZZA INC - Form 10-Q

2009	\$ 32,820	\$ 14,553	\$ 13,267	N/A	\$ (7,209)	\$ 53,431
2008	32,874	12,072	15,448	N/A	(4,632)	55,762

Table of Contents

The following table reconciles Total Segment Income to consolidated income before provision for income taxes.

	Fiscal Quarter Ended	
	March 22, 2009	March 23, 2008
Total Segment Income	\$ 53,431	\$ 55,762
Depreciation and amortization	(5,787)	(7,071)
Gains (losses) on sale/disposal of assets	(81)	4,169
Non-cash compensation expense	(2,645)	(2,065)
Separation and related expenses		(1,445)
Income from operations	44,918	49,350
Interest income	467	890
Interest expense	(26,968)	(26,708)
Other	21,174	
Income before provision for income taxes	\$ 39,591	\$ 23,532

4. Earnings Per Share

	Fiscal Quarter Ended	
	March 22, 2009	March 23, 2008
Net income available to common stockholders basic and diluted	\$ 23,770	\$ 14,119
Basic weighted average number of shares	57,027,733	59,403,681
Earnings per share basic	\$ 0.42	\$ 0.24
Diluted weighted average number of shares	57,351,475	60,085,730
Earnings per share diluted	\$ 0.41	\$ 0.23

The denominator in calculating diluted earnings per share for common stock for the first quarter of 2009 and the first quarter of 2008 does not include 9,221,654 and 6,180,000 options to purchase common stock, respectively, as the effect of including these options would have been anti-dilutive.

In June 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) Emerging Issues Task Force (EITF) 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*. Under FSP EITF 03-6-1, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are considered participating securities and should be included in the computation of both basic and diluted earnings per share using the two-class method. FSP EITF 03-6-1 is effective for the Company in the current fiscal year beginning December 29, 2008. The Company evaluated the impact of FSP EITF 03-6-1 and determined that the impact was not material and determined the basic and diluted earnings per share amounts as reported are equivalent to the basic and diluted earnings per share amounts calculated under FSP EITF 03-6-1.

5. Debt Repurchases

During the first quarter of 2009, the Company repurchased and retired approximately \$43.3 million of principal of its outstanding 5.261% Fixed Rate Series 2007-1 Senior Notes, Class A-2 (Class A-2 Notes) for a total purchase price of approximately \$22.3 million, resulting in a pre-tax gain of approximately \$21.2 million. This pre-tax gain was recorded in Other in the Company's consolidated income statement. In connection with the aforementioned transaction, the Company wrote-off approximately \$0.6 million of pre-tax deferred financing fees during the first

Edgar Filing: DOMINOS PIZZA INC - Form 10-Q

quarter of 2009, which was recorded in interest expense in the Company's consolidated income statement.

Subsequent to the first quarter of 2009, the Company repurchased and retired \$25.0 million of additional principal of its outstanding Class A-2 Notes for a total purchase price of approximately \$12.3 million, resulting in a pre-tax gain of approximately \$12.9 million. The pre-tax gain will be recorded in the second quarter of 2009 as Other in the Company's consolidated income statement. The Company has classified the \$25.0 million of outstanding Class A-2 Notes as a current liability in the consolidated balance sheet as of March 22, 2009.

Table of Contents**6. Fair Value Measurements**

The Company applies the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value and provides guidance for measuring fair value and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements.

In February 2008, the FASB issued a final Staff Position to allow a one-year deferral of adoption of SFAS 157 for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The Company elected this one-year deferral and began applying the provisions of SFAS 157 to nonfinancial assets and nonfinancial liabilities that are recognized at fair value in the financial statements on a nonrecurring basis in the current fiscal year beginning December 29, 2008. The Company had no nonrecurring measurements recognized at fair value during the fiscal quarter ended March 22, 2009. We generally apply fair value techniques on a nonrecurring basis associated with (1) valuing potential impairment loss related to goodwill and indefinite-lived intangible assets accounted for pursuant to SFAS No. 142, and (2) valuing potential impairment loss related to long-lived assets accounted for pursuant to SFAS No. 144. The FASB also amended SFAS 157 to exclude FASB Statement No. 13 and its related interpretive accounting pronouncements that address leasing transactions.

