

DOMINOS PIZZA INC
Form 10-Q
July 23, 2013
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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 June 16, 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)

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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)

48105
(Zip Code)

(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.

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 July 16, 2013, Domino's Pizza, Inc. had 55,651,949 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)**

| (In thousands) | June 16, 2013 | December 30, 2012 (Note) |
|--|-------------------|--------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 40,838 | \$ 54,813 |
| Restricted cash and cash equivalents | 59,712 | 60,015 |
| Accounts receivable | 93,987 | 94,103 |
| Inventories | 27,996 | 31,061 |
| Prepaid expenses and other | 21,505 | 13,068 |
| Advertising fund assets, restricted | 48,049 | 37,917 |
| Deferred income taxes | 10,449 | 15,290 |
| Total current assets | 302,536 | 306,267 |
| Property, plant and equipment: | | |
| Land and buildings | 23,715 | 24,460 |
| Leasehold and other improvements | 84,460 | 80,279 |
| Equipment | 172,355 | 168,452 |
| Construction in progress | 4,045 | 9,967 |
| | 284,575 | 283,158 |
| Accumulated depreciation and amortization | (196,024) | (191,713) |
| Property, plant and equipment, net | 88,551 | 91,445 |
| Other assets: | | |
| Deferred financing costs | 31,932 | 34,787 |
| Goodwill | 16,598 | 16,598 |
| Capitalized software | 12,505 | 11,387 |
| Other assets | 13,115 | 13,760 |
| Deferred income taxes | 3,562 | 3,953 |
| Total other assets | 77,712 | 80,485 |
| Total assets | \$ 468,799 | \$ 478,197 |
| Liabilities and stockholders' deficit | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 24,153 | \$ 24,349 |
| Accounts payable | 63,875 | 77,414 |
| Dividends payable | 12,214 | 1,502 |
| Insurance reserves | 13,949 | 12,964 |

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| | | |
|--|--------------------|--------------------|
| Advertising fund liabilities | 48,049 | 37,917 |
| Other accrued liabilities | 66,572 | 75,352 |
| Total current liabilities | 228,812 | 229,498 |
| Long-term liabilities: | | |
| Long-term debt, less current portion | 1,524,420 | 1,536,443 |
| Insurance reserves | 24,949 | 24,195 |
| Deferred income taxes | 4,291 | 7,001 |
| Other accrued liabilities | 15,118 | 16,583 |
| Total long-term liabilities | 1,568,778 | 1,584,222 |
| Stockholders' deficit: | | |
| Common stock | 558 | 563 |
| Additional paid-in capital | 64 | 1,664 |
| Retained deficit | (1,327,020) | (1,335,364) |
| Accumulated other comprehensive loss | (2,393) | (2,386) |
| Total stockholders' deficit | (1,328,791) | (1,335,523) |
| Total liabilities and stockholders' deficit | \$ 468,799 | \$ 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 | | Two Fiscal Quarters Ended | |
|---|-----------------------------|--------------------------|----------------------------------|--------------------------|
| | June 16, 2013 | June 17, 2012 | June 16, 2013 | June 17, 2012 |
| Revenues: | | | | |
| Domestic Company-owned stores | \$ 78,509 | \$ 73,911 | \$ 159,603 | \$ 151,526 |
| Domestic franchise | 48,167 | 44,286 | 99,485 | 89,482 |
| Domestic supply chain | 233,307 | 209,297 | 464,839 | 423,428 |
| International | 54,026 | 48,630 | 107,700 | 96,276 |
| Total revenues | 414,009 | 376,124 | 831,627 | 760,712 |
| Cost of sales: | | | | |
| Domestic Company-owned stores | 59,536 | 55,669 | 120,804 | 114,947 |
| Domestic supply chain | 207,319 | 186,621 | 412,732 | 378,150 |
| International | 21,167 | 19,227 | 42,298 | 38,359 |
| Total cost of sales | 288,022 | 261,517 | 575,834 | 531,456 |
| Operating margin | 125,987 | 114,607 | 255,793 | 229,256 |
| General and administrative | 52,146 | 48,829 | 106,427 | 96,583 |
| Income from operations | 73,841 | 65,778 | 149,366 | 132,673 |
| Interest income | 30 | 52 | 73 | 206 |
| Interest expense | (20,426) | (20,717) | (41,372) | (52,967) |
| Income before provision for income taxes | 53,445 | 45,113 | 108,067 | 79,912 |
| Provision for income taxes | 20,175 | 17,018 | 40,377 | 31,075 |
| Net income | \$ 33,270 | \$ 28,095 | \$ 67,690 | \$ 48,837 |
| Earnings per share: | | | | |
| Common stock basic | \$ 0.60 | \$ 0.50 | \$ 1.22 | \$ 0.86 |
| Common stock diluted | 0.57 | 0.47 | 1.17 | 0.82 |
| Dividends declared per share | \$ 0.20 | \$ | \$ 0.40 | \$ 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 | | Two Fiscal Quarters Ended | |
|---|----------------------|------------------|---------------------------|------------------|
| | June 16, 2013 | June 17, 2012 | June 16, 2013 | June 17, 2012 |
| Net income | \$ 33,270 | \$ 28,095 | \$ 67,690 | \$ 48,837 |
| Other comprehensive income (loss), before tax: | | | | |
| Currency translation adjustment | (112) | (152) | (90) | (787) |
| Reclassification adjustment for losses included in net income | | | | 776 |
| | (112) | (152) | (90) | (11) |
| Tax attributes of items in other comprehensive income (loss): | | | | |
| Currency translation adjustment | 156 | 63 | 83 | 304 |
| Reclassification adjustment for losses included in net income | | | | (295) |
| | 156 | 63 | 83 | 9 |
| Other comprehensive income (loss), net of tax | 44 | (89) | (7) | (2) |
| Comprehensive income | \$ 33,314 | \$ 28,006 | \$ 67,683 | \$ 48,835 |

