

DOMINOS PIZZA INC
Form 10-Q
October 15, 2013
Table of Contents

UNITED STATES
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 September 8, 2013

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)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

38-2511577
(I.R.S. Employer
Identification No.)

30 Frank Lloyd Wright Drive

Ann Arbor, Michigan
(Address of Principal Executive Offices)
(734) 930-3030

48105
(Zip Code)

(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.

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 October 8, 2013, Domino's Pizza, Inc. had 55,718,857 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) As of September 8, 2013 and December 30, 2012</u>	3
<u>Condensed Consolidated Statements of Income (Unaudited) Fiscal quarters and three fiscal quarters ended September 8, 2013 and September 9, 2012</u>	4
<u>Consolidated Statements of Comprehensive Income (Unaudited) Fiscal quarters and three fiscal quarters ended September 8, 2013 and September 9, 2012</u>	5
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) Three fiscal quarters ended September 8, 2013 and September 9, 2012</u>	6
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	7
Item 2. <u>Management s Discussion and Analysis of Financial Condition and Results of Operations.</u>	11
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk.</u>	19
Item 4. <u>Controls and Procedures.</u>	19
PART II. <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings.</u>	20
Item 1A. <u>Risk Factors.</u>	20
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>	20
Item 3. <u>Defaults Upon Senior Securities.</u>	20
Item 4. <u>Mine Safety Disclosures.</u>	20
Item 5. <u>Other Information.</u>	20
Item 6. <u>Exhibits.</u>	21
<u>SIGNATURES</u>	21

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.**

Domino s Pizza, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

(In thousands)	September 8, 2013	December 30, 2012 (Note)
Assets		
Current assets:		
Cash and cash equivalents	\$ 32,079	\$ 54,813
Restricted cash and cash equivalents	63,288	60,015
Accounts receivable	92,765	94,103
Inventories	30,282	31,061
Prepaid expenses and other	20,466	13,068
Advertising fund assets, restricted	54,068	37,917
Deferred income taxes	9,462	15,290
Total current assets	302,410	306,267
Property, plant and equipment:		
Land and buildings	23,723	24,460
Leasehold and other improvements	84,953	80,279
Equipment	174,484	168,452
Construction in progress	5,308	9,967
	288,468	283,158
Accumulated depreciation and amortization	(199,138)	(191,713)
Property, plant and equipment, net	89,330	91,445
Other assets:		
Deferred financing costs	30,520	34,787
Goodwill	16,598	16,598
Capitalized software	13,087	11,387
Other assets	13,121	13,760
Deferred income taxes	3,458	3,953
Total other assets	76,784	80,485
Total assets	\$ 468,524	\$ 478,197

Edgar Filing: DOMINOS PIZZA INC - Form 10-Q

Liabilities and stockholders deficit			
Current liabilities:			
Current portion of long-term debt	\$	24,140	\$ 24,349
Accounts payable		63,006	77,414
Dividends payable		11,694	1,502
Insurance reserves		13,754	12,964
Advertising fund liabilities		54,068	37,917
Other accrued liabilities		58,814	75,352
Total current liabilities		225,476	229,498
Long-term liabilities:			
Long-term debt, less current portion		1,518,383	1,536,443
Insurance reserves		25,449	24,195
Deferred income taxes		6,740	7,001
Other accrued liabilities		14,651	16,583
Total long-term liabilities		1,565,223	1,584,222
Stockholders deficit:			
Common stock		557	563
Additional paid-in capital		588	1,664
Retained deficit		(1,321,053)	(1,335,364)
Accumulated other comprehensive loss		(2,267)	(2,386)
Total stockholders deficit		(1,322,175)	(1,335,523)
Total liabilities and stockholders deficit	\$	468,524	\$ 478,197

Note: The balance sheet at December 30, 2012 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		Three Fiscal Quarters Ended	
	September 8, 2013	September 9, 2012	September 8, 2013	September 9, 2012
Revenues:				
Domestic Company-owned stores	\$ 75,923	\$ 72,219	\$ 235,526	\$ 223,745
Domestic franchise	47,846	44,039	147,330	133,521
Domestic supply chain	226,315	213,474	691,154	636,903
International	53,966	48,345	161,666	144,620
Total revenues	404,050	378,077	1,235,676	1,138,789
Cost of sales:				
Domestic Company-owned stores	58,662	56,378	179,466	171,325
Domestic supply chain	203,004	191,326	615,736	569,476
International	21,750	18,966	64,047	57,325
Total cost of sales	283,416	266,670	859,249	798,126
Operating margin	120,634	111,407	376,427	340,663
General and administrative	53,858	49,789	160,286	146,371
Income from operations	66,776	61,618	216,141	194,292
Interest income	24	34	97	240
Interest expense	(20,347)	(20,683)	(61,718)	(73,651)
Income before provision for income taxes	46,453	40,969	154,520	120,881
Provision for income taxes	15,821	14,993	56,198	46,067
Net income	\$ 30,632	\$ 25,976	\$ 98,322	\$ 74,814
Earnings per share:				
Common stock basic	\$ 0.56	\$ 0.46	\$ 1.77	\$ 1.32
Common stock diluted	0.53	0.44	1.70	1.26
Dividends declared per share	\$ 0.20	\$	\$ 0.60	\$ 3.00

See accompanying notes.

Table of Contents

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

(In thousands)	Fiscal Quarter Ended		Three Fiscal Quarters Ended	
	September 8,	September 9,	September 8,	September 9,
	2013	2012	2013	2012
Net income	\$ 30,632	\$ 25,976	\$ 98,322	\$ 74,814
Other comprehensive income (loss), before tax:				
Currency translation adjustment	175	(23)	85	(810)
Reclassification adjustment for losses included in net income				776
	175	(23)	85	(34)
Tax attributes of items in other comprehensive income (loss):				
Currency translation adjustment	(49)	1	34	305
Reclassification adjustment for losses included in net income				(295)
	(49)	1	34	10
Other comprehensive income (loss), net of tax	126	(22)	119	(24)
Comprehensive income	\$ 30,758	\$ 25,954	\$ 98,441	\$ 74,790

See accompanying notes.