SFAS 157 enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. SFAS 157 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The fair values of the Company's restricted cash equivalents and investments in marketable securities are based on quoted prices in active markets for identical assets. The following table summarizes the carrying amounts and fair values of certain assets at March 22, 2009:

	Carrying Amount	At March 22, 2009 Fair Value Estimated Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Restricted cash equivalents	\$ 64,185	\$ 64,185	\$	\$
Cash equivalents	65,027	65,027		
Investments in marketable securities	1,041	1,041		

At March 22, 2009, management estimates that the nearly \$1.6 billion of outstanding Class A-2 Notes had a fair value of approximately \$769.0 million and the \$100.0 million of outstanding fixed rate subordinated notes had a fair value of approximately \$31.0 million. We believe that these decreases in fair value from their carrying amounts are primarily due to current economic conditions and the current state of the credit markets for similar debt instruments. The Company determined the estimated fair value amounts by using recent trade activity, available market information and commonly accepted valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, the fair value estimates presented herein are not necessarily indicative of the amount that the Company or the debtholders could realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value.

Table of Contents

7. Subsequent Events

In March 2009 the Board of Directors authorized, subject to shareholder approval, a stock option exchange program that will allow eligible employees the opportunity to exchange certain options granted under the Domino's Pizza, Inc. 2004 Equity Incentive Plan (the 2004 Plan) for a lesser number of replacement options with lower exercise prices. The Company's shareholders approved the stock option exchange program at the 2009 Annual Meeting of Shareholders, which was held on April 28, 2009, and the Company plans to implement the program as soon as practicable. The material terms of the stock option exchange program are summarized in the Company's definitive proxy statement previously filed with the Securities and Exchange Commission (SEC) on March 23, 2009, the definitive additional materials previously filed with the SEC on April 13, 2009 and the Schedule TO filed with the SEC on April 10, 2009, as amended. The Company will account for this modification beginning in the second quarter of 2009. Management has not determined the final impact, but currently estimates that the incremental compensation to be recognized over the remaining service period will be approximately \$1.3 million (after tax).

Separately and as previously announced, during the first quarter the Board of Directors authorized management to amend existing stock option agreements currently issued under the 2004 Plan, and all future stock option agreements issued under the 2004 Plan. The amendment allows for accelerated vesting and extended exercise periods upon the retirement of option holders who have achieved specified service and age requirements. The amended terms of the relevant stock option agreements will be effective in the second quarter of 2009. The Company does not anticipate the incremental compensation expense resulting from this amendment to be material. Additionally, the Company will be required to accelerate existing planned compensation expense that it would have been required to expense in future periods for these stock options. Management has not determined the final impact, but currently estimates that this will result in the acceleration of compensation expense in the second quarter of 2009 of up to \$3 million (after tax) for employees who accept the amendment and who meet, or will soon meet, the specified service and age requirements. This is not incremental expense, merely an acceleration of expense that would have been recognized in future periods.

8. New Accounting Pronouncements

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 requires entities that use derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. SFAS 161 also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of SFAS 133 have been applied, and the impact that hedges have on an entity's financial position, financial performance, and cash flows. The Company does not currently hold derivative instruments and was not impacted by the adoption of SFAS 161.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4), and FSP FASB 107-1 and Accounting Principles Board (APB) 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP 107-1). These two staff positions relate to fair value measurements and related disclosures. The FASB also issued a third FSP relating to the accounting for impaired debt securities titled FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP 115-2). These standards are effective for interim and annual periods ending after June 15, 2009. The Company has determined that FSP 157-4 and FSP 115-2 do not currently apply to its activities and has elected to early adopt the disclosure requirements of FSP 107-1.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Unaudited; tabular amounts in millions, except percentages and store data)**

The 2009 and 2008 first quarters referenced herein represent the twelve-week periods ended March 22, 2009 and March 23, 2008, respectively.