See accompanying notes.

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

| (In thousands) | Two Fiscal Quarters Ended | |
|--|----------------------------------|--------------------------|
| | June 16, 2013 | June 17, 2012 |
| Cash flows from operating activities: | | |
| Net income | \$ 67,690 | \$ 48,837 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 11,407 | 10,441 |
| Gains on sale/disposal of assets | (285) | (148) |
| Amortization of deferred financing costs and other | 2,853 | 10,489 |
| Provision for deferred income taxes | 2,557 | 4,040 |
| Non-cash compensation expense | 10,240 | 8,288 |
| Tax impact from equity-based compensation | (6,043) | (7,265) |
| Other | (1,090) | 232 |
| Changes in operating assets and liabilities | (20,489) | (16,804) |
| Net cash provided by operating activities | 66,840 | 58,110 |
| Cash flows from investing activities: | | |
| Capital expenditures | (11,587) | (8,025) |
| Proceeds from sale of assets | 2,077 | 1,172 |
| Changes in restricted cash | 303 | 32,981 |
| Other | 1,266 | 1,157 |
| Net cash provided by (used in) investing activities | (7,941) | 27,285 |
| Cash flows from financing activities: | | |
| Proceeds from issuance of long-term debt | | 1,575,000 |
| Repayments of long-term debt and capital lease obligations | (12,219) | (1,453,182) |
| Proceeds from exercise of stock options | 3,738 | 2,088 |
| Tax impact from equity-based compensation | 6,043 | 7,265 |
| Purchases of common stock | (56,057) | (36,867) |
| Tax payments for restricted stock upon vesting | (2,845) | (1,996) |
| Payments of common stock dividends and equivalents | (11,454) | (184,858) |
| Cash paid for financing costs | | (31,613) |
| Net cash used in financing activities | (72,794) | (124,163) |
| Effect of exchange rate changes on cash and cash equivalents | (80) | (774) |
| Change in cash and cash equivalents | (13,975) | (39,542) |
| Cash and cash equivalents, at beginning of period | 54,813 | 50,292 |
| Cash and cash equivalents, at end of period | \$ 40,838 | \$ 10,750 |

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)

June 16, 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 two fiscal quarters ended June 16, 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 June 16, 2013 and June 17, 2012 | | | | | Total |
|------------------------|---|-----------------------|---------------|-----------------------|-------------|------------|
| | Domestic Stores | Domestic Supply Chain | International | Intersegment Revenues | Other | |
| Revenues | | | | | | |
| 2013 | \$ 126,676 | \$ 255,856 | \$ 54,026 | \$ (22,549) | \$ | \$ 414,009 |
| 2012 | 118,197 | 229,302 | 48,630 | (20,005) | | 376,124 |
| Income from operations | | | | | | |
| 2013 | \$ 42,328 | \$ 20,288 | \$ 26,562 | N/A | \$ (15,337) | \$ 73,841 |
| 2012 | 39,486 | 17,291 | 23,633 | N/A | (14,632) | 65,778 |
| Segment Income | | | | | | |
| 2013 | \$ 43,746 | \$ 22,156 | \$ 26,425 | N/A | \$ (8,283) | \$ 84,044 |
| 2012 | 40,859 | 19,015 | 23,567 | N/A | (8,551) | 74,890 |

