

DOMINOS PIZZA INC  
Form 10-K  
February 20, 2018  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

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

**For the fiscal year ended December 31, 2017**

**or**

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

**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)**

**48105**  
**(Zip Code)**

**Registrant's telephone number, including area code (734) 930-3030**

**Securities registered pursuant to Section 12(b) of the Act:**

**Title of each class:**  
**Domino's Pizza, Inc.**

**Name of each exchange on which registered:**  
**New York Stock Exchange**

**Common Stock, \$0.01 par value**

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities

Act: Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act: Yes No

Indicate by check mark whether the 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K:

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of Domino's Pizza, Inc. as of June 18, 2017 computed by reference to the closing price of Domino's Pizza, Inc.'s common stock on the New York Stock Exchange on such date was \$10,126,535,325.

As of February 13, 2018, Domino's Pizza, Inc. had 43,018,242 shares of common stock, par value \$0.01 per share, outstanding.

**Documents incorporated by reference:**

Portions of the definitive proxy statement to be furnished to shareholders of Domino's Pizza, Inc. in connection with the annual meeting of shareholders to be held on April 24, 2018 are incorporated by reference into Part III.

**Table of Contents****TABLE OF CONTENTS**

	<b>Page No.</b>
<b><u>Part I</u></b>	
Item 1. <u>Business</u>	2
Item 1A. <u>Risk Factors</u>	11
Item 1B. <u>Unresolved Staff Comments</u>	19
Item 2. <u>Properties</u>	19
Item 3. <u>Legal Proceedings</u>	19
Item 4. <u>Mine Safety Disclosures</u>	19
Item 4A. <u>Executive Officers of the Registrant</u>	19
<b><u>Part II</u></b>	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	20
Item 6. <u>Selected Financial Data</u>	22
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	40
Item 8. <u>Financial Statements and Supplementary Data</u>	41
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	75
Item 9A. <u>Controls and Procedures</u>	75
Item 9B. <u>Other Information</u>	75
<b><u>Part III</u></b>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	76
Item 11. <u>Executive Compensation</u>	79
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	79
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	79
Item 14. <u>Principal Accountant Fees and Services</u>	79
<b><u>Part IV</u></b>	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	80
Item 16. <u>Form 10-K Summary</u>	85
<b><u>SIGNATURES</u></b>	91

Throughout this document, Domino's Pizza, Inc. (NYSE: DPZ) is referred to as the Company, Domino's, Domino's Pizza or in the first person notations of we, us and our.

In this document, we rely on and refer to information regarding the U.S. quick service restaurant, or QSR, sector and the U.S. QSR pizza category from the CREST® report (years ending November) prepared by The NPD Group, as well as market research reports, analyst reports and other publicly-available information. Although we believe this information to be reliable, we have not independently verified it. Domestic sales information relating to the U.S. QSR sector and the U.S. QSR pizza category represent reported consumer spending obtained by The NPD Group's CREST® report from consumer surveys. This information relates to both our Company-owned and franchised stores.



**Table of Contents**

**Part I**

**Item 1. Business.**

**Overview**

Domino's is the largest pizza company in the world based on global retail sales, with more than 14,800 locations in over 85 markets around the world. Founded in 1960, our roots are in convenient pizza delivery, while a significant amount of our sales also come from carryout customers. Although we are a highly-recognized global brand, we focus on serving the local neighborhoods in which we live and do business through our large network of franchise owners and Company-owned stores. On average, we and our franchisees sell more than 2.5 million pizzas each day throughout our global system.

Our business model is straightforward: we handcraft and serve quality food at a competitive price, with easy ordering access and efficient service, enhanced by our technology innovations. Our dough is generally made fresh and distributed to stores around the world by us and our franchisees.

Domino's generates revenues and earnings by charging royalties and fees to our franchisees. Royalties are ongoing percent-of-sales fees for use of the Domino's® brand marks. The Company also generates revenues and earnings by selling food, equipment and supplies to franchisees primarily in the U.S. and Canada, and by operating a number of our own stores. Franchisees profit by selling pizza and other complementary items to their local customers. In our international markets, we generally grant geographical rights to the Domino's Pizza® brand to master franchisees. These master franchisees are charged with developing their geographical area, and they may profit by sub-franchising and selling food and equipment to those sub-franchisees, as well as by running pizza stores. Everyone in the system can benefit, including the end consumer, who can feed Domino's menu items to their family conveniently and economically.

Our business model can yield strong returns for our franchise owners and Company-owned stores. It can also yield significant cash flow to us, through a consistent franchise royalty payment and supply chain revenue stream, with moderate capital expenditures. We have historically returned cash to shareholders through dividend payments and share repurchases since becoming a publicly-traded company.

**Our History**

We pioneered the pizza delivery business and built Domino's Pizza into one of the most widely-recognized consumer brands in the world. We have been delivering quality, affordable food to our customers since 1960, when brothers Thomas and James Monaghan borrowed \$900 to purchase a small pizza store in Ypsilanti, Michigan. Thomas purchased his brother's share of the business shortly thereafter. Concentrating first on building stores near college campuses and military bases in the 1960s and 1970s, the brand grew quickly in the 1980s in urban markets and near residential communities. We became Domino's Pizza in 1965 and opened our first franchised store in 1967. The first international stores opened in 1983, in Canada and Australia.

Monaghan sold 93% of his economic stake in the Company in 1998 to Bain Capital, LLC, then sold and transferred his remaining stake in the Company in 2004, when we completed our initial public offering.

Since 1998, the Company has been structured with a leveraged balance sheet and has completed a number of recapitalization events. The Company's most recent recapitalization transaction in 2017 (the 2017 Recapitalization )

primarily consisted of the issuance of \$1.9 billion of fixed and floating rate notes and the repurchase and retirement of \$910.2 million of previously outstanding fixed rate notes. Following the 2017 Recapitalization, and including debt from its previous recapitalization in 2015 (the 2015 Recapitalization ), the Company had \$3.15 billion in total debt. Excess proceeds from both our 2015 and 2017 Recapitalizations were primarily used to repurchase shares of our common stock.

We re-launched our brand in the U.S. in late 2009 by introducing a new recipe for our core pizza product. Since 2008, the majority of our menu has changed, either through the improvement of existing products or the introduction of new products, such as our Handmade Pan Pizza and Specialty Chicken. During this time frame, we also began expanding our focus on technology through our development of innovative ordering platforms and other technological advancements, such as the launch of our Piece of the Pie Rewards® loyalty program in 2015. Globally, we opened our 10,000<sup>th</sup> store in 2012 and our 14,000<sup>th</sup> store in 2017. In 2013, we announced a plan requiring all stores to adopt our new carry-out friendly Pizza Theater store design, which is more inviting to customers and allows them to see their orders being made fresh in front of them. The majority of our domestic and international stores have completed these remodels as of the end of 2017.

---

## **Table of Contents**

### **Our Industry**

The U.S. QSR pizza category is large and fragmented. From 2007 through 2017, the U.S. QSR pizza category has grown from \$32.9 billion to \$36.0 billion. It is the second-largest category within the \$290.2 billion U.S. QSR sector. The U.S. QSR pizza category is primarily comprised of delivery, dine-in and carryout.

In the U.S., we compete primarily in the delivery and carryout segments of the pizza industry. We are the market share leader in the delivery segment and we are amongst the top three chains in share in the carryout segment. Delivery segment sales of \$9.8 billion in 2017 (down from \$10.9 billion in 2007) account for approximately 27% of total U.S. QSR pizza. The delivery segment declined during the period from 2007 to 2012, and has increased slightly since 2012, from \$9.7 billion in 2012 to \$9.8 billion in 2017. The three industry leaders, including Domino's, account for over 56% of U.S. pizza delivery, based on reported consumer spending, with the remaining sales going to regional chains and independent establishments. From 2007 to 2017, the carryout segment grew from \$13.5 billion to \$16.7 billion. The four industry leaders, including Domino's, account for approximately 48% of the carryout segment.

In contrast to the U.S., international pizza delivery is relatively underdeveloped, with only Domino's and two other competitors having a significant global presence. We believe that demand for pizza and pizza delivery is large and growing throughout the world, driven by international consumers' increasing emphasis on convenience, and the proven success of our 35 years of conducting business abroad.

### ***Our Competition***

The global pizza delivery and carryout segments are highly competitive. In the U.S., we compete against regional and local companies as well as national chains Pizza Hut®, Papa John's® and Little Caesars Pizza®. Internationally, we compete primarily with Pizza Hut®, Papa John's® and country-specific national and local pizzerias. We generally compete on the basis of product quality, location, image, service, technology, convenience and price. Our business and those of our competitors can be affected by changes in consumer tastes, economic conditions, demographic trends and consumers' disposable income. We also compete on a broader scale with other food and food delivery companies. We compete not only for customers, but also for employees, suitable real estate sites and qualified franchisees.

### ***Our Customers***

The Company's business is not dependent upon a single retail customer or small group of customers, including franchisees. No customer accounted for more than 10% of total consolidated revenues in 2017, 2016 or 2015. Our largest franchisee based on store count, Domino's Pizza Enterprises (DMP: ASX), operates 2,170 stores in seven international markets, and accounts for 15% of our total store count. Revenues from this master franchisee accounted for 1.5% of our consolidated revenues in 2017. Our international business unit only requires a minimal amount of general and administrative expenses to support its markets, and does not have costs of sales. Therefore, the vast majority of these royalty revenues result in profits to us.

### ***Our Menu***

We offer a menu designed to present an attractive, quality offering to customers, while keeping it simple enough to minimize order errors and expedite order-taking and food preparation. Our basic menu features pizza products with varying sizes and crust types. Our typical store also offers oven-baked sandwiches, pasta, boneless chicken and wings, bread side items, desserts and soft drink products. International markets vary toppings by country and culture, such as squid topping in Japan or spicy cheese in India, and often feature regional specialty items, such as a banana and cinnamon dessert pizza in Brazil.



***Store Image and Operations***

We have been focused primarily on pizza delivery for over 55 years, as well as carryout as a significant component of our business. In 2012, we introduced our carryout-friendly Pizza Theater store design; the majority of our domestic and international stores have converted to this design as of the end of 2017. Many stores offer casual seating and enable customers to watch the preparation of their orders, but do not offer a full-service dine-in experience. As a result, our stores generally do not require expensive restaurant facilities and staffing.

***Research and Development***

We conduct research and product development at our World Resource Center (our corporate headquarters) in Ann Arbor, Michigan. Company-sponsored research and development activities, which include testing new products for possible menu additions, are an important activity for us and our franchisees. We do not consider the amounts spent on research and development to be material.

## **Table of Contents**

### **Our Business Segments**

We operate, and report, three business segments: domestic stores, international franchise and supply chain.

#### **Domestic Stores**

Our domestic stores segment consists primarily of our franchise operations, which consist of 5,195 franchised stores located in the contiguous United States. We also operate a network of 392 domestic Company-owned stores located in the contiguous United States.

During 2017, our domestic stores segment accounted for \$842.2 million, or over 30% of our consolidated revenues. We use our Company-owned stores as test sites for new products and promotions as well as operational improvements. We also use them for training new store managers and operations team members, as well as developing prospective franchisees. While we are primarily a franchised business, we continuously evaluate our mix of domestic Company-owned and franchise stores.

We maintain a productive relationship with our independent franchise owners through regional franchise teams, distributing materials that help franchise stores comply with our standards and using franchise advisory groups that facilitate communications between us and our franchisees.

#### ***Domestic Franchise Profile***

As of December 31, 2017, our network of 5,195 domestic franchise stores were owned and operated by 789 independent domestic franchisees. Our franchise formula enables franchisees to benefit from our brand name with a relatively low initial capital investment. As of December 31, 2017, the average domestic franchisee owned and operated seven stores and had been in our franchise system for over 18 years. At the same time, 14 of our domestic franchisees operated more than 50 stores (including our largest domestic franchisee who operated 187 stores) and 271 of our domestic franchisees each operated one store.

We apply rigorous standards to prospective domestic franchisees. We generally require them to manage a store for at least one year before being granted a franchise. This enables us to observe the operational and financial performance of a potential franchisee prior to entering into a long-term contract. Significantly all of our 789 independent domestic franchise owners started their careers with us as delivery drivers or in other in-store positions, which we believe offers advantages in terms of familiarity with our business and store operations. In addition, we generally restrict the ability of domestic franchisees to be involved in other businesses, which we believe helps focus our franchisees' attention on operating their stores. We believe these characteristics and standards are largely unique within the franchise industry and have resulted in qualified and focused franchisees operating Domino's stores.

#### ***Domestic Franchise Agreements***

We enter into franchise agreements with domestic franchisees under which the franchisee is generally granted the right to operate a store in a particular location for a term of ten years, with an ability to renew for an additional term of ten years. We have a franchise contract renewal rate of approximately 99%. Under the current standard franchise agreement, we assign an exclusive area of primary responsibility to each franchised store. Each franchisee is generally required to pay a 5.5% royalty fee on sales. In certain instances, we will collect lower rates based on area development agreements, sales initiatives and new store incentives.

## Edgar Filing: DOMINOS PIZZA INC - Form 10-K

Our domestic stores currently contribute 6% of their sales to fund national marketing and advertising campaigns (subject, in limited instances, to lower rates based on certain incentives and waivers). These funds are administered by Domino's National Advertising Fund Inc. (DNAF), our not-for-profit advertising subsidiary. The funds are primarily used to purchase media for advertising, but also support market research, field communications, public relations, commercial production, talent payments and other activities to promote the brand. In addition to the national and market-level advertising contributions, domestic stores spend additional funds on local store marketing activities.

We have the contractual right, subject to state law, to terminate a franchise agreement for a variety of reasons, including, but not limited to, a franchisee's failure to adhere to the Company's franchise agreement, failure to make required payments, or failure to adhere to specified Company policies and standards.

**Table of Contents****International Franchise**

Our international franchise segment is comprised of a network of franchised stores in more than 85 international markets. At December 31, 2017, we had 9,269 international franchise stores. During 2017, this segment accounted for \$206.7 million, or over 7% of our consolidated revenues. The principal sources of revenues from those operations are royalty payments generated by retail sales from franchised stores.

Our international franchisees employ our basic standard operating model, and adapt it to satisfy the local eating habits and consumer preferences of various regions outside the United States. Currently, the vast majority of our international stores operate under master franchise agreements.

We believe Domino's appeals to potential international franchisees because of our recognized brand name and technological leadership, the moderate capital expenditures required to open and operate our stores and our system's favorable store economics. Our top five international markets in terms of store count are master franchise companies, which are publicly traded on stock exchanges in Australia (DMP:ASX), India (JUBLFOOD: NS), Mexico (ALSEA: MX), Turkey (DPEU: L) and the United Kingdom (DOM: L). The following table shows our store count as of December 31, 2017 in our top ten international markets, which accounted for approximately 66% of our international stores as of December 31, 2017.

<b>Market</b>	<b>Number of stores</b>
India	1,126
United Kingdom	1,042
Mexico	701
Australia	670
Turkey	508
Japan	503
Canada	472
South Korea	444
France	370
Netherlands	242

***International Franchisee Profile***

The vast majority of our markets outside of the contiguous United States are operated by master franchisees with franchise and distribution rights for entire regions or countries. In a few select markets, we franchise directly to individual store operators. Prospective master franchisees are required to possess local market knowledge to establish and develop Domino's Pizza stores, with the ability to identify and access targeted real estate sites, as well as expertise in local laws, customs, culture and consumer behavior. We also seek candidates that have access to sufficient capital to meet growth and development plans.

***Master Franchise Agreements***

Our master franchise agreements generally grant the franchisee exclusive rights to develop and sub-franchise stores and the right to operate supply chain centers in particular geographic areas. Agreements are generally for a term of ten to 20 years, with options to renew for additional terms. The agreements typically contain growth clauses requiring franchisees to open a minimum number of stores within a specified period. The master franchisee is generally required

to pay an initial, one-time franchise fee as well as an additional franchise fee upon the opening of each new store. The master franchisee is also required to pay a continuing royalty fee as a percentage of sales, which varies among international markets, and averaged approximately 3.0% in 2017.

### **Supply Chain**

Our supply chain segment operates 18 regional dough manufacturing and food supply chain centers in the U.S., one thin crust manufacturing center, one vegetable processing center and one center providing equipment and supplies to certain of our domestic and international stores. An additional regional dough manufacturing and food supply chain center is expected to open in fiscal 2018. We also operate five dough manufacturing and food supply chain centers in Canada. Our supply chain segment leases a fleet of more than 600 tractors and trailers. During 2017, our supply chain segment accounted for \$1.74 billion, or nearly 63% of our consolidated revenues.

Our centers produce fresh dough and purchase, receive, store and deliver quality food and other complementary items to over 99% of our U.S. and Canadian franchised stores and all of our Company-owned stores. We regularly supply over 6,000 stores with various food and supplies. Our supply chain segment made approximately 699,000 full-service deliveries in 2017 or approximately two deliveries per store per week, and we produced over 525 million pounds of dough during 2017.

## **Table of Contents**

We believe our franchisees voluntarily choose to obtain food, supplies and equipment from us because we offer the most efficient, convenient and cost-effective alternative, while also offering both quality and consistency. Our supply chain segment offers profit-sharing arrangements to franchisees who purchase all of their food for their stores from our centers. These profit-sharing arrangements generally offer participating franchisees and Company-owned stores with 50% (or a higher percentage in the case of Company-owned stores and certain franchisees who operate a larger number of stores) of their regional supply chain center's pre-tax profits. We believe these arrangements strengthen our ties and provide aligned benefits with franchisees.

### ***Third-Party Suppliers***

Over half of our annual food spend is with suppliers where we have maintained a partnership of at least 20 years. Our supply partners are required to meet strict quality standards to ensure food safety. We review and evaluate these partners' quality assurance programs through (among other actions) on-site visits, third-party audits and product evaluations to ensure compliance with our standards. We believe the length and quality of our relationships with third-party suppliers provides us with priority service and quality products at competitive prices.

Cheese is our largest food cost. The price we charge to our domestic franchisees for cheese is based on the Chicago Mercantile Exchange cheddar block price, plus a supply chain markup. As cheese prices fluctuate, our revenues and margin percentages in our supply chain segment also fluctuate; however, actual supply chain dollar margins remain unchanged. We currently purchase our domestic pizza cheese from a single supplier. Under the September 2017 agreement, our domestic supplier agreed to provide an uninterrupted supply of cheese and the Company agreed to a seven-year pricing schedule to purchase all of its domestic pizza cheese from this supplier. While we expect to meet the terms of this agreement, if we do not, we will be required to repay the certain negotiated cost savings as outlined in the agreement. The majority of our meat toppings in the U.S. come from a single supplier under an extension of a previous agreement. We are currently in negotiations for a longer-term contract that would extend through June 2022. We have the right to terminate these arrangements for quality failures and for uncured breaches.

We are party to a multi-year agreement with Coca-Cola® for the contiguous United States. This contract, renegotiated in December 2013, provides for Coca-Cola to continue to be our exclusive beverage supplier and expires on December 31, 2018 or at such time as a minimum number of cases of Coca-Cola products are purchased by us, whichever occurs later.

We believe alternative third-party suppliers are available for all of these referenced products. While we may incur additional costs if we are required to replace any of our supply partners, we do not believe such additional costs would have a material adverse effect on our business. We continually evaluate each supply category to determine the optimal sourcing strategy.

We have not experienced any significant shortages of supplies or delays in receiving our inventories or products. Prices charged to us by our supply partners are subject to fluctuation, and we have historically been able to pass increased costs and savings on to stores. We periodically enter into supplier contracts to manage the risk from changes in commodity prices. We do not engage in speculative transactions, nor do we hold or issue financial instruments for trading purposes.

## **Our Strengths**

### **Strong Brand Equity**

We are the largest pizza company in the world based on global retail sales. We believe our Domino's Pizza brand is one of the most widely-recognized consumer brands in the world. We are the recognized world leader in pizza delivery and have a significant business in carryout. We believe consumers associate our brand with the timely delivery of quality, affordable food.

Over the past five years, our U.S. franchise and Company-owned stores have invested an estimated \$1.8 billion in national, co-operative and local advertising. Our international franchisees also invest significant amounts in advertising efforts in their markets. We continue to reinforce our brand with extensive advertising through various media channels. We have also enhanced the strength of our brand through marketing affiliations with brands such as Coca-Cola.

We are the number one pizza delivery company in the United States with a 29.0% share of pizza delivery based on reported consumer spending. With 5,587 stores located in the contiguous United States, our store delivery areas cover a majority of U.S. households. Our share position and scale allow us to leverage our purchasing power, supply chain strength and marketing investments. We believe our scale and market coverage allow us to effectively serve our customers' demands for convenience and timely delivery. Outside the U.S., we have significant market share positions in many of the markets in which we compete.

---

## **Table of Contents**

### **Strong and Proven Business Model**

Our business model is comprised of domestic and international franchise royalties and fees, revenue from supply chain and revenue from retail sales at Company-owned stores. We have developed this model over our many years of operation and it is anchored by strong store-level economics, which provide an entrepreneurial incentive for our franchisees and historically has generated demand for new stores. Our franchise system, in turn, has produced strong and consistent earnings for us through royalty payments and through supply chain revenues, with moderate capital expenditures by us.

We developed a cost-efficient store model, characterized by a delivery- and carryout-oriented store design, with moderate capital requirements and a menu of quality, affordable items. At the store level, we believe the simplicity and efficiency of our operations give us significant advantages over our competitors, who, in many cases, also focus on dine-in or have broader menu offerings. At the supply chain level, we believe we provide quality and consistency for our franchise customers while also driving profits for us, which we share with our franchisees.

Our menu simplifies and streamlines production and delivery processes and maximizes economies of scale on purchases of our principal food items. In addition, our stores are generally smaller and less expensive to build, furnish and maintain as compared to many other restaurant concepts. New stores built in our Pizza Theater design may be slightly larger than stores we have built in the past to create a better experience for our carryout and dine-in customers; however, they are still generally smaller and less expensive than many other restaurant concepts. The combination of this efficient store model and strong sales volume has resulted in strong store-level financial returns and, we believe, makes Domino's Pizza an attractive business opportunity for existing and prospective franchisees around the world.

We believe our store economics have led to a strong, well-diversified franchise system. This established franchise system has produced strong cash flow and earnings for us, enabling us to invest in the Domino's Pizza brand, stores, technology and supply chain centers, pay significant dividends, repurchase and retire shares of our common stock and service our debt obligations.

### **Technological Innovation**

Technological innovation is vital to our brand and our long-term success. Digital ordering is critical to competing in the global pizza industry. In 2017, more than half of all global retail sales were derived from digital channels, primarily through our online ordering website and mobile applications. We believe we are among the largest e-commerce retailers in terms of annual transactions. After launching digital ordering domestically in 2008, we made the strategic decision in 2010 to develop our own online ordering platform and to manage this important and growing area of our business internally. Over the next five years, we launched mobile applications that cover 95% of the smartphones and tablets on the U.S. market. In 2013, we launched an enhanced online ordering profiles platform, allowing customers the ability to reorder their favorite order in as few as five clicks, or 30 seconds. In 2014, we introduced Dom, a voice ordering application, which we believe is the first in the restaurant industry, and we also made the Domino's Tracker<sup>®</sup> available on our ordering platforms. In 2015, we introduced several innovative ordering platforms including Samsung Smart TV<sup>®</sup>, Twitter, and text message using a pizza emoji. We continued this trend of innovation in 2016 with the introduction of zero-click ordering as well as adding Google Home, Facebook Messenger, Apple Watch, and Amazon Echo to our ordering platforms. In 2017, as part of an industry-first collaboration with Ford Motor Company, Domino's began a meaningful test of delivery using self-driving vehicles.