Overview

We are the number one pizza delivery company in the United States and have a leading international presence. We operate through a network of Company-owned stores, all of which are in the United States, and franchise stores located in all 50 states and in more than 60 countries. In addition, we operate regional dough manufacturing and supply chain centers in the United States and Canada.

Our financial results are driven largely by retail sales at our Company-owned and franchise stores. Changes in retail sales are driven by changes in same store sales and store counts. We monitor both of these metrics very closely, as they directly impact our revenues and profits, and strive to consistently increase the related amounts. Retail sales drive Company-owned store revenues, royalty payments from franchisees and supply chain revenues. Retail sales are primarily impacted by the strength of the Domino's Pizza® brand, the success of our marketing promotions and our ability to execute our store operating model and other business strategies.

	First Quarter of 2009	First Quarter of 2008		
Global retail sales growth	(4.6)%	5.6%		
Same store sales growth:				
Domestic Company-owned stores	(0.1)%	(2.4)%		
Domestic franchise stores	1.1%	(5.5)%		
Domestic stores	1.0%	(5.2)%		
International stores	6.6%	8.8%		
Store counts (at end of period):				
Domestic Company-owned stores	489	542		
Domestic franchise stores	4,498	4,586		
Domestic stores	4,987	5,128		
International stores	3,742	3,513		
Total stores	8,729	8,641		
Income statement data:				
Total revenues	\$ 321.8	100.0%	\$ 339.0	100.0%
Cost of sales	233.0	72.4%	251.0	74.0%
General and administrative	43.9	13.6%	38.7	11.4%
Income from operations	44.9	14.0%	49.4	14.6%
Interest expense, net	26.5	8.3%	25.8	7.6%
Other	21.2	6.6%		0.0%
Income before provision for income taxes	39.6	12.3%	23.5	6.9%
Provision for income taxes	15.8	4.9%	9.4	2.8%
Net income	\$ 23.8	7.4%	\$ 14.1	4.2%

Edgar Filing: DOMINOS PIZZA INC - Form 10-Q

During the first quarter of 2009, we continued our trend of positive international same store sales growth and achieved positive domestic same store sales for the first time in nearly two years. However, we experienced net negative domestic store growth as a result of continued economic challenges and our continued efforts on exiting underperforming franchisees from the system. We believe this will allow us to strengthen our overall system of stores; however this will continue to negatively impact our domestic store growth in 2009.

Global retail sales, comprised of retail sales results at both our franchise and Company-owned stores worldwide, declined 4.6% in the first quarter of 2009 driven primarily by the negative impact of foreign currency on our international sales. However, when excluding foreign currency conversion impacts, global retail sales grew during the first quarter of 2009, driven primarily by same store sales growth in our domestic franchise stores and international markets as well as an increase in our worldwide store counts during the trailing four quarters. Domestic same store sales growth reflected the success of several initiatives, including the launch of two new product platforms: Domino's Oven Baked Sandwiches and Domino's American LegendsTM. International same store sales growth reflects continued strong performance in the key markets where we compete.

Table of Contents

Revenues decreased \$17.2 million, or 5.1%, in the first quarter of 2009, driven by lower Company-owned store revenues resulting from the store divestitures in 2008, lower international revenues driven primarily by the negative foreign currency impacts, and to a lesser extent, lower domestic supply chain revenues, driven primarily by lower cheese prices.

Income from operations decreased \$4.5 million, or 9.0%, in the first quarter of 2009. This decrease was due primarily to the negative impact of foreign currency conversions in our international operations. Additionally, during the first quarter of 2008, the Company recorded a \$4.2 million gain on the sale of assets related to the sale of 29 Company-owned stores to franchisees. This gain was offset by approximately \$1.4 million of separation and other costs recorded related primarily to the Company's executed restructuring action. These decreases were offset in part by higher margins in our Company-owned store and domestic supply chain businesses in 2009, as well as an increase in domestic franchise same store sales.