| | Two Fiscal Quarters Ended June 16, 2013 and June 17, 2012 | | | | | Total |
|------------------------|---|-----------------------|---------------|-----------------------|-------------|------------|
| | Domestic Stores | Domestic Supply Chain | International | Intersegment Revenues | Other | |
| Revenues | | | | | | |
| 2013 | \$ 259,088 | \$ 510,602 | \$ 107,700 | \$ (45,763) | \$ | \$ 831,627 |
| 2012 | 241,008 | 464,858 | 96,276 | (41,430) | | 760,712 |
| Income from operations | | | | | | |
| 2013 | \$ 86,163 | \$ 40,825 | \$ 53,614 | N/A | \$ (31,236) | \$ 149,366 |
| 2012 | 80,737 | 34,412 | 47,886 | N/A | (30,362) | 132,673 |
| Segment Income | | | | | | |
| 2013 | \$ 89,048 | \$ 44,523 | \$ 53,549 | N/A | \$ (16,392) | \$ 170,728 |
| 2012 | 83,543 | 37,850 | 47,323 | N/A | (17,210) | 151,506 |

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

| | Fiscal Quarter Ended | | Two Fiscal Quarters Ended | |
|--|----------------------|------------------|---------------------------|------------------|
| | June 16, 2013 | June 17, 2012 | June 16, 2013 | June 17, 2012 |
| Total Segment Income | \$ 84,044 | \$ 74,890 | \$ 170,728 | \$ 151,506 |
| Depreciation and amortization | (5,776) | (5,225) | (11,407) | (10,441) |
| Gains on sale/disposal of assets | 197 | 111 | 285 | 148 |
| Non-cash compensation expense | (4,624) | (3,998) | (10,240) | (8,288) |
| 2012 recapitalization-related expenses | | | | (252) |
| Income from operations | 73,841 | 65,778 | 149,366 | 132,673 |
| Interest income | 30 | 52 | 73 | 206 |
| Interest expense | (20,426) | (20,717) | (41,372) | (52,967) |
| Income before provision for income taxes | \$ 53,445 | \$ 45,113 | \$ 108,067 | \$ 79,912 |

3. Earnings Per Share

| | Fiscal Quarter Ended | | Two Fiscal Quarters Ended | |
|---|----------------------|------------------|---------------------------|------------------|
| | June 16, 2013 | June 17, 2012 | June 16, 2013 | June 17, 2012 |
| Net income available to common stockholders basic and diluted | \$ 33,270 | \$ 28,095 | \$ 67,690 | \$ 48,837 |
| Basic weighted average number of shares | 55,468,971 | 56,724,754 | 55,607,881 | 56,841,315 |
| Earnings per share basic | \$ 0.60 | \$ 0.50 | \$ 1.22 | \$ 0.86 |
| Diluted weighted average number of shares | 57,960,232 | 59,449,449 | 58,091,126 | 59,565,656 |
| Earnings per share diluted | \$ 0.57 | \$ 0.47 | \$ 1.17 | \$ 0.82 |

The denominators used in calculating diluted earnings per share for common stock for the second quarter and two fiscal quarters of 2013 do not include 377,540 and 393,360 options to purchase common stock, respectively, as the effect of including these options would have been anti-dilutive. The denominators used in calculating diluted earnings per share for common stock for the second quarter and two fiscal quarters of 2012 do not include 190,729 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 two fiscal quarters of 2013.

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Retained Deficit | Accumulated Other Comprehensive Loss |
|-------------------------------|------------------------|------------------------|----------------------------------|---------------------|---|
| Balance at December 30, 2012 | 56,313,249 | \$ 563 | \$ 1,664 | \$ (1,335,364) | \$ (2,386) |
| Net income | | | | 67,690 | |
| Common stock dividends | | | | (22,072) | |
| Issuance of common stock, net | 220,660 | 2 | | | |

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| | | | | | |
|---|-------------|--------|----------|----------------|------------|
| Common stock effectively repurchased for required employee tax withholdings | (59,641) | (1) | (2,844) | | |
| Purchases of common stock | (1,018,147) | (10) | (18,773) | (37,274) | |
| Exercise of stock options | 368,654 | 4 | 3,734 | | |
| Tax impact from equity-based compensation | | | 6,043 | | |
| Non-cash compensation expense | | | 10,240 | | |
| Currency translation adjustment, net of tax | | | | | (7) |
| Balance at June 16, 2013 | 55,824,775 | \$ 558 | \$ 64 | \$ (1,327,020) | \$ (2,393) |

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5. Dividends

During the two fiscal quarters of 2013, the Company paid approximately \$11.5 million of common stock dividends. Additionally, during the second quarter of 2013, the Company's Board of Directors declared a \$0.20 per share dividend on its outstanding common stock. In connection with the declaration of the dividend, the Company recorded \$11.1 million of dividends payable.

