

DOMINOS PIZZA INC  
Form 10-Q  
May 02, 2007  
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## SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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### FORM 10-Q

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(Mark One)

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

For the quarterly period ended March 25, 2007

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

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## Domino s Pizza, Inc.

(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

30 Frank Lloyd Wright Drive

Ann Arbor, Michigan 48106

(Address of principal executive offices)

38-2511577  
(I.R.S. Employer

Identification Number)

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(734) 930-3030

(Registrant's telephone number, including area code)

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 22, 2007, Domino's Pizza, Inc. had 62,680,137 shares of common stock, par value \$0.01 per share, outstanding.

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**Domino s Pizza, Inc.**

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

<b>(In thousands)</b>	<b>March 25, 2007</b>	<b>December 31, 2006 (Note)</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 67,106	\$ 38,222
Accounts receivable	62,970	65,697
Inventories	21,289	22,803
Notes receivable	808	994
Prepaid expenses and other	8,337	13,835
Advertising fund assets, restricted	17,162	18,880
Deferred income taxes	5,962	5,874
<b>Total current assets</b>	<b>183,634</b>	<b>166,305</b>
Property, plant and equipment:		
Land and buildings	21,839	21,831
Leasehold and other improvements	84,182	83,503
Equipment	163,498	162,142
Construction in progress	2,162	2,132
	271,681	269,608
Accumulated depreciation and amortization	(157,636)	(152,464)
<b>Property, plant and equipment, net</b>	<b>114,045</b>	<b>117,144</b>
Other assets:		
Deferred financing costs	21,913	8,770
Goodwill	21,087	21,319
Capitalized software, net	15,067	16,142
Other assets	16,045	10,541
Deferred income taxes	48,890	39,982
<b>Total other assets</b>	<b>123,002</b>	<b>96,754</b>
<b>Total assets</b>	<b>\$ 420,681</b>	<b>\$ 380,203</b>
<b>Liabilities and stockholders' deficit</b>		
Current liabilities:		
Current portion of long-term debt	\$ 619	\$ 1,477
Accounts payable	55,160	55,036
Accrued income taxes	548	786
Insurance reserves	9,138	8,979
Advertising fund liabilities	17,162	18,880
Other accrued liabilities	61,733	70,043

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Total current liabilities	144,360	155,201
Long-term liabilities:		
Long-term debt, less current portion	785,061	740,120
Insurance reserves	21,882	22,054
Other accrued liabilities	30,562	27,721
Total long-term liabilities	837,505	789,895
Stockholders' deficit:		
Common stock	626	625
Additional paid-in capital	139,239	133,936
Retained deficit	(693,208)	(701,520)
Accumulated other comprehensive income (loss)	(7,841)	2,066
Total stockholders' deficit	(561,184)	(564,893)
Total liabilities and stockholders' deficit	\$ 420,681	\$ 380,203

Note: The balance sheet at December 31, 2006 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.

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

(In thousands, except per share data)	Fiscal Quarter Ended	
	March 25, 2007	March 26, 2006
<b>Revenues:</b>		
Domestic Company-owned stores	\$ 95,540	\$ 96,478
Domestic franchise	37,517	38,129
Domestic distribution	179,885	182,389
International	26,379	30,658
<b>Total revenues</b>	<b>339,321</b>	<b>347,654</b>
<b>Cost of sales:</b>		
Domestic Company-owned stores	75,643	75,206
Domestic distribution	161,417	162,643
International	11,191	15,510
<b>Total cost of sales</b>	<b>248,251</b>	<b>253,359</b>
<b>Operating margin</b>	<b>91,070</b>	<b>94,295</b>
<b>General and administrative</b>	<b>40,338</b>	<b>40,404</b>
<b>Income from operations</b>	<b>50,732</b>	<b>53,891</b>
<b>Interest income</b>	<b>550</b>	<b>355</b>
<b>Interest expense</b>	<b>(24,443)</b>	<b>(12,065)</b>
<b>Other</b>	<b>(13,294)</b>	
<b>Income before provision for income taxes</b>	<b>13,545</b>	<b>42,181</b>
<b>Provision for income taxes</b>	<b>5,147</b>	<b>16,029</b>
<b>Net income</b>	<b>\$ 8,398</b>	<b>\$ 26,152</b>
<b>Earnings per share:</b>		
Common stock basic	\$ 0.13	\$ 0.39
Common stock diluted	0.13	0.39
Dividends declared per share	\$	\$ 0.12
See accompanying notes.		

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

<b>(In thousands)</b>	<b>Fiscal Quarter Ended</b>	
	<b>March 25, 2007</b>	<b>March 26, 2006</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 8,398	\$ 26,152
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	7,249	7,499
Amortization and write-off of deferred financing costs and debt discount	10,215	965
Provision (benefit) for deferred income taxes	(198)	757
Non-cash compensation expense	1,511	1,017
Other	889	(265)
Changes in operating assets and liabilities	(21,156)	(7,456)
<b>Net cash provided by operating activities</b>	<b>6,908</b>	<b>28,669</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(3,566)	(4,161)
Other	543	347
<b>Net cash used in investing activities</b>	<b>(3,023)</b>	<b>(3,814)</b>
<b>Cash flows from financing activities:</b>		
Net proceeds from issuance of common stock	1,690	1,112
Repurchase of common stock	(67)	(145,000)
Proceeds from issuance of long-term debt	780,000	100,000
Repayments of long-term debt and capital lease obligation	(736,656)	(35,074)
Cash paid for financing fees	(22,255)	(250)
Proceeds from exercise of stock options	1,133	1,696
Tax benefit from exercise of stock options	1,167	2,116
<b>Net cash provided by (used in) financing activities</b>	<b>25,012</b>	<b>(75,400)</b>
Effect of exchange rate changes on cash and cash equivalents	(13)	(2)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>28,884</b>	<b>(50,547)</b>
Cash and cash equivalents, at beginning of period	38,222	66,919
<b>Cash and cash equivalents, at end of period</b>	<b>\$ 67,106</b>	<b>\$ 16,372</b>

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 25, 2007****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 31, 2006 included in our annual report on Form 10-K.

In the opinion of management, all adjustments, consisting of normal recurring items and the effects of the adoption of the provisions of Financial Accounting Standards Board Interpretation 48, Accounting for Uncertainty in Income Taxes, considered necessary for a fair presentation have been included. Operating results for the fiscal quarter ended March 25, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending December 30, 2007.

**2. Comprehensive Income (Loss)**

	<b>Fiscal Quarter Ended</b>	
	<b>March 25,</b>	
	<b>2007</b>	<b>March 26,</b>
		<b>2006</b>
Net income	\$ 8,398	\$ 26,152
Unrealized gains (losses) on derivative		
instruments, net of tax	(9,167)	579
Reclassification adjustment for gains		
included in net income, net of tax	(736)	(669)
Currency translation adjustment	(4)	137
Comprehensive income (loss)	\$ (1,509)	\$ 26,199

**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.

<b>Fiscal Quarters Ended March 25, 2007 and March 26, 2006</b>					
<b>Domestic</b>	<b>Domestic</b>		<b>Intersegment</b>		
<b>Stores</b>	<b>Distribution</b>	<b>International</b>	<b>Revenues</b>	<b>Other</b>	<b>Total</b>



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Revenues						
2007	\$ 133,057	\$ 204,713	\$ 26,379	\$ (24,828)	\$	\$ 339,321
2006	134,607	207,818	30,658	(25,429)		347,654
Income from operations						
2007	\$ 34,101					