Net income increased \$9.7 million, up 68.4% from the first quarter of 2008, due primarily to a \$21.2 million pre-tax gain recorded on the extinguishment of debt during the first quarter of 2009. The impact of the gain was partially offset by the aforementioned decrease in income from operations.

Revenues

	First Quarter of 2009		First Quarter of 2008	
Domestic Company-owned stores	\$ 81.0	25.2%	\$ 93.0	27.4%
Domestic franchise	36.9	11.5%	36.4	10.7%
Domestic supply chain	173.5	53.9%	176.2	52.1%
International	30.4	9.4%	33.4	9.8%
Total revenues	\$ 321.8	100.0%	\$ 339.0	100.0%

Revenues primarily consist of retail sales from our Company-owned stores, royalties from our franchise stores, and sales of food, equipment and supplies by our supply chain centers to certain franchise stores. Company-owned store and franchise store revenues may vary significantly from period to period due to changes in store count mix while supply chain revenues may vary significantly as a result of fluctuations in commodity prices, primarily cheese and meats.

Domestic Stores Revenues

	First Quarter of 2009		First Quarter of 2008	
Domestic Company-owned stores	\$ 81.0	68.7%	\$ 93.0	71.9%
Domestic franchise	36.9	31.3%	36.4	28.1%
Domestic stores	\$ 117.9	100.0%	\$ 129.4	100.0%

Domestic stores revenues decreased \$11.5 million, or 8.9%, in the first quarter of 2009, due primarily to the reduction of Company-owned store revenues resulting from the 2008 store divestitures. These decreases were offset in part by higher domestic franchise same store sales. These changes in domestic stores revenues are more fully described below.

Domestic Company-Owned Stores Revenues

Revenues from domestic Company-owned store operations decreased \$12.0 million, or 13.0%, in the first quarter of 2009, due primarily to the store divestitures in 2008 and lower same store sales. Domestic Company-owned same store sales decreased 0.1% in the first quarter of 2009, compared to a decrease of 2.4% in the first quarter of 2008. There were 489 Company-owned stores in operation at the end of the first quarter of 2009, versus 542 at the end of the first quarter of 2008.

Domestic Franchise Revenues

Revenues from domestic franchise operations increased \$0.5 million, or 1.4%, in the first quarter of 2009, due primarily to higher same store sales, offset in part by a decrease in the average number of domestic franchise stores open during 2009. Domestic franchise same store sales increased 1.1% in the first quarter of 2009, compared to a decrease of 5.5% in the first quarter of 2008. There were 4,498 domestic franchise stores in operation at the end of the first quarter of 2009, versus 4,586 at the end of the first quarter of 2008.

Table of Contents**Domestic Supply Chain Revenues**

Revenues from domestic supply chain operations decreased \$2.7 million, or 1.5%, in the first quarter of 2009, due primarily to a decrease in food prices, primarily cheese. The published cheese block price-per-pound averaged \$1.23 in the first quarter of 2009, down from \$1.93 in the comparable period in 2008. Had the 2009 average cheese prices been in effect during 2008, domestic supply chain revenues for the first quarter of 2008 would have been approximately \$12.4 million lower than the reported 2008 amounts.

International Revenues

	First Quarter of 2009		First Quarter of 2008	
International royalty and other	\$ 15.8	52.0%	\$ 17.2	51.6%
International supply chain	14.6	48.0%	16.2	48.4%
International	\$ 30.4	100.0%	\$ 33.4	100.0%

Revenues from international operations decreased \$3.0 million, or 8.8%, in the first quarter of 2009, comprised of a \$1.4 million decrease in royalty and other revenues and a \$1.6 million decrease in supply chain revenues. The decrease in international royalty and other revenues was primarily due to a \$3.9 million negative impact of foreign currency conversions as a result of the strengthening of the U.S. dollar compared to the currencies in the international markets in which we compete, offset in part by higher same store sales and an increase in the average number of international stores open during 2009. The decrease in international supply chain revenues was also primarily due to the negative impact of foreign currency conversions. On a constant dollar basis, same store sales increased 6.6% in the first quarter of 2009, compared to an increase of 8.8% in the first quarter of 2008. On a historical dollar basis, same store sales decreased 15.1% in the first quarter of 2009, compared to an increase of 16.0% in the first quarter of 2008. The variance in our same store sales on a constant dollar basis versus a historical dollar basis further highlights the strengthening of the U.S. dollar. There were 3,742 international stores in operation at the end of the first quarter of 2009, compared to 3,513 at the end of the first quarter of 2008.