On July 17, 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 September 13, 2013 to be paid on September 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 \$2.4 million of accumulated other comprehensive loss at both June 16, 2013 and December 30, 2012 represents currency translation adjustments, net of tax. During the two 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 to income tax expense in the consolidated statements of income. There were no reclassifications out of accumulated other comprehensive loss to net income in the second quarter of 2012, the second quarter of 2013 and the two fiscal quarters of 2013.

7. Open Market Share Repurchase Program

During the second quarter and two fiscal quarters of 2013, the Company repurchased and retired 655,248 and 1,018,147 shares of common stock for a total of approximately \$38.0 million and \$56.1 million, respectively. As of June 16, 2013, the Company had approximately \$96.3 million remaining for future share repurchases under its Board of Directors approved \$200.0 million open market share repurchase program. Subsequent to the second quarter of 2013, the Company repurchased and retired an additional 189,185 shares of common stock for a total of approximately \$10.9 million.

During the second quarter and two fiscal quarters of 2012, the Company repurchased and retired 1,146,497 shares of common stock for a total of approximately \$36.9 million 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.

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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 June 16, 2013 and December 30, 2012:

| | Carrying Amount | At June 16, 2013 Fair Value Estimated Using | | |
|--------------------------------------|--------------------|--|-------------------|-------------------|
| | | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs |
| Cash equivalents | \$ 34,944 | \$ 34,944 | \$ | \$ |
| Restricted cash equivalents | 51,258 | 51,258 | | |
| Investments in marketable securities | 2,566 | 2,566 | | |

| | Carrying Amount | At December 30, 2012 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 June 16, 2013, the Company estimates that the \$1.55 billion in principal amount of outstanding fixed rate notes had a fair value of approximately \$1.70 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.

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 second quarter referenced herein represents the twelve-week period ended June 16, 2013, while the 2012 second quarter represents the twelve-week period ended June 17, 2012. The 2013 two fiscal quarters referenced herein represent the twenty-four-week period ended June 16, 2013, while the 2012 two fiscal quarters represent the twenty-four-week period ended June 17, 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, our ability to execute our store operating model, the overall global economic environment and the success of our business strategies.

| | Second Quarter of 2013 | | Second Quarter of 2012 | | Two Fiscal Quarters of 2013 | | Two Fiscal Quarters of 2012 | |
|--|---------------------------|--------|---------------------------|--------|--------------------------------|--------|--------------------------------|--------|
| Global retail sales growth | +9.3% | | +4.3% | | +9.4% | | +5.2% | |
| Same store sales growth: | | | | | | | | |
| Domestic Company-owned stores | +5.7% | | +0.3% | | +5.3% | | +1.0% | |
| Domestic franchise stores | +6.8% | | +1.9% | | +6.6% | | +2.0% | |
| Domestic stores | +6.7% | | +1.7% | | +6.4% | | +1.9% | |
| International stores | +5.8% | | +5.7% | | +6.2% | | +5.2% | |
| Store counts (at end of period): | | | | | | | | |
| Domestic Company-owned stores | 389 | | 387 | | | | | |
| Domestic franchise stores | 4,543 | | 4,514 | | | | | |
| Domestic stores | 4,932 | | 4,901 | | | | | |
| International stores | 5,508 | | 5,023 | | | | | |
| Total stores | 10,440 | | 9,924 | | | | | |
| Income statement data: | | | | | | | | |
| Total revenues | \$ 414.0 | 100.0% | \$ 376.1 | 100.0% | \$ 831.6 | 100.0% | \$ 760.7 | 100.0% |
| Cost of sales | 288.0 | 69.6% | 261.5 | 69.5% | 575.8 | 69.2% | 531.5 | 69.9% |
| General and administrative | 52.1 | 12.6% | 48.8 | 13.0% | 106.4 | 12.8% | 96.6 | 12.7% |
| Income from operations | 73.8 | 17.8% | 65.8 | 17.5% | 149.4 | 18.0% | 132.7 | 17.4% |
| Interest expense, net | (20.4) | (4.9)% | (20.7) | (5.5)% | (41.3) | (5.0)% | (52.8) | (6.9)% |
| Income before provision for income taxes | 53.4 | 12.9% | 45.1 | 12.0% | 108.1 | 13.0% | 79.9 | 10.5% |
| Provision for income taxes | 20.2 | 4.9% | 17.0 | 4.5% | 40.4 | 4.9% | 31.1 | 4.1% |
| Net income | \$ 33.3 | 8.0% | \$ 28.1 | 7.5% | \$ 67.7 | 8.1% | \$ 48.8 | 6.4% |

During the second quarter and two fiscal quarters of 2013, we experienced robust 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

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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 second quarter and two fiscal quarters of 2013. International store growth continued to be strong during the second quarter, as we opened a net 101 stores, bringing the year-to-date total to a net 181 stores opened. 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 second quarter and two 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.