Table of Contents

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

(In thousands)	Three Fiscal Quarters Ended	
	September 8, 2013	September 9, 2012
Cash flows from operating activities:		
Net income	\$ 98,322	\$ 74,814
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,480	15,852
Gains on sale/disposal of assets	(71)	(87)
Amortization of deferred financing costs and other	4,264	11,942
Provision for deferred income taxes	6,031	5,981
Non-cash compensation expense	14,866	12,183
Tax impact from equity-based compensation	(12,025)	(9,622)
Other	(1,283)	(84)
Changes in operating assets and liabilities	(23,009)	(9,727)
Net cash provided by operating activities	104,575	101,252
Cash flows from investing activities:		
Capital expenditures	(20,286)	(14,301)
Proceeds from sale of assets	3,184	2,262
Changes in restricted cash	(3,273)	31,694
Other	1,539	1,155
Net cash provided by (used in) investing activities	(18,836)	20,810
Cash flows from financing activities:		
Proceeds from issuance of long-term debt		1,575,000
Repayments of long-term debt and capital lease obligations	(18,268)	(1,459,322)
Proceeds from exercise of stock options	5,804	3,063
Tax impact from equity-based compensation	12,025	9,622
Purchases of common stock	(76,892)	(42,719)
Tax payments for restricted stock upon vesting	(7,888)	(5,750)
Payments of common stock dividends and equivalents	(23,223)	(185,475)
Cash paid for financing costs		(31,723)
Net cash used in financing activities	(108,442)	(137,304)
Effect of exchange rate changes on cash and cash equivalents	(31)	(500)

Edgar Filing: DOMINOS PIZZA INC - Form 10-Q

Change in cash and cash equivalents	(22,734)	(15,742)
Cash and cash equivalents, at beginning of period	54,813	50,292
Cash and cash equivalents, at end of period	\$ 32,079	\$ 34,550

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)****September 8, 2013****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 Rule 10-01 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 30, 2012 included in our annual report on Form 10-K.

In the opinion of the Company, all adjustments, consisting of normal recurring items, considered necessary for a fair statement have been included. Operating results for the fiscal quarter and three fiscal quarters ended September 8, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending December 29, 2013.

2. 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 the Company allocates resources to its segments and which we refer to as Segment Income, for each of our reportable segments.

	Fiscal Quarters Ended September 8, 2013 and September 9, 2012					
	Domestic Stores	Domestic Supply Chain	International	Intersegment Revenues	Other	Total
Revenues						
2013	\$ 123,769	\$ 248,299	\$ 53,966	\$ (21,984)	\$	\$ 404,050
2012	116,258	234,492	48,345	(21,018)		378,077
Income from operations						
2013	\$ 39,719	\$ 17,426	\$ 25,953	N/A	\$ (16,322)	\$ 66,776
2012	36,295	16,476	22,968	N/A	(14,121)	61,618
Segment Income						
2013	\$ 41,205	\$ 19,370	\$ 26,052	N/A	\$ (8,939)	\$ 77,688
2012	37,706	18,273	23,038	N/A	(8,031)	70,986

	Three Fiscal Quarters Ended September 8, 2013 and September 9, 2012					
	Domestic Stores	Domestic Supply Chain	International	Intersegment Revenues	Other	Total
Revenues						
2013	\$ 382,856	\$ 758,901	\$ 161,666	\$ (67,747)	\$	\$ 1,235,676
2012	357,266	699,350	144,620	(62,447)		1,138,789

Edgar Filing: DOMINOS PIZZA INC - Form 10-Q

Income from operations

2013	\$ 125,882	\$ 58,250	\$ 79,567	N/A	\$ (47,558)	\$ 216,141
2012	117,032	50,888	70,854	N/A	(44,482)	194,292

Segment Income

2013	\$ 130,253	\$ 63,893	\$ 79,601	N/A	\$ (25,331)	\$ 248,416
2012	121,248	56,122	70,362	N/A	(25,240)	222,492

Table of Contents

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

	Fiscal Quarter Ended		Three Fiscal Quarters Ended	
	September 8, 2013	September 9, 2012	September 8, 2013	September 9, 2012
Total Segment Income	\$ 77,688	\$ 70,986	\$ 248,416	\$ 222,492
Depreciation and amortization	(6,072)	(5,412)	(17,480)	(15,852)
Gains (losses) on sale/disposal of assets	(214)	(61)	71	87
Non-cash compensation expense	(4,626)	(3,895)	(14,866)	(12,183)
2012 recapitalization-related expenses				(252)
Income from operations	66,776	61,618	216,141	194,292
Interest income	24	34	97	240
Interest expense	(20,347)	(20,683)	(61,718)	(73,651)
Income before provision for income taxes	\$ 46,453	\$ 40,969	\$ 154,520	\$ 120,881

3. Earnings Per Share

	Fiscal Quarter Ended		Three Fiscal Quarters Ended	
	September 8, 2013	September 9, 2012	September 8, 2013	September 9, 2012
Net income available to common stockholders basic and diluted	\$ 30,632	\$ 25,976	\$ 98,322	\$ 74,814
Basic weighted average number of shares	55,065,450	56,082,516	55,427,070	56,588,382
Earnings per share basic	\$ 0.56	\$ 0.46	\$ 1.77	\$ 1.32
Diluted weighted average number of shares	57,345,677	58,519,573	57,831,660	59,240,919
Earnings per share diluted	\$ 0.53	\$ 0.44	\$ 1.70	\$ 1.26

The denominators used in calculating diluted earnings per share for common stock for the third quarter and three fiscal quarters of 2013 do not include 152,340 and 500,180 options to purchase common stock, respectively, as the effect of including these options would have been anti-dilutive. The denominator used in calculating diluted earnings per share for common stock for the third quarter and three fiscal quarters of 2012 does not include 206,780 options to purchase common stock for each period, as the effect of including these options would have been anti-dilutive.

4. Stockholders Deficit

The following table summarizes changes in Stockholders Deficit for the three fiscal quarters of 2013.