Cost of Sales / Operating Margin

	First Quarter of 2009		First Quarter of 2008	
Consolidated revenues	\$ 321.8	100.0%	\$ 339.0	100.0%
Consolidated cost of sales	233.0	72.4%	251.0	74.0%
Consolidated operating margin	\$ 88.8	27.6%	\$ 88.0	26.0%

Consolidated cost of sales primarily consists of domestic Company-owned store and domestic supply chain costs incurred to generate related revenues. Components of consolidated cost of sales primarily include food, labor and occupancy costs.

The consolidated operating margin, which we define as revenues less cost of sales, increased \$0.8 million, or 0.9%, in the first quarter of 2009. This increase in the consolidated operating margin was due primarily to higher margins in our domestic supply chain and Company-owned store businesses and higher domestic franchise royalty revenues. Franchise revenues do not have a cost of sales component and, as a result, changes in franchise revenues have a disproportionate effect on the consolidated operating margin.

As a percentage of revenues, the consolidated operating margin increased 1.6 percentage points in the first quarter of 2009. This increase was due primarily to a market decrease in overall food prices, primarily cheese, which benefited our domestic Company-owned store and domestic supply chain margins as a percentage of revenues.

The consolidated operating margin as a percentage of revenues benefited from lower cheese costs. Cheese price changes are a pass-through in domestic supply chain revenues and cost of sales and, as such, have no impact on the related operating margin as measured in dollars. However, cheese price changes do impact operating margin when measured as a percentage of revenues. For example, if the 2009 average cheese prices

Edgar Filing: DOMINOS PIZZA INC - Form 10-Q

had been in effect during 2008, this impact on supply chain margins would have caused the consolidated operating margin for the first quarter of 2008 to be approximately 27.0% of total revenues versus the reported 26.0%.

Table of Contents**Domestic Company-Owned Stores Operating Margin**

Domestic Company-Owned Stores	First Quarter of 2009		First Quarter of 2008	
Revenues	\$ 81.0	100.0%	\$ 93.0	100.0%
Cost of sales	64.7	79.9%	75.5	81.2%
Store operating margin	\$ 16.3	20.1%	\$ 17.5	18.8%

The domestic Company-owned store operating margin decreased \$1.2 million, or 7.1%, in the first quarter of 2009 due primarily to the impact of the 2008 store divestitures and to a lesser extent, lower same store sales. These decreases were offset in part by lower overall food costs, primarily cheese, lower labor and related costs and lower delivery costs. As a percentage of store revenues, the store operating margin increased 1.3 percentage points in the first quarter of 2009 as discussed in more detail below.

As a percentage of store revenues, food costs decreased 1.1 percentage points to 25.1% in the first quarter of 2009, due primarily to lower cheese prices. The cheese block price per pound averaged \$1.23 in the first quarter of 2009 compared to \$1.93 in the first quarter of 2008.

As a percentage of store revenues, labor and related costs decreased 0.4 percentage points to 32.0% in the first quarter of 2009, due to labor efficiencies.

As a percentage of store revenues, occupancy costs, which include rent, telephone, utilities and depreciation, increased 0.2 percentage points to 11.7% in the first quarter of 2009.

As a percentage of store revenues, insurance costs increased 0.1 percentage points to 3.3% in the first quarter of 2009.