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Global retail sales, which are total retail sales at franchise and Company-owned stores worldwide, increased 9.3% in the second quarter of 2013, and 9.4% in the two 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 reflected continued strong performance in the markets where we compete.

Revenues increased \$37.9 million, up 10.1% in the second quarter of 2013, and \$70.9 million, up 9.3% in the two fiscal quarters of 2013. These increases were due primarily to higher domestic supply chain revenues attributable to higher volumes from increased order counts combined with higher cheese and other commodity prices, higher domestic franchise and Company-owned store revenues, and higher international revenues attributable to 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 \$8.0 million, up 12.3% in the second quarter of 2013, and \$16.7 million, up 12.6% in the two fiscal quarters of 2013. These increases were driven primarily by higher royalty revenues from both domestic and international franchise stores and slightly higher supply chain margins driven primarily by higher volumes. Additionally, higher domestic Company-owned store margins positively impacted the two fiscal quarters of 2013. 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 \$5.2 million, up 18.4% in the second quarter of 2013, and \$18.9 million, up 38.6% in the two fiscal quarters of 2013. These increases were driven in part by domestic and international same store sales growth, international store count growth and higher supply chain margins and were offset in part by changes in foreign currency exchange rates and higher general and administrative expenses. Additionally, during the two fiscal quarters of 2012, the Company incurred approximately \$6.5 million of net after-tax expenses in connection with the 2012 recapitalization and recorded a valuation allowance on a deferred tax asset of approximately \$0.9 million.

Revenues

| | Second Quarter of 2013 | | Second Quarter of 2012 | | Two Fiscal Quarters of 2013 | | Two Fiscal Quarters of 2012 | |
|-------------------------------|---------------------------|---------------|---------------------------|---------------|--------------------------------|---------------|--------------------------------|---------------|
| Domestic Company-owned stores | \$ 78.5 | 19.0% | \$ 73.9 | 19.7% | \$ 159.6 | 19.2% | \$ 151.5 | 19.9% |
| Domestic franchise | 48.2 | 11.6% | 44.3 | 11.8% | 99.5 | 12.0% | 89.5 | 11.8% |
| Domestic supply chain | 233.3 | 56.4% | 209.3 | 55.6% | 464.8 | 55.9% | 423.4 | 55.7% |
| International | 54.0 | 13.0% | 48.6 | 12.9% | 107.7 | 12.9% | 96.3 | 12.7% |
| Total revenues | \$ 414.0 | 100.0% | \$ 376.1 | 100.0% | \$ 831.6 | 100.0% | \$ 760.7 | 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

| | Second Quarter of 2013 | | Second Quarter of 2012 | | Two Fiscal Quarters of 2013 | | Two Fiscal Quarters of 2012 | |
|-------------------------------|---------------------------|---------------|---------------------------|---------------|--------------------------------|---------------|--------------------------------|---------------|
| Domestic Company-owned stores | \$ 78.5 | 62.0% | \$ 73.9 | 62.5% | \$ 159.6 | 61.6% | \$ 151.5 | 62.9% |
| Domestic franchise | 48.2 | 38.0% | 44.3 | 37.5% | 99.5 | 38.4% | 89.5 | 37.1% |
| Domestic stores | \$ 126.7 | 100.0% | \$ 118.2 | 100.0% | \$ 259.1 | 100.0% | \$ 241.0 | 100.0% |

Domestic stores revenues increased \$8.5 million, up 7.2% in the second quarter of 2013, and \$18.1 million, up 7.5% in the two 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 \$4.6 million, up 6.2% in the second quarter of 2013, and \$8.1 million, up 5.3% in the two fiscal quarters of 2013. These increases were due primarily to higher same store sales during the second quarter and two fiscal quarters of 2013. Domestic Company-owned same store sales increased 5.7% in the second quarter of 2013, and 5.3% in the two fiscal quarters of 2013. This compared to an increase of 0.3% in the second quarter of 2012, and 1.0% in the two fiscal quarters of 2012.