	Common Stock		Additional	Retained	Accumulated
	Shares	Amount	Paid-in	Deficit	Other
			Capital		Comprehensive
					Loss
Balance at December 30, 2012	56,313,249	\$ 563	\$ 1,664	\$ (1,335,364)	\$ (2,386)
Net income				98,322	
Common stock dividends				(33,011)	
Issuance of common stock, net	331,727	3			
Common stock effectively repurchased for required employee tax withholdings	(136,755)	(1)	(7,887)		
Purchases of common stock	(1,369,232)	(14)	(25,878)	(51,000)	
Exercise of stock options	564,343	6	5,798		
Tax impact from equity-based compensation			12,025		
Non-cash compensation expense			14,866		
Currency translation adjustment, net of tax					119
Balance at September 8, 2013	55,703,332	\$ 557	\$ 588	\$ (1,321,053)	\$ (2,267)

Table of Contents

5. Dividends

During the three fiscal quarters of 2013, the Company paid approximately \$23.2 million of common stock dividends. Additionally, during the third quarter of 2013, the Company's Board of Directors declared a \$0.20 per share quarterly dividend on its outstanding common stock. The Company had approximately \$11.7 million accrued for common stock dividends at September 8, 2013.

On October 9, 2013, the Company's Board of Directors declared a \$0.20 per share quarterly dividend on its outstanding common stock for shareholders of record as of December 13, 2013 to be paid on December 30, 2013.

6. Accumulated Other Comprehensive Loss

In 2013, the Company adopted Accounting Standards Update 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which requires an entity to present either on the face of the statement where net income is presented or in the notes to the financial statements, significant amounts reclassified out of accumulated other comprehensive income (loss) by the respective line items of net income.

The approximately \$2.3 million of accumulated other comprehensive loss at September 8, 2013 and the approximately \$2.4 million of accumulated other comprehensive loss at December 30, 2012 represent currency translation adjustments, net of tax. During the three fiscal quarters of 2012, we reclassified \$0.8 million of losses related to a derivative instrument from accumulated other comprehensive loss to interest expense within the consolidated statements of income. The related income tax effect of \$0.3 million was classified as income tax expense in the consolidated statements of income. There were no reclassifications out of accumulated other comprehensive loss to net income in the third quarter of 2012, the third quarter of 2013 or the three fiscal quarters of 2013.

7. Open Market Share Repurchase Program

During the third quarter of 2013, the Company repurchased and retired 351,085 shares of common stock for a total of approximately \$20.8 million, and during the three fiscal quarters of 2013, the Company repurchased and retired 1,369,232 shares of common stock for a total of approximately \$76.9 million. As of September 8, 2013, the Company had approximately \$75.5 million remaining for future share repurchases under its Board of Directors approved \$200.0 million open market share repurchase program. Subsequent to the third quarter of 2013, the Company repurchased and retired an additional 3,100 shares of common stock for a total of approximately \$0.2 million.

During the third quarter and three fiscal quarters of 2012, the Company repurchased and retired 189,718 and 1,336,215 shares of common stock for a total of approximately \$5.9 million and \$42.7 million, respectively, under the Company's open market share repurchase program.

8. Fair Value Measurements

Fair value measurements enable 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. The Company classifies and discloses assets and liabilities carried at fair value 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.

Table of Contents

The fair values of the Company's cash equivalents and investments in marketable securities are based on quoted prices in active markets for identical assets. The following tables summarize the carrying amounts and fair values of certain assets at September 8, 2013 and December 30, 2012:

	At September 8, 2013			
	Carrying Amount	Fair Value Estimated Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Cash equivalents	\$ 30,010	\$ 30,010	\$	\$
Restricted cash equivalents	51,605	51,605		
Investments in marketable securities	2,722	2,722		

	At December 30, 2012			
	Carrying Amount	Fair Value Estimated Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Cash equivalents	\$ 44,531	\$ 44,531	\$	\$
Restricted cash equivalents	50,591	50,591		
Investments in marketable securities	2,097	2,097		

At September 8, 2013, the Company estimates that the \$1.54 billion in principal amount of outstanding fixed rate notes had a fair value of approximately \$1.63 billion, and at December 30, 2012 the \$1.56 billion in principal amount of outstanding fixed rate notes had a fair value of approximately \$1.73 billion. The fixed rate notes are classified as a Level 2 measurement, as the Company estimated the fair value amount by using available market information. The Company obtained broker quotes from two separate brokerage firms that are knowledgeable about the Company's fixed rate notes and, at times, trade these notes. Further, the Company performs its own internal analysis based on the information it gathers from public markets, including information on notes that are similar to that of the Company. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, the fair value estimates presented here 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.

9. Income Taxes

During the third quarter of 2013, the Company recorded a tax benefit of approximately \$1.4 million related to prior tax years in connection with the Company revising its calculation for a deduction related to its domestic dough production.

During the third quarter of 2012, the Company recorded a tax benefit of approximately \$0.7 million to reflect an increased tax basis for certain Company assets due to the issuance of final tax regulations during the quarter. Additionally, during the three fiscal quarters of 2012 and in connection with the sale of its six remaining Company-owned stores in a certain market to a franchisee, the Company recorded a deferred tax asset related to the capital loss that resulted from the write-off of the tax basis goodwill associated with the market that was sold. Management believed it was more likely than not that a portion of the deferred tax asset would not be realized and provided a valuation allowance of approximately \$0.9 million. The valuation allowance was recorded as an increase to the provision for income taxes and increased the Company's effective tax rate in the three fiscal quarters of 2012.

10. Legal Matters

The Company was named as a defendant in a lawsuit along with a large franchisee and the franchisee's delivery driver. During the third quarter of 2013, the jury delivered a \$32.0 million judgment for the plaintiff where the Company was found to be 60% liable. The Company denies liability and intends to file post-judgment motions to contest the verdict on a variety of grounds, apply certain offsets and other challenges. Additionally, the Company is prepared to appeal, if necessary. This case is covered under the Company's casualty insurance program, subject to a \$3.0 million deductible. The Company also has indemnity provisions in its franchise agreements.

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 2013 third quarter referenced herein represents the twelve-week period ended September 8, 2013, while the 2012 third quarter represents the twelve-week period ended September 9, 2012. The 2013 three fiscal quarters referenced herein represent the thirty-six-week period ended September 8, 2013, while the 2012 three fiscal quarters represent the thirty-six-week period ended September 9, 2012.