Domestic Supply Chain Operating Margin

Domestic Supply Chain	First Quarter of 2009		First Quarter of 2008	
Revenues	\$ 173.5	100.0%	\$ 176.2	100.0%
Cost of sales	155.0	89.3%	160.6	91.2%
Supply Chain operating margin	\$ 18.5	10.7%	\$ 15.6	8.8%

The domestic supply chain operating margin increased \$2.9 million, or 19.0%, in the first quarter of 2009, due primarily to lower cost of sales, fuel costs and operating efficiencies.

As a percentage of supply chain revenues, the supply chain operating margin increased 1.9 percentage points in the first quarter of 2009, due primarily to lower food prices, including cheese, and efficiencies gained at the supply chain centers through reduced delivery frequency and cost reductions. Decreases in certain food prices, including cheese, have a positive effect on the domestic supply chain operating margin due to the fixed dollar margin earned by domestic supply chain on certain food items, including cheese. Had the 2009 cheese prices been in effect during 2008, the domestic supply chain operating margin as a percentage of domestic supply chain revenues would have been approximately 9.5% for the first quarter of 2008, resulting in a domestic supply chain operating margin increase of 1.2 percentage points in the first quarter of 2009.

General and Administrative Expenses

General and administrative expenses increased \$5.2 million, or 13.5%, in the first quarter of 2009, due primarily to a \$4.2 million gain recorded in the first quarter of 2008 related to the sale of certain Company-owned operations offset in part by approximately \$1.4 million of separation and other costs recorded in the first quarter of 2008 related primarily to the Company's executed restructuring action. Additionally, general and administrative expenses in the first quarter of 2009 were negatively impacted by higher variable administrative labor.

Interest Expense

Interest expense increased \$0.3 million to \$27.0 million in the first quarter of 2009 due primarily to a \$0.6 million write-off of deferred financing fees related to the extinguishment of debt in the first quarter of 2009.

Table of Contents

The Company's cash borrowing rate was 6.1% during the first quarter of 2009 and the first quarter of 2008. The Company's average outstanding debt balance, excluding capital lease obligations, was approximately \$1.7 billion in both the first quarter of 2009 and the first quarter of 2008.

Other

The other amount of \$21.2 million in the first quarter of 2009 represents the gain recognized on the repurchase and retirement of \$43.3 million of principal on the Class A-2 Notes.

Provision for Income Taxes

Provision for income taxes increased \$6.4 million to \$15.8 million in the first quarter of 2009, due primarily to an increase in pre-tax income. The effective tax rate was 40.0% during the first quarter of 2009 and the first quarter of 2008.

Liquidity and Capital Resources

As of March 22, 2009, we had working capital of \$33.7 million, excluding restricted cash and cash equivalents of \$65.9 million and including total unrestricted cash and cash equivalents of \$67.9 million. Historically, we have operated with minimal positive or negative working capital primarily because our receivable collection periods and inventory turn rates are faster than the normal payment terms on our current liabilities. We generally collect our receivables within three weeks from the date of the related sale, and we generally experience 40 to 50 inventory turns per year. In addition, our sales are not typically seasonal, which further limits our working capital requirements. These factors, coupled with significant and ongoing cash flows from operations, which are primarily used to service our debt obligations, invest in our business and repurchase common stock, reduce our working capital amounts. As of March 22, 2009, the Company had approximately \$29.0 million of cash held for future interest payments, \$26.4 million of cash held in interest reserves, \$10.0 million of cash held for capitalization of certain subsidiaries and \$0.5 million of other restricted cash, for a total of \$65.9 million of restricted cash and cash equivalents.

As of March 22, 2009, we had nearly \$1.7 billion of long-term debt, of which \$25.3 million was classified as a current liability. Our primary sources of liquidity are cash flows from operations. As of March 22, 2009, the Company had borrowings of \$4.1 million available under its \$60.0 million variable funding notes, net of letters of credit issued of \$34.6 million. These letters of credit primarily relate to our insurance programs and supply chain center leases. During the first quarter of 2009, the Company borrowed approximately \$24.3 million on the variable funding notes and repaid \$3.0 million of those borrowings during the first quarter of 2009. The net borrowings under the variable funding notes were used in combination with cash on hand to fund the repurchase and retirement of Class A-2 Notes. During the first quarter of 2009, the Company repurchased and retired \$43.3 million of principal of its outstanding Class A-2 Notes for a total purchase price of approximately \$22.3 million. Subsequent to the first quarter of 2009, the Company repurchased and retired \$25.0 million of principal of its outstanding Class A-2 Notes for a total purchase price of approximately \$12.3 million.