Domestic Franchise Revenues

Revenues from domestic franchise operations increased \$3.9 million, up 8.8% in the second quarter of 2013, and \$10.0 million, up 11.2% in the two 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 and an increase in revenues resulting from fees paid by franchisees related to our insourced online ordering platform. We also incurred an increase in general and administrative expenses for our technology initiatives. Additionally, during the two 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 \$2.6 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 6.8% in the second quarter of 2013, and 6.6% in the two fiscal quarters of 2013. This compared to an increase of 1.9% in the second quarter of 2012, and 2.0% in the two fiscal quarters of 2012.

Domestic Supply Chain Revenues

Revenues from domestic supply chain operations increased \$24.0 million, up 11.5% in the second quarter of 2013, and \$41.4 million, up 9.8% in the two 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 \$1.77 in the second quarter of 2013 and \$1.72 in the two fiscal quarters of 2013, up from \$1.52 in both of the comparable periods in 2012. We estimate that the higher cheese block price resulted in an approximate \$4.4 million increase in domestic supply chain revenues during the second quarter of 2013, and a \$7.5 million increase in revenues in the two fiscal quarters of 2013.

International Revenues

| | Second Quarter of 2013 | | Second Quarter of 2012 | | Two Fiscal Quarters of 2013 | | Two Fiscal Quarters of 2012 | |
|---------------------------------|---------------------------|---------------|---------------------------|---------------|--------------------------------|---------------|--------------------------------|---------------|
| International royalty and other | \$ 30.2 | 55.9% | \$ 26.9 | 55.5% | \$ 60.1 | 55.8% | \$ 53.0 | 55.1% |
| International supply chain | 23.8 | 44.1% | 21.7 | 44.5% | 47.6 | 44.2% | 43.3 | 44.9% |
| International | \$ 54.0 | 100.0% | \$ 48.6 | 100.0% | \$ 107.7 | 100.0% | \$ 96.3 | 100.0% |

International revenues primarily consist of royalties from our international franchise stores and international supply chain sales. Revenues from international operations increased \$5.4 million, up 11.1% in the second quarter of 2013, and \$11.4 million, up 11.9% in the two 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 \$3.3 million, up 11.9% in the second quarter of 2013, and \$7.1 million, up 13.3% in the two 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 \$0.5 million in the second quarter of 2013 and approximately \$1.1 million in the two fiscal quarters of 2013. On a constant dollar basis (which excludes the impact of foreign currency exchange rates), same store sales increased 5.8% in the second quarter of 2013, and 6.2% in the two fiscal quarters of 2013. This compared to an increase of 5.7% in the second quarter of 2012, and 5.2% in the two fiscal quarters of 2012. On a historical dollar basis (which includes the impact of foreign currency exchange rates), same store sales increased 3.9% in the second quarter of 2013, and increased 4.2% in the two fiscal quarters of 2013. The variance in our same store sales on a constant dollar basis versus a historical dollar basis in 2013 was caused by the stronger dollar when compared to the currencies in the international markets in which we compete.

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Revenues from international supply chain operations increased \$2.1 million, up 10.0% in the second quarter of 2013, and \$4.3 million, up 10.1% in the two fiscal quarters of 2013 due primarily to higher volumes.

Cost of Sales / Operating Margin

| | Second Quarter of 2013 | | Second Quarter of 2012 | | Two Fiscal Quarters of 2013 | | Two Fiscal Quarters of 2012 | |
|-------------------------------|---------------------------|--------|---------------------------|--------|--------------------------------|--------|--------------------------------|--------|
| Consolidated revenues | \$ 414.0 | 100.0% | \$ 376.1 | 100.0% | \$ 831.6 | 100.0% | \$ 760.7 | 100.0% |
| Consolidated cost of sales | 288.0 | 69.6% | 261.5 | 69.5% | 575.8 | 69.2% | 531.5 | 69.9% |
| Consolidated operating margin | \$ 126.0 | 30.4% | \$ 114.6 | 30.5% | \$ 255.8 | 30.8% | \$ 229.3 | 30.1% |

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 \$11.4 million, up 9.9% in the second quarter of 2013, and \$26.5 million, up 11.6% in the two fiscal quarters of 2013. These increases in the operating margin were due primarily to higher domestic and international franchise revenues and higher supply chain 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 decreased 0.1 percentage points in the second quarter of 2013, and increased 0.7 percentage points in the two fiscal quarters of 2013. The decrease in the second quarter of 2013 was due primarily to higher overall commodity prices, including cheese, and lower Company-owned stores operating margins. The decrease was offset in part by higher supply chain margins and a change in our mix of revenues. The increase in the two fiscal quarters of 2013 was due primarily to a change in our mix of revenues and higher supply chain 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 second quarter of 2012 to be approximately 30.1% of revenues versus the reported 30.5% and approximately 29.8% of revenues for the two fiscal quarters of 2012 versus the reported 30.1%. However, the dollar margins for those same periods would have been unaffected.