Overview

We are the number one pizza delivery company in the United States based on reported consumer spending, and the second largest pizza company in the world based on number of units. We operate through a substantially franchised network of stores, located in all 50 states and in more than 70 international markets, as well as Company-owned stores, all of which are in the United States. 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 franchise and Company-owned 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 both metrics. Retail sales drive royalty payments from franchisees as well as Company-owned store and supply chain revenues. Retail sales are primarily impacted by the strength of the Domino's Pizza® brand, the results of our marketing, the effectiveness of our digital and technology platforms, our ability to execute our store operating model, the overall global economic environment and the success of our business strategies.

	Third Quarter of 2013		Third Quarter of 2012		Three Fiscal Quarters of 2013		Three Fiscal Quarters of 2012	
Global retail sales growth	+7.4%		+4.9%		+8.7%		+5.1%	
Same store sales growth:								
Domestic Company-owned stores	+4.6%		+0.5%		+5.1%		+0.8%	
Domestic franchise stores	+5.5%		+3.6%		+6.2%		+2.5%	
Domestic stores	+5.4%		+3.3%		+6.1%		+2.4%	
International stores	+5.0%		+5.0%		+5.8%		+5.1%	
Store counts (at end of period):								
Domestic Company-owned stores	390		387					
Domestic franchise stores	4,549		4,509					
Domestic stores	4,939		4,896					
International stores	5,627		5,144					
Total stores	10,566		10,040					
Income statement data:								
Total revenues	\$ 404.1	100.0%	\$ 378.1	100.0%	\$ 1,235.7	100.0%	\$ 1,138.8	100.0%
Cost of sales	283.4	70.1%	266.7	70.5%	859.2	69.5%	798.1	70.1%

Edgar Filing: DOMINOS PIZZA INC - Form 10-Q

General and administrative	53.9	13.3%	49.8	13.2%	160.3	13.0%	146.4	12.8%
Income from operations	66.8	16.5%	61.6	16.3%	216.1	17.5%	194.3	17.1%
Interest expense, net	(20.3)	(5.0)%	(20.6)	(5.5)%	(61.6)	(5.0)%	(73.4)	(6.5)%
Income before provision for income taxes	46.5	11.5%	41.0	10.8%	154.5	12.5%	120.9	10.6%
Provision for income taxes	15.8	3.9%	15.0	3.9%	56.2	4.5%	46.1	4.0%
Net income	\$ 30.6	7.6%	\$ 26.0	6.9%	\$ 98.3	8.0%	\$ 74.8	6.6%

During the third quarter and three fiscal quarters of 2013, we experienced strong domestic same store sales increases driven by our continued consumer offerings of higher quality food at value pricing and effective marketing to support our promotions. We believe that our innovative digital platforms and technology continue to drive orders and sales and provide us with a competitive advantage versus regional chains and individual establishments. Internationally, we continued to have strong same store sales in both the third quarter and three fiscal quarters of 2013. International store growth continued to be strong, as we opened a net 119 stores during the third quarter and a net 483 stores during the trailing four quarters. We believe that our strong global brand, quality and affordable food offerings, combined with our operations and innovative technology all contributed to our results during the third quarter and three fiscal quarters of 2013. We intend to further grow our business by continuing to focus on operational excellence, effective marketing, industry-leading technology platforms and delivering high quality food and service to our customers.

Table of Contents

Global retail sales, which are total retail sales at franchise and Company-owned stores worldwide, increased 7.4% in the third quarter of 2013, and 8.7% in the three fiscal quarters of 2013. These increases were driven primarily by domestic and international same store sales growth, as well as an increase in our worldwide store counts during the trailing four quarters. This was offset, in part, by the negative impact of foreign currency exchange rates. Domestic same store sales growth reflected the sustained positive sales trends and the continued success of our products and marketing. International same store sales growth also reflected continued strong performance.

Revenues increased \$26.0 million, up 6.9% in the third quarter of 2013, and \$96.9 million, up 8.5% in the three fiscal quarters of 2013. These increases were due primarily to higher domestic supply chain revenues attributable to higher volumes from increased order counts, higher domestic franchise and Company-owned store revenues, and higher international revenues, as a result of same store sales and store count growth. These increases were offset in part by the negative impact on international revenues of changes in foreign currency exchange rates. These changes in revenues are described in more detail below.

Income from operations increased \$5.2 million, up 8.4% in the third quarter of 2013, and \$21.8 million, up 11.2% in the three fiscal quarters of 2013. These increases were driven primarily by higher royalty revenues from both domestic and international franchise stores, higher domestic supply chain margins driven primarily by higher volumes and a change in the mix of the products sold, and slightly higher Company-owned store margins. These increases were offset in part by the negative impact of the changes in foreign currency exchange rates and higher general and administrative expenses.

Net income increased \$4.7 million, up 17.9% in the third quarter of 2013, and \$23.5 million, up 31.4% in the three fiscal quarters of 2013. These increases were driven in part by domestic and international same store sales growth, international store count growth, higher Company-owned store margins, higher domestic supply chain margins and a lower effective tax rate, and were offset in part by changes in foreign currency exchange rates and higher general and administrative expenses. Additionally, during the three fiscal quarters of 2012, the Company incurred approximately \$6.5 million of net after-tax expenses in connection with the 2012 recapitalization.

Revenues

	Third Quarter of 2013		Third Quarter of 2012		Three Fiscal Quarters of 2013		Three Fiscal Quarters of 2012	
Domestic Company-owned stores	\$ 75.9	18.8%	\$ 72.2	19.1%	\$ 235.5	19.1%	\$ 223.7	19.7%
Domestic franchise	47.8	11.8%	44.0	11.6%	147.3	11.9%	133.5	11.7%
Domestic supply chain	226.3	56.0%	213.5	56.5%	691.2	55.9%	636.9	55.9%
International	54.0	13.4%	48.3	12.8%	161.7	13.1%	144.6	12.7%
Total revenues	\$ 404.1	100.0%	\$ 378.1	100.0%	\$ 1,235.7	100.0%	\$ 1,138.8	100.0%

Revenues primarily consist of retail sales from our Company-owned stores, royalties from our domestic and international franchise stores and sales of food, equipment and supplies from our supply chain centers to substantially all of our domestic franchise stores and certain international 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

	Third Quarter of 2013		Third Quarter of 2012		Three Fiscal Quarters of 2013		Three Fiscal Quarters of 2012	
Domestic Company-owned stores	\$ 75.9	61.3%	\$ 72.2	62.1%	\$ 235.5	61.5%	\$ 223.7	62.6%
Domestic franchise	47.8	38.7%	44.0	37.9%	147.3	38.5%	133.5	37.4%
Domestic stores	\$ 123.8	100.0%	\$ 116.3	100.0%	\$ 382.9	100.0%	\$ 357.3	100.0%

Domestic stores revenues increased \$7.5 million, up 6.5% in the third quarter of 2013, and \$25.6 million, up 7.2% in the three fiscal quarters of 2013. These increases were due primarily to higher domestic Company-owned same store sales and royalty revenues earned on higher franchise same store sales. These changes in domestic stores revenues are more fully described below.