During 2015, the Company also launched its Piece of the Pie Rewards loyalty program, which is meant to reward customers with a program that is simple to understand and easy to use. Upon signing up for the program, customers become rewards members and can earn points for online orders. When rewards members reach a certain amount of



points, they can redeem their points for free pizza. Rewards members may also receive exclusive members-only discounts and bonus offers. We may also occasionally provide additional opportunities for participating customers to benefit under the Piece of the Pie Rewards program.

All of this improved functionality has been developed to work seamlessly with our Domino's PULSE point-of-sale system. Our Domino's PULSE system is designed to drive operating efficiencies for our franchisees and our corporate management and assist franchisees in independently managing their business. We have installed Domino's PULSE in every Company-owned store in the U.S., in more than 99% of our domestic franchised stores and in over 71% of our international stores.

We believe utilizing Domino's PULSE with our integrated technology solutions throughout our system, provides us with competitive advantages over other concepts. We intend to continue to enhance and grow our online ordering, digital marketing and technological capabilities.

## **Table of Contents**

### **Product Innovation**

In late 2009, we reintroduced our core pizza in the U.S. with a new recipe, which we believe has contributed to continued growth in customer reorder rate, consumer traffic and increased sales. This recipe is now in use in the vast majority of markets around the world. Our more than 55 years of innovation have resulted in numerous new product developments, including our more recent innovations of Handmade Pan Pizza, Specialty Chicken, Parmesan Bread Bites, Stuffed Cheesy Bread, Marbled Cookie Brownie and Bread Twists, among others. Product innovation is also present in our global markets, where our master franchisees have the ability to recommend products to suit their local market tastes. Products include the Mayo Jaga in Japan (bacon, potatoes and sweet mayonnaise) and the Saumoneta in France (light cream, potatoes, onions, smoked salmon and dill).

### **Internal Dough Manufacturing and Supply Chain System**

In addition to generating significant revenues and earnings in the United States and Canada, we believe our vertically integrated dough manufacturing and supply chain system enhances the quality and consistency of our products, enhances our relationships with franchisees and leverages economies of scale to offer lower costs to our stores. It also allows store managers to better focus on store operations and customer service by relieving them of the responsibility of mixing dough in the stores and sourcing other ingredients. Many of our international master franchisees also profit from running supply chain businesses.

### **Our Ideals**

We believe in: opportunity, hard work, inspired solutions, winning together, embracing community and uncommon honesty.

Opportunity abounds at Domino's. You can start in an entry-level position and become a store owner—in fact, significantly all of our independent domestic franchise owners started their careers with us as delivery drivers or in other in-store positions. Thousands of other team members—supervisors, trainers, quality auditors, international business consultants, marketers and executives—also began their careers in the stores. Internal growth and providing opportunities for anyone willing to work hard is the foundation of our core beliefs.

The ideals of inspired solutions, uncommon honesty and winning together were driving forces behind the relaunch of our brand. We were inspired by our harshest critics when it came to the perceived taste of our pizza. Our solution was not simply more advertising; the solution was to create a new recipe and a broader menu of great-tasting products. Our marketing campaign was shockingly honest in its approach: telling consumers (and showing them via television ads) that we heard their negative feedback and were listening. And, without the buy-in from our franchise owners, we couldn't have done it. We believe that we can't focus solely on the Company's success; we must focus on making our stores and our franchisees successful. That's winning together.

### **Community Involvement**

We believe in supporting the communities we serve through donating our time, money and pizza. You can find more information about our community giving at [biz.dominos.com](http://biz.dominos.com). Here are two organizations worthy of note:

Our national philanthropic partner is St. Jude Children's Research Hospital®. St. Jude is internationally-recognized for its pioneering work in finding cures and saving children with cancer and other catastrophic diseases. Through a variety of internal and consumer-based activities, including a national fundraising campaign called *St. Jude Thanks and Giving*®, the Domino's system has contributed more than \$47.0 million to St. Jude since our partnership began in

2004, including raising \$8.9 million in 2017. In addition to raising funds, we have supported St. Jude through in-kind donations, including hosting hospital-wide pizza parties for patients and their families. Our system also helps St. Jude build awareness through the inclusion of the St. Jude logo on millions of our pizza boxes and through a link on our consumer website, as well as a St. Jude-themed Pizza Tracker during *Thanks and Giving*<sup>®</sup>.

We also support the Domino's Pizza Partners Foundation (the Partners Foundation). Founded in 1986, the mission of the Partners Foundation is Team Members Helping Team Members. Primarily funded by team member and franchise contributions, the foundation is a separate, not-for-profit organization that has disbursed more than \$5.9 million over the past five years. The Partners Foundation is committed to meeting the needs of Domino's team members facing crisis situations, such as fire, illness, natural disasters or other personal tragedies, including meaningful financial support for hurricane victims and their families in 2017.

## **Table of Contents**

### **Additional Disclosures**

#### **Employees**

As of December 31, 2017, we had approximately 14,100 employees in our Company-owned stores, supply chain centers, World Resource Center and regional offices. None of our employees are represented by a labor union or covered by a collective bargaining agreement. As franchisees are independent business owners, they and their employees are not included in our employee count. We consider our relationship with our employees and franchisees to be good. We estimate the total number of people who work in the Domino's system, including our employees, franchisees and the employees of franchisees, was more than 310,000 as of December 31, 2017.

#### **Working Capital**

Information about the Company's working capital is included in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7., pages 32 through 36.

#### **Government Regulation**

We, along with our franchisees, are subject to various federal, state and local laws affecting the operation of our business. Each store is subject to licensing and regulation by a number of governmental authorities, which include zoning, health, safety, sanitation, building and fire agencies in the jurisdiction in which the store is located. In connection with maintaining our stores, we may be required to expend funds to meet certain federal, state and local regulations, including regulations requiring that remodeled or altered stores be accessible to persons with disabilities. Difficulties in obtaining, or the failure to obtain, required licenses or approvals could delay or prevent the opening of a new store in a particular area or cause an existing store to cease operations. Our supply chain facilities are also licensed and subject to similar regulations by federal, state and local health and fire codes.

We are also subject to the Fair Labor Standards Act and various other federal and state laws governing such matters as minimum wage requirements, overtime and other working conditions and citizenship requirements. A significant number of both our and our franchisees' food service personnel are paid at rates related to the applicable minimum wage, and past increases in the minimum wage have increased labor costs, as would future increases.

We are subject to the rules and regulations of the Federal Trade Commission and various state laws regulating the offer and sale of franchises. The Federal Trade Commission and various state laws require that we furnish a franchise disclosure document containing certain information to prospective franchisees, and a number of states require registration of the franchise disclosure document with state authorities. We are operating under exemptions from registration in several states based on the net worth of our subsidiary, Domino's Pizza Franchising LLC, and experience. We believe our franchise disclosure document, together with any applicable state versions or supplements, and franchising procedures comply in all material respects with both the Federal Trade Commission guidelines and all applicable state laws regulating franchising in those states in which we have offered franchises.

Internationally, our franchise stores are subject to national and local laws and regulations that are often similar to those affecting our domestic stores, including laws and regulations concerning franchises, labor, health, sanitation and safety. Our international stores are also often subject to tariffs and regulations on imported commodities and equipment, and laws regulating foreign investment. We believe our international disclosure statements, franchise offering documents and franchising procedures comply in all material respects with the laws of the foreign countries in which we have offered franchises.

## **Privacy and Data Protection**

We are subject to a number of privacy and data protection laws and regulations globally. The legislative and regulatory landscape for privacy and data protection continues to evolve, and there has been an increase in attention given to privacy and data protection issues with the potential to directly affect our business. This includes recently-enacted laws and regulations in the United States and internationally requiring notification to individuals and government authorities of security breaches involving certain categories of personal information. We have a privacy policy posted on our website at [www.dominos.com](http://www.dominos.com) and believe that we are in material compliance therewith.

## **Trademarks**

We have many registered trademarks and service marks and believe that the Domino's mark and Domino's Pizza names and logos, in particular, have significant value and are important to our business. Our policy is to pursue registration of our trademarks and to vigorously oppose the infringement of any of our trademarks. We license the use of our registered marks to franchisees through franchise agreements.

## **Table of Contents**

### **Environmental Matters**

We are not aware of any federal, state or local environmental laws or regulations that we would expect to materially affect our earnings or competitive position, or result in material capital expenditures. However, we cannot predict the effect of possible future environmental legislation or regulations. During 2017, there were no material environmental compliance-related capital expenditures, and no such material expenditures are anticipated in 2018.

### **Seasonal Operations**

The Company's business is not typically seasonal.

### **Backlog Orders**

The Company has no backlog orders as of December 31, 2017.

### **Government Contracts**

No material portion of the Company's business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the United States government.

### **Financial Information about Business Segments and Geographic Areas**

Financial information about international and United States markets and business segments is incorporated herein by reference to Selected Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related footnotes in Part II, Item 6., pages 22 through 23, Item 7. and 7A., pages 24 through 40 and Item 8., pages 41 through 74, respectively, of this Form 10-K.

### **Available Information**

The Company makes available, free of charge, through its internet website [biz.dominos.com](http://biz.dominos.com), its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and amendments to those reports filed or furnished pursuant to Section 13(a), 15(d), or 16 of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after electronically filing such material with the Securities and Exchange Commission. You may read and copy any materials filed with the Securities and Exchange Commission at the Securities and Exchange Commission's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. This information is also available at [www.sec.gov](http://www.sec.gov). The reference to these website addresses does not constitute incorporation by reference of the information contained on the websites and information appearing on those websites, including [biz.dominos.com](http://biz.dominos.com), should not be considered a part of this document.

## **Table of Contents**

### **Item 1A. Risk Factors.**

*The quick service restaurant pizza category is highly competitive and such competition could adversely affect our operating results.*

In the U.S., we compete against regional and local companies as well as national chains Pizza Hut®, Papa John ® and Little Caesars Pizza®. Internationally, we compete primarily with Pizza Hut®, Papa John ® and country-specific national and local pizzerias. We could experience increased competition from existing or new companies in the pizza category which could create increasing pressures to grow our business in order to maintain our market share. If we are unable to maintain our competitive position, we could experience downward pressure on prices, lower demand for our products, reduced margins, the inability to take advantage of new business opportunities and the loss of market share, all of which would have an adverse effect on our operating results and could cause our stock price to decline.

We also compete on a broader scale with quick service and other international, national, regional and local restaurants. Competition from delivery aggregators and other food delivery services has also increased in recent years. The overall food service market and the quick service restaurant sector are intensely competitive with respect to food quality, price, service, image, convenience and concept, and are often affected by changes in:

consumer tastes;

international, national, regional or local economic conditions;

disposable purchasing power;

demographic trends; and

currency fluctuations related to international operations.

We compete within the food service market and the quick service restaurant sector not only for customers, but also for management and hourly employees, including drivers, suitable real estate sites and qualified franchisees. Our supply chain segment is also subject to competition from outside suppliers. While all domestic franchisees purchased food, equipment and supplies from us in 2017, domestic franchisees are not required to purchase food, equipment or supplies from us and they may choose to purchase from outside suppliers. If other suppliers who meet our qualification standards were to offer lower prices or better service to our franchisees for their ingredients and supplies and, as a result, our franchisees chose not to purchase from our domestic supply chain centers, our financial condition, business and results of operations would be adversely affected.

*If we fail to successfully implement our growth strategy, which includes opening new domestic and international stores, our ability to increase our revenues and operating profits could be adversely affected.*

A significant component of our growth strategy includes the opening of new domestic and international stores. We and our franchisees face many challenges in opening new stores, including, among others:

availability of financing with acceptable terms;

selection and availability of suitable new store sites and the ability to renew leases in quality locations;

negotiation of acceptable lease or financing terms;

securing required domestic or foreign governmental permits, licenses and approvals;

employment and training of qualified personnel; and

general economic and business conditions.

The opening of additional franchise stores also depends, in part, upon the availability of prospective franchisees who meet our criteria. Our failure to add a significant number of new stores would adversely affect our ability to increase revenues and operating income. Additionally, our growth strategy and the success of new stores depend in large part on the availability of suitable store sites. If we and our franchisees are not able to secure leases in desired locations on favorable terms, or to renew such leases, our business and results of operations may be adversely affected.

We and our franchisees are currently planning to expand our domestic and international operations in many of the markets where we currently operate and in select new markets. This may require considerable management time as well as start-up expenses for market development before any significant revenues and earnings are generated. Operations in new foreign markets may achieve low margins or may be unprofitable, and expansion in existing markets may be affected by local economic and market conditions. Therefore, as we expand internationally, we or our franchisees may not experience the operating margins we expect, our results of operations may be negatively impacted and our common stock price may decline.

We may also pursue strategic acquisitions as part of our business. If we are able to identify acquisition candidates, such acquisitions may be financed, to the extent permitted under our debt agreements, with substantial debt or with potentially dilutive issuances of equity securities.



**Table of Contents**

***The food service market is affected by consumer preferences and perceptions. Changes in these preferences and perceptions may reduce the demand for our products, which would reduce sales and harm our business.***

Food service businesses are affected by changes in consumer tastes, international, national, regional and local economic conditions, and demographic trends. For instance, if prevailing health or dietary preferences cause consumers to avoid pizza and other products we offer in favor of foods that are perceived as healthier, our business and operating results would be harmed. Moreover, because we are primarily dependent on a single product, if consumer demand for pizza should decrease, our business would suffer more than if we had a more diversified menu, as many other food service businesses do. The preferences of customers also may change as a result of advances in technology or alternative delivery methods or channels. If we are not able to respond to these changes, or our competitors respond to these changes more effectively, our business and operating results could be adversely affected.

***Reports of food-borne illness or food tampering could reduce sales and harm our business.***

Reports, whether true or not, of food-borne illnesses (such as E. coli, avian flu, bovine spongiform encephalopathy, hepatitis A, trichinosis or salmonella) and injuries caused by food tampering have in the past severely injured the reputations of participants in the QSR sector and could in the future as well. The potential for acts of terrorism on our global food supply also exists and, if such an event occurs, it could have a negative impact on us and could severely hurt sales and profits. In addition, our reputation is an important asset; as a result, anything that damages our reputation could immediately and severely affect our sales and profits. Media reports of illnesses and injuries, whether accurate or not, could force some stores to close or otherwise reduce sales at such stores. In addition, reports of food-borne illnesses or food tampering, even those occurring solely at the restaurants of competitors, could, by resulting in negative publicity about the restaurant industry, adversely affect us on a local, regional, national or international basis.

***Increases in food, labor and other costs could adversely affect our profitability and operating results.***

An increase in our operating costs could adversely affect our profitability. Factors such as inflation, increased food costs, increased labor and employee health and benefit costs, increased rent costs and increased energy costs may adversely affect our operating costs. Most of the factors affecting costs are beyond our control and, in many cases, we may not be able to pass along these increased costs to our customers or franchisees. Most ingredients used in our pizza, particularly cheese, are subject to significant price fluctuations as a result of seasonality, weather, demand and other factors. Cheese is a significant cost to us, representing approximately 20-25% of the market basket purchased by our Company-owned stores. Labor costs are largely a function of the minimum wage for a majority of our store personnel and certain supply chain center personnel and, generally, are also a function of the availability of labor. Several states in which we operate have recently approved minimum wage increases. As minimum wage increases are implemented in these states or if such increases are approved and implemented in other states in which we operate, we expect our labor costs will increase. Labor costs and food costs, including cheese, represent approximately 50% to 60% of the sales at a typical Company-owned store.

***We do not have long-term contracts with certain of our suppliers, and as a result they could seek to significantly increase prices or fail to deliver.***

We do not have long-term contracts or arrangements with certain of our suppliers. Although in the past we have not experienced significant problems with our suppliers, our suppliers may implement significant price increases or may not meet our requirements in a timely fashion, or at all. The occurrence of any of the foregoing could have a material adverse effect on our results of operations.

***Shortages or interruptions in the supply or delivery of fresh food products could adversely affect our operating results.***

We and our franchisees are dependent on frequent deliveries of food products that meet our specifications. In addition, we have single suppliers or a limited number of suppliers for certain of our ingredients, including pizza cheese. While we believe there are adequate reserve quantities and potential alternative suppliers, shortages or interruptions in the supply of food products caused by increased demand, capacity constraints, problems in production or distribution, financial or other difficulties of suppliers, inclement weather or other conditions could adversely affect the availability, quality and cost of ingredients, could adversely affect our operating results.

***Any prolonged disruption in the operations of any of our dough manufacturing and supply chain centers could harm our business.***

We operate 18 regional dough manufacturing and supply chain centers, one thin crust manufacturing center and one vegetable processing center in the United States and five dough manufacturing and supply chain centers in Canada. An additional regional dough manufacturing and food supply chain center is expected to open in fiscal 2018.

---

**Table of Contents**

Our domestic dough manufacturing and supply chain centers service all of our Company-owned and domestic franchise stores. As a result, any prolonged disruption in the operations of any of these facilities, whether due to technical or labor difficulties, destruction or damage to the facility, real estate issues, limited capacity or other reasons, could adversely affect our business and operating results.

***Our success depends in part upon effective advertising, and lower advertising funds may reduce our ability to adequately market the Domino's Pizza brand.***

We have been routinely named a Leading National Advertiser by *Advertising Age*. Each Domino's store located in the contiguous United States is obligated to pay a percentage of its sales in advertising fees. In fiscal 2017, each store in the contiguous United States generally was required to contribute 6% of their sales to DNAF (subject, in limited instances, to lower rates based on certain incentives and waivers), which uses such fees for national advertising in addition to contributions for local market-level advertising. We currently anticipate that this 6% contribution rate will remain in place for the foreseeable future. While additional funds for advertising in the past have been provided by us, our franchisees and other third parties, none of these additional funds are legally required. The lack of continued financial support for advertising activities could significantly curtail our marketing efforts, which may in turn materially and adversely affect our business and our operating results.

***We face risks of litigation and negative publicity from customers, franchisees, suppliers, employees and others in the ordinary course of business, which can or could divert our financial and management resources. Any adverse litigation or publicity may negatively impact our financial condition and results of operations.***

Claims of illness or injury relating to food quality or food handling are common in the food service industry, and vehicular accidents and injuries occur in the food delivery business. Claims within our industry of improper supplier actions also occasionally arise that, if made against one of our suppliers, could potentially damage our brand image. In addition, class action lawsuits have been filed, and may continue to be filed, against various quick service restaurants alleging, among other things, that quick service restaurants have failed to disclose the health risks associated with high-fat foods and that quick service restaurant marketing practices have encouraged obesity. In addition to decreasing our sales and profitability and diverting our management resources, adverse publicity or a substantial judgment against us could negatively impact our financial condition, results of operations and brand reputation, thereby hindering our ability to attract and retain franchisees and grow our business.

Further, we may be subject to employee, franchisee and other claims in the future based on, among other things, discrimination, harassment, wrongful termination and wage, rest break and meal break issues, and those claims relating to overtime compensation. We are currently subject to these types of claims and have been subject to these types of claims in the past. If one or more of these claims were to be successful or if there is a significant increase in the number of these claims or if we receive significant negative publicity, our business, financial condition and operating results could be harmed.

***Loss of key employees or our inability to attract and retain new qualified employees could hurt our business and inhibit our ability to operate and grow successfully.***

Our success in the highly competitive pizza delivery and carry-out business will continue to depend to a significant extent on our leadership team and other key management personnel. Although we have entered into employment agreements with Richard E. Allison Jr., and Russell J. Weiner, each of these executives may terminate his agreement on ninety days' notice. Our other executive officers may terminate their employment pursuant to their employment agreements at any time. As a result, we may not be able to retain our executive officers and key personnel or attract additional qualified management. While we do not have long-term employment agreements with our executive

officers, for all of our executive officers we have non-compete and non-solicitation agreements that extend for 24 months following the termination of such executive officer's employment. Our success will also continue to depend on our ability to attract and retain qualified personnel to operate our stores, dough manufacturing and supply chain centers and international operations. The loss of these employees or our inability to recruit and retain qualified personnel could have a material adverse effect on our operating results.

***Adverse global economic conditions subject us to additional risk.***

Our financial condition and results of operations are impacted by global markets and economic conditions over which neither we nor our franchisees have control. An economic downturn, including deterioration in the economic conditions in the U.S. or international markets where we compete, may result in a reduction in the demand for our products, longer payment cycles, slower adoption of new technologies and increased price competition.

Poor economic conditions may adversely affect the ability of our franchisees to pay royalties or amounts owed, and could have a material adverse impact on our ability to pursue our growth strategy, which would reduce cash collections and in turn, may materially and adversely affect our ability to service our debt obligations.

**Table of Contents**

***Our international operations subject us to additional risk. Such risks and costs may differ in each country in which we and our franchisees do business and may cause our profitability to decline due to increased costs.***

We conduct a significant and growing portion of our business outside the United States. Our financial condition and results of operations may be adversely affected if global markets in which our franchise stores compete are affected by changes in political, economic or other factors. These factors, over which neither we nor our franchisees have control, may include:

recessionary or expansive trends in international markets;

changing labor conditions and difficulties in staffing and managing our foreign operations;

increases in the taxes we pay and other changes in applicable tax laws;

legal and regulatory changes, and the burdens and costs of our compliance with a variety of foreign laws;

changes in inflation rates;

changes in exchange rates and the imposition of restrictions on currency conversion or the transfer of funds;

difficulty in collecting our royalties and longer payment cycles;

expropriation of private enterprises;

increases in anti-American sentiment and the identification of the Domino's Pizza brand as an American brand;

political and economic instability and uncertainty around the world, including uncertainty arising as a result of the United Kingdom's referendum in June 2016 in which voters approved an exit from the European Union, commonly referred to as "Brexit"; and

other external factors.

***Fluctuations in the value of the U.S. dollar in relation to other currencies may lead to lower revenues and earnings.***

Exchange rate fluctuations could have an adverse effect on our results of operations. Approximately 7.4% of our total revenues in 2017, 7.2% of our total revenues in 2016 and 7.4% of our total revenues in 2015 were derived from our

international franchise segment, a majority of which were denominated in foreign currencies. We also operate dough manufacturing and distribution facilities in Canada, which generate revenues denominated in Canadian dollars. Sales made by franchise stores outside the United States are denominated in the currency of the country in which the store is located, and this currency could become less valuable in U.S. dollars as a result of exchange rate fluctuations. Unfavorable currency fluctuations could lead to increased prices to customers outside the United States or lower profitability to our franchisees outside the United States, or could result in lower revenues for us, on a U.S. dollar basis, from such customers and franchisees. A hypothetical 10% adverse change in the foreign currency rates in our international markets would have resulted in a negative impact on international royalty revenues of approximately \$17.9 million in 2017.

***We may not be able to adequately protect our intellectual property, which could harm the value of our brand and branded products and adversely affect our business.***

We depend in large part on our brand and branded products and believe that they are very important to our business. We rely on a combination of trademarks, copyrights, service marks, trade secrets and similar intellectual property rights to protect our brand and branded products. The success of our business depends on our continued ability to use our existing trademarks and service marks in order to increase brand awareness and further develop our branded products in both domestic and international markets. We have registered certain trademarks and have other trademark registrations pending in the United States and foreign jurisdictions. Not all of the trademarks that we currently use have been registered in all of the countries in which we do business, and they may never be registered in all of these countries. We may not be able to adequately protect our trademarks and our use of these trademarks may result in liability for trademark infringement, trademark dilution or unfair competition. All of the steps we have taken to protect our intellectual property in the United States and in foreign countries may not be adequate. In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent as the laws of the United States. Further, through acquisitions of third parties, we may acquire brands and related trademarks that are subject to the same risks as the brands and trademarks we currently own.

We may, from time to time, be required to institute or defend litigation to enforce our trademarks or other intellectual property rights, or to protect our trade secrets. Such litigation could result in substantial costs and diversion of resources and could negatively affect our sales, profitability and prospects regardless of whether we are able to successfully enforce our rights.