Domestic Company-Owned Stores Operating Margin

| | Second Quarter of 2013 | | Second Quarter of 2012 | | Two Fiscal Quarters of 2013 | | Two Fiscal Quarters of 2012 | |
|-------------------------------|---------------------------|--------|---------------------------|--------|--------------------------------|--------|--------------------------------|--------|
| Domestic Company-Owned Stores | | | | | | | | |
| Revenues | \$ 78.5 | 100.0% | \$ 73.9 | 100.0% | \$ 159.6 | 100.0% | \$ 151.5 | 100.0% |
| Cost of sales | 59.5 | 75.8% | 55.7 | 75.3% | 120.8 | 75.7% | 114.9 | 75.9% |
| Store operating margin | \$ 19.0 | 24.2% | \$ 18.2 | 24.7% | \$ 38.8 | 24.3% | \$ 36.6 | 24.1% |

The domestic Company-owned store operating margin, which does not include certain store-level costs such as royalties and advertising, increased \$0.8 million, up 4.0% in the second quarter of 2013, and \$2.2 million, up 6.1% in the two 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 decreased 0.5 percentage points in the second quarter of 2013, and increased 0.2 percentage points in the two fiscal quarters of 2013.

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Food costs increased 1.4 percentage points to 27.8% in the second quarter of 2013, and 1.2 percentage points in the two fiscal quarters of 2013 due primarily to higher cheese and other commodity prices. The cheese block price per pound averaged \$1.77 in the second quarter of 2013 and \$1.72 in the two fiscal quarters of 2013. This compared to \$1.52 in both the second quarter and two fiscal quarters of 2012.

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

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Occupancy costs (which include rent, telephone, utilities and depreciation) decreased 0.5 percentage points to 8.8% in both the second quarter and two fiscal quarters of 2013, due primarily to the positive impact of higher sales per store.

Insurance costs decreased 0.7 percentage points to 2.8% in the second quarter of 2013, and 0.5 percentage points to 2.9% in the two fiscal quarters of 2013 due primarily to lower health insurance expenses per store and favorable claims experience.

Domestic Supply Chain Operating Margin

| | Second Quarter of 2013 | | Second Quarter of 2012 | | Two Fiscal Quarters of 2013 | | Two Fiscal Quarters of 2012 | |
|-------------------------------|---------------------------|--------|---------------------------|--------|--------------------------------|--------|--------------------------------|--------|
| Domestic Supply Chain | | | | | | | | |
| Revenues | \$ 233.3 | 100.0% | \$ 209.3 | 100.0% | \$ 464.8 | 100.0% | \$ 423.4 | 100.0% |
| Cost of sales | 207.3 | 88.9% | 186.6 | 89.2% | 412.7 | 88.8% | 378.2 | 89.3% |
| Supply Chain operating margin | \$ 26.0 | 11.1% | \$ 22.7 | 10.8% | \$ 52.1 | 11.2% | \$ 45.3 | 10.7% |

The domestic supply chain operating margin increased \$3.3 million, up 14.6% in the second quarter of 2013, and \$6.8 million, up 15.1% in the two 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 increased 0.3 percentage points in the second quarter of 2013, and 0.5 percentage points in the two fiscal quarters of 2013 as compared to the prior year periods. These increases were 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 10.6% for the second quarter of 2012 and approximately 10.5% for the two 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 \$3.3 million, up 6.8% in the second quarter of 2013, and \$9.8 million, up 10.2% in the two fiscal quarters of 2013. These increases were due primarily to higher variable performance-based compensation expenses of approximately \$0.8 million in the second quarter of 2013 and \$2.0 million in the two fiscal quarters of 2013 and an increase in non-cash compensation expense of \$0.6 million in the second quarter of 2013 and \$2.0 in the two fiscal quarters of 2013. General and administrative expenses also include a reimbursement of approximately \$1.8 million during the two 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. Additionally, we continued our investments in technology and international initiatives, which also increased general and administrative expenses during the second quarter and two fiscal quarters of 2013 compared to the prior year periods.

Interest Expense

Interest expense decreased \$0.3 million to \$20.4 million in the second quarter of 2013, and \$11.6 million to \$41.4 million in the two fiscal quarters of 2013. The decrease in the two 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.

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The Company's cash borrowing rate was flat at 5.4% for both the second quarter of 2013 and the second quarter of 2012, and decreased 0.3 percentage points to 5.4% in the two fiscal quarters of 2013 compared to the two 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 slightly to \$1.55 billion in the second quarter and two fiscal quarters of 2013 compared to \$1.60 billion in both the second quarter and two fiscal quarters of 2012. These decreases were due to scheduled principal payments on our fixed rate notes.

Provision for Income Taxes

Provision for income taxes increased \$3.2 million to \$20.2 million in the second quarter of 2013, and \$9.3 million to \$40.4 million in the two fiscal quarters of 2013, due primarily to higher pre-tax income. The effective tax rate remained relatively flat at 37.7% during the second quarter of 2013 compared with the same period in 2012. The effective tax rate decreased 1.5 percentage points to 37.4% during the two fiscal quarters of 2013, from 38.9% in the comparable period in 2012. The 38.9% effective rate in the two fiscal quarters of 2012 was negatively impacted by a valuation allowance recorded on a deferred tax asset of approximately \$0.9 million.

Summary of Recapitalization Expenses

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

| <i>(in millions)</i> | Two 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 June 16, 2013, we had working capital of \$14.0 million, excluding restricted cash and cash equivalents of \$59.7 million, and including unrestricted cash and cash equivalents of \$40.8 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 June 16, 2013, we had approximately \$38.4 million of restricted cash held for future principal and interest payments, \$21.2 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 \$59.7 million of restricted cash and cash equivalents.

As of June 16, 2013, we had approximately \$1.55 billion of long-term debt, of which \$24.2 million was classified as a current liability. Additionally, as of June 16, 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

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corporate purposes. Our primary source of liquidity is cash flows from operations and availability of borrowings under our variable funding notes.

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During the second quarter and two fiscal quarters of 2013, the Company repurchased and retired 655,248 and 1,018,147 shares of common stock for a total of approximately \$38.0 million and \$56.1 million, respectively. As of June 16, 2013, we had approximately \$96.3 million remaining for future share repurchases under the current Board of Directors approved \$200.0 million open market share repurchase program. Subsequent to the second quarter of 2013, the Company repurchased and retired an additional 189,185 shares of common stock for a total of approximately \$10.9 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 two fiscal quarters of 2013, the Company paid approximately \$11.5 million of common stock dividends. Additionally, during the second quarter of 2013, the Company's Board of Directors declared a \$0.20 per share dividend on its outstanding common stock. In connection with the declaration of the dividend, the Company recorded \$11.1 million of dividends payable. On July 17, 2013, the Company's Board of Directors declared a \$0.20 per share quarterly dividend for shareholders of record as of September 13, 2013 to be paid on September 30, 2013.

During the second quarter and two 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 second quarter and two fiscal quarters of 2013. Domestic supply chain and Company-owned stores produced higher margins versus the second quarter and two fiscal quarters of 2012. 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 June 16, 2013.

Cash provided by operating activities was \$66.8 million in the two fiscal quarters of 2013 compared to \$58.1 million in the two fiscal quarters of 2012. The \$8.7 million increase was due primarily to a \$12.4 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 \$3.7 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 \$7.9 million in the two fiscal quarters of 2013 and cash provided by investing activities was \$27.3 million in the two fiscal quarters of 2012. The \$35.2 million change was due primarily to a \$32.7 million change in restricted cash and cash equivalents driven by lower restricted cash reserve requirements as a result of the 2012 recapitalization and a \$3.6 million increase in capital expenditures primarily due to investments in technology initiatives.

Cash used in financing activities was \$72.8 million in the two fiscal quarters of 2013 compared to \$124.2 million in the two fiscal quarters of 2012. The \$51.4 million change was due primarily to a \$1.4 billion decrease in repayments of long-term debt, a \$173.4 million decrease in common stock dividends and equivalent payments and a \$31.6 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 two fiscal quarters of 2013, an additional \$19.2 million of cash was used to repurchase shares of the Company's common stock versus the two fiscal quarters of 2012.

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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, or anticipates* or similar expressions that concern our future 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.

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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 June 16, 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 13.0% in the second quarter of 2013, 12.9% in the second quarter of 2012, 12.9% in the two fiscal quarters of 2013 and 12.7% in the two 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 \$4.4 million in the two 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 June 16, 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.

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 #4 (March 25, 2013 to April 21, 2013) | 34,466 | \$ 50.72 | 32,205 | \$ 132,727,494 |
| Period #5 (April 22, 2013 to May 19, 2013) | 110,111 | 57.63 | 108,136 | 126,490,031 |
| Period #6 (May 20, 2013 to June 16, 2013) | 517,279 | 58.59 | 514,907 | 96,322,368 |
| Total | 661,856 | \$ 58.02 | 655,248 | \$ 96,322,368 |

- (1) Includes 6,608 shares purchased as part of the Company's employee stock purchase discount plan. During the second quarter, the shares were purchased at an average price of \$55.10. 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.

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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: July 23, 2013

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