Table of Contents**Domestic Company-Owned Stores Revenues**

Revenues from domestic Company-owned store operations increased \$3.7 million, up 5.1% in the third quarter of 2013, and \$11.8 million, up 5.3% in the three fiscal quarters of 2013. These increases were due primarily to higher same store sales. Domestic Company-owned same store sales increased 4.6% in the third quarter of 2013, and 5.1% in the three fiscal quarters of 2013. This compared to an increase of 0.5% in the third quarter of 2012, and 0.8% in the three fiscal quarters of 2012.

Domestic Franchise Revenues

Revenues from domestic franchise operations increased \$3.8 million, up 8.6% in the third quarter of 2013, and \$13.8 million, up 10.3% in the three fiscal quarters of 2013. These increases were due primarily to higher domestic franchise same store sales and to a lesser extent, an increase in the average number of domestic franchise stores open during 2013 as well as an increase in revenues resulting from fees paid by franchisees related to our insourced online ordering platform. We also incurred an increase in expenses related to these technology initiatives. Additionally, during the three fiscal quarters of 2013, we contracted with a third party to manage our gift card program. In connection with this program change, we refined our assessment of our gift card liability and recorded approximately \$3.2 million of domestic franchise revenue and reimbursed approximately \$1.8 million to our national advertising fund, as discussed further below in general and administrative expenses. Domestic franchise same store sales increased 5.5% in the third quarter of 2013, and 6.2% in the three fiscal quarters of 2013. This compared to an increase of 3.6% in the third quarter of 2012, and 2.5% in the three fiscal quarters of 2012.

Domestic Supply Chain Revenues

Revenues from domestic supply chain operations increased \$12.8 million, up 6.0% in the third quarter of 2013, and \$54.3 million, up 8.5% in the three fiscal quarters of 2013. These increases were due primarily to higher volumes as a result of increased order counts at the store level, higher overall commodity prices, including cheese, and a change in the mix of products sold. The published cheese block price-per-pound averaged \$1.72 in both the third quarter of 2013 and three fiscal quarters of 2013, up from \$1.71 in the third quarter of 2012 and \$1.58 in the three fiscal quarters of 2012. We estimate that the higher cheese block price (passed through directly in domestic supply chain pricing to franchisees) resulted in an approximate \$0.8 million increase in domestic supply chain revenues during the third quarter of 2013, and an approximate \$8.4 million increase in revenues in the three fiscal quarters of 2013.

International Revenues

	Third Quarter of 2013		Third Quarter of 2012		Three Fiscal Quarters of 2013		Three Fiscal Quarters of 2012	
International royalty and other	\$ 29.6	54.7%	\$ 27.0	55.8%	\$ 89.6	55.4%	\$ 80.0	55.3%
International supply chain	24.4	45.3%	21.3	44.2%	72.1	44.6%	64.6	44.7%
International	\$ 54.0	100.0%	\$ 48.3	100.0%	\$ 161.7	100.0%	\$ 144.6	100.0%

International revenues primarily consist of royalties from our international franchise stores and international supply chain sales. Revenues from international operations increased \$5.7 million, up 11.6% in the third quarter of 2013, and \$17.1 million, up 11.8% in the three fiscal quarters of 2013. These increases were due primarily to higher international

royalty and other revenues as well as higher international supply chain revenues as discussed below.

Revenues from international royalties and other increased \$2.6 million, up 9.4% in the third quarter of 2013, and \$9.6 million, up 12.0% in the three fiscal quarters of 2013. These increases were due primarily to higher same store sales and more international stores being open during 2013, offset in part by the negative impact of changes in foreign currency exchange rates of approximately \$1.3 million in the third quarter of 2013 and approximately \$2.4 million in the three fiscal quarters of 2013. When excluding the impact of foreign currency exchange rates, same store sales increased 5.0% in the third quarter of 2013, and 5.8% in the three fiscal quarters of 2013. This compared to an increase of 5.0% in the third quarter of 2012, and 5.1% in the three fiscal quarters of 2012. When including the impact of foreign currency exchange rates, same store sales increased 0.4% in the third quarter of 2013, and 2.9% in the three fiscal quarters of 2013. The variance in our same store sales including foreign currency impacts versus our same store sales excluding foreign currency impacts in 2013 was caused by the stronger dollar when compared to the currencies in the international markets in which we compete.

Table of Contents

Revenues from international supply chain operations increased \$3.1 million, up 14.5% in the third quarter of 2013, and \$7.5 million, up 11.6% in the three fiscal quarters of 2013 due primarily to higher volumes.

Cost of Sales / Operating Margin

	Third Quarter of 2013		Third Quarter of 2012		Three Fiscal Quarters of 2013		Three Fiscal Quarters of 2012	
Consolidated revenues	\$ 404.1	100.0%	\$ 378.1	100.0%	\$ 1,235.7	100.0%	\$ 1,138.8	100.0%
Consolidated cost of sales	283.4	70.1%	266.7	70.5%	859.2	69.5%	798.1	70.1%
Consolidated operating margin	\$ 120.6	29.9%	\$ 111.4	29.5%	\$ 376.4	30.5%	\$ 340.7	29.9%

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

The operating margin, which we define as revenues less cost of sales, increased \$9.2 million, up 8.3% in the third quarter of 2013, and \$35.7 million, up 10.5% in the three fiscal quarters of 2013. These increases in the operating margin were due primarily to higher domestic and international franchise revenues, higher supply chain margins and higher Company-owned store margins. Franchise revenues do not have a cost of sales component and, as such, changes in franchise revenues have a disproportionate effect on the operating margin.

As a percentage of revenues, the operating margin increased 0.4 percentage points in the third quarter of 2013, and 0.6 percentage points in the three fiscal quarters of 2013. These increases were due primarily to a change in our mix of revenues and higher Company-owned store margins, offset in part by higher overall commodity prices, including cheese.

As indicated above, the operating margin as a percentage of revenues was negatively impacted by higher 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 2013 average cheese prices had been in effect during 2012, the impact on supply chain margins would have caused the operating margin for the third quarter of 2012 to be approximately 29.4% of revenues versus the reported 29.5% and approximately 29.7% of revenues for the three fiscal quarters of 2012 versus the reported 29.9%. However, the dollar margins for those same periods would have been unaffected.

Domestic Company-Owned Stores Operating Margin

	Third Quarter of 2013		Third Quarter of 2012		Three Fiscal Quarters of 2013		Three Fiscal Quarters of 2012	
Domestic Company-Owned Stores								
Revenues	\$ 75.9	100.0%	\$ 72.2	100.0%	\$ 235.5	100.0%	\$ 223.7	100.0%

Edgar Filing: DOMINOS PIZZA INC - Form 10-Q

Cost of sales	58.7	77.3%	56.4	78.1%	179.5	76.2%	171.3	76.6%
Store operating margin	\$ 17.3	22.7%	\$ 15.8	21.9%	\$ 56.1	23.8%	\$ 52.4	23.4%

The domestic Company-owned store operating margin, which does not include certain store-level costs such as royalties and advertising, increased \$1.5 million, up 9.0% in the third quarter of 2013, and \$3.7 million, up 6.9% in the three fiscal quarters of 2013. These increases were due primarily to higher same store sales, offset in part by higher food costs.

As a percentage of store revenues, the store operating margin increased 0.8 percentage points in the third quarter of 2013, and 0.4 percentage points in the three fiscal quarters of 2013.

Insurance costs decreased 0.8 percentage points to 2.7% in the third quarter of 2013, and 0.6 percentage points to 2.8% in the three fiscal quarters of 2013 due primarily to lower health insurance expenses per store, favorable claims experience and the positive impact of higher sales per store.

Occupancy costs (which include rent, telephone, utilities and depreciation) decreased 0.4 percentage points to 10.0% in the third quarter of 2013, and 0.4 percentage points to 9.2% in the three fiscal quarters of 2013, due primarily to the positive impact of higher sales per store.

Labor and related costs decreased 0.1 percentage points to 28.2% in the third quarter of 2013, and 0.3 percentage points to 28.2% in the three fiscal quarters of 2013 due primarily to leveraging the higher sales per store.

Table of Contents

Food costs increased 0.5 percentage points to 27.9% in the third quarter of 2013, and 1.0 percentage points to 27.8% in the three fiscal quarters of 2013 due primarily to higher cheese and other commodity prices. The cheese block price per pound averaged \$1.72 in both the third quarter of 2013 and three fiscal quarters of 2013. This compared to \$1.71 in the third quarter of 2012 and \$1.58 in the three fiscal quarters of 2012.

Domestic Supply Chain Operating Margin

	Third Quarter of 2013		Third Quarter of 2012		Three Fiscal Quarters of 2013		Three Fiscal Quarters of 2012	
Domestic Supply Chain								
Revenues	\$ 226.3	100.0%	\$ 213.5	100.0%	\$ 691.2	100.0%	\$ 636.9	100.0%
Cost of sales	203.0	89.7%	191.3	89.6%	615.7	89.1%	569.5	89.4%
Supply Chain operating margin	\$ 23.3	10.3%	\$ 22.2	10.4%	\$ 75.4	10.9%	\$ 67.4	10.6%

The domestic supply chain operating margin increased \$1.1 million, up 5.3% in the third quarter of 2013, and \$8.0 million, up 11.9% in the three fiscal quarters of 2013. These increases were due primarily to higher volumes resulting from higher order counts at the store level and a change in the mix of the products sold.

As a percentage of supply chain revenues, the supply chain operating margin decreased 0.1 percentage points in the third quarter of 2013, and increased 0.3 percentage points in the three fiscal quarters of 2013 as compared to the prior year periods. The decrease during the third quarter of 2013 was due primarily to higher commodity costs, offset in part by the positive impact of product mix and higher volumes. The increase during the three fiscal quarters of 2013 was due primarily to the positive impact of product mix and higher volumes, offset in part by higher commodity costs. Increases in certain food prices have a negative effect on the domestic supply chain operating margin percent due to the fixed dollar margin earned by domestic supply chain on certain food items. Had the 2013 cheese prices been in effect during 2012, the domestic supply chain operating margin as a percentage of domestic supply chain revenues would have been approximately 10.3% for the third quarter of 2012 and approximately 10.4% for the three fiscal quarters of 2012. However, the dollar margins for those same periods would have been unaffected.

General and Administrative Expenses

General and administrative expenses increased \$4.1 million, up 8.2% in the third quarter of 2013, and \$13.9 million, up 9.5% in the three fiscal quarters of 2013. These increases were due in part to an increase in non-cash compensation expense of \$0.7 million in the third quarter of 2013 and \$2.7 million in the three fiscal quarters of 2013. The increase for the three quarters of 2013 was also due in part to higher variable performance-based compensation expenses of approximately \$2.0 million. Additionally, we continued our investments in technology and international initiatives, which also increased general and administrative expenses during the third quarter and three fiscal quarters of 2013 compared to the prior year periods. General and administrative expenses also include a reimbursement of approximately \$1.8 million during the three fiscal quarters of 2013 to our national advertising fund related to their historical costs to support the Company's gift card program, as discussed above in domestic franchise revenues.

Interest Expense

Interest expense decreased \$0.3 million to \$20.3 million in the third quarter of 2013, and \$11.9 million to \$61.7 million in the three fiscal quarters of 2013. The decrease in the three fiscal quarters of 2013 was due primarily to approximately \$10.2 million of additional interest expense incurred in the first quarter of 2012 related to the 2012 recapitalization.

The Company's cash borrowing rate was flat at 5.3% for both the third quarter of 2013 and the third quarter of 2012, and decreased 0.3 percentage points to 5.3% in the three fiscal quarters of 2013 compared to the three fiscal quarters of 2012. This decrease was due primarily to the completion of the 2012 recapitalization during the first quarter of 2012. The Company's average outstanding debt balance, excluding capital lease obligations, decreased to \$1.54 billion in the third quarter and \$1.55 billion in the three fiscal quarters of 2013 compared to \$1.60 billion in both the third quarter and three fiscal quarters of 2012. These decreases were due to scheduled principal payments on our fixed rate notes.

Table of Contents***Provision for Income Taxes***

Provision for income taxes increased \$0.8 million to \$15.8 million in the third quarter of 2013, and \$10.1 million to \$56.2 million in the three fiscal quarters of 2013, due primarily to higher pre-tax income, offset in part by a tax benefit of approximately \$1.4 million related to prior tax years in connection with the Company revising its calculation for a deduction related to its domestic dough production. The effective tax rate decreased 2.5 percentage points to 34.1% during the third quarter of 2013, from 36.6% in the comparable period in 2012, and decreased 1.7 percentage points to 36.4% during the three fiscal quarters of 2013, from 38.1% in the comparable period in 2012.

Additionally, the provision for income taxes and related effective tax rate for the three fiscal quarters of 2012 were negatively impacted by a valuation allowance recorded on a deferred tax asset of approximately \$0.9 million during the first quarter of 2012 and positively impacted by a tax benefit of approximately \$0.7 million recorded to reflect increased tax basis in certain assets due to the issuance of final tax regulations during the third quarter of 2012.

Summary of Recapitalization Expenses

The following table presents total recapitalization-related expenses incurred during the three fiscal quarters of 2012. These pre-tax expenses affect comparability between the periods presented for 2013 and 2012.

<i>(in millions)</i>	Three Fiscal Quarters of 2012
2012 recapitalization expenses:	
General and administrative expenses (1)	\$ 0.3
Additional interest expense (2)	10.2
Total of 2012 recapitalization expenses (pre-tax)	\$ 10.5
Total of 2012 recapitalization expenses (after-tax)	\$ 6.5

- (1) Primarily includes stock compensation expenses, payroll taxes related to the payments made to certain stock option holders, legal and professional fees incurred in connection with the recapitalization.
- (2) Primarily includes the write-off of deferred financing fees. Additionally, we incurred \$2.1 million of interest expense on the 2007 borrowings subsequent to the closing of the 2012 recapitalization but prior to the repayment of the 2007 borrowings, essentially paying interest on both the 2007 and 2012 facilities for a period of time.

Liquidity and Capital Resources

As of September 8, 2013, we had working capital of \$13.6 million, excluding restricted cash and cash equivalents of \$63.3 million, and including unrestricted cash and cash equivalents of \$32.1 million. Historically, we have operated with minimal positive working capital, 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 30 to 40 inventory turns per year. In addition, our sales are not typically seasonal, which further limits our working capital requirements. These factors, coupled with servicing our debt obligations, investing in our business and repurchasing

our common stock, all of which are generally funded by cash flows from operations, also reduce our working capital amounts. As of September 8, 2013, we had approximately \$42.1 million of restricted cash held for future principal and interest payments, \$21.1 million of restricted cash held in a three month interest reserve as required by the related debt agreements and \$0.1 million of other restricted cash, for a total of \$63.3 million of restricted cash and cash equivalents.

As of September 8, 2013, we had approximately \$1.54 billion of long-term debt, of which \$24.1 million was classified as a current liability. Additionally, as of September 8, 2013, we had \$37.7 million of outstanding letters of credit and \$62.3 million of available capacity under our \$100.0 million variable funding notes. The letters of credit are primarily related to our casualty insurance programs and supply chain center leases. Borrowings under the variable funding notes are available to fund our working capital requirements, capital expenditures and other general corporate purposes. Our primary source of liquidity is cash flows from operations and availability of borrowings under our variable funding notes.

Table of Contents

During the third quarter and three fiscal quarters of 2013, the Company repurchased and retired 351,085 and 1,369,232 shares of common stock for a total of approximately \$20.8 million and \$76.9 million, respectively. As of September 8, 2013, we had approximately \$75.5 million remaining for future share repurchases under the current Board of Directors approved \$200.0 million open market share repurchase program. Subsequent to the third quarter of 2013, the Company repurchased and retired an additional 3,100 shares of common stock for a total of approximately \$0.2 million. We continue to maintain our flexibility to use ongoing excess cash flow generation and (subject to certain restrictions in the documents governing the variable funding notes) availability under the variable funding notes for, among other things, the repurchase of shares under the current authorized program, the payment of dividends and other corporate uses.

During the three fiscal quarters of 2013, the Company paid approximately \$23.2 million of common stock dividends. Additionally, during the third quarter of 2013, the Company's Board of Directors declared a \$0.20 per share quarterly dividend on its outstanding common stock. The Company had approximately \$11.7 million accrued for common stock dividends at September 8, 2013. On October 9, 2013, the Company's Board of Directors declared a \$0.20 per share quarterly dividend for shareholders of record as of December 13, 2013 to be paid on December 30, 2013.

During the third quarter and three fiscal quarters of 2013, we experienced strong increases in both domestic and international same store sales versus the comparable periods in the prior year. Additionally, our international business continued to grow store counts in the third quarter and three fiscal quarters of 2013. These factors have contributed to our continued ability to generate positive operating cash flows. We expect to use our unrestricted cash and cash equivalents, cash flows from operations and available borrowings under the variable funding notes to, among other things, fund working capital requirements, invest in our core business, service our indebtedness, pay dividends and repurchase our common stock. We have historically funded our working capital requirements, capital expenditures, debt repayments and repurchases of common stock primarily from our cash flows from operations and, when necessary, our available borrowings under variable funding note facilities. The Company believes its current unrestricted cash and cash equivalents balance and its expected cash flows from operations will be sufficient to fund operations for at least the next twelve months. We did not have any material commitments for capital expenditures as of September 8, 2013.