We have historically funded our working capital requirements, capital expenditures, debt repayments and share repurchases primarily from our cash flows from operations and, when necessary, our available borrowings under the variable funding notes. Management believes its current unrestricted cash and cash equivalents balance and its expected ongoing cash flow from operations is sufficient to fund operations for the foreseeable future. We did not have any material commitments for capital expenditures as of March 22, 2009.

Cash provided by operating activities was \$12.3 million and \$20.3 million in the first quarter of 2009 and 2008, respectively. The \$8.0 million decrease was due primarily to a \$1.5 million decrease in net income before the impact of non-cash adjustments and a \$6.5 million net change in operating assets and liabilities, due primarily to the timing of payment of current operating liabilities.

Cash provided by investing activities was \$9.8 million and \$3.5 million in the first quarter of 2009 and 2008, respectively. The \$6.3 million increase was due primarily to a \$14.8 million change in restricted cash and cash equivalents offset in part by a \$7.9 million decrease in proceeds from the sale of assets primarily as a result of the sale of certain Company-owned operations in California and Georgia in 2008.

Table of Contents

Cash provided by financing activities was \$0.5 million in the first quarter of 2009, and cash used in financing activities was \$31.8 million in the first quarter of 2008. The \$32.3 million net change was due primarily to a \$21.3 million increase in the proceeds from issuance of long-term debt and an \$18.4 million decrease in purchases of common stock, offset in part by a \$7.1 million increase in repayments of long-term debt and capital lease obligations.

Based upon the current level of operations and anticipated growth, we believe that the cash generated from operations and amounts available under the variable funding notes will be adequate to meet our anticipated debt service requirements, capital expenditures and working capital needs for the next twelve months. Our ability to continue to fund these items and continue to reduce debt could be adversely affected by the occurrence of any of the events described under **Risk Factors** in our filings with the Securities and Exchange Commission. There can be no assurance, however, that our business will generate sufficient cash flows from operations or that future borrowings will be available under the variable funding notes or otherwise to enable us to service our indebtedness, or to make anticipated capital expenditures. Our future operating performance and our ability to service, extend or refinance the fixed rate notes and to service, extend or refinance the variable funding notes will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control.

New Accounting Pronouncements

The Company considered relevant recently issued accounting pronouncements during the first quarter of 2009, as discussed in Footnote 8 of the Notes to Condensed Consolidated Financial Statements, included in this Form 10-Q.

Forward-Looking Statements

This filing contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. You can identify forward-looking statements because they contain words such as *believes*, *expects*, *may*, *will*, *should*, *seeks*, *approximately*, *intends*, *plans*, *estimates*, or *anticipates* or similar expressions that concern or intentions. These forward-looking statements relating to our anticipated profitability, ability to service our indebtedness, operating performance, trends in our business and other descriptions of future events reflect management's expectations based upon currently available information and data. However, actual results are subject to future risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. The risks and uncertainties that can cause actual results to differ materially include: our level of long-term and other indebtedness; the uncertainties relating to litigation; consumer preferences, spending patterns and demographic trends; the effectiveness of our advertising, operations and promotional initiatives; the strength of our brand in the markets in which we compete; our ability to retain key personnel; new product and concept developments by Domino's and other food-industry competitors; the ongoing profitability of our franchisees and the ability of Domino's and our franchisees to open new restaurants and keep existing restaurants in operation; changes in food prices, particularly cheese, labor, utilities, insurance, employee benefits and other operating costs; the impact that widespread illness or general health concerns may have on our business and the economy of the countries in which we operate; severe weather conditions and natural disasters; changes in our effective tax rate; changes in government legislation and regulations; adequacy of our insurance coverage; costs related to future financings; our ability and that of our franchisees to successfully operate in the current credit environment; changes in the level of consumer spending given the general economic conditions including interest rates, energy prices and weakening consumer confidence; availability of borrowings under our variable funding notes and changes in accounting policies. Important factors that could cause actual results to differ materially from our expectations (*cautionary statement*) are more fully described in our other filings with the Securities and Exchange Commission, including under the section headed **Risk Factors** in our annual report on Form 10-K. We do not undertake to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