## **Table of Contents**

***Our earnings and business growth strategy depends on the success of our franchisees, and we may be harmed by actions taken by our franchisees, or employees of our franchisees, that are outside of our control.***

A significant portion of our earnings comes from royalties and fees generated by our franchise stores. Franchisees are independent operators, and their employees are not our employees. We provide tools for franchisees to use in training their employees, but the quality of franchise store operations and our brand and branded products may be diminished by any number of factors beyond our control. Franchisees may not operate stores in a manner consistent with our standards and requirements or they or their employees may take other actions that adversely affect the value of our brand. In such event, our business and reputation may suffer, and as a result our revenues and stock price could decline.

As of December 31, 2017, we had 789 domestic franchisees operating 5,195 domestic stores. Fourteen of these franchisees each own and operate over 50 domestic stores, including our largest domestic franchisee who owns and operates 187 stores, and the average franchisee owns and operates seven stores.

Our international master franchisees are generally responsible for the development of significantly more stores than our domestic franchisees. As a result, our international operations are more closely tied to the success of a smaller number of franchisees than our domestic operations. Our largest international master franchisee operates 2,170 stores in seven markets, which accounts for approximately 23% of our total international store count. Our domestic and international franchisees may not operate their franchises successfully. If one or more of our key franchisees were to become insolvent or otherwise were unable or unwilling to pay us our royalties or other amounts owed, our business and results of operations would be adversely affected.

***The occurrence of cyber incidents, or a deficiency in cybersecurity, could negatively impact our business by causing a disruption to our operations, a compromise or corruption of confidential information, or damage to our employee and business relationships, any of which could subject us to loss and harm our brand.***

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of information resources. More specifically, a cyber incident is an intentional attack or an unintentional event that can include gaining unauthorized access to systems to disrupt operations, corrupt data or steal confidential information about customers, franchisees, suppliers or employees. A number of retailers and other companies have recently experienced serious cyber incidents and breaches of their information technology systems. As our reliance on technology has increased, so have the risks posed to our systems, both internal and those we have outsourced. The three primary risks that could directly result from the occurrence of a cyber incident include operational interruption, damage to our relationships with customers, franchisees and employees and private data exposure. In addition to maintaining insurance coverage to address cyber incidents, we have also implemented processes, procedures and controls to help mitigate these risks. However, our cyber insurance coverage may not cover the costs of a cyber incident and these measures, as well as our increased awareness of the risk of a cyber incident, do not guarantee that our reputation and financial results will not be adversely affected by such an incident.

Because we and our franchisees accept electronic forms of payment from customers, our business requires the collection and retention of customer data, including sensitive data and other personally identifiable information in various information systems that we and our franchisees maintain and in those maintained by third parties with whom we and our franchisees contract to provide payment processing. We also maintain important internal Company data, such as personally identifiable information about our employees and franchisees and information relating to our operations. In addition, more than half of all global retail sales in 2017 were derived from digital channels, primarily through our online ordering website and mobile applications, where customers enter personally

identifiable information that we retain. Our use and retention of personally identifiable information is regulated by foreign, federal and state laws, as well as by certain third-party agreements. As privacy and information security laws and regulations change, we may incur additional costs to ensure that we remain in compliance with those laws and regulations. If our security and information systems are compromised or if our employees or franchisees fail to comply with these laws, regulations or contract terms, and this information is obtained by unauthorized persons or used inappropriately, it could adversely affect our reputation and could disrupt our operations and result in costly litigation, judgments or penalties. Laws and regulations governing cyber incidents could require us to notify customers, employees or other groups, result in adverse publicity, loss of sales and profits, increase fees payable to third parties and result in penalties or remediation and other costs that could adversely affect our business and results of operations. Any other material disruption or other adverse event affecting one or more of our digital ordering platforms could similarly result in a loss of sales and profits, which could adversely affect our business and results of operations.



**Table of Contents**

*We are subject to extensive government regulation and requirements issued by other groups and our failure to comply with existing or increased regulations could adversely affect our business and operating results.*

We are subject to numerous federal, state, local and foreign laws and regulations, as well as requirements issued by other groups, including those relating to:

the preparation, sale and labeling of food;

building and zoning requirements;

environmental protection;

minimum wage, overtime and other labor requirements;

compliance with securities laws and New York Stock Exchange listed company rules;

compliance with the Americans with Disabilities Act of 1990, as amended;

working and safety conditions;

menu labeling and other nutritional requirements;

compliance with the Payment Card Industry Data Security Standards and similar requirements;

compliance with the Patient Protection and Affordable Care Act, and subsequent amendments (the Affordable Care Act );

compliance with the Dodd-Frank Wall Street Reform and Consumer Protection Act and any rules promulgated thereunder; and

regulations under the Tax Cuts and Jobs Act of 2017 (the 2017 Tax Act ).

The Affordable Care Act requires employers such as us to provide health insurance for all qualifying employees or pay penalties for not providing coverage. The majority of the increases in these costs began in 2015, and while the incremental costs of this program have not been material to us to date, we cannot predict what effect these costs will have on our results of operations and financial position, or the effects of the Affordable Care Act on some of our

larger franchisees. Modifications to, or repeal of, all or certain provisions of the Affordable Care Act are possible, consistent with statements made by certain elected officials.

The 2017 Tax Act was signed into law on December 22, 2017, significantly reforming the Internal Revenue Code of 1986, as amended. The 2017 Tax Act, among other things, includes changes to U.S. Federal tax rates, imposes significant additional limitations on the deductibility of interest, allows for the expensing of capital expenditures, puts into effect the migration from a worldwide system of taxation to a territorial system and modifies or repeals many business deductions and credits. We continue to examine the impact the 2017 Tax Act may have on our business. The estimated impact of the 2017 Tax Act is based on our management's current knowledge and assumptions and recognized impacts could be materially different from current estimates based on our actual results and our further analysis of the new law. We revalued our net deferred tax assets and liabilities at the newly enacted corporate tax rate in fiscal 2017. While the impact of this new legislation was not material to our 2017 financial statements, we expect to have a significantly lower effective tax rate in future periods.

We may also become subject to legislation or regulation seeking to tax and/or regulate high-fat foods, foods with high sugar and salt content, or foods otherwise deemed to be unhealthy. If we fail to comply with existing or future laws and regulations, we may be subject to governmental or judicial fines or sanctions. In addition, our capital expenditures could increase due to remediation measures that may be required if we are found to be noncompliant with any of these laws or regulations.

We are also subject to a Federal Trade Commission rule and to various state and foreign laws that govern the offer and sale of franchises. Additionally, these laws regulate various aspects of the franchise relationship, including terminations and the refusal to renew franchises. The failure to comply with these laws and regulations in any jurisdiction or to obtain required government approvals could result in a ban or temporary suspension on future franchise sales, fines or other penalties or require us to make offers of rescission or restitution, any of which could adversely affect our business and operating results.

***Our current insurance coverage may not be adequate, insurance premiums for such coverage may increase and we may not be able to obtain insurance at acceptable rates, or at all.***

We have retention programs for workers' compensation, general liability and owned and non-owned automobile liabilities. We are generally responsible for up to \$1.0 million per occurrence under these retention programs for workers' compensation and general liability. We are generally responsible for between \$500,000 and \$3.0 million per occurrence under these retention programs for owned and non-owned automobile liabilities. Total insurance limits under these retention programs vary depending upon the period covered and range up to \$110.0 million per occurrence for general liability and owned and non-owned automobile liabilities and up to the applicable statutory limits for workers' compensation. These insurance policies may not be adequate to protect us from liabilities that we incur in our business. In addition, in the future our insurance premiums may increase and we may not be able to obtain similar levels of insurance on reasonable terms, or at all. Any such inadequacy of, or inability to obtain insurance coverage could have a material adverse effect on our business, financial condition and results of operations.

**Table of Contents**

*Our annual and quarterly financial results are subject to significant fluctuations depending on various factors, many of which are beyond our control, and if we fail to meet the expectations of securities analysts or investors, our share price may decline significantly.*

Our sales and operating results can vary significantly from quarter-to-quarter and year-to-year depending on various factors, many of which are beyond our control. These factors include, among other things:

variations in the timing and volume of our sales and our franchisees' sales;

the timing of expenditures in anticipation of future sales;

sales promotions by us and our competitors;

changes in competitive and economic conditions generally;

changes in the cost or availability of our ingredients or labor; and

foreign currency exposure.

As a result, our operational performance may decline quickly and significantly in response to changes in order patterns or rapid decreases in demand for our products. We anticipate that fluctuations in operating results will continue in the future.

*Our common stock price could be subject to significant fluctuations and/or may decline.*

The market price of our common stock could be subject to significant fluctuations. Among the factors that could affect our stock price are:

planned or actual changes to our capital or debt structure;

variations in our operating results;

changes in revenues or earnings estimates or publication of research reports by analysts;

speculation in the press or investment community;

strategic actions by us or our competitors, such as sales promotions, acquisitions or restructurings;

actions by institutional and other stockholders;

changes in our dividend policy or any share repurchase program;

changes in the market values of public companies that operate in our business segments;

general market conditions; and

domestic and international economic factors unrelated to our performance.

The stock markets in general have experienced volatility that has sometimes been unrelated to the operating performance of particular companies. These broad market fluctuations may cause the trading price of our common stock to decline.

***Our substantial indebtedness could adversely affect our business and limit our ability to plan for or respond to changes in our business.***

We have a substantial amount of indebtedness. As of December 31, 2017, our consolidated total indebtedness was approximately \$3.15 billion. We may also incur additional debt, which would not be prohibited under the terms of our current securitized debt agreements. Our substantial indebtedness could have important consequences to our business and our shareholders. For example, it could:

make it more difficult for us to satisfy our obligations with respect to our debt agreements;

increase our vulnerability to general adverse economic and industry conditions;

require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow for other purposes; and

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate, thereby placing us at a competitive disadvantage compared to our peers that may have less debt.

In addition, the financial and other covenants we agreed to with our lenders may limit our ability to incur additional indebtedness, make investments, pay dividends and engage in other transactions, and the leverage may cause potential lenders to be less willing to loan funds to us in the future. Our failure to comply with these covenants could result in an event of default that, if not cured or waived, could result in the acceleration of repayment of all of our indebtedness.

**Table of Contents**

***We may be unable to generate sufficient cash flow to satisfy our significant debt service obligations, which would adversely affect our financial condition and results of operations.***

Our ability to make principal and interest payments on and to refinance our indebtedness will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. If our business does not generate sufficient cash flow from operations, in the amounts projected or at all, or if future borrowings are not available to us under our variable funding notes in amounts sufficient to fund our other liquidity needs, our financial condition and results of operations may be adversely affected. If we cannot generate sufficient cash flow from operations to make scheduled principal amortization and interest payments on our debt obligations in the future, we may need to refinance all or a portion of our indebtedness on or before maturity, sell assets, delay capital expenditures or seek additional equity. If we are unable to refinance any of our indebtedness on commercially reasonable terms or at all or to effect any other action relating to our indebtedness on satisfactory terms or at all, our business may be harmed.

***The terms of our securitized debt financing of certain of our wholly-owned subsidiaries have restrictive terms and our failure to comply with any of these terms could put us in default, which would have an adverse effect on our business and prospects.***

Unless and until we repay all outstanding borrowings under our securitized debt, we will remain subject to the restrictive terms of these borrowings. The securitized debt, under which certain of our wholly-owned subsidiaries issued and guaranteed fixed rate notes and variable funding senior revolving notes, contain a number of covenants, with the most significant financial covenant being a debt service coverage calculation. These covenants limit the ability of certain of our subsidiaries to, among other things:

sell assets;

alter the business we conduct;

engage in mergers, acquisitions and other business combinations;

declare dividends or redeem or repurchase capital stock;

incur, assume or permit to exist additional indebtedness or guarantees;

make loans and investments;

incur liens; and

enter into transactions with affiliates.

The securitized debt also requires us to maintain specified financial ratios at the end of each fiscal quarter. These restrictions could affect our ability to pay dividends or repurchase shares of our common stock. Our ability to meet these financial ratios can be affected by events beyond our control, and we may not satisfy such a test. A breach of this covenant could result in a rapid amortization event or default under the securitized debt. If amounts owed under the securitized debt are accelerated because of a default under the securitized debt and we are unable to pay such amounts, the investors may have the right to assume control of substantially all of the securitized assets.

During the term following issuance, the outstanding senior notes will accrue interest in accordance with the terms of the debt agreements. Additionally, our senior notes have original scheduled principal payments of \$32.0 million in each of 2018 and 2019, \$509.5 million in 2020, \$27.0 million in 2021, \$879.8 million in 2022, \$18.0 million in each of 2023 and 2024, \$742.0 million in 2025, \$10.0 million in 2026 and \$907.5 million in 2027. In accordance with our debt agreements, the payment of principal on the outstanding senior notes shall be suspended if the leverage ratios for the Company are less than or equal to 5.0x total debt, as defined, to adjusted EBITDA, as defined, and no catch-up provisions are applicable.

If we are unable to refinance or repay amounts under the securitized debt prior to the expiration of the term, our cash flow would be directed to the repayment of the securitized debt and, other than a weekly management fee sufficient to cover minimal selling, general and administrative expenses, would not be available for operating our business.

No assurance can be given that any refinancing or additional financing will be possible when needed or that we will be able to negotiate acceptable terms. In addition, our access to capital is affected by prevailing conditions in the financial and capital markets and other factors beyond our control. There can be no assurance that market conditions will be favorable at the times that we require new or additional financing.

The indenture governing the securitized debt will restrict the cash flow from the entities subject to the securitization to any of our other entities and upon the occurrence of certain events, cash flow would be further restricted.

In the event that a rapid amortization event occurs under the indenture (including, without limitation, upon an event of default under the indenture or the failure to repay the securitized debt at the end of its term), the funds available to us would be reduced or eliminated, which would in turn reduce our ability to operate or grow our business.

**Table of Contents**

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

We lease approximately 260,000 square feet for our World Resource Center located in Ann Arbor, Michigan under an operating lease with Domino's Farms Office Park, L.L.C., an unrelated company. The lease, as amended, expires in December 2022 and has two five-year renewal options.

We own five supply chain center buildings. We also own two store buildings that we lease to domestic franchisees. All other domestic Company-owned stores are leased by us, typically under five-year leases with one or two five-year renewal options. All other domestic and international supply chain centers are leased by us, typically under leases ranging between five and 15 years with one or two five-year renewal options. All other franchise stores are leased or owned directly by the respective franchisees. We believe that our existing headquarters and other leased and owned facilities are adequate to meet our current requirements.

**Item 3. 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.

Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance. These matters referenced above could be decided unfavorably to us and could require us to pay damages or make other expenditures in amounts or a range of amounts that cannot be estimated with accuracy. In management's opinion, these matters, individually and in the aggregate, should not have a significant adverse effect on the financial condition of the Company, and the established accruals adequately provide for the estimated resolution of such claims.

On February 14, 2011, Domino's Pizza LLC was named as a defendant in a lawsuit along with Fischler Enterprises of C.F., Inc., a franchisee, and Jeffrey S. Kidd, the franchisee's delivery driver, filed by Yvonne Wiederhold, the plaintiff, as Personal Representative of the Estate of Richard E. Wiederhold, deceased. The case involved a traffic accident in which the franchisee's delivery driver is alleged to have caused an accident involving a vehicle driven by Richard Wiederhold. Mr. Wiederhold sustained spinal injuries resulting in quadriplegia and passed away several months after the accident. The jury returned a \$10.1 million judgment for the plaintiff where the Company and Mr. Kidd were found to be 90% liable (after certain offsets and other deductions the final verdict was \$8.9 million). In the second quarter of 2016, the trial court ruled on all post-judgment motions and entered the judgment. The Company denies liability and in the third quarter of 2016 filed an appeal of the verdict on a variety of grounds. The Company continues to deny liability in this matter.

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

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 4A. Executive Officers of the Registrant.**

The listing of executive officers of the Company is set forth under Part III Item 10. Directors, Executive Officers and Corporate Governance on pages 76 through 78, which is incorporated herein by reference.



**Table of Contents****Part II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

As of February 13, 2018, Domino's Pizza, Inc. had 170,000,000 authorized shares of common stock, par value \$0.01 per share, of which 43,018,242 were issued and outstanding. Domino's Pizza, Inc.'s common stock is traded on the New York Stock Exchange ( NYSE ) under the ticker symbol DPZ.

The following table presents the high and low closing prices by quarter for Domino's Pizza, Inc.'s common stock, as reported by the NYSE, and dividends declared per common share.

	<b>High</b>	<b>Low</b>	<b>Dividends Declared Per Share</b>
<b>2017:</b>			
First quarter (January 2, 2017 – March 26, 2017)	\$ 189.81	\$ 158.36	\$ 0.46
Second quarter (March 27, 2017 – June 18, 2017)	218.15	173.75	0.46
Third quarter (June 19, 2017 – September 10, 2017)	218.88	178.38	0.46
Fourth quarter (September 11, 2017 – December 31, 2017)	209.44	168.71	0.46
<b>2016:</b>			
First quarter (January 4, 2016 – March 27, 2016)	\$ 134.39	\$ 104.16	\$ 0.38
Second quarter (March 28, 2016 – June 19, 2016)	140.01	118.56	0.38
Third quarter (June 20, 2016 – September 11, 2016)	151.00	122.08	0.38
Fourth quarter (September 12, 2016 – January 1, 2017)	172.26	149.66	0.38

Our Board of Directors declared a quarterly dividend of \$0.55 per common share on February 14, 2018 payable on March 30, 2018 to shareholders of record at the close of business on March 15, 2018.

We currently anticipate continuing the payment of quarterly cash dividends. The actual amount of such dividends, if any, will depend upon future earnings, results of operations, capital requirements, our financial condition and certain other factors. There can be no assurance as to the amount of free cash flow that we will generate in future years and, accordingly, dividends will be considered after reviewing returns to shareholders, profitability expectations and financing needs and will be declared at the discretion of our Board of Directors.

As of February 13, 2018, there were 1,499 registered holders of record of Domino's Pizza, Inc.'s common stock.

As of December 31, 2017, we had a Board of Directors-approved share repurchase program for up to \$1.25 billion of our common stock, of which \$198.5 million remained available for future purchases of our common stock. Any future purchases of our common stock would be funded by current cash amounts, available borrowings or future excess cash flow. The following table summarizes our repurchase activity during the fourth quarter ended December 31, 2017:

**Period**

	<b>Total Number of Shares Purchased (1)</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Program (2)</b>	<b>Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (in thousands)</b>
Period #10 (September 11, 2017 to October 8, 2017)		\$		\$ 250,000
Period #11 (October 9, 2017 to November 5, 2017) (2)	799,561	191.93	797,649	223,368
Period #12 (November 6, 2017 to December 3, 2017)	140,697	178.64	139,377	198,468
Period #13 (December 4, 2017 to December 31, 2017)	1,274	183.61		198,468
<b>Total</b>	<b>941,532</b>	<b>\$ 189.93</b>	<b>937,026</b>	<b>\$ 198,468</b>

---

**Table of Contents**

- (1) 4,506 shares were purchased as part of the Company's employee stock purchase discount plan. During the fourth quarter, the shares were purchased at an average price of \$190.97.
- (2) On July 27, 2017, the Company's Board of Directors authorized a new share repurchase program to repurchase up to \$1.25 billion of the Company's common stock. This repurchase program replaced the previously existing \$250.0 million share repurchase program. On August 2, 2017, the Company entered into a \$1.0 billion accelerated share repurchase agreement (the 2017 ASR Agreement) with a counterparty. In connection with the 2017 ASR Agreement, the Company received and retired a total of 5,218,670 shares of its common stock, including 4,558,863 shares received and retired during the third quarter and 659,807 shares received and retired at final settlement during the fourth quarter.

The average price paid per share of \$191.93 for Period #11 (October 9, 2017 to November 5, 2017) includes the 659,807 shares received and retired at final settlement of the 2017 ASR Agreement. The average purchase price per share for the 5,218,670 shares the Company received and retired through the \$1.0 billion ASR program was \$191.62.

On February 14, 2017, the Company's Board of Directors authorized a new share repurchase program to repurchase up to \$750.0 million of the Company's common stock. This repurchase program replaces the remaining availability of approximately \$198.5 million under the Company's previously approved \$1.25 billion share repurchase program.

The following comparative stock performance line graph compares the cumulative shareholder return on the common stock of Domino's Pizza, Inc. (NYSE: DPZ) for the five-year period between December 31, 2012 and December 31, 2017, with cumulative total return on (i) the Total Return Index for the New York Stock Exchange (the NYSE Composite Index), (ii) the Standard & Poor's 500 Index (the S&P 500) and (iii) the peer group, the Standard & Poor's 400 Restaurant Index (the S&P 400 Restaurant Index). Management believes that the companies included in the S&P 400 Restaurant Index appropriately reflect the scope of the Company's operations and match the competitive market in which the Company operates. The cumulative total return computations set forth in the performance graph assume the investment of \$100 in the Company's common stock, the NYSE Composite Index, the S&P 500 Index and the S&P 400 Restaurant Index on December 31, 2012.

**Table of Contents****Item 6. Selected Financial Data.**

The following selected financial data set forth should be read in conjunction with, and is qualified by reference to, Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes included in this Form 10-K. The selected financial data, with the exception of store counts and same store sales growth, has been derived from the audited consolidated financial statements of Domino's Pizza, Inc. and subsidiaries. This historical data is not necessarily indicative of results to be expected for any future period.