Cash provided by operating activities was \$104.6 million in the three fiscal quarters of 2013 compared to \$101.3 million in the three fiscal quarters of 2012. The \$3.3 million increase was due primarily to a \$16.6 million increase in net income, excluding non-cash adjustments versus the prior year period, resulting primarily from our improved operating performance. Cash provided by operating activities was negatively impacted by a \$13.3 million net change in operating assets and liabilities, due primarily to the timing of payments of current operating liabilities.

Cash used in investing activities was \$18.8 million in the three fiscal quarters of 2013 and cash provided by investing activities was \$20.8 million in the three fiscal quarters of 2012. The \$39.6 million change was due primarily to a \$35.0 million change in restricted cash and cash equivalents driven by lower restricted cash reserve requirements as a result of the 2012 recapitalization and a \$6.0 million increase in capital expenditures due primarily to investments in technology initiatives.

Cash used in financing activities was \$108.4 million in the three fiscal quarters of 2013 compared to \$137.3 million in the three fiscal quarters of 2012. The \$28.9 million decrease was due primarily to a \$1.4 billion decrease in repayments of long-term debt, a \$162.3 million decrease in common stock dividends and equivalent payments and a \$31.7 million decrease in cash paid for financing costs offset by a \$1.6 billion decrease of proceeds from issuance of the 2012 debt facility. These changes were due primarily to our 2012 recapitalization. Additionally, during the three fiscal quarters of 2013, an additional \$34.2 million of cash was used to repurchase shares of the Company's common stock versus the three fiscal quarters of 2012.

Table of Contents

Based upon the current level of operations and anticipated growth, we believe that the cash generated from operations, our current unrestricted cash and cash equivalents and amounts available under our variable funding notes will be adequate to meet our anticipated debt service requirements, capital expenditures and working capital needs for at least 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.

Forward-Looking Statements

This filing contains forward-looking statements. You can identify forward-looking statements because they contain words such as believes, expects, may, will, should, seeks, approximately, intends, plans, estimates, similar expressions that concern our strategy, plans or intentions. Forward-looking statements relating to our anticipated profitability, estimates in same store sales growth, the growth of our international business, ability to service our indebtedness, our future cash flows, our operating performance, trends in our business and other descriptions of future events reflect the Company'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 could cause actual results to differ materially include: the level of and our ability to refinance our 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 us, and other food-industry competitors; the ongoing level of profitability of our franchisees; our ability and that of 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 where we operate; severe weather conditions and natural disasters; changes in our effective tax rate; changes in foreign currency exchange rates; 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 weak consumer confidence; availability of borrowings under our variable funding notes and our letters of credit; and changes in accounting policies. Important factors that could cause actual results to differ materially from our expectations 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. These forward-looking statements speak only as of the date of this filing, and you should not rely on such statements as representing the views of the Company as of any subsequent date. Except as required by applicable securities law, 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 of variable funding note borrowings that are outstanding from time to time. The Company actively monitors this exposure when present. As of September 8, 2013, we had no outstanding variable funding note borrowings and \$62.3 million available for borrowing, which is net of letters of credit of \$37.7 million. Our outstanding fixed rate notes, which comprise substantially all of our outstanding borrowings, contain fixed interest rates until January 2019. 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 where we use fixed pricing agreements with our suppliers, we use these agreements to cover our physical commodity needs; the agreements are not net-settled and are accounted for as normal purchases.

The Company is exposed to various foreign currency exchange rate fluctuations for revenues generated by operations outside the United States, which can adversely impact net income and cash flows. Total revenues of approximately 13.4% in the third quarter of 2013, 12.8% in the third quarter of 2012, 13.1% in the three fiscal quarters of 2013 and 12.7% in the three fiscal quarters of 2012 were derived from sales to customers and royalties from franchisees outside the contiguous United States. This business is conducted in the local currency but royalty payments are generally remitted to us in U.S. dollars. We do not enter into financial instruments to manage this foreign currency exchange risk. A hypothetical 10% adverse change in the foreign currency rates in each of our top ten international markets, based on store count, would have resulted in a negative impact on revenues of approximately \$6.5 million in the three fiscal quarters of 2013.

Item 4. Controls and Procedures.

Management, with the participation of the Company's President and Chief Executive Officer, J. Patrick Doyle, and Executive Vice President and Chief Financial Officer, Michael T. Lawton, performed an evaluation of the effectiveness of the Company'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. Doyle and Mr. Lawton concluded that the Company's disclosure controls and procedures were effective.

During the quarterly period ended September 8, 2013, there were no changes in the Company's internal controls over financial reporting that have materially affected or are reasonably likely to materially affect the Company'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 as well as intellectual property, including patents.

We were named as a defendant in a lawsuit along with a large franchisee and the franchisee's delivery driver. During the third quarter of 2013, the jury delivered a \$32.0 million judgment for the plaintiff where we were found to be 60% liable. We deny liability and intend to file post-judgment motions to contest the verdict on a variety of grounds, apply certain offsets and other challenges. Additionally, we are prepared to appeal, if necessary. This case is covered under our casualty insurance program, subject to a \$3.0 million deductible. We also have indemnity provisions in our franchise agreements.

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 30, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**c. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.**

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Program	(d) Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
Period #7 (June 17, 2013 to July 14, 2013)	190,791	\$ 57.72	189,185	\$ 85,402,498
Period #8 (July 15, 2013 to August 11, 2013)	34,892	61.04	32,300	83,434,863
Period #9 (August 12, 2013 to September 8, 2013)	131,012	61.32	129,600	75,487,996
Total	356,695	\$ 59.37	351,085	\$ 75,487,996

(1) Includes 5,610 shares purchased as part of the Company's employee stock purchase discount plan. During the third quarter, the shares were purchased at an average price of \$61.02. All of the remaining shares presented were purchased pursuant to the publicly announced program.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Table of Contents

Item 6. Exhibits.

Exhibit Number	Description
31.1	Certification by J. Patrick Doyle 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 Michael T. Lawton 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 J. Patrick Doyle 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 Michael T. Lawton 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.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

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 hereunto duly authorized.

DOMINO'S PIZZA, INC.

(Registrant)

Date: October 15, 2013

/s/ Michael T. Lawton
Michael T. Lawton
Chief Financial Officer