The Company is exposed to market risk from interest rate changes on our variable rate debt, which consists from time to time of outstanding variable funding note borrowings. Management actively monitors this exposure when present. As of March 22, 2009, we had \$21.3 million of outstanding variable funding note borrowings. The fixed rate notes, which comprise substantially all of our outstanding borrowings, contain fixed interest rates. We do not engage in speculative transactions nor do we hold or issue financial instruments for trading purposes.

The Company is exposed to market risk from changes in commodity prices. During the normal course of business, we purchase cheese and certain other food products that are affected by changes in commodity prices and, as a result, we are subject to volatility in our food costs. We may periodically enter into financial instruments to manage this risk. We do not engage in speculative transactions nor do we hold or issue financial instruments for trading purposes. In instances when we use forward pricing agreements with our suppliers, they always cover our physical commodity needs, are not net-settled and are accounted for as normal purchases.

Item 4. Controls and Procedures

Management, with the participation of Domino's Pizza, Inc.'s Chairman and Chief Executive Officer, David A. Brandon, and Executive Vice President and Chief Financial Officer, Wendy A. Beck, performed an evaluation of the effectiveness of Domino's Pizza, Inc.'s disclosure controls and procedures (as that term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, Mr. Brandon and Ms. Beck concluded that Domino's Pizza, Inc.'s disclosure controls and procedures were effective.

During the quarterly period ended March 22, 2009 there have been no changes in Domino's Pizza, Inc.'s internal controls over financial reporting that have materially affected or are reasonably likely to materially affect Domino's Pizza, Inc.'s internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are a party to lawsuits, revenue agent reviews by taxing authorities and administrative proceedings in the ordinary course of business which include, without limitation, workers' compensation, general liability, automobile and franchisee claims. We are also subject to suits related to employment practices and, specifically in California, wage and hour claims.

While we may occasionally be party to large claims, including class action suits, we do not believe that these matters, individually or in the aggregate, will materially affect our financial position, results of operations or cash flows.

Item 1A. Risk Factors

There have been no material changes in the risk factors previously disclosed in the Company's Form 10-K for the fiscal year ended December 28, 2008.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

Exhibit

Number	Description
10.1*	Amended Domino's Pizza, Inc. 2004 Equity Incentive Plan.
10.2*	Form of Employee Stock Option Agreement under the Amended Domino's Pizza, Inc. 2004 Equity Incentive Plan.
10.3*	Form of Director Stock Option Agreement under the Amended Domino's Pizza, Inc. 2004 Equity Incentive Plan.
10.4*	Form of Amendment to Existing Employee Stock Option Grants under the Amended Domino's Pizza, Inc. 2004 Equity Incentive Plan.
10.5*	Form of Amendment to Existing Director Stock Option Grants under the Amended Domino's Pizza, Inc. 2004 Equity Incentive Plan.
31.1	Certification by David A. Brandon pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, relating to Domino's Pizza, Inc.
31.2	Certification by Wendy A. Beck pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, relating to Domino's Pizza, Inc.
32.1	Certification by David A. Brandon pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, relating to Domino's Pizza, Inc.
32.2	Certification by Wendy A. Beck pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, relating to Domino's Pizza, Inc.

* A management contract or compensatory plan or arrangement required to be filed as an exhibit to this report pursuant to Item 6 of Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned duly authorized officer.

DOMINO'S PIZZA, INC.
(Registrant)

Date: April 30, 2009

/s/ Wendy A. Beck
Wendy A. Beck
Chief Financial Officer