(dollars in millions, except per share data)	Fiscal year ended (5)				
	December 31, 2017 (3)	January 1, 2017	January 3, 2016 (4)	December 28, 2014	December 29, 2013
<b>Income statement data:</b>					
Revenues:					
Domestic Company-owned stores	\$ 490.8	\$ 439.0	\$ 396.9	\$ 348.5	\$ 337.4
Domestic franchise	351.4	312.3	272.8	230.2	212.4
Domestic stores	842.2	751.3	669.7	578.7	549.8
Supply chain	1,739.0	1,544.3	1,383.2	1,262.5	1,118.9
International franchise	206.7	177.0	163.6	152.6	133.6
Total revenues	2,788.0	2,472.6	2,216.5	1,993.8	1,802.2
Cost of sales	1,922.0	1,704.9	1,533.4	1,399.1	1,253.2
Operating margin	866.0	767.7	683.1	594.8	549.0
General and administrative expense	344.8	313.6	277.7	249.4	235.2
Income from operations	521.2	454.0	405.4	345.4	313.8
Interest income	1.5	0.7	0.3	0.1	0.2
Interest expense	(122.5)	(110.1)	(99.5)	(86.9)	(88.9)
Income before provision for income taxes	400.2	344.7	306.2	258.6	225.1
Provision for income taxes	122.2	130.0	113.4	96.0	82.1
Net income	\$ 277.9	\$ 214.7	\$ 192.8	\$ 162.6	\$ 143.0
Earnings per share:					
Common stock basic	\$ 6.05	\$ 4.41	\$ 3.58	\$ 2.96	\$ 2.58
Common stock diluted	5.83	4.30	3.47	2.86	2.48
Dividends declared per share	\$ 1.84	\$ 1.52	\$ 1.24	\$ 1.00	\$ 0.80
<b>Balance sheet data (at end of period):</b>					
Cash and cash equivalents	\$ 35.8	\$ 42.8	\$ 133.4	\$ 30.9	\$ 14.4
Restricted cash and cash equivalents	191.8	126.5	180.9	121.0	125.5
Working capital (1)	(10.3)	(34.3)	45.7	41.8	(28.5)
Total assets	836.8	716.3	799.8	596.3	496.6
Total debt net of debt issuance cost	3,153.8	2,187.9	2,240.8	1,500.6	1,507.7
Total stockholders deficit	(2,735.4)	(1,883.1)	(1,800.3)	(1,219.5)	(1,290.2)



**Table of Contents**

(dollars in millions)	Fiscal year ended (5)				
	December 31, 2017 (3)	January 1, 2017	January 3, 2016 (4)	December 28, 2014	December 29, 2013
<b>Other financial data:</b>					
Depreciation and amortization	\$ 44.4	\$ 38.1	\$ 32.4	\$ 35.8	\$ 25.8
Capital expenditures	90.3	61.5	62.4	71.8	40.4
<b>Same store sales growth (2):</b>					
Domestic Company-owned stores	8.7%	10.4%	12.2%	6.2%	3.9%
Domestic franchise stores	7.6%	10.5%	11.9%	7.7%	5.5%
Domestic stores	7.7%	10.5%	12.0%	7.5%	5.4%
International stores	3.4%	6.3%	7.8%	6.9%	6.2%
<b>Store counts (at end of period):</b>					
Domestic Company-owned stores	392	392	384	377	390
Domestic franchise stores	5,195	4,979	4,816	4,690	4,596
Domestic stores	5,587	5,371	5,200	5,067	4,986
International stores	9,269	8,440	7,330	6,562	5,900
Total stores	14,856	13,811	12,530	11,629	10,886

- (1) The working capital amounts exclude restricted cash and cash equivalents amounts of \$191.8 million in 2017, \$126.5 million in 2016, \$180.9 million in 2015, \$121.0 million in 2014 and \$125.5 million in 2013.
- (2) Same store sales growth is calculated including only sales from stores that also had sales in the comparable period of the prior year. International same store sales growth is calculated similarly to domestic same store sales growth. Changes in international same store sales are reported on a constant dollar basis which reflects changes in international local currency sales. The 53<sup>rd</sup> week in fiscal 2015 had no impact on reported same store sales growth amounts.
- (3) In connection with our 2017 Recapitalization, the Company issued \$1.9 billion of fixed and floating rate notes. A portion of the proceeds from the 2017 Recapitalization was used to repay the remaining \$910.2 million in outstanding principal under the 2012 fixed rate notes, pre-fund a portion of the principal and interest payable on the 2017 fixed and floating rate notes and pay transaction fees and expenses. The Company also used a portion of the proceeds from the 2017 Recapitalization to enter into a \$1.0 billion accelerated share repurchase agreement to repurchase the Company's common stock. Refer to Note 4 of the consolidated financial statements for additional detail related to the 2017 Recapitalization.
- (4) In connection with our 2015 Recapitalization, the Company issued \$1.3 billion of fixed rate notes. A portion of the proceeds from the 2015 Recapitalization was used to make an optional prepayment of approximately \$551.3 million in aggregate principal amount of its 2012 fixed rate notes, at par, pay scheduled principal catch-up amounts on its 2012 fixed rate notes, make an interest reserve deposit, pre-fund a portion of the principal and interest payable on the 2015 fixed rate notes and pay transaction fees and expenses. The Company also used a portion of the proceeds from the 2015 Recapitalization to enter into a \$600.0 million accelerated share repurchase agreement to repurchase the Company's common stock. Refer to Note 4 of the consolidated financial statements for additional detail related to the 2015 Recapitalization.
- (5) The 2015 fiscal year includes 53 weeks and the 2017, 2016, 2014 and 2013 fiscal years each include 52 weeks.



## **Table of Contents**

### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. Overview**

*Our fiscal year typically includes 52 weeks, comprised of three twelve-week quarters and one sixteen-week quarter. Every five or six years our fiscal year includes an extra (or 53<sup>rd</sup>) week in the fourth quarter. Fiscal 2017 and 2016 each consisted of 52 weeks, while fiscal 2015 consisted of 53 weeks.*

#### **Description of the Business**

Domino's is the largest pizza company in the world based on global retail sales, with more than 14,800 locations in over 85 markets around the world. Founded in 1960, our roots are in convenient pizza delivery, while a significant amount of our sales also come from carryout customers. Although we are a highly-recognized global brand, we focus on serving the local neighborhoods in which we live and do business through our large network of franchise owners and Company-owned stores. On average, we and our franchisees sell more than 2.5 million pizzas each day throughout our global system.

Our business model is straightforward: we handcraft and serve quality food at a competitive price, with easy ordering access and efficient service, enhanced by our technology innovations. Our dough is generally made fresh and distributed to stores around the world by us and our franchisees.

Domino's generates revenues and earnings by charging royalties to our franchisees. Royalties are ongoing percent-of-sales fees for use of the Domino's brand marks. The Company also generates revenues and earnings by selling food, equipment and supplies to franchisees primarily in the U.S. and Canada, and by operating a number of our own stores. Franchisees profit by selling pizza and other complementary items to their local customers. In our international markets, we generally grant geographical rights to the Domino's Pizza brand to master franchisees. These master franchisees are charged with developing their geographical area, and they may profit by sub-franchising and selling food and equipment to those sub-franchisees, as well as by running pizza stores. Everyone in the system can benefit, including the end consumer, who can feed Domino's menu items to their family conveniently and economically.

Our business model can yield strong returns for our franchise owners and Company-owned stores. It can also yield significant cash flow to us, through a consistent franchise royalty payment and supply chain revenue stream, with moderate capital expenditures. We have historically returned cash to shareholders through dividend payments and share repurchases since becoming a publicly-traded company.

#### **Fiscal 2017 Highlights**

Global retail sales (which are total retail sales at Company-owned and franchised stores worldwide) increased 12.7% as compared to 2016.

Same store sales increased 7.7% in our domestic stores and increased 3.4% in our international stores.

Our revenues increased 12.8%.



Our income from operations increased 14.8%.

Our net income increased 29.5%.

During 2017, we continued our rapid global expansion with the opening of 1,045 net new stores. Our international franchise segment led the way with 829 net new store openings.

We continued our focus on growing online ordering and the digital customer experience as well as other technological advancements. In 2017, as part of an industry-first collaboration with Ford Motor Company, Domino's began a meaningful test of delivery using self-driving vehicles. Our emphasis on technology innovation helped the Domino's system generate more than half of global retail sales from digital channels in 2017. Overall, we believe our focus in 2017 on global growth and technology will continue to strengthen our brand in the future.

### **Fiscal 2016 Highlights**

Global retail sales increased 9.8% as compared to 2015.

Same store sales increased 10.5% in our domestic stores and increased 6.3% in our international stores.

Our revenues increased 11.6%.

Our income from operations increased 12.0%.

Our net income increased 11.4%.

During 2016, we continued our rapid global expansion with the opening of 1,281 net new stores. Our international franchise segment led the way with a record 1,110 net new store openings.

---

**Table of Contents**

We continued our focus on growing online ordering and the digital customer experience as we introduced new innovative ordering platforms including zero-click ordering, Google Home, Facebook Messenger, Apple Watch and Amazon Echo. Our emphasis on technology innovation helped the Domino's system generate more than half of global retail sales from digital channels in 2016.

**Critical accounting policies and estimates**

The following discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires our management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. On an ongoing basis, our management evaluates its estimates, including those related to revenue recognition, long-lived and intangible assets, insurance and legal matters, share-based payments and income taxes. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. Changes in our accounting policies and estimates could materially impact our results of operations and financial condition for any particular period. We believe that our most critical accounting policies and estimates are:

*Revenue recognition.* We earn revenues through our network of domestic Company-owned and franchised stores, dough manufacturing and supply chain centers and international operations. Retail sales from franchise stores are reported to the Company by its franchisees and are not included in Company revenues. Retail sales from Company-owned stores and royalty revenues resulting from the retail sales from franchised stores are recognized as revenues when the items are delivered to or carried out by customers. Retail sales are generally reported and related royalties paid to the Company based on a percentage of retail sales, as specified in the related standard franchise agreement (generally 5.5% of domestic franchise retail sales and, on average, 3.0% of international franchise retail sales). Revenues from Company-owned stores and royalty revenues and fees from franchised stores can fluctuate from time-to-time as a result of store count and sales level changes. This can occur when a Company-owned store is sold to a franchisee. If a Company-owned store that generated \$1,000,000 in revenue in fiscal 2016 was sold to a franchisee in fiscal 2017, revenues from Company-owned stores would have declined by \$1,000,000 in fiscal 2017, while franchise royalty revenues would have increased by only \$55,000 in fiscal 2017, as we generally collect 5.5% of a domestic franchisee's retail sales. Sales of food from our supply chain centers are recognized as revenues upon delivery of the food to franchisees, while sales of equipment and supplies are generally recognized as revenues upon shipment of the related products to franchisees.

*Long-lived and intangible assets.* We record long-lived assets, including property, plant and equipment and capitalized software, at cost. For acquisitions of franchise operations, we estimate the fair values of the assets and liabilities acquired based on physical inspection of assets, historical experience and other information available to us regarding the acquisition. We depreciate and amortize long-lived assets using useful lives determined by us based on historical experience and other information available to us. We evaluate the potential impairment of long-lived assets at least annually or whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Our evaluation is based on various analyses, including the projection of undiscounted cash flows. For Company-owned stores, we perform related impairment tests on an operating market basis, which the Company has determined to be the lowest level for which identifiable cash flows are largely independent of other cash flows. If the carrying amount of a long-lived asset exceeds the amount of the expected future undiscounted cash flows of that asset, the Company estimates the fair value of the asset. If the carrying amount of the asset exceeds the estimated fair value of the asset, an impairment loss is recognized and the asset is written down to its estimated fair value.

We have not made any significant changes in the methodology used to project the future market cash flows of Company-owned stores during the years presented. Same store sales fluctuations and the rates at which operating costs will fluctuate in the future are key factors in evaluating recoverability of the related assets. If our same store sales significantly decline or if operating costs increase and we are unable to recover these costs, the carrying value of our Company-owned stores, by market, may be unrecoverable and we may be required to recognize an impairment charge. The Company did not record any impairment charges during fiscal 2017, fiscal 2016 or fiscal 2015.

A significant portion of our goodwill relates to acquisitions of domestic franchise stores and is included in our domestic stores segment, specifically, in our Company-owned stores division. We evaluate goodwill annually for impairment by comparing the fair value of the reporting unit (which is primarily determined using the present value of future cash flows) to its carrying value. If the carrying value of the reporting unit exceeds the fair value, goodwill would be impaired. We have not made any significant changes in the methodology used to evaluate goodwill impairment during the years presented. At December 31, 2017, the fair value of our business operations with

---

**Table of Contents**

associated goodwill exceeded their recorded carrying value, including the related goodwill. If cash flows generated by our Company-owned stores were to decline significantly in the future or there were negative revisions to the market multiple assumption, we may be required to recognize a goodwill impairment charge. However, based on the latest impairment analysis, we do not believe it is reasonably likely that there could be changes in assumptions that would trigger impairment.

*Insurance and legal matters.* We are a party to lawsuits and legal proceedings arising in the ordinary course of business. Management closely monitors these legal matters and estimates the probable costs for the resolution of such matters. These estimates are primarily determined by consulting with both internal and external parties handling the matters and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. Legal judgments can be volatile and difficult to predict. Accordingly, if our estimates relating to legal matters proved inaccurate for any reason, we may be required to increase or decrease the related expense in future periods. We had accruals for legal matters of approximately \$1.7 million at December 31, 2017 and \$2.7 million at January 1, 2017.

For certain periods prior to December 1998 and for periods after December 2001, we maintain insurance coverage for workers' compensation, general liability and owned and non-owned auto liability under insurance policies requiring payment of a deductible for each occurrence up to between \$500,000 and \$3.0 million, depending on the policy year and line of coverage. The related insurance reserves are based on undiscounted independent actuarial estimates, which are based on historical information along with assumptions about future events. Specifically, various methods, including analyses of historical trends and actuarial valuation methods, are utilized to estimate the cost to settle reported claims and claims incurred but not yet reported. The actuarial valuation methods develop estimates of the future ultimate claim costs based on the claims incurred as of the balance sheet date. When estimating these liabilities, several factors are considered, including the severity, duration and frequency of claims, legal cost associated with claims, healthcare trends and projected inflation.

Our methodology for determining our exposure has remained consistent throughout the years presented. Management believes that the various assumptions developed and actuarial methods used to determine our self-insurance reserves are reasonable and provide meaningful data that management uses to make its best estimate of our exposure to these risks. Changes in assumptions for such factors as medical costs and legal actions, as well as changes in actual experience, could cause our estimates to change in the near term which could result in an increase or decrease in the related expense in future periods. A 10% change in our self-insurance liability at December 31, 2017 would have affected our income before provision for income taxes by approximately \$5.1 million for fiscal 2017. We had accruals for insurance matters of approximately \$51.4 million at December 31, 2017 and \$43.9 million at January 1, 2017.

*Share-based payments.* We recognize compensation expense related to our share-based compensation arrangements over the requisite service period based on the grant date fair value of the awards. The grant date fair value of each restricted stock and performance-based restricted stock award is equal to the market price of our stock on the date of grant. The grant date fair value of each stock option award is estimated using a Black-Scholes option pricing model. The pricing model requires assumptions, including the expected life of the stock option, the risk-free interest rate, the expected dividend yield and expected volatility of our stock over the expected life, which significantly impact the assumed fair value. We account for forfeitures as they occur. Additionally, our stock option, restricted stock and performance-based restricted stock arrangements provide for accelerated vesting and the ability to exercise during the remainder of the ten-year stock option life upon the retirement of individuals holding the awards who have achieved specified service and age requirements.

Management believes that the methods and various assumptions used to determine compensation expense related to these arrangements are reasonable, but if the assumptions change significantly for future grants, share-based

compensation expense will fluctuate in future years.

*Income taxes.* We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. We measure deferred tax assets and liabilities using current enacted tax rates that will apply in the years in which we expect the temporary differences to be recovered or paid. Judgment is required in determining the provision for income taxes, related reserves and deferred tax assets and liabilities. These include establishing a valuation allowance related to the ability to realize certain deferred tax assets, if necessary. On an ongoing basis, management will assess whether it remains more likely than not that the net deferred tax assets will be realized. The Company did not have any valuation allowances recorded for deferred tax assets as of December 31, 2017 and had valuation allowances recorded for deferred tax assets of approximately \$0.1 million as of January 1, 2017. Our accounting for deferred tax assets represents our best estimate of future events. Our net deferred tax assets assume that we will generate sufficient taxable income in specific tax jurisdictions, based on our estimates and assumptions. Changes in our current estimates due to unanticipated events could have a material impact on our financial condition and results of operations.

**Table of Contents**

The amounts recorded on the balance sheet relating to uncertain tax positions consider the ultimate resolution of revenue agent reviews based on estimates and assumptions. We believe we have appropriately accounted for our uncertain tax positions; however, tax audits, changes in tax laws and other unforeseen matters may result in us owing additional taxes. We adjust our reserves for uncertain tax positions when facts and circumstances change or due to the passage of time. The completion of a tax audit or the expiration of a statute of limitations associated with uncertain tax positions are examples of situations when we may adjust our reserves. Management believes that our tax positions comply with applicable tax law and that we have adequately provided for these matters. However, to the extent the final tax outcome of these matters is different than our recorded amounts, we may be required to adjust our tax reserves resulting in additional income tax expense or benefit in future periods.

**Same Store Sales Growth**

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Domestic Company-owned stores	8.7%	10.4%	12.2%
Domestic franchise stores	7.6%	10.5%	11.9%
Domestic stores	7.7%	10.5%	12.0%
International stores (excluding foreign currency impact)	3.4%	6.3%	7.8%

**Store Growth Activity**

	<b>Domestic Company-owned Stores</b>	<b>Domestic Franchise</b>	<b>Total Domestic Stores</b>	<b>International Stores</b>	<b>Total</b>
<b>Store count at December 28, 2014</b>	377	4,690	5,067	6,562	11,629
Openings	12	148	160	867	1,027
Closings	(1)	(26)	(27)	(99)	(126)
Transfers	(4)	4			
<b>Store count at January 3, 2016</b>	384	4,816	5,200	7,330	12,530
Openings	8	186	194	1,178	1,372
Closings	(1)	(22)	(23)	(68)	(91)
Transfers	1	(1)			
<b>Store count at January 1, 2017</b>	392	4,979	5,371	8,440	13,811
Openings	16	213	229	891	1,120
Closings		(13)	(13)	(62)	(75)
Transfers	(16)	16			
<b>Store count at December 31, 2017</b>	392	5,195	5,587	9,269	14,856

**Income Statement Data**

Edgar Filing: DOMINOS PIZZA INC - Form 10-K

(dollars in millions)	2017		2016		2015	
Domestic Company-owned stores	\$ 490.8		\$ 439.0		\$ 396.9	
Domestic franchise	351.4		312.3		272.8	
Supply chain	1,739.0		1,544.3		1,383.2	
International franchise	206.7		177.0		163.6	
<b>Total revenues</b>	<b>2,788.0</b>	<b>100.0%</b>	<b>2,472.6</b>	<b>100.0%</b>	<b>2,216.5</b>	<b>100.0%</b>
Domestic Company-owned stores	377.7		331.9		299.3	
Supply chain	1,544.3		1,373.1		1,234.1	
Cost of sales	1,922.0	68.9%	1,704.9	69.0%	1,533.4	69.2%
Operating margin	866.0	31.1%	767.7	31.0%	683.1	30.8%
General and administrative	344.8	12.4%	313.6	12.7%	277.7	12.5%
<b>Income from operations</b>	<b>521.2</b>	<b>18.7%</b>	<b>454.0</b>	<b>18.3%</b>	<b>405.4</b>	<b>18.3%</b>
Interest expense, net	(121.1)	(4.3)%	(109.4)	(4.4)%	(99.2)	(4.5)%
<b>Income before provision for income taxes</b>	<b>400.2</b>	<b>14.4%</b>	<b>344.7</b>	<b>13.9%</b>	<b>306.2</b>	<b>13.8%</b>
Provision for income taxes	122.2	4.4%	130.0	5.2%	113.4	5.1%
<b>Net income</b>	<b>\$ 277.9</b>	<b>10.0%</b>	<b>\$ 214.7</b>	<b>8.7%</b>	<b>\$ 192.8</b>	<b>8.7%</b>

**Table of Contents****2017 compared to 2016**

(tabular amounts in millions, except percentages)

*Revenues.* Revenues primarily consist of retail sales from our Company-owned stores, royalties and fees from our domestic and international franchised stores and sales of food, equipment and supplies from our supply chain centers to all of our domestic franchised stores and certain international franchised stores. Company-owned store and franchised store revenues may vary from period to period due to changes in store count mix. Supply chain revenues may vary significantly as a result of fluctuations in commodity prices as well as the mix of products we sell.

Consolidated revenues increased \$315.4 million or 12.8% in 2017. The increase was due primarily to higher supply chain food volumes as well as higher Company-owned store, domestic franchise and international franchise revenues resulting from same store sales and store count growth. These changes in revenues are more fully described below.

*Domestic stores.* Revenues from domestic stores are primarily comprised of retail sales from domestic Company-owned store operations as well as royalties from retail sales and other fees from domestic franchised stores, as summarized in the following table.

	2017		2016	
Domestic Company-owned stores	\$ 490.8	58.3%	\$ 439.0	58.4%
Domestic franchise	351.4	41.7%	312.3	41.6%
<b>Total domestic stores revenues</b>	<b>\$ 842.2</b>	<b>100.0%</b>	<b>\$ 751.3</b>	<b>100.0%</b>

Higher domestic Company-owned same store sales, royalty revenues earned on higher franchise same store sales and an increase in the average number of stores open drove an increase in overall domestic store revenues of \$90.9 million or 12.1%. These results are more fully described below.

*Domestic Company-owned stores.* Revenues from domestic Company-owned store operations increased \$51.8 million or 11.8% in 2017. This increase was due to an 8.7% increase in same store sales as compared to 2016 and an increase in the average number of stores open during the year.

*Domestic franchise.* Revenues from domestic franchise operations increased \$39.1 million or 12.5% in 2017. The increase was driven by a 7.6% increase in same store sales as compared to 2016 and an increase in the average number of stores open during the year. Revenues further benefited from higher fees paid by franchisees for the use of our internally developed technology platforms.

*Supply chain.* Revenues from supply chain operations are primarily comprised of sales of food, equipment and supplies from our supply chain centers to all of our domestic franchised stores and certain international franchised stores, as summarized in the following table.

	2017		2016	
Domestic supply chain	\$ 1,574.9	90.6%	\$ 1,408.8	91.2%
International supply chain	164.1	9.4%	135.5	8.8%



Total supply chain	\$ 1,739.0	100.0%	\$ 1,544.3	100.0%
--------------------	------------	--------	------------	--------

*Domestic supply chain.* Domestic supply chain revenues increased \$166.1 million or 11.8% in 2017. These increases were primarily attributable to higher volumes from increased order counts at the store level as well as store count growth. Our market basket pricing to stores increased 1.7% during 2017, which resulted in an estimated \$18.8 million increase in domestic supply chain revenues.

*International supply chain.* Revenues from international supply chain operations increased \$28.6 million or 21.1% in 2017, driven primarily by higher volumes from increased order counts at the store level. The positive impact of foreign currency exchange rates of \$3.4 million in 2017 also contributed to the increases.

*International franchise.* International franchise revenues primarily consist of royalties from retail sales and other fees from our international franchise stores. Revenues from international franchise operations increased \$29.7 million or 16.8% in 2017. This increase was due to an increase in the average number of international stores open during 2017 as well as higher same store sales and an increase in technology fees, and was offset slightly by the negative impact of changes in foreign currency exchange rates of approximately \$0.8 million in 2017. Excluding the impact of foreign currency exchange rates, same store sales increased 3.4% in 2017 compared to 2016.

**Table of Contents**

*Cost of sales / Operating margin.* Consolidated cost of sales consists primarily of domestic Company-owned store and supply chain costs incurred to generate related revenues. Components of consolidated cost of sales primarily include food, labor and occupancy costs. The changes to the consolidated operating margin, which we define as revenues less cost of sales are summarized in the following table.

	2017		2016	
Consolidated revenues	\$ 2,788.0	100.0%	\$ 2,472.6	100.0%
Consolidated cost of sales	1,922.0	68.9%	1,704.9	69.0%
Consolidated operating margin	\$ 866.0	31.1%	\$ 767.7	31.0%

The \$98.3 million or 12.8% increase in consolidated operating margin was due to higher domestic and international franchise revenues as well as higher supply chain and Company-owned store margins. Franchise revenues do not have a cost of sales component, so changes in franchise revenues have a disproportionate effect on the consolidated operating margin.

As a percentage of total revenues, our consolidated operating margin increased 0.1 percentage points in 2017 due to a higher mix of franchise revenues and higher supply chain margin as a percentage of supply chain revenues. Company-owned store operating margin decreased 1.3 percentage points during 2017. These changes in margin are more fully discussed below.

*Domestic Company-owned stores.* The changes to domestic Company-owned store operating margin, which do not include other store-level costs such as royalties and advertising, are summarized in the following table.

	2017		2016	
Revenues	\$ 490.8	100.0%	\$ 439.0	100.0%
Cost of sales	377.7	76.9%	331.9	75.6%
Store operating margin	\$ 113.2	23.1%	\$ 107.2	24.4%

The \$6.0 million or 5.6% increase in the domestic Company-owned store operating margin was due primarily to higher same store sales and an increase in the average number of stores open during the year.

As a percentage of store revenues, the store operating margin decreased 1.3 percentage points in 2017, as discussed in more detail below.

Food costs increased 0.1 percentage points to 26.7% in 2017, due primarily to higher overall commodity prices.

Labor costs increased 0.7 percentage points to 29.5% in 2017, due primarily to an increase in labor rates in certain markets. The leveraging of higher same store sales partially offset this increase.

Insurance costs increased 0.6 percentage points to 3.4% in 2017, due primarily to incremental insurance expense related to updated independent actuarial estimates for our casualty insurance program.

Occupancy costs, which include rent, telephone, utilities and depreciation, decreased 0.2 percentage points to 7.9% in 2017, due primarily to the leveraging of higher same store sales.

*Supply chain.* The changes to the supply chain operating margin are summarized in the following table.

	2017		2016	
Revenues	\$ 1,739.0	100.0%	\$ 1,544.3	100.0%
Cost of sales	1,544.3	88.8%	1,373.1	88.9%
Supply chain operating margin	\$ 194.7	11.2%	\$ 171.3	11.1%

The \$23.4 million or 13.7% increase in the supply chain operating margin was due primarily to higher volumes from increased store orders.

As a percentage of supply chain revenues, the supply chain operating margin increased 0.1 percentage points in 2017 due primarily to procurement savings. Increased labor and delivery costs partially offset this increase.

*General and administrative expenses.* General and administrative expenses increased \$31.2 million or 9.9% in 2017, primarily driven by continued investments in technological initiatives (primarily in e-commerce and information technology) as well as investments in other strategic areas. Higher Company-owned store national advertising contributions resulting from higher same store sales also contributed to the increase. These increases were partially offset by lower performance-based compensation expense and a pre-tax gain recognized from the sale of 17 Company-owned stores during the fourth quarter of 2017 of \$4.0 million.

*Interest income.* Interest income increased \$0.8 million to \$1.5 million in 2017.

**Table of Contents**

*Interest expense.* Interest expense increased \$12.4 million to \$122.5 million in 2017. This increase was driven by higher average borrowings and approximately \$5.8 million of expenses related to the 2017 Recapitalization. These expenses include a \$5.5 million write-off of debt issuance costs and \$0.3 million of interest expense that was incurred on the 2012 debt subsequent to the closing of the 2017 Recapitalization but prior to the repayment of the 2012 debt. The increase in interest expense was offset in part by a lower weighted-average borrowing rate.

Our average outstanding debt balance, excluding capital lease obligations, was approximately \$2.63 billion in 2017 and approximately \$2.23 billion in 2016. The increase in the average outstanding debt balance was due to the issuance of debt in connection with the 2017 Recapitalization. Our weighted average borrowing rate decreased to 4.2% in fiscal 2017, from 4.6% in fiscal 2016. The decreases in the Company's cash borrowing rate resulted from the lower interest rates on the debt issued as part of the 2017 Recapitalization.

*Provision for income taxes.* Provision for income taxes decreased \$7.8 million to \$122.2 million in 2017. Although pre-tax income increased in 2017, the effective tax rate decreased, primarily as a result of the Company's adoption of ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09), which requires tax benefits on equity-based compensation to be recorded as a reduction to the income tax provision. The adoption of this standard benefitted the provision for income taxes by \$27.2 million in 2017. The effective tax rate decreased to 30.6% in 2017 as compared to 37.7% in 2016.

The impact of the 2017 Tax Act was not material to our 2017 financial statements. For further discussion of risks and uncertainties associated with the implementation of the 2017 Tax Act, see Item 1A. Risk Factors.

**2016 compared to 2015**

(tabular amounts in millions, except percentages)

*Revenues:* Consolidated revenues increased \$256.1 million or 11.6% in 2016. The increase was due primarily to higher supply chain food volumes as well as higher Company-owned store, domestic franchise and international franchise revenues resulting from same store sales and store count growth. These increases were offset in part by the inclusion of the 53<sup>rd</sup> week in 2015, which positively impacted revenues by an estimated \$49.7 million in 2015. The negative impact of changes in foreign currency exchange rates on international franchise royalties and international supply chain revenues also partially offset the increases in revenues. These changes in revenues are more fully described below.

*Domestic stores.* Domestic stores revenues are summarized in the following table.

	2016		2015	
Domestic Company-owned stores	\$ 439.0	58.4%	\$ 396.9	59.3%
Domestic franchise	312.3	41.6%	272.8	40.7%
<b>Total domestic stores revenues</b>	<b>\$ 751.3</b>	<b>100.0%</b>	<b>\$ 669.7</b>	<b>100.0%</b>

Higher franchise same store sales, store count growth and higher domestic Company-owned same store sales drove an increase in overall domestic store revenues of \$81.6 million or 12.2%. These results are more fully described below.

*Domestic Company-owned stores.* Revenues from domestic Company-owned store operations increased \$42.1 million or 10.6% in 2016. This increase was due to a 10.4% increase in same store sales as compared to 2015 and an increase in the average number of stores open during the year, and was offset in part by the estimated \$9.1 million positive impact in 2015 related to the inclusion of the 53<sup>rd</sup> week.

*Domestic franchise.* Revenues from domestic franchise operations increased \$39.5 million or 14.5% in 2016. The increase was driven by a 10.5% increase in same store sales as compared to 2015 and an increase in the average number of stores open during the year. Revenues further benefited from fees paid by franchisees for our internally developed online ordering platform, and were offset in part by the estimated \$6.1 million positive impact in 2015 related to the inclusion of the 53<sup>rd</sup> week.

*Supply chain.* Supply chain revenues are summarized in the following table.

	<b>2016</b>		<b>2015</b>	
Domestic supply chain	\$ 1,408.8	91.2%	\$ 1,266.4	91.6%
International supply chain	135.5	8.8%	116.8	8.4%
<b>Total supply chain</b>	<b>\$ 1,544.3</b>	<b>100.0%</b>	<b>\$ 1,383.2</b>	<b>100.0%</b>

**Table of Contents**

*Domestic supply chain.* Domestic supply chain revenues increased \$142.4 million or 11.3% in 2016. These increases were primarily attributable to higher volumes from increased order counts at the store level. They were partially offset by lower commodity prices and the estimated \$27.8 million positive impact in 2015 related to the inclusion of the 53<sup>rd</sup> week. The lower cheese block price (passed through directly in domestic supply chain pricing to franchisees) did not have a material impact on domestic supply chain revenues in 2016. We estimate that lower commodity prices resulted in an approximate \$3.0 million decrease in domestic supply chain revenues during 2016.

*International supply chain.* Revenues from international supply chain operations increased \$18.7 million or 16.0% in 2016. This increase resulted primarily from higher volumes from increased order counts at the store level in 2016 and was offset in part by the negative impact of foreign currency exchange rates of approximately \$4.3 million in 2016 and the estimated \$2.6 million positive impact in 2015 related to the inclusion of the 53<sup>rd</sup> week.

*International franchise.* Revenues from international franchise operations increased \$13.4 million or 8.2% in 2016. This increase was due to an increase in the average number of international stores open during 2016 as well as higher same store sales, and was offset in part by the negative impact of changes in foreign currency exchange rates of approximately \$8.9 million in 2016 and the estimated \$4.1 million positive impact in 2015 related to the inclusion of the 53<sup>rd</sup> week. Excluding the impact of foreign currency exchange rates, same store sales increased 6.3% in 2016 compared to 2015.

*Cost of sales / Operating margin.* The changes to the consolidated operating margin, which we define as revenues less cost of sales, are summarized in the following table.

	2016		2015	
Consolidated revenues	\$ 2,472.6	100.0%	\$ 2,216.5	100.0%
Consolidated cost of sales	1,704.9	69.0%	1,533.4	69.2%
Consolidated operating margin	\$ 767.7	31.0%	\$ 683.1	30.8%

The \$84.6 million or 12.4% increase in consolidated operating margin was due primarily to higher domestic and international franchise revenues and higher supply chain margins. The increase in the consolidated operating margin was offset in part by the estimated \$16.6 million positive impact in 2015 related to the inclusion of the 53<sup>rd</sup> week. Franchise revenues do not have a cost of sales component, so changes in franchise revenues have a disproportionate effect on the consolidated operating margin.

As a percentage of total revenues, our consolidated operating margin increased 0.2 percentage points in 2016, due to higher supply chain margins as a percentage of their revenues and a higher mix of franchise revenues. Lower Company-owned stores operating margins as a percentage of their revenues partially offset these increases. These changes are more fully described below.

*Domestic Company-owned stores.* The changes to domestic Company-owned store operating margin, which do not include other store-level costs such as royalties and advertising, are summarized in the following table.

	2016		2015	
Revenues	\$ 439.0	100.0%	\$ 396.9	100.0%

Edgar Filing: DOMINOS PIZZA INC - Form 10-K

Cost of sales	331.9	75.6%	299.3	75.4%
Store operating margin	\$ 107.2	24.4%	\$ 97.6	24.6%

The \$9.6 million or 9.8% increase in the domestic Company-owned store operating margin was due primarily to higher same store sales. The estimated \$3.1 million positive impact in 2015 related to the inclusion of the 53<sup>rd</sup> week partially offset this increase.

As a percentage of store revenues, the store operating margin decreased 0.2 percentage points in 2016, as discussed in more detail below.

Food costs increased 0.5 percentage points to 26.6% in 2016, due primarily to promotional activities. Lower overall commodity prices partially offset these increases.

Labor costs increased 0.3 percentage points to 28.8% in 2016, due primarily to an increase in labor rates in certain markets as well as higher performance based compensation and overtime as a result of increased same store sales. The leveraging impact of higher same store sales partially offset these increases.

Insurance costs decreased 1.2 percentage points to 2.8% in 2016, due primarily to a \$4.3 million insurance expense related to updated actuarial estimates for our casualty insurance program in the third quarter of 2015.

Transaction-related expenses increased 0.9 percentage points to 3.2% in 2016. This increase was primarily attributable to higher credit card-related expenses in certain markets in which we operate.

Delivery expenses decreased 0.4 percentage points to 3.4% in 2016, due primarily to lower fuel prices.

**Table of Contents**

*Supply chain.* The changes to the supply chain operating margin are summarized in the following table.

	2016		2015	
Revenues	\$ 1,544.3	100.0%	\$ 1,383.2	100.0%
Cost of sales	1,373.1	88.9%	1,234.1	89.2%
Supply chain operating margin	\$ 171.3	11.1%	\$ 149.1	10.8%

The \$22.2 million or 14.9% increase in the supply chain operating margin was due primarily to higher volumes from increased store order counts. Lower insurance expenses also contributed to the increased operating margin, as the third quarter of 2015 contained a \$1.4 million insurance charge related to the Company's casualty insurance program. The estimated \$3.3 million positive impact in 2015 related to the inclusion of the 53<sup>rd</sup> week in 2015 partially offset the increase in operating margin.

As a percentage of supply chain revenues, the supply chain operating margin increased 0.3 percentage points in 2016 due to lower casualty and health insurance expenses, higher volumes from store count growth and increased store order counts, as well as lower fuel costs. Increased labor costs partially offset these increases. Decreases in certain food prices have a positive effect on the supply chain operating margin percentage due to the fixed dollar margin earned by supply chain on certain food items. Lower commodity prices decreased both revenues and costs by \$3.0 million in fiscal 2016. Lower cheese prices did not have a material impact in 2016; if our U.S. cheese prices for 2016 had been in effect during 2015, the supply chain operating margin as a percentage of supply chain revenues would have remained the same. The dollar margin would also have been unaffected.

*General and administrative expenses.* General and administrative expenses increased \$35.9 million or 12.9% in 2016. These increases were driven by continued investments in technological initiatives and labor (primarily in e-commerce, information technology and international operations) as well as higher performance-driven expenses resulting from improved operating performance and higher same store sales, including variable performance-based compensation and Company-owned store national advertising contributions. General and administrative expenses were positively impacted by the non-recurrence of an estimated \$4.7 million of expenses from the inclusion of the 53<sup>rd</sup> week in 2015.

*Interest income.* Interest income increased slightly to \$0.7 million in 2016.

*Interest expense.* Interest expense increased \$10.5 million to \$110.1 million in 2016. The increase was driven by a higher average debt balance as a result of the 2015 Recapitalization and was offset in part by a lower cash borrowing rate.

Our weighted average borrowing rate decreased to 4.6% in fiscal 2016, from 5.1% in fiscal 2015. The decreases in the Company's cash borrowing rate resulted from the lower interest rates on the debt issued as part of the 2015 recapitalization. Our average outstanding debt balance, excluding capital lease obligations, was approximately \$2.23 billion in 2016 and approximately \$1.68 billion in 2015. The increase in the average outstanding debt balance was due to the issuance of debt in connection with the 2015 Recapitalization.

*Provision for income taxes.* Provision for income taxes increased \$16.6 million to \$130.0 million in 2016, due primarily to higher pre-tax income. The Company's effective income tax rate increased by 0.7 percentage points to 37.7% of pre-tax income in 2016.



## **Liquidity and capital resources**

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 35 to 45 inventory turns per year. In addition, our sales are not typically seasonal, which further limits our working capital requirements. These factors, coupled with the use of our ongoing cash flows from operations to service our debt obligations, invest in our business, pay dividends and repurchase our common stock, reduce our working capital amounts. As of December 31, 2017, we had negative working capital of \$10.3 million, excluding restricted cash and cash equivalents of \$191.8 million and including total unrestricted cash and cash equivalents of \$35.8 million.

As of December 31, 2017, we had approximately \$122.9 million of restricted cash and cash equivalents held for future principal and interest payments and \$32.1 million of restricted cash equivalents held in a three-month interest reserve as required by the related debt agreements, \$36.7 million of cash held as collateral for outstanding letters of credit and \$0.1 million of other restricted cash, for a total of \$191.8 million of restricted cash and cash equivalents.

---

**Table of Contents**

Our primary source of liquidity is cash flows from operations and availability of borrowings under our variable funding notes. In connection with the 2017 Recapitalization, the Company issued a new variable funding note facility which allows for advances of up to \$175.0 million of Series 2017-1 Variable Funding Senior Secured Notes, Class A-1 Notes and certain other credit instruments, including letters of credit (the 2017 Variable Funding Notes ). The Variable Funding Notes were undrawn on the closing date. The Company's previous variable funding note facility was canceled.

As of December 31, 2017, we had \$46.7 million of outstanding letters of credit and \$128.3 million of available borrowing capacity under our 2017 Variable Funding Notes. The letters of credit are primarily related to our casualty insurance programs and certain supply chain center leases. Borrowings under the 2017 Variable Funding Notes are available to fund our working capital requirements, capital expenditures and, subject to other limitations, other general corporate purposes including dividend payments.

**2017 Recapitalization**

On July 24, 2017, the Company completed the 2017 Recapitalization in which certain of the Company's subsidiaries issued new notes pursuant to an asset-backed securitization. The new notes consist of \$300.0 million Series 2017-1 Floating Rate Senior Secured Notes, Class A-2-I with an anticipated term of five years (the Floating Rate Notes ), \$600.0 million Series 2017-1 3.082% Fixed Rate Senior Secured Notes, Class A-2-II with an anticipated term of five years (the Five-year Fixed Rate Notes ), and \$1.0 billion Series 2017-1 4.118% Fixed Rate Senior Secured Notes, Class A-2-III with an anticipated term of 10 years (the Ten-year Fixed Rate Notes and, collectively with the Floating Rate Notes and the Five-year Fixed Rate Notes, the 2017 Fixed and Floating Rate Notes ) in an offering exempt from registration under the Securities Act of 1933, as amended. The interest rate on the Floating Rate Notes is payable at a rate equal to LIBOR plus 125 basis points. The 2017 Fixed and Floating Rate Notes and the 2017 Variable Funding Notes are collectively referred to as the 2017 Notes . Gross proceeds from the issuance of the 2017 Notes was \$1.9 billion. Additional information related to the 2017 Recapitalization transaction is included in Note 4 to our consolidated financial statements.

A portion of proceeds from the 2017 Recapitalization was used to repay the remaining \$910.5 million in outstanding principal and interest under the outstanding Series 2012-1 5.216% Fixed Rate Senior Secured Notes, Class A-2 (the 2012 Fixed Rate Notes ), pre-fund a portion of the principal and interest payable on the 2017 Notes and pay transaction fees and expenses. In connection with the repayment of the 2012 Fixed Rate Notes, the Company expensed approximately \$5.5 million for the remaining unamortized debt issuance costs associated with these notes. Additionally, in connection with the 2017 Recapitalization, the Company capitalized \$16.8 million of debt issuance costs, which are being amortized into interest expense over the five and ten-year expected terms of the 2017 Fixed and Floating Rate Notes.

On July 27, 2017, the Company's Board of Directors authorized a new share repurchase program to repurchase up to \$1.25 billion of the Company's common stock. This repurchase program replaced the remaining availability of approximately \$136.4 million under the Company's previously approved \$250.0 million share repurchase program that was authorized by the Board on May 25, 2016. On August 2, 2017, the Company entered into a \$1.0 billion accelerated share repurchase agreement (the 2017 ASR Agreement ) with a counterparty. Pursuant to the terms of the 2017 ASR Agreement, on August 3, 2017, as part of its new \$1.25 billion share repurchase authorization, the Company used a portion of the proceeds from the 2017 Recapitalization to pay the counterparty \$1.0 billion in cash and received 4,558,863 shares of the Company's common stock. Final settlement of the 2017 ASR Agreement occurred on October 11, 2017. In connection with the 2017 ASR Agreement, the Company received and retired a total of 5,218,670 shares of its common stock at an average price of \$191.62.

## 2015 Recapitalization

The Company also entered into a recapitalization transaction in 2015, in which certain of our subsidiaries, among other things, replaced \$551.3 million of the 2012 Fixed Rate Notes and its 2012 variable funding notes with new notes (the 2015 Fixed Rate Notes ) issued pursuant to an asset-backed securitization. The 2015 Fixed Rate Notes consist of \$500.0 million of Series 2015-1 3.484% Fixed Rate Senior Secured Notes, Class A-2-I (the 2015 Five-Year Notes ), \$800.0 million Series 2015-1 4.474% Fixed Rate Senior Secured Notes, Class A-2-II (the 2015 Ten-Year Notes ) and \$125.0 million of Series 2015-1 Variable Funding Senior Secured Notes, Class A-1 (the 2015 Variable Funding Notes ). The 2015 Fixed Rate Notes and the 2017 Fixed and Floating Rate Notes are collectively referred to as the 2015 and 2017 Notes. Additional information related to the 2015 Recapitalization transaction is included in Note 4 to our consolidated financial statements.

---

**Table of Contents**

In connection with the 2015 Recapitalization, the Company used a portion of proceeds to make an optional prepayment of approximately \$551.3 million in aggregate principal amount of the 2012 Fixed Rate Notes, at par, pay scheduled principal catch-up amounts on the 2012 Fixed Rate Notes, make an interest reserve deposit, pre-fund a portion of the principal and interest payable on the 2015 Fixed Rate Notes and pay transaction fees and expenses. In connection with the 2015 Recapitalization, the Company recorded \$17.4 million of debt issuance costs, which are being amortized into interest expense over the five and ten-year expected terms of the 2015 Fixed Rate Notes. Additionally, in connection with the 2015 Recapitalization, the Company wrote off approximately \$6.9 million of these costs in connection with the extinguishment of \$551.3 million of previous fixed rate notes. Further, in connection with the 2015 Recapitalization, the Company incurred approximately \$8.1 million of net expenses.

On October 23, 2015, the Company's Board of Directors authorized a new share repurchase program to repurchase up to \$800.0 million of the Company's common stock. On October 27, 2015, the Company entered into a \$600.0 million accelerated share repurchase agreement (the "2015 ASR Agreement") with a counterparty. Pursuant to the terms of the 2015 ASR Agreement, on October 30, 2015, the Company used a portion of the proceeds from the 2015 Recapitalization to pay the counterparty \$600.0 million in cash and received approximately 4,858,994 shares of the Company's common stock. During the first quarter of 2016, the Company received and retired 456,936 shares of its common stock in connection with the final settlement of the 2015 ASR Agreement.

**2015 and 2017 Notes**

The 2015 and 2017 Notes have scheduled principal payments of \$32.0 million in each of 2018 and 2019, \$509.5 million in 2020, \$27.0 million in 2021, \$879.8 million in 2022, \$18.0 million in each of 2023 and 2024, \$742.0 million in 2025, \$10.0 million in 2026, and \$907.5 million in 2027. However, in accordance with our debt agreements, the payment of principal on the outstanding senior notes shall be suspended if the leverage ratio for the Company is less than or equal to 5.0x total debt, as defined, to adjusted EBITDA, as defined, and no catch-up provisions are applicable.

The 2015 and 2017 Notes are subject to certain financial and non-financial covenants, including a debt service coverage calculation, as defined in the related agreements. In the event that certain covenants are not met, the 2015 and 2017 Notes may become due and payable on an accelerated schedule.

Under the provisions of the Company's previously existing debt agreements, during the first and second quarters of 2017, the Company met the maximum leverage ratios of less than 4.5x and accordingly, did not make previously scheduled debt amortization payments in accordance with the debt agreements. Subsequent to the 2017 Recapitalization, the Company's leverage ratios exceeded the new maximum leverage ratio of 5.0x and, accordingly, the Company began making the scheduled amortization payments.

**Share Repurchase Programs**

The Company's open market share repurchase programs have historically been funded by excess cash flows. The Company used cash of approximately \$1.06 billion in 2017, \$300.3 million in 2016 and \$738.6 million in 2015 for share repurchases. The Company had approximately \$198.5 million left under its \$1.25 billion authorization as of December 31, 2017. The Company's Board of Directors authorized a new share repurchase program to repurchase up to \$750.0 million of the Company's common stock on February 14, 2018. This repurchase program replaces the remaining availability of approximately \$198.5 million under its previously approved \$1.25 billion share repurchase program.

**Capital Expenditures**

Edgar Filing: DOMINOS PIZZA INC - Form 10-K

In the past three years, we have invested approximately \$214.2 million in capital expenditures. In 2017, we invested \$90.3 million in capital expenditures which primarily related to investments in our supply chain centers, our proprietary internally developed point-of-sale system (Domino's PULSE), our digital ordering platform, new Company-owned stores, our internal enterprise systems, reimagining our existing Company-owned stores and other technology initiatives. We did not have any material commitments for capital expenditures as of December 31, 2017.

**Table of Contents**

The following table illustrates the main components of our cash flows:

(In millions)	<b>Fiscal Year Ended</b>		
	<b>December 31, 2017</b>	<b>January 1, 2017</b>	<b>January 3, 2016</b>
<b>Cash Flows Provided By (Used In)</b>			
Net cash provided by operating activities	\$ 339.0	\$ 287.3	\$ 291.8
Net cash used in investing activities	(149.0)	(0.8)	(109.3)
Net cash used in financing activities	(197.1)	(375.8)	(80.9)
Exchange rate changes	0.1	(1.3)	1.0
Change in cash and cash equivalents	\$ (7.0)	\$ (90.6)	\$ 102.6

**Operating Activities**

Cash provided by operating activities increased \$51.7 million in 2017 from 2016, primarily due to an increase in net income of \$63.2 million. Net income in 2017 included a \$27.2 million benefit from the adoption of ASU 2016-09, which requires tax benefits on equity-based compensation to be recorded as a reduction to the provision from income taxes in net income and as a component of cash provided by operating activities. In 2016, these tax benefits were recorded directly to stockholders' deficit and as a financing activity in the statement of cash flows. Cash provided by operating activities was also positively impacted by an increase in non-cash amounts of \$18.1 million. These increases were offset in part by the negative impact of changes in operating assets and liabilities of \$29.6 million, primarily related to the timing of payments on accounts payable and accrued liabilities during 2017 as compared to 2016.

Cash provided by operating activities decreased \$4.5 million in 2016 from 2015, primarily due to the negative impact of changes in operating assets and liabilities of \$23.7 million resulting from the timing of payments for accounts payable and accrued liabilities in 2016 as compared to 2015. This decrease was offset in part by an increase in net income of \$21.9 million.

We are focused on continually improving our net income and cash flow from operations and management expects to continue to generate positive cash flows from operating activities for the foreseeable future.

**Investing Activities**

During fiscal 2017, cash used in investing activities was \$149.0 million, which consisted primarily of \$90.0 million of capital expenditures (driven by investments in our technological initiatives, supply chain centers and Company-owned stores) and the increase in restricted cash and cash equivalents of \$65.3 million. These uses of cash were offset in part by the proceeds from the sale of assets of \$6.8 million.

During fiscal 2016, cash used in investing activities was \$0.8 million, which consisted primarily of \$58.6 million of capital expenditures (driven by investments related to the reimagining of our existing Company-owned stores and investments in our supply chain centers and training facilities, our proprietary internally developed point-of-sale system, our digital ordering platform, our internal enterprise systems and other technology initiatives), offset in part by the decrease in restricted cash and cash equivalents of \$54.4 million and by proceeds from the sale of assets of \$4.9 million.

During fiscal 2015, cash used in investing activities was \$109.3 million, which consisted primarily of \$63.3 million of capital expenditures (driven by investments related to the reimaging of our existing Company-owned stores and investments in our supply chain centers and training facilities, our proprietary internally developed point-of-sale system, our digital ordering platform, our internal enterprise systems and other technology initiatives), increases in restricted cash and cash equivalents of \$60.0 million, and offset by proceeds from the sale of assets of \$12.7 million.

### **Financing Activities**

During fiscal 2017, cash used in financing activities was \$197.1 million. We issued \$1.9 billion of debt in connection with our 2017 Recapitalization, which was offset by purchases of common stock of \$1.06 billion, repayments of long-term debt of \$928.2 million (of which, \$910.2 million was repayment of the remaining 2012 Fixed Rate Notes using a portion of the proceeds received from the 2017 Recapitalization), funding dividend payments to our shareholders of \$84.3 million, and cash paid for financing costs related to our 2017 Recapitalization of \$16.8 million. We also made \$9.4 million in tax payments for restricted stock upon vesting and received proceeds of \$6.1 million from the exercise of stock options.

During fiscal 2016, cash used in financing activities was \$375.8 million. Purchases of common stock totaled \$300.3 million, repayments of long-term debt and capital lease obligations totaled \$122.3 million, and funding dividend payments to our shareholders totaled \$73.9 million. The net tax impact of equity-based compensation was \$42.5 million, proceeds from issuance of debt (from our draws on our variable funding note facility) totaled \$63.0 million, and proceeds from the exercise of stock options totaled \$15.2 million.

---

**Table of Contents**

During fiscal 2015, cash used in financing activities was \$80.9 million. In fiscal 2015, we issued \$1.3 billion of debt in connection with our 2015 Recapitalization, which was offset by the purchases of common stock of \$738.6 million, repayments of long-term debt of \$564.4 million (of which, \$551.3 million was an optional prepayment on our 2012 Fixed Rate Notes using a portion of the proceeds received from the 2015 Recapitalization), funding dividend payments to our shareholders of \$80.3 million, and cash paid for financing costs related to our 2015 Recapitalization of \$17.4 million. The net tax impact of equity-based compensation of \$10.3 million increased cash from financing activities in fiscal 2015.

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 in Item 1A. Risk Factors. There can be no assurance that our business will generate sufficient cash flows from operations or that future borrowings will be available under the 2017 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 and Floating Rate Notes and to service, extend or refinance the 2017 Variable Funding Notes will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control.

**Impact of inflation**

Inflation did not have a material impact on our operations in 2017, 2016 or 2015. Severe increases in inflation, however, could affect the global and U.S. economies and could have an adverse impact on our business, financial condition and results of operations. Further discussion on the impact of commodities and other cost pressures is included above as well as in Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

**New accounting pronouncements****Recently Adopted Accounting Standards**

In March 2016, the Financial Accounting Standards Board ( FASB ) issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09). ASU 2016-09 is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. The new standard was effective for the Company beginning January 2, 2017.

As a result, excess tax benefits or deficiencies from equity-based compensation activity are reflected in the consolidated statements of income as a component of the provision for income taxes, whereas they previously were recognized in the consolidated statement of stockholders' deficit. The Company also elected to account for forfeitures as they occur, rather than to use an estimate of expected forfeitures for financial statement reporting purposes. The adoption of ASU 2016-09 resulted in a decrease in our provision for income taxes of \$27.2 million in fiscal 2017, primarily due to the recognition of excess tax benefits for options exercised and the vesting of equity awards. The Company's election to account for forfeitures as they occur had an immaterial impact on its equity-based compensation expense.

The Company adopted the cash flow presentation prospectively, and accordingly, excess tax benefits from equity-based compensation of \$27.2 million in fiscal 2017 are presented as an operating activity, while \$48.1 million and \$17.8 million of excess tax benefits from equity-based compensation in fiscal 2016 and fiscal 2015, respectively, are presented as a financing activity. The presentation requirements for cash flows related to taxes paid for restricted stock upon vesting had no impact on our consolidated statements of cash flows for any of the periods presented because such cash flows have historically been presented as a financing activity.



Accounting Standards Not Yet Adopted

The Company has considered all new accounting pronouncements issued by the FASB and concluded the following accounting pronouncements may have a material impact on our consolidated financial statements, or represent accounting pronouncements for which the Company has not yet completed its assessment.

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, or Accounting Standards Codification 606 ( ASC 606 ). This guidance outlines a single, comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance issued by the FASB, including industry specific guidance. Under the new revenue recognition standard, entities apply a five-step model that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, companies identify the performance obligations within their contracts with customers, allocate the transaction price received from customers to each performance obligation

---

**Table of Contents**

identified within their contracts, and recognize revenue as the performance obligations are satisfied. During 2015, 2016, and 2017, the FASB issued various amendments which provide additional clarification and implementation guidance on ASC 606. Specifically, these amendments clarify how an entity should identify the specified good or service for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements, clarify how an entity should identify performance obligations and licensing implementation guidance, as well as account for shipping and handling fees and freight service, assess collectability, present sales tax, treat non-cash consideration, and account for completed and modified contracts at the time of transition. The new guidance requires enhanced disclosures, including revenue recognition policies to identify performance obligations to customers and significant judgments in measurement and recognition. The effective date and transition requirements for ASC 606 and amendments is for fiscal years, and for interim periods within those years, beginning after December 15, 2017, and the Company will adopt this guidance using the modified retrospective approach effective January 1, 2018.

The Company has substantially completed its assessment of ASC 606, and the adoption of this guidance is not expected to have a material impact on its recognition of sales from Company-owned stores, ongoing royalty fees which are based on a percentage of franchise sales, revenues from its supply chain centers, development fees or technology fees.

The Company has determined that the store opening fees received from international franchisees do not contain separate and distinct performance obligations from the franchise right and those upfront fees will therefore be recognized as revenue over the term of each respective franchise agreement. Currently, we recognize such fees as revenue when received. The Company does not expect this to have a material impact on its international franchise revenues. However, an adjustment to beginning retained earnings and a corresponding contract liability of approximately \$15 million will be established on the date of adoption associated with the fees received through December 31, 2017 that would have been deferred and recognized over the term of each respective franchise agreement if the new guidance had been applied in the past.

The Company has also determined that ASC 606 requires a gross presentation on the consolidated statement of income for franchisee contributions received by and related expenses of Domino's National Advertising Fund Inc. ( DNAF ), our consolidated not-for-profit subsidiary. DNAF exists solely for the purpose of promoting the Domino's Pizza brand in the U.S. The Company currently presents the restricted assets and liabilities of DNAF in its consolidated balance sheets and, under existing accounting guidance, has determined that it acts as an agent for accounting purposes with regard to franchise store contributions and disbursements. As a result, the Company currently presents the activities of DNAF net in its statements of income. Under ASC 606, the Company has determined that there are not separate performance obligations associated with the franchise advertising contributions received by DNAF and as a result, these franchise contributions and the related expenses will be presented gross in the Company's consolidated statement of income. The Company expects this change to have a material impact on its total revenues and expenses beginning in fiscal 2018. However, as the amount of revenues to be recorded is directly tied to future franchise retail sales and advertising contribution rates, the Company is not able to reasonably estimate the impact. If this guidance were in effect in fiscal 2017, the Company would have reported incremental franchise advertising revenues and expenses of approximately \$324 million in its consolidated statement of income. While this change will materially impact the gross amount of reported franchise revenues and expenses, the impact will generally be an offsetting increase to both revenues and expenses such that the impact on income from operations and net income, if any, would not be material. We will also present the activity associated with DNAF on a gross basis in the statement of cash flows beginning in fiscal 2018.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires a lessee to recognize assets and liabilities on the balance sheet for leases with lease terms greater than 12 months. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is

permitted. Based on a preliminary assessment, the Company expects the adoption of this guidance to have a material impact on its assets and liabilities due to the recognition of right-of-use assets and lease liabilities on its consolidated balance sheets at the beginning of the earliest period presented. The Company is continuing its assessment, which may identify additional impacts this guidance will have on its consolidated financial statements and disclosures. Our current minimum lease commitments are disclosed in Note 5.

In March 2016, the FASB issued ASU 2016-04, *Liabilities - Extinguishment of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products*. ASU 2016-04 aligns recognition of the financial liabilities related to prepaid stored-value products (for example, gift cards) with Topic 606, *Revenues from Contracts with Customers*, for non-financial liabilities. In general, these liabilities may be extinguished proportionately in earnings as redemptions occur, or when redemption is remote if issuers are not entitled to the unredeemed stored value. ASU 2016-04 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is permitted. The Company plans to adopt this guidance effective January 1, 2018 in connection with our adoption of ASC 606 and does not expect it to have a material impact on its consolidated financial statements.

**Table of Contents**

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires companies to measure credit losses utilizing a methodology that reflects expected credit losses and requires a consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including those interim periods within those fiscal years. The Company is currently assessing the impact of adopting this standard, but based on a preliminary assessment, does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (ASU 2016-18), which requires that restricted cash and cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. ASU 2016-18 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 and a retrospective transition method is required. The Company currently presents changes in restricted cash and cash equivalents in the investing section of its consolidated statement of cash flows. The new guidance will not impact financial results, but will result in a change in the presentation of restricted cash and restricted cash equivalents within the statement of cash flows. The Company currently plans to adopt this guidance in the first quarter of 2018 using the retrospective approach.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 35): Simplifying the Test for Goodwill Impairment*, or ASU 2017-04. ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. ASU 2017-04 is effective for public companies' annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently assessing the impact of adopting this standard, but based on a preliminary assessment, does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

**Contractual obligations**

The following is a summary of our significant contractual obligations at December 31, 2017.

(dollars in millions)	2018	2019	2020	2021	2022	Thereafter	Total
Long-term debt (1):							
Principal	\$ 32.0	\$ 32.0	\$ 509.5	\$ 27.0	\$ 879.8	\$ 1,695.5	\$ 3,175.8
Interest (2)	120.1	119.0	116.3	100.0	87.5	266.6	809.5
Capital leases (3)	0.8	0.8	0.8	0.8	0.8	4.3	8.5
Operating leases (4)	45.1	40.3	35.1	31.3	26.7	59.0	237.4

- (1) We have outstanding long-term secured notes with varying maturities. For additional information, see Note 4 of the Notes to Consolidated Financial Statements under Part II Item 8 Financial Statements and Supplementary Data.
- (2) Represents interest payments on our 2015 and 2017 Notes and 2017 Variable Funding Notes. The interest rate on the 2017 Variable Funding Notes will be payable at a per year rate equal to LIBOR plus 150 basis points.
- (3) The principal portion of the capital lease obligation amounts above, which totaled \$5.4 million at December 31, 2017, are classified as debt in our consolidated financial statements.
- (4) We lease certain retail store and supply chain center locations, supply chain vehicles, various equipment and our World Resource Center under leases with expiration dates through 2033.

Liabilities for unrecognized tax benefits of \$1.8 million are excluded from the above table, as we are unable to make a reasonably reliable estimate of the amount and period of payment. For additional information on unrecognized tax benefits see Note 6 to the consolidated financial statements included in this Form 10-K.

**Off-balance sheet arrangements**

We are party to letters of credit and, to a lesser extent, financial guarantees with off-balance sheet risk. Our exposure to credit loss for letters of credit and financial guarantees is represented by the contractual amounts of these instruments. Total conditional commitments under letters of credit as of December 31, 2017 were approximately \$46.7 million and relate to our insurance programs and supply chain center leases. The Company has guaranteed lease payments related to certain franchisees' lease arrangements. The maximum amount of potential future payments under these guarantees is \$1.5 million as of December 31, 2017. We believe that none of these arrangements has or is likely to have a material effect on our results of operations, financial condition, revenues or expenses, capital expenditures or liquidity.

---

**Table of Contents**

**SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

This Annual Report on Form 10-K includes various forward-looking statements about the Company within the meaning of the Private Securities Litigation Reform Act of 1995 (the Act ) that are based on current management expectations that involve substantial risks and uncertainties which could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. The following cautionary statements are being made pursuant to the provisions of the Act and with the intention of obtaining the benefits of the safe harbor provisions of the Act.

These forward-looking statements generally can be identified by the use of words such as anticipate, believe, could, should, estimate, expect, intend, may, will, plan, predict, project, seek, approximately, potential, terms and phrases that concern our strategy, plans or intentions, including references to assumptions. These forward-looking statements address various matters including information concerning future results of operations and business strategy, the expected demand for future pizza delivery, our expectation that we will meet the terms of our agreement with our third-party supplier of pizza cheese, our belief that alternative third-party suppliers are available for our key ingredients in the event we are required to replace any of our supply partners, our intention to continue to enhance and grow online ordering, digital marketing and technological capabilities, our expectation that there will be no material capital expenditures for environmental control facilities, our plans to expand domestic and international operations in many of the markets where we currently operate and in selected new markets, our expectation that the contribution rate for advertising fees payable to DNAF will remain in place for the foreseeable future, and our expectation that we will use our unrestricted cash and cash equivalents, ongoing cash flows from operations and available borrowings under the 2017 Variable Funding Notes to, among other things, fund working capital requirements, invest in our core business, pay dividends and repurchase our common stock.

Forward-looking statements relating to our anticipated profitability, estimates in same store sales growth, the growth of our domestic and 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 management's expectations based upon currently available information and data. While we believe these expectations and projections are based on reasonable assumptions, such forward-looking statements are inherently subject to risks, uncertainties and assumptions about us, including the risk factors listed under Item 1A. Risk Factors, as well as other cautionary language in this Form 10-K.

Actual results may differ materially from those expressed or implied in the forward-looking statements as a result of various factors, including but not limited to, the following:

our substantial increased indebtedness as a result of the 2015 Recapitalization and the 2017 Recapitalization and our ability to incur additional indebtedness or refinance that indebtedness in the future;

our future financial performance and our ability to pay principal and interest on our indebtedness;

the effectiveness of our advertising, operations and promotional initiatives;

the strength of our brand, including our ability to compete domestically and internationally in our intensely competitive industry;

new product, digital ordering and concept developments by us, and other food-industry competitors;

our ability to maintain good relationships with our franchisees and their ongoing level of profitability;

our ability to successfully implement cost-saving strategies;

our ability and that of our franchisees to successfully operate in the current and future credit environment;

changes in the level of consumer spending given general economic conditions, including interest rates, energy prices and consumer confidence;

our ability and that of our franchisees to open new restaurants and keep existing restaurants in operation;

changes in operating expenses resulting from changes in prices of food (particularly cheese), fuel and other commodity costs, labor, utilities, insurance, employee benefits and other operating costs;

the impact that widespread illness or general health concerns, severe weather conditions and natural disasters may have on our business and the economies of the countries where we operate;

changes in foreign currency exchange rates;

our ability to retain or replace our executive officers and other key members of management and our ability to adequately staff our stores and supply chain centers with qualified personnel;

our ability to find and/or retain suitable real estate for our stores and supply chain centers;

changes in government legislation or regulation, including changes in our effective tax rate;

adverse legal judgments or settlements;

food-borne illness or contamination of products;

**Table of Contents**

data breaches or other cyber risks;

the effect of war, terrorism or catastrophic events;

our ability to pay dividends and repurchase shares;

changes in consumer taste, spending and traffic patterns and demographic trends;

changes in accounting policies; and

adequacy of our insurance coverage.

In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Annual Report on Form 10-K might not occur. All forward-looking statements speak only as of the date of this Form 10-K and should be evaluated with an understanding of their inherent uncertainty. Except as required under federal securities laws and the rules and regulations of the Securities and Exchange Commission, we will not undertake and specifically decline any obligation to publicly update or revise any forward-looking statements to reflect events or circumstances arising after the date of this Form 10-K, whether as a result of new information, future events or otherwise.

Readers are cautioned not to place undue reliance on the forward-looking statements included in this Form 10-K or that may be made elsewhere from time to time by, or on behalf of, us. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

***Market risk***

We do not engage in speculative transactions nor do we hold or issue financial instruments for trading purposes. In connection with the 2017 Recapitalization, we issued fixed and floating rate notes and, at December 31, 2017, we are exposed to interest rate risk on borrowings under our 2017 Floating Rate Notes and our 2017 Variable Funding Notes. As of December 31, 2017, we had no outstanding borrowings under our 2017 Variable Funding Notes. Our fixed rate debt exposes the Company to changes in market interest rates reflected in the fair value of the debt and to the risk that the Company may need to refinance maturing debt with new debt at a higher rate.

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

***Foreign currency exchange rate risk***



We have exposure to various foreign currency exchange rate fluctuations for revenues generated by our operations outside the United States, which can adversely impact our net income and cash flows. Approximately 7.4% of our total revenues in 2017, 7.2% of our total revenues in 2016 and 7.4% of our total revenues in 2015 were derived from our international franchise segment, a majority of which were denominated in foreign currencies. We also operate dough manufacturing and distribution facilities in Canada, which generate revenues denominated in Canadian 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 for our international markets would have resulted in a negative impact on royalty revenues of approximately \$17.9 million in 2017.

---

**Table of Contents**

**Item 8. Financial Statements and Supplementary Data.**  
**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors

of Domino's Pizza, Inc.:

***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Domino's Pizza, Inc. and its subsidiaries as of December 31, 2017 and January 1, 2017, and the related consolidated statements of income, comprehensive income, stockholders' deficit, and cash flows for each of the three years in the period ended December 31, 2017, including the related notes, the schedule of condensed financial information of the registrant as of December 31, 2017 and January 1, 2017 and for the three years in the period ended December 31, 2017 appearing under Item 16, and the schedule of valuation and qualifying accounts for each of the three years in the period ended December 31, 2017 appearing under Item 16 (collectively referred to as the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and January 1, 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control Integrated Framework* (2013) issued by the COSO.

***Change in Accounting Principle***

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in 2017.

***Basis for Opinions***

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting, appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

**Table of Contents**

***Definition and Limitations of Internal Control over Financial Reporting***

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Detroit, Michigan

February 20, 2018

We have served as the Company's auditor since 2002.

**Table of Contents****DOMINO S PIZZA, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(In thousands, except share and per share amounts)

	December 31, 2017	January 1, 2017
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 35,768	\$ 42,815
Restricted cash and cash equivalents	191,762	126,496
Accounts receivable, net of reserves of \$1,424 in 2017 and \$2,342 in 2016	173,677	150,369
Inventories	39,961	40,181
Prepaid expenses and other	18,389	17,635
Advertising fund assets, restricted	120,223	118,377
<b>Total current assets</b>	<b>579,780</b>	<b>495,873</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Land and buildings	29,171	29,129
Leasehold and other improvements	128,613	120,726
Equipment	216,599	201,827
Construction in progress	32,482	7,816
	406,865	359,498
Accumulated depreciation and amortization	(237,279)	(220,964)
<b>Property, plant and equipment, net</b>	<b>169,586</b>	<b>138,534</b>
<b>OTHER ASSETS:</b>		
Investments in marketable securities, restricted	8,119	7,260
Goodwill	15,423	16,058
Capitalized software, net of accumulated amortization of \$78,696 in 2017 and \$68,727 in 2016	52,823	40,256
Other assets, net of accumulated amortization of \$776 in 2017 and \$776 in 2016	8,272	9,379
Deferred income taxes	2,750	8,935
<b>Total other assets</b>	<b>87,387</b>	<b>81,888</b>
<b>Total assets</b>	<b>\$ 836,753</b>	<b>\$ 716,295</b>

The accompanying notes are an integral part of these consolidated statements.



**Table of Contents****DOMINO S PIZZA, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Continued)

(In thousands, except share and per share amounts)

	December 31, 2017	January 1, 2017
<b><u>LIABILITIES AND STOCKHOLDERS DEFICIT</u></b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt	\$ 32,324	\$ 38,887
Accounts payable	106,894	111,510
Accrued compensation	37,417	42,089
Accrued interest	22,095	18,826
Insurance reserves	20,754	16,742
Advertising fund liabilities	120,223	118,377
Other accrued liabilities	58,578	57,267
Total current liabilities	398,285	403,698
<b>LONG-TERM LIABILITIES:</b>		
Long-term debt, less current portion	3,121,490	2,148,990
Insurance reserves	30,611	27,141
Other accrued liabilities	21,751	19,609
Total long-term liabilities	3,173,852	2,195,740
Total liabilities	3,572,137	2,599,438
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS DEFICIT:</b>		
Common stock, par value \$0.01 per share; 170,000,000 shares authorized; 42,898,329 in 2017 and 48,100,143 in 2016 issued and outstanding	429	481
Preferred stock, par value \$0.01 per share; 5,000,000 shares authorized, none issued		
Additional paid-in capital	5,654	1,006
Retained deficit	(2,739,437)	(1,881,520)
Accumulated other comprehensive loss	(2,030)	(3,110)
Total stockholders deficit	(2,735,384)	(1,883,143)
Total liabilities and stockholders deficit	\$ 836,753	\$ 716,295

The accompanying notes are an integral part of these consolidated statements.





**Table of Contents****DOMINO S PIZZA, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except per share amounts)

	For the Years Ended		
	December 31, 2017	January 1, 2017	January 3, 2016
<b>REVENUES:</b>			
Domestic Company-owned stores	\$ 490,846	\$ 439,024	\$ 396,916
Domestic franchise	351,387	312,260	272,808
Supply chain	1,739,038	1,544,345	1,383,161
International franchise	206,708	176,999	163,643
Total revenues	2,787,979	2,472,628	2,216,528
<b>COST OF SALES:</b>			
Domestic Company-owned stores	377,674	331,860	299,294
Supply chain	1,544,314	1,373,077	1,234,103
Total cost of sales	1,921,988	1,704,937	1,533,397
<b>OPERATING MARGIN</b>	<b>865,991</b>	<b>767,691</b>	<b>683,131</b>
<b>GENERAL AND ADMINISTRATIVE</b>	<b>344,759</b>	<b>313,649</b>	<b>277,692</b>
<b>INCOME FROM OPERATIONS</b>	<b>521,232</b>	<b>454,042</b>	<b>405,439</b>
<b>INTEREST INCOME</b>	<b>1,462</b>	<b>685</b>	<b>313</b>
<b>INTEREST EXPENSE</b>	<b>(122,541)</b>	<b>(110,069)</b>	<b>(99,537)</b>
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	<b>400,153</b>	<b>344,658</b>	<b>306,215</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>122,248</b>	<b>129,980</b>	<b>113,426</b>
<b>NET INCOME</b>	<b>\$ 277,905</b>	<b>\$ 214,678</b>	<b>\$ 192,789</b>
<b>EARNINGS PER SHARE:</b>			
Common Stock basic	\$ 6.05	\$ 4.41	\$ 3.58
Common Stock diluted	\$ 5.83	\$ 4.30	\$ 3.47
<b>DIVIDENDS DECLARED PER SHARE</b>	<b>\$ 1.84</b>	<b>\$ 1.52</b>	<b>\$ 1.24</b>

The accompanying notes are an integral part of these consolidated statements.

Table of ContentsDOMINO S PIZZA, INC. AND SUBSIDIARIESCONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	For the Years Ended		
	December 31, 2017	January 1, 2017	January 3, 2016
NET INCOME	\$ 277,905	\$ 214,678	\$ 192,789
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX:			
Currency translation adjustment	1,080	(94)	(2,076)
TAX ATTRIBUTES OF ITEMS IN OTHER COMPREHENSIVE INCOME (LOSS):			
Currency translation adjustment		532	1,189
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	1,080	438	(887)
COMPREHENSIVE INCOME	\$ 278,985	\$ 215,116	\$ 191,902

The accompanying notes are an integral part of these consolidated statements.

Table of ContentsDOMINO S PIZZA, INC. AND SUBSIDIARIESCONSOLIDATED STATEMENTS OF STOCKHOLDERS DEFICIT

(In thousands, except share data)

	Common Stock		Additional	Retained	Accumulated
	Shares	Amount	Paid-in Capital	Deficit	Other Comprehensive Income (Loss)
BALANCE AT DECEMBER 28, 2014	55,553,149	\$ 556	\$ 29,561	\$ (1,246,921)	\$ (2,661)
Net income				192,789	
Common stock dividends and equivalents				(66,524)	
Issuance of common stock, net	78,891	1			
Tax payments for restricted stock upon vesting	(69,334)	(1)	(7,430)		
Purchases of common stock	(6,152,918)	(62)	(55,008)	(683,487)	
Exercises of stock options	428,433	4	4,810		
Tax impact from equity-based compensation			17,775		
Non-cash compensation expense			17,623		
Other			(389)		
Currency translation adjustment, net of tax					(887)
BALANCE AT JANUARY 3, 2016	49,838,221	498	6,942	(1,804,143)	(3,548)
Net income				214,678	
Common stock dividends and equivalents				(73,958)	
Issuance of common stock, net	80,267	1			
Tax payments for restricted stock upon vesting	(47,277)		(5,646)		
Purchases of common stock	(2,816,716)	(28)	(82,125)	(218,097)	
Exercises of stock options	1,045,648	10	15,224		
Tax impact from equity-based compensation			48,129		
Non-cash compensation expense			18,564		
Other			(82)		
Currency translation adjustment, net of tax					438
BALANCE AT JANUARY 1, 2017	48,100,143	481	1,006	(1,881,520)	(3,110)
Net income				277,905	
Common stock dividends and equivalents				(84,215)	
Issuance of common stock, net	65,669	1			
Tax payments for restricted stock upon vesting	(49,159)	(1)	(9,448)		
Purchases of common stock	(5,576,249)	(56)	(12,590)	(1,051,607)	

Edgar Filing: DOMINOS PIZZA INC - Form 10-K

Exercises of stock options	357,925	4	6,095		
Non-cash compensation expense			20,713		
Other			(122)		
Currency translation adjustment, net of tax					1,080
<b>BALANCE AT DECEMBER 31, 2017</b>	<b>42,898,329</b>	<b>\$ 429</b>	<b>\$ 5,654</b>	<b>\$ (2,739,437)</b>	<b>\$ (2,030)</b>

The accompanying notes are an integral part of these consolidated statements.

**Table of Contents****DOMINO S PIZZA, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

	For the Years Ended		
	December 31, 2017	January 1, 2017	January 3, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 277,905	\$ 214,678	\$ 192,789
Adjustments to reconcile net income to net cash provided by operating activities-			
Depreciation and amortization	44,369	38,140	32,434
(Gains) losses on sale/disposal of assets	(3,148)	863	316
Benefit for losses on accounts and notes receivable	(277)	(224)	(1,084)
Provision (benefit) for deferred income taxes	6,160	(3,059)	1,713
Amortization of debt issuance costs	10,976	6,418	12,393
Non-cash compensation expense	20,713	18,564	17,623
Excess tax benefits from equity-based compensation	(27,227)	(48,129)	(17,775)
Changes in operating assets and liabilities-			
Increase in accounts receivable	(22,649)	(18,724)	(13,678)
Decrease (increase) in inventories, prepaid expenses and other	1,527	(2,947)	(2,262)
Increase in accounts payable and accrued liabilities	22,267	78,929	69,032
Increase in insurance reserves	8,420	2,764	285
Net cash provided by operating activities	339,036	287,273	291,786
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Capital expenditures	(90,011)	(58,555)	(63,282)
Proceeds from sale of assets	6,835	4,936	12,724
Change in restricted cash	(65,266)	54,444	(59,986)
Other	(562)	(1,661)	1,252
Net cash used in investing activities	(149,004)	(836)	(109,292)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of long-term debt	1,900,000	63,000	1,305,000
Repayments of long-term debt and capital lease obligations	(928,193)	(122,334)	(564,403)
Proceeds from exercises of stock options	6,099	15,234	4,814
Excess tax benefits from equity-based compensation		48,129	17,775
Purchases of common stock	(1,064,253)	(300,250)	(738,557)
Tax payments for restricted stock upon vesting	(9,449)	(5,646)	(7,431)
Payments of common stock dividends and equivalents	(84,298)	(73,925)	(80,329)
Cash paid for financing costs	(16,846)		(17,367)
Other	(205)		(438)

Net cash used in financing activities	(197,145)	(375,792)	(80,936)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	66	(1,279)	1,036
CHANGE IN CASH AND CASH EQUIVALENTS	(7,047)	(90,634)	102,594
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD	42,815	133,449	30,855
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	\$ 35,768	\$ 42,815	\$ 133,449

The accompanying notes are an integral part of these consolidated statements.

**Table of Contents**

**DOMINO S PIZZA, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(1) DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Business**

Domino s Pizza, Inc. ( DPI ), a Delaware corporation, conducts its operations and derives substantially all of its operating income and cash flows through its wholly-owned subsidiary, Domino s, Inc. ( Domino s ) and Domino s wholly-owned subsidiary, Domino s Pizza LLC ( DPLLC ). DPI and its wholly-owned subsidiaries (collectively, the Company ) are primarily engaged in the following business activities: (i) retail sales of food through Company-owned Domino s Pizza stores; (ii) sales of food, equipment and supplies to Company-owned and franchised Domino s Pizza stores through Company-owned supply chain centers; and (iii) receipt of royalties and fees from domestic and international Domino s Pizza franchisees.

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of DPI and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

**Fiscal Year**

The Company s fiscal year ends on the Sunday closest to December 31. The 2017 fiscal year ended on December 31, 2017, the 2016 fiscal year ended on January 1, 2017 and the 2015 fiscal year ended on January 3, 2016. The 2017 and 2016 fiscal years consisted of fifty-two weeks and the 2015 fiscal year consisted of fifty-three weeks.

**Cash and Cash Equivalents**

Cash equivalents consist of highly liquid investments with original maturities of three months or less at the date of purchase. These investments are carried at cost, which approximates fair value.

**Restricted Cash and Cash Equivalents**

Restricted cash and cash equivalents at December 31, 2017 includes \$122.9 million of cash and cash equivalents held for future principal and interest payments, \$32.1 million of cash equivalents held in a three-month interest reserve, \$36.7 million of cash held as collateral for outstanding letters of credit and \$0.1 million of other restricted cash.

Restricted cash and cash equivalents at January 1, 2017 includes \$99.8 million of cash and cash equivalents held for future principal and interest payments and \$26.7 million of cash equivalents held in a three-month interest reserve.

**Inventories**

Inventories are valued at the lower of cost (on a first-in, first-out basis) or net realizable value. Inventories at December 31, 2017 and January 1, 2017 are comprised of the following (in thousands):

	2017	2016
Food	\$ 36,645	\$ 36,644
Equipment and supplies	3,316	3,537
Inventories	\$ 39,961	\$ 40,181

Other Assets

Current and long-term other assets primarily include prepaid expenses such as insurance, rent and taxes, deposits, notes receivable, as well as covenants not-to-compete and other intangible assets primarily arising from franchise acquisitions. As of December 31, 2017 and January 1, 2017, all intangible assets with useful lives were fully amortized.



Table of ContentsDOMINO S PIZZA, INC. AND SUBSIDIARIESNOTES TO CONSOLIDATED FINANCIAL STATEMENTS(Continued)Property, Plant and Equipment

Additions to property, plant and equipment are recorded at cost. Repair and maintenance costs are expensed as incurred. Depreciation and amortization expense is provided using the straight-line method over the estimated useful lives of the related assets. Estimated useful lives, other than the estimated useful life of the capital lease assets as described below, are generally as follows (in years):

Buildings	20
Leasehold and other improvements	7 15
Equipment	3 15

Included in land and buildings as of December 31, 2017 and January 1, 2017 are capital lease assets of approximately \$4.3 million and \$4.7 million, which are net of \$6.2 million and \$5.8 million of accumulated amortization, respectively, related to the lease of a supply chain center building and the lease of a Company-owned store. The capital lease assets are being amortized using the straight-line method over the respective lease terms.

Depreciation and amortization expense on property, plant and equipment was approximately \$29.6 million, \$27.3 million and \$24.1 million in 2017, 2016 and 2015, respectively.

Impairments of Long-Lived Assets

The Company evaluates the potential impairment of long-lived assets at least annually based on various analyses including the projection of undiscounted cash flows and whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. For Company-owned stores, the Company performs this evaluation on an operating market basis, which the Company has determined to be the lowest level for which identifiable cash flows are largely independent of other cash flows. If the carrying amount of a long-lived asset exceeds the amount of the expected future undiscounted cash flows of that asset, the Company estimates the fair value of the assets. If the carrying amount of the asset exceeds the estimated fair value of the asset, an impairment loss is recognized and the asset is written down to its estimated fair value. The Company did not record any impairment losses on long-lived assets in 2017, 2016 or 2015.

Investments in Marketable Securities

Investments in marketable securities consist of investments in various mutual funds made by eligible individuals as part of the Company's deferred compensation plan (Note 7). These investments are stated at aggregate fair value, are restricted and have been placed in a rabbi trust whereby the amounts are irrevocably set aside to fund the Company's obligations under the deferred compensation plan. The Company classifies and accounts for these investments in marketable securities as trading securities.

Debt Issuance Costs

Debt issuance costs are recorded as a reduction to the Company's debt balance and primarily include the expenses incurred by the Company as part of the 2015 and 2017 Recapitalizations (Note 4). Amortization is provided on a straight-line basis (which is materially consistent with the effective interest method) over the expected term of the respective debt instrument to which the costs relate and is included in interest expense.

Table of Contents

DOMINO S PIZZA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

In connection with the 2012 Recapitalization, the Company recorded approximately \$39.9 million of debt issuance costs. In connection with the 2015 Recapitalization, the Company expensed approximately \$6.9 million of these costs in connection with the extinguishment of \$551.3 million of the 2012 Fixed Rate Notes (Note 4). In connection with the 2017 Recapitalization, the Company expensed the approximately \$5.5 million in remaining unamortized debt issuance costs associated with the extinguishment of the remaining \$910.2 million of the 2012 Fixed Rate Notes. Additionally, in connection with the 2015 and 2017 Recapitalizations, the Company recorded \$17.4 million and \$16.8 million of debt issuance costs, respectively, which are being amortized into interest expense over the five and ten-year expected terms of the 2017 Notes (Note 4).

In connection with the aforementioned write-off of debt issuance costs and scheduled principal payments of its outstanding notes, the Company expensed debt issuance costs of approximately \$5.7 million, \$0.6 million and \$6.9 million in 2017, 2016 and 2015, respectively. Debt issuance cost expense, including the aforementioned amounts, was approximately \$11.0 million, \$6.4 million and \$12.4 million in 2017, 2016 and 2015, respectively.

Goodwill

The Company's goodwill amounts primarily relate to franchise store acquisitions and are not amortized. The Company performs its required impairment tests in the fourth quarter of each fiscal year and did not recognize any goodwill impairment charges in 2017, 2016 or 2015.

Capitalized Software

Capitalized software is recorded at cost and includes purchased, internally-developed and externally-developed software used in the Company's operations. Amortization expense is provided using the straight-line method over the estimated useful lives of the software, which range from one to seven years. Capitalized software amortization expense was approximately \$14.8 million, \$10.8 million and \$8.3 million in 2017, 2016 and 2015, respectively. As of December 31, 2017, scheduled amortization for the next five fiscal years was approximately \$14.3 million, \$9.4 million, \$5.3 million, \$3.3 million and \$1.6 million for 2018, 2019, 2020, 2021 and 2022, respectively.

Insurance Reserves

The Company has retention programs for workers' compensation, general liability and owned and non-owned automobile liabilities for certain periods prior to December 1998 and for periods after December 2001. The Company is generally responsible for up to \$1.0 million per occurrence under these retention programs for workers' compensation and general liability exposures. The Company is also generally responsible for between \$500,000 and \$3.0 million per occurrence under these retention programs for owned and non-owned automobile liabilities depending on the year. Total insurance limits under these retention programs vary depending on the year covered and range up to \$110.0 million per occurrence for general liability and owned and non-owned automobile liabilities and up to the applicable statutory limits for workers' compensation.

Insurance reserves relating to our retention programs are based on undiscounted actuarial estimates. These estimates are based on historical information and on certain assumptions about future events. Changes in assumptions for such factors as medical costs and legal actions, as well as changes in actual experience, could cause these estimates to change in the near term. The Company receives estimates of outstanding insurance exposures from its independent actuary and differences between these estimated actuarial exposures and the Company's recorded amounts are adjusted as appropriate.

Table of Contents

DOMINO S PIZZA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Other Accrued Liabilities

Current and long-term other accrued liabilities primarily include accruals for income, sales, property and other taxes, legal reserves, store operating expenses, deferred rent expense, dividends payable and deferred compensation liabilities.

Foreign Currency Translation

The Company's foreign entities use their local currency as the functional currency. For these entities, the Company translates net assets into U.S. dollars at year end exchange rates, while income and expense accounts are translated at average annual exchange rates. Currency translation adjustments are included in accumulated other comprehensive income (loss) and foreign currency transaction gains and losses are included in determining net income.

Revenue Recognition

Domestic Company-owned stores revenues are comprised of retail sales of food through Company-owned Domino's Pizza stores located in the contiguous United States and are recognized when the items are delivered to or carried out by customers.

Domestic franchise revenues are primarily comprised of royalties and fees from Domino's Pizza franchisees with operations in the contiguous United States. Royalty revenues are recognized when the items are delivered to or carried out by franchise customers.

Supply chain revenues are primarily comprised of sales of food, equipment and supplies to franchised Domino's Pizza stores located in the United States and Canada. Revenues from the sales of food are recognized upon delivery of the food to franchisees, while revenues from the sales of equipment and supplies are generally recognized upon shipment of the related products to franchisees.

International franchise revenues are primarily comprised of royalties and fees from Domino's Pizza franchisees outside the contiguous United States. These revenues are recognized consistently with the policies applied for franchise revenues generated in the contiguous United States.

Supply Chain Profit-Sharing Arrangements

The Company enters into profit-sharing arrangements with domestic and Canadian stores that purchase all of their food from Supply Chain (Note 11). These profit-sharing arrangements generally offer Company-owned stores and participating franchisees with 50% (or a higher percentage in the case of Company-owned stores and certain franchisees who operate a larger number of stores) of their regional supply chain center's pre-tax profits based upon each store's purchases from the supply chain center. Profit-sharing obligations are recorded as a revenue reduction in Supply Chain in the same period as the related revenues and costs are recorded, and were \$119.7 million,

\$99.8 million and \$85.8 million in 2017, 2016 and 2015, respectively.

### Advertising

Advertising costs are expensed as incurred. Advertising expense, which relates primarily to Company-owned stores, was approximately \$39.8 million, \$34.5 million and \$32.0 million during 2017, 2016 and 2015, respectively.

Domestic Stores (Note 11) are required to contribute a certain percentage of sales to the Domino's National Advertising Fund Inc. ( DNAF ), a not-for-profit subsidiary that administers the Domino's Pizza system's national and market level advertising activities in the United States. Included in advertising expense were advertising contributions from Company-owned stores to DNAF of approximately \$30.4 million, \$27.2 million and \$24.9 million in 2017, 2016 and 2015, respectively. DNAF also received advertising contributions from franchisees of approximately \$323.8 million, \$293.8 million and \$266.0 million during 2017, 2016 and 2015, respectively. Franchisee contributions to DNAF and offsetting disbursements are presented net in the accompanying consolidated statements of income, as we have determined we are an agent for accounting purposes in this arrangement.

Table of Contents

DOMINO S PIZZA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

DNAF assets, consisting primarily of cash received from franchisees and accounts receivable from franchisees, can only be used for activities that promote the Domino s Pizza brand. Accordingly, all assets held by the DNAF are considered restricted.

Rent

The Company leases certain equipment, vehicles, retail store and supply chain center locations and its corporate headquarters under operating leases with expiration dates through 2033. Rent expenses totaled approximately \$57.9 million, \$49.9 million and \$46.1 million during 2017, 2016 and 2015, respectively.

Common Stock Dividends

The Company declared and paid dividends of approximately \$84.2 million (or \$1.84 per share) in 2017, approximately \$74.0 million (or \$1.52 per share) in 2016 and approximately \$66.5 million (or \$1.24 per share) in 2015. The Company also paid dividends of \$13.8 million in 2015 related to a dividend declaration in 2014.

Stock Options and Other Equity-Based Compensation Arrangements

The cost of all of the Company s stock options, as well as other equity-based compensation arrangements, is reflected in the financial statements based on the estimated fair value of the awards.

Earnings Per Share

The Company discloses two calculations of earnings per share ( EPS ): basic EPS and diluted EPS. The numerator in calculating common stock basic and diluted EPS is consolidated net income. The denominator in calculating common stock basic EPS is the weighted average shares outstanding. The denominator in calculating common stock diluted EPS includes the additional dilutive effect of outstanding stock options, unvested restricted stock grants and unvested performance-based restricted stock grants.

Supplemental Disclosures of Cash Flow Information

The Company paid interest of approximately \$107.4 million, \$104.6 million and \$80.8 million during 2017, 2016 and 2015, respectively. Cash paid for income taxes was approximately \$122.6 million, \$74.3 million and \$80.1 million in 2017, 2016 and 2015, respectively.

The Company had \$4.0 million, \$3.8 million and \$0.8 million of non-cash investing activities related to accruals for capital expenditures at December 31, 2017, January 1, 2017, and January 3, 2016. The Company also had non-cash financing activities related to capital assets and liabilities in 2015. Specifically, the Company recorded \$3.4 million for the renewal of a capital lease of a supply chain center building in the first quarter of 2015, and recorded \$0.6 million as a result of entering into a capital lease for a corporate store in the third quarter of 2015.





---

**Table of Contents**

**DOMINO S PIZZA, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Continued)**

**New Accounting Pronouncements**

*Recently Adopted Accounting Standards*

In March 2016, the Financial Accounting Standards Board ( FASB ) issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. The new standard was effective for the Company beginning January 2, 2017.

As a result, excess tax benefits or deficiencies from equity-based compensation activity are reflected in the consolidated statements of income as a component of the provision for income taxes, whereas they previously were recognized in the consolidated statement of stockholders' deficit. The Company also elected to account for forfeitures as they occur, rather than to use an estimate of expected forfeitures for financial statement reporting purposes. The adoption of ASU 2016-09 resulted in a decrease in our provision for income taxes of \$27.2 million in fiscal 2017, primarily due to the recognition of excess tax benefits for options exercised and the vesting of equity awards. The Company's election to account for forfeitures as they occur had an immaterial impact on its equity-based compensation expense.

The Company adopted the cash flow presentation prospectively, and accordingly, excess tax benefits from equity-based compensation of \$27.2 million in fiscal 2017 are presented as an operating activity, while \$48.1 million and \$17.8 million of excess tax benefits from equity-based compensation in fiscal 2016 and fiscal 2015, respectively, are presented as a financing activity. The presentation requirements for cash flows related to taxes paid for restricted stock upon vesting had no impact on our consolidated statements of cash flows for any of the periods presented because such cash flows have historically been presented as a financing activity.

*Accounting Standards Not Yet Adopted*

The Company has considered all new accounting pronouncements issued by the FASB and concluded the following accounting pronouncements may have a material impact on our consolidated financial statements, or represent accounting pronouncements for which the Company has not yet completed its assessment.

In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, or Accounting Standards Codification 606 ( ASC 606 ). This guidance outlines a single, comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance issued by the FASB, including industry specific guidance. Under the new revenue recognition standard, entities apply a five-step model that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, companies identify the performance obligations within their contracts with customers, allocate the transaction price received from customers to each performance obligation identified within their contracts,

and recognize revenue as the performance obligations are satisfied. During 2015, 2016, and 2017, the FASB issued various amendments which provide additional clarification and implementation guidance on ASC 606. Specifically, these amendments clarify how an entity should identify the specified good or service for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements, clarify how an entity should identify performance obligations and licensing implementation guidance, as well as account for shipping and handling fees and freight service, assess collectability, present sales tax, treat non-cash consideration, and account for completed and modified contracts at the time of transition. The new guidance requires enhanced disclosures, including revenue recognition policies to identify performance obligations to customers and significant judgments in measurement and recognition. The effective date and transition requirements for ASC 606 and amendments is for fiscal years, and for interim periods within those years, beginning after December 15, 2017, and the Company will adopt this guidance using the modified retrospective approach effective January 1, 2018.

Table of Contents

DOMINO S PIZZA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The Company has substantially completed its assessment of ASC 606, and the adoption of this guidance is not expected to have a material impact on its recognition of sales from Company-owned stores, ongoing royalty fees which are based on a percentage of franchise sales, revenues from its supply chain centers, development fees or technology fees.

The Company has determined that the store opening fees received from international franchisees do not contain separate and distinct performance obligations from the franchise right and those upfront fees will therefore be recognized as revenue over the term of each respective franchise agreement. Currently, we recognize such fees as revenue when received. The Company does not expect this to have a material impact on its international franchise revenues. However, an adjustment to beginning retained earnings and a corresponding contract liability of approximately \$15 million will be established on the date of adoption associated with the fees received through December 31, 2017 that would have been deferred and recognized over the term of each respective franchise agreement if the new guidance had been applied in the past.

The Company has also determined that ASC 606 requires a gross presentation on the consolidated statement of income for franchisee contributions received by and related expenses of DNAF, our consolidated not-for-profit subsidiary. DNAF exists solely for the purpose of promoting the Domino's Pizza brand in the U.S. The Company currently presents the restricted assets and liabilities of DNAF in its consolidated balance sheets and, under existing accounting guidance, has determined that it acts as an agent for accounting purposes with regard to franchise store contributions and disbursements. As a result, the Company currently presents the activities of DNAF net in its statements of income. Under ASC 606, the Company has determined that there are not separate performance obligations associated with the franchise advertising contributions received by DNAF and as a result, these franchise contributions and the related expenses will be presented gross in the Company's consolidated statement of income. The Company expects this change to have a material impact on its total revenues and expenses beginning in fiscal 2018. However, as the amount of revenues to be recorded is directly tied to future franchise retail sales and advertising contribution rates, the Company is not able to reasonably estimate the impact. If this guidance were in effect in fiscal 2017, the Company would have reported incremental franchise advertising revenues and expenses of approximately \$324 million in its consolidated statement of income. While this change will materially impact the gross amount of reported franchise revenues and expenses, the impact will generally be an offsetting increase to both revenues and expenses such that the impact on income from operations and net income, if any, would not be material. We will also present the activity associated with DNAF on a gross basis in the statement of cash flows beginning in fiscal 2018.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires a lessee to recognize assets and liabilities on the balance sheet for leases with lease terms greater than 12 months. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. Based on a preliminary assessment, the Company expects the adoption of this guidance to have a material impact on its assets and liabilities due to the recognition of right-of-use assets and lease liabilities on its consolidated balance sheets at the beginning of the earliest period presented. The Company is continuing its assessment, which may identify additional impacts this guidance will have on its consolidated financial statements and disclosures. Our current minimum lease commitments are disclosed in Note 5.

In March 2016, the FASB issued ASU 2016-04, *Liabilities - Extinguishment of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products*. ASU 2016-04 aligns recognition of the financial liabilities related to prepaid stored-value products (for example, gift cards) with Topic 606, *Revenues from Contracts with Customers*, for non-financial liabilities. In general, these liabilities may be extinguished proportionately in earnings as redemptions occur, or when redemption is remote if issuers are not entitled to the unredeemed stored value. ASU 2016-04 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is permitted. The Company plans to adopt this guidance effective January 1, 2018 in connection with our adoption of ASC 606 and does not expect it to have a material impact on its consolidated financial statements.

Table of Contents

DOMINO S PIZZA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires companies to measure credit losses utilizing a methodology that reflects expected credit losses and requires a consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including those interim periods within those fiscal years. The Company is currently assessing the impact of adopting this standard, but based on a preliminary assessment, does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (ASU 2016-18), which requires that restricted cash and cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. ASU 2016-18 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 and a retrospective transition method is required. The Company currently presents changes in restricted cash and cash equivalents in the investing section of its consolidated statement of cash flows. The new guidance will not impact financial results, but will result in a change in the presentation of restricted cash and restricted cash equivalents within the statement of cash flows. The Company currently plans to adopt this guidance in the first quarter of 2018 using the retrospective approach.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 35): Simplifying the Test for Goodwill Impairment*, or ASU 2017-04. ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. ASU 2017-04 is effective for public companies' annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently assessing the impact of adopting this standard, but based on a preliminary assessment, does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Table of ContentsDOMINO S PIZZA, INC. AND SUBSIDIARIESNOTES TO CONSOLIDATED FINANCIAL STATEMENTS(Continued)**(2) EARNINGS PER SHARE**

The computation of basic and diluted earnings per common share is as follows (in thousands, except share and per share amounts):

	2017	2016	2015
Net income available to common stockholders basic and diluted	\$ 277,905	\$ 214,678	\$ 192,789
Weighted average number of common shares	45,954,659	48,647,167	53,828,609
Earnings per common share basic	\$ 6.05	\$ 4.41	\$ 3.58
Diluted weighted average number of common shares	47,677,834	49,923,859	55,532,955
Earnings per common share diluted	\$ 5.83	\$ 4.30	\$ 3.47

The denominators used in calculating diluted earnings per share for common stock do not include 145,860 options to purchase common stock in 2017, 121,075 options to purchase common stock in 2016 and 188,080 options to purchase common stock in 2015, as the effect of including these options would be anti-dilutive. The denominators used in calculating diluted earnings per share for common stock do not include 110,274 restricted performance shares in 2017, 134,113 restricted performance shares in 2016 and 189,532 restricted performance shares in 2015, as the performance targets for these awards had not yet been met.

**(3) 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.

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 table summarizes the carrying amounts and fair values of certain assets at December 31, 2017:

	At December 31, 2017			
	Carrying Amount	Fair Value Level 1 Inputs	Estimated Level 2 Inputs	Using Level 3 Inputs
Cash equivalents	\$ 7,933	\$ 7,933	\$	\$
Restricted cash equivalents	96,375	96,375		
Investments in marketable securities	8,119	8,119		

The following table summarizes the carrying amounts and fair values of certain assets at January 1, 2017:

	At January 1, 2017			
	Carrying Amount	Fair Value Level 1 Inputs	Estimated Level 2 Inputs	Using Level 3 Inputs
Cash equivalents	\$ 7,017	\$ 7,017	\$	\$
Restricted cash equivalents	69,113	69,113		
Investments in marketable securities	7,260	7,260		

Table of Contents

DOMINO S PIZZA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(4) RECAPITALIZATIONS AND FINANCING ARRANGEMENTS

2017 Recapitalization

On July 24, 2017, the Company completed a recapitalization (the 2017 Recapitalization ) in which certain of the Company s subsidiaries issued new notes pursuant to an asset-backed securitization. The new notes consist of \$300.0 million Series 2017-1 Floating Rate Senior Secured Notes, Class A-2-I with an anticipated term of five years (the 2017 Floating Rate Notes ), \$600.0 million Series 2017-1 3.082% Fixed Rate Senior Secured Notes, Class A-2-II with an anticipated term of five years (the 2017 Five-year Fixed Rate Notes ), and \$1.0 billion Series 2017-1 4.118% Fixed Rate Senior Secured Notes, Class A-2-III with an anticipated term of ten years (the 2017 Ten-year Fixed Rate Notes and, collectively with the 2017 Floating Rate Notes and the 2017 Five-year Fixed Rate Notes, the 2017 Fixed and Floating Rate Notes ). The interest rate on the 2017 Floating Rate Notes is payable at a rate equal to LIBOR plus 125 basis points. Concurrently, the Company also issued a new variable funding note facility which allows for advances of up to \$175.0 million of Series 2017-1 Variable Funding Senior Secured Notes, Class A-1 (the 2017 Variable Funding Notes ) and certain other credit instruments, including letters of credit. The 2017 Fixed and Floating Rate Notes and the 2017 Variable Funding Notes are collectively referred to as the 2017 Notes. The 2017 Variable Funding Notes were undrawn on the closing date. Gross proceeds from the issuance of the 2017 Notes were \$1.9 billion.

A portion of the proceeds from the 2017 Recapitalization was used to repay the remaining \$910.5 million in outstanding principal and interest under the Company s 2012 Fixed Rate Notes, pre-fund a portion of the principal and interest payable on the 2017 Fixed and Floating Rate Notes and pay transaction fees and expenses, described in additional detail below. In connection with the issuance of the 2017 Variable Funding Notes, the Company permanently reduced to zero the commitment to fund the 2015 Variable Funding Notes and the 2015 Variable Funding Notes were cancelled. The Company also used a portion of the proceeds from the 2017 Recapitalization to enter into a \$1.0 billion accelerated share repurchase agreement (the 2017 ASR Agreement ) with a counterparty. See Note 10 for additional detail related to this transaction.

2015 and 2012 Recapitalizations

The Company previously entered into refinancing transactions in October 2015 (the 2015 Recapitalization ) and in April 2012 (the 2012 Recapitalization ). In connection with the 2015 Recapitalization, the Company issued \$1.3 billion aggregate principal amount of fixed rate notes consisting of \$500.0 million Series 2015-1 3.484% Fixed Rate Senior Secured Notes, Class A-2-I (the 2015 Five-Year Notes ) and \$800.0 million Series 2015-1 4.474% Fixed Rate Senior Secured Notes, Class A-2-II (the 2015 Ten-Year Notes and, together with the 2015 Five-Year Notes, the 2015 Fixed Rate Notes ). Concurrent with the 2015 Recapitalization, the Company also issued a revolving financing facility which allowed for advances of up to \$125.0 million of Series 2015-1 Variable Funding Senior Secured Notes, Class A-1 and issuances of letters of credit (the 2015 Variable Funding Notes and together with the 2015 Fixed Rate Notes, the 2015 Notes ). The 2017 Notes and 2015 Notes are collectively referred to as the Notes.



A portion of the proceeds from the 2015 Recapitalization was used to make an optional prepayment of approximately \$551.3 million in aggregate principal amount of the 2012 Fixed Rate Notes, at par, pay scheduled principal catch-up amounts on the 2012 Fixed Rate Notes, make an interest reserve deposit, pre-fund a portion of the principal and interest payable on the 2015 Fixed Rate Notes and pay transaction fees and expenses. In connection with the issuance and sale of the 2015 Variable Funding Notes, the Company permanently reduced to zero the commitment to fund the 2012 Variable Funding Notes and the 2012 Variable Funding Notes were cancelled. The Company also used a portion of the proceeds from the 2015 Recapitalization to enter into a \$600.0 million accelerated share repurchase agreement (the 2015 ASR Agreement ) with a counterparty. See Note 10 for additional detail related to this transaction.

---

**Table of Contents**

**DOMINO S PIZZA, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Continued)**

In connection with the 2012 Recapitalization, the Company issued \$1.575 billion of Series 2012-1 5.216% Fixed Rate Senior Secured Notes, Class A-2 (the 2012 Fixed Rate Notes ) and a revolving financing facility that allowed for advances of up to \$100.0 million of Series 2012-1 Variable Funding Senior Secured Notes, Class A-1 Notes (the 2012 Variable Funding Notes ).

**2017 Notes**

The 2017 Notes have remaining scheduled principal payments of \$19.0 million in each of 2018 through 2021, \$871.8 million in 2022, \$10.0 million in each of 2023 through 2026, and \$907.5 million in 2027. During fiscal 2017, the Company made principal payments of approximately \$4.8 million on the 2017 Notes.

The legal final maturity date of the 2017 Notes is October 2047, but it is anticipated that, unless earlier prepaid to the extent permitted under the related debt agreements, the 2017 Floating Rate Notes and 2017 Five-year Fixed Rate Notes will be repaid on or prior to the anticipated repayment date occurring in July 2022, and the 2017 Ten-year Fixed Rate Notes will be repaid on or prior to the anticipated repayment date occurring in July 2027. If the Company has not repaid or refinanced the 2017 Notes prior to the applicable anticipated repayment dates, additional interest of at least 5% per annum will accrue, as defined in the related agreements.

The 2017 Variable Funding Notes allow for advances of up to \$175.0 million and issuance of certain other credit instruments, including letters of credit. At the closing date of the 2017 Recapitalization, interest on the 2017 Variable Funding Notes was payable at a per year rate equal to LIBOR plus 180 basis points. On December 15, 2017, certain of the Company s subsidiaries entered into an agreement to reduce the rate from LIBOR plus 180 basis points to LIBOR plus 150 basis points. The 2017 Variable Funding Notes were undrawn at closing. The unused portion of the 2017 Variable Funding Notes is subject to a commitment fee ranging from 50 to 100 basis points depending on utilization. It is anticipated that any amounts outstanding on the 2017 Variable Funding Notes will be repaid in full on or prior to July 2022, subject to two additional one-year extensions at the option of the Company, subject to certain conditions. Following the anticipated repayment date (and any extensions thereof), additional interest will accrue on the 2017 Variable Funding Notes equal to 5% per annum. At December 31, 2017, there were \$46.7 million of letters of credit and \$128.3 million of borrowing capacity under the \$175.0 million 2017 Variable Funding Notes.

**2015 Notes**

The 2015 Notes have remaining scheduled principal payments of \$13.0 million in each of 2018 and 2019, \$490.5 million in 2020, \$8.0 million in each of 2021 through 2024, and \$732.0 million in 2025. During fiscal 2017, the Company made principal payments of approximately \$6.5 million on the 2015 Notes.

The legal final maturity date of the 2015 Notes is in October 2045, but it is anticipated that, unless earlier prepaid to the extent permitted under the related debt agreements, the 2015 Five-Year Notes will be repaid on or prior to the anticipated repayment date occurring in October 2020 and the 2015 Ten-Year Notes will be repaid on or prior to the anticipated repayment date occurring in October 2025. If the Company has not repaid or refinanced the 2015 Fixed

Rate Notes prior to the applicable anticipated repayment date, additional interest will accrue of at least 5% per annum, as defined in the related agreements.

Table of Contents

DOMINO S PIZZA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Debt Issuance Costs and Transaction-Related Expenses

During 2017 and in connection with the 2017 Recapitalization, the Company incurred approximately \$6.4 million of net pre-tax expenses, primarily related to \$5.5 million in expense related to the write-off of deferred financing fees associated with the repayment of the 2012 Fixed Rate Notes. The Company also incurred approximately \$0.3 million of interest expense on the 2012 Fixed Rate Notes subsequent to the closing of the 2017 Recapitalization but prior to the repayment of the 2012 Fixed Rate Notes, resulting in the payment of interest on both the full amount of the 2012 and 2017 Notes for a short period of time. Further, the Company incurred \$0.6 million of other net 2017 Recapitalization-related general and administrative expenses, including legal and professional fees. In connection with the 2017 Recapitalization, the Company recorded \$16.8 million of debt issuance costs, which are being amortized into interest expense over the five and ten-year expected terms of the 2017 Notes.

During fiscal 2015 and in connection with the 2015 Recapitalization, the Company incurred approximately \$8.1 million of net pre-tax expenses, primarily related to \$6.9 million in expense related to the write-off of debt issuance costs associated with the partial repayment of the 2012 Fixed Rate Notes. The Company also incurred approximately \$0.4 million of interest expense on the 2012 Fixed Rate Notes subsequent to the closing of the 2015 Recapitalization but prior to the repayment of the 2012 Fixed Rate Notes, resulting in the payment of interest on both the full amount of the 2012 and 2015 Fixed Rate Notes for a short period of time. Further, the Company incurred \$0.9 million of other net 2015 Recapitalization-related general and administrative expenses, including legal and professional fees. In connection with the 2015 Recapitalization, the Company recorded \$17.4 million of debt issuance costs, which are being amortized into interest expense over the five and ten-year expected terms of the 2015 Notes.

Guarantees and Covenants of the Notes

The Notes are guaranteed by certain subsidiaries of DPLLC and secured by a security interest in substantially all of the assets of the Company, including royalty and certain other income from all domestic and international stores, domestic supply chain income and intellectual property. The restrictions placed on the Company's subsidiaries require that the Company's principal and interest obligations have first priority and amounts are segregated weekly to ensure appropriate funds are reserved to pay the quarterly principal and interest amounts due. The amount of weekly cash flow that exceeds the required weekly interest reserve is generally remitted to the Company in the form of a dividend. However, once the required obligations are satisfied, there are no further restrictions, including payment of dividends, on the cash flows of the subsidiaries.

The Notes are subject to certain financial and non-financial covenants, including a debt service coverage ratio calculation, as defined in the related agreements. The covenants, among other things, may limit the ability of certain of our subsidiaries to declare dividends, make loans or advances or enter into transactions with affiliates. In the event that certain covenants are not met, the Notes may become partially or fully due and payable on an accelerated schedule. In addition, the Company may voluntarily prepay, in part or in full, the Notes at any time, subject to certain make-whole interest obligations.

While the Notes are outstanding, scheduled payments of principal and interest are required to be made on a quarterly basis. The payment of principal of the 2017 Fixed and Floating Rate Notes and the 2015 Fixed Rate Notes shall be suspended if the leverage ratio for the Company is less than or equal to 5.0x total debt, as defined, to adjusted EBITDA, as defined. Scheduled principal payments will resume upon failure to satisfy the aforementioned leverage ratio on an ongoing basis and no catch-up provisions are applicable.

Table of ContentsDOMINO S PIZZA, INC. AND SUBSIDIARIESNOTES TO CONSOLIDATED FINANCIAL STATEMENTS(Continued)

Prior to the 2017 Recapitalization and the repayment of the remaining principal and interest under the 2012 Fixed Rate Notes, the payment of principal of the 2012 Fixed Rate Notes and 2015 Fixed Rate Notes (i) shall be suspended if the leverage ratios for the Company are less than or equal to 4.5x total debt to adjusted EBITDA, as defined, and there are no scheduled principal catch-up amounts outstanding; provided, that during any such suspension, principal payments will continue to accrue and are subject to catch-up upon failure to satisfy the aforementioned leverage ratios on an ongoing basis.

During the first quarter of 2017, the Company met the maximum leverage ratios under the Company's then outstanding 2012 Fixed Rate Notes and 2015 Notes of less than 4.5x, and, in accordance with the Company's debt agreements, ceased debt amortization payments beginning in the second quarter of 2017. The Company continued to meet the maximum leverage ratios of less than 4.5x in the third quarter prior to the 2017 Recapitalization and accordingly, did not make previously scheduled debt amortization payments in accordance with the debt agreements. Subsequent to the 2017 Recapitalization, the Company's leverage ratios exceeded the new maximum leverage ratio of 5.0x and, accordingly, the Company began making the scheduled amortization payments on the Notes.

In 2015 and up until the 2015 Recapitalization, the Company met the maximum leverage ratios of less than 4.5x and accordingly, did not make previously scheduled debt amortization payments in accordance with the debt agreements. Subsequent to the 2015 Recapitalization, the Company's leverage ratios exceeded 4.5x and, accordingly, the Company began making the scheduled amortization payments as well as the required catch-up payments.

Consolidated Long-Term Debt

At December 31, 2017 and January 1, 2017, consolidated long-term debt consisted of the following (in thousands):

	2017	2016
5.216% Class A-2 Notes; repaid in connection with the 2017 Recapitalization	\$	\$ 916,650
3.484% Class A-2-I Notes; expected repayment date October 2020; legal final maturity October 2045	492,500	495,000
4.474% Class A-2-II Notes; expected repayment date October 2025; legal final maturity October 2045	788,000	792,000
3.082% Class A-2-II Notes; expected repayment date July 2022; legal final maturity July 2047	598,500	
4.118% Class A-2-III Notes; expected repayment date July 2027; legal final maturity July 2047	997,500	
Floating Rate Class A-2-I Notes; expected repayment date July 2022; legal final maturity July 2047	299,250	
2017 Variable Funding Notes		

Edgar Filing: DOMINOS PIZZA INC - Form 10-K

2015 Variable Funding Notes

Capital lease obligations	5,437	5,730
Debt issuance costs, net of accumulated amortization of \$6.8 million in 2017 and \$21.1 million in 2016	(27,373)	(21,503)
Total debt	3,153,814	2,187,877
Less current portion	32,324	38,887
Consolidated long-term debt, net of debt issuance costs	\$ 3,121,490	\$ 2,148,990

Table of ContentsDOMINO S PIZZA, INC. AND SUBSIDIARIESNOTES TO CONSOLIDATED FINANCIAL STATEMENTS(Continued)

At December 31, 2017, maturities of long-term debt and capital lease obligations are as follows (in thousands):

2018	\$ 32,324
2019	32,358
2020	509,896
2021	27,440
2022	880,238
Thereafter	1,698,931
	<b>\$ 3,181,187</b>

Fair Value Disclosures

Management estimated the approximate fair values of the 2012 Fixed Rate Notes, 2015 Notes and 2017 Notes as follows (in thousands):

	December 31, 2017		January 1, 2017	
	Principal Amount	Fair Value	Principal Amount	Fair Value
2012 Seven-Year Fixed Rate Notes	\$	\$	\$ 916,650	\$ 932,233
2015 Five-Year Fixed Rate Notes	492,500	494,470	495,000	485,595
2015 Ten-Year Fixed Rate Notes	788,000	821,884	792,000	765,864
2017 Five-Year Fixed Rate Notes	598,500	592,515		
2017 Ten-Year Fixed Rate Notes	997,500	1,023,435		
2017 Five-Year Floating Rate Notes	299,250	300,746		

The Notes are classified as a Level 2 measurement (Note 3), 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 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 herein are not necessarily indicative of the amount that the Company or the debtholders could realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair values calculated above.



## (5) COMMITMENTS AND CONTINGENCIES

Lease Commitments

As of December 31, 2017, the future minimum rental commitments for all non-cancelable leases are as follows (in thousands):

	Operating Leases	Capital Leases	Total
2018	\$ 45,064	\$ 826	\$ 45,890
2019	40,265	828	41,093
2020	35,124	831	35,955
2021	31,298	833	32,131
2022	26,668	836	27,504
Thereafter	58,982	4,343	63,325
<b>Total future minimum rental commitments</b>	<b>\$ 237,401</b>	<b>8,497</b>	<b>\$ 245,898</b>
Less amounts representing interest		(3,060)	
<b>Total principal payable on capital leases</b>		<b>\$ 5,437</b>	

Table of ContentsDOMINO S PIZZA, INC. AND SUBSIDIARIESNOTES TO CONSOLIDATED FINANCIAL STATEMENTS(Continued)

Future minimum rental commitments for non-cancelable leases do not include variable payments for common area maintenance, real estate taxes or insurance for our real estate leases or the rate per mile driven for our supply chain center tractors and trailers.

Legal Proceedings and Related Matters

The Company is a party to lawsuits, revenue agent reviews by taxing authorities and legal proceedings, of which the majority involve workers' compensation, employment practices liability, general liability and automobile and franchisee claims arising in the ordinary course of business. The Company records legal fees associated with loss contingencies when they are probable and reasonably estimable.

Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance. These matters referenced above could be decided unfavorably to us and could require us to pay damages or make other expenditures in amounts or a range of amounts that cannot be estimated with accuracy. In management's opinion, these matters, individually and in the aggregate, should not have a significant adverse effect on the financial condition of the Company, and the established accruals adequately provide for the estimated resolution of such claims.

On February 14, 2011, Domino's Pizza LLC was named as a defendant in a lawsuit along with Fischler Enterprises of C.F., Inc., a franchisee, and Jeffrey S. Kidd, the franchisee's delivery driver, filed by Yvonne Wiederhold, the plaintiff, as Personal Representative of the Estate of Richard E. Wiederhold, deceased. The case involved a traffic accident in which the franchisee's delivery driver is alleged to have caused an accident involving a vehicle driven by Richard Wiederhold. Mr. Wiederhold sustained spinal injuries resulting in quadriplegia and passed away several months after the accident. The jury returned a \$10.1 million judgment for the plaintiff where the Company and Mr. Kidd were found to be 90% liable (after certain offsets and other deductions the final verdict was \$8.9 million). In the second quarter of 2016, the trial court ruled on all post-judgment motions and entered the judgment. The Company denies liability and in the third quarter of 2016 filed an appeal of the verdict on a variety of grounds. The Company continues to deny liability in this matter.

**(6) INCOME TAXES**

Income before provision for income taxes in 2017, 2016 and 2015 consists of the following (in thousands):

	2017	2016	2015
Domestic	\$ 386,989	\$ 334,892	\$ 298,055
Foreign	13,164	9,766	8,160
	\$ 400,153	\$ 344,658	\$ 306,215

The differences between the United States Federal statutory income tax provision (using the statutory rate of 35%) and the Company's consolidated provision for income taxes for 2017, 2016 and 2015 are summarized as follows (in thousands):

	2017	2016	2015
Federal income tax provision based on the statutory rate	\$ 140,054	\$ 120,630	\$ 107,175
State and local income taxes, net of related Federal income taxes	11,520	9,787	8,589
Non-resident withholding and foreign income taxes	20,210	17,275	15,750
Foreign tax and other tax credits	(23,324)	(20,049)	(18,345)
Excess tax benefits from equity-based compensation	(27,227)		
Non-deductible expenses, net	1,794	1,579	1,180
Unrecognized tax provision (benefit), net of related Federal income taxes	(173)	(98)	110
Other	(606)	856	(1,033)
	\$ 122,248	\$ 129,980	\$ 113,426

Table of ContentsDOMINO S PIZZA, INC. AND SUBSIDIARIESNOTES TO CONSOLIDATED FINANCIAL STATEMENTS(Continued)

The Company adopted ASU 2016-09 during 2017, which is intended to simplify several areas of accounting for share-based compensation arrangements. As a result, excess tax benefits or deficiencies from equity-based compensation activity are now reflected in the Company's consolidated statements of income as a component of the provision for income taxes, whereas they previously were recognized in the consolidated statement of stockholders deficit. The adoption of ASU 2016-09 resulted in a decrease in our provision for income taxes of \$27.2 million in 2017, primarily due to the recognition of excess tax benefits for options exercised and the vesting of equity awards. Refer to Note 1 for additional information related to the impact of adopting ASU 2016-09.

The components of the 2017, 2016 and 2015 consolidated provision for income taxes are as follows (in thousands):

	2017	2016	2015
Provision for Federal income taxes			
Current provision	\$ 81,747	\$ 100,673	\$ 84,071
Deferred provision (benefit)	6,732	(3,096)	862
Total provision for Federal income taxes	88,479	97,577	84,933
Provision for state and local income taxes			
Current provision	14,131	15,091	11,892
Deferred provision (benefit)	(572)	37	851
Total provision for state and local income taxes	13,559	15,128	12,743
Provision for non-resident withholding and foreign income taxes	20,210	17,275	15,750
	\$ 122,248	\$ 129,980	\$ 113,426

As of December 31, 2017 and January 1, 2017, the significant components of net deferred income taxes are as follows (in thousands):

	2017	2016
Deferred Federal income tax assets		
Insurance reserves	\$ 8,290	\$ 11,202
Equity compensation	7,724	11,978
Other accruals and reserves	7,187	18,741
Bad debt reserves	309	1,005
Other	3,164	5,732

Edgar Filing: DOMINOS PIZZA INC - Form 10-K

Total deferred Federal income tax assets	26,674	48,658
Deferred Federal income tax liabilities		
Depreciation, amortization and asset basis differences	4,823	6,352
Capitalized software	18,522	25,869
Gain on debt extinguishments	