

Advertising and Sales Force

Dominos domestic stores contributed 5.5 percent of all retail sales to support national and local advertising campaigns. Domino's expects this rate to remain unchanged for the foreseeable future. Much of those monies are devoted to mass-mail flyers promoting specials at the local Domino's.

Domino's Pulse Point-of-Sale System

To maximize efficiencies and provide timely financial and marketing data, Domino's requires all stores to install and use its PULSE system that now exists in all company-owned stores and 98 percent of franchisee-owned stores. The system enables touch-screen ordering that improves order accuracy and efficiency and provides the driver with directions and the best route to take for multiple deliveries, saving time and money. In addition, the PULSE system better enables Domino's to ensure it receives full royalties from all transactions in what is often a cash business, assuming the franchisees are honest and always use the PULSE system when receiving orders.

Finance

Domino's recent income statements and balance sheets are provided in Exhibits 6 and 7, respectively. Note that Domino's revenues increased 2.6 percent in 2012 and the firm's long-term debt rose slightly to \$1.53 billion. Note the company has zero goodwill on its balance sheet.

EXHIBIT 6 Domino's Pizza, Statements of Income (In thousands, except per share amounts)

	2010	2011	2012
REVENUES:			
Domestic company-owned stores	\$ 345,636	\$ 336,349	\$ 323,652
Domestic franchise	173,345	187,007	195,000
Domestic supply chain	875,517	927,904	942,219
International	176,396	200,933	217,568
Total revenues	<u>1,570,894</u>	<u>1,652,193</u>	<u>1,678,439</u>
COST OF SALES:			
Domestic company-owned stores	278,297	267,066	247,391
Domestic supply chain	778,510	831,665	843,329
International	75,498	82,946	86,381
Total cost of sales	<u>1,132,305</u>	<u>1,181,677</u>	<u>1,177,101</u>
OPERATING MARGIN	438,589	470,516	501,338
GENERAL AND ADMINISTRATIVE	<u>210,887</u>	<u>211,371</u>	<u>219,007</u>
INCOME FROM OPERATIONS	227,702	259,145	282,331
INTEREST INCOME	244	296	304
INTEREST EXPENSE	(96,810)	(91,635)	(101,448)
OTHER	<u>7,809</u>	<u>—</u>	<u>—</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	138,945	167,806	181,187
PROVISION FOR INCOME TAXES	<u>51,028</u>	<u>62,445</u>	<u>68,795</u>
NET INCOME	\$ 87,917	\$ 105,361	\$ 112,392
EARNINGS PER SHARE:			
Common Stock—basic	\$ 1.50	\$ 1.79	\$ 1.99
Common Stock—diluted	\$ 1.45	\$ 1.71	\$ 1.91

Source: 2012 Form 10K, p. 50.

EXHIBIT 7 Domino's Pizza, Balance Sheets (In thousands except share and per share amounts)

	2011	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 50,292	\$ 54,813
Restricted cash and cash equivalents	92,612	60,015
Accounts receivable, net of reserves of \$5,446 in 2011 and \$5,906 in 2012	87,200	94,103
Inventories	30,702	31,061
Notes receivable, net of reserves of \$324 in 2011 and \$630 in 2012	945	1,858
Prepaid expenses and other	12,232	11,210
Advertising fund assets, restricted	36,281	37,917
Deferred income taxes	16,579	15,290
Total current assets	<u>326,843</u>	<u>306,267</u>
PROPERTY, PLANT AND EQUIPMENT:		
Land and buildings	23,714	24,460
Leasehold and other improvements	79,518	80,279
Equipment	171,726	168,452
Construction in Process	6,052	9,967
	<u>281,010</u>	<u>283,158</u>
Accumulated depreciation and amortization	(188,610)	(191,713)
Property, plant and equipment, net	<u>92,400</u>	<u>91,445</u>
OTHER ASSETS:		
Investments in marketable securities, restricted	1,538	2,097
Notes receivable, less current portion, net of reserves of \$1,735 in 2011 and \$814 in 2012	5,070	3,028
Deferred financing costs, net of accumulated amortization of \$25,590 in 2011 and \$5,201 in 2012	16,051	34,787
Goodwill	16,649	16,598
Capitalized software, net of accumulated amortization of \$51,274 in 2011 and \$48,381 in 2012	8,176	11,387
Other assets, net of accumulated amortization of \$4,070 in 2011 and \$4,404 in 2012	8,958	8,635
Deferred income taxes	4,858	3,953
Total other assets	<u>61,300</u>	<u>80,485</u>
Total assets	<u>\$ 480,543</u>	<u>\$ 478,197</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:	2011	2012
Current portion of long-term debt	\$ 904	\$ 24,349
Accounts payable	69,714	77,414
Accrued compensation	21,691	21,843
Accrued interest	15,775	15,035
Insurance reserves	13,023	12,964
Legal reserves	10,069	5,025
Advertising fund liabilities	36,281	37,917
Other accrued liabilities	29,718	34,951
Total current liabilities	<u>\$ 197,175</u>	<u>\$ 229,498</u>

(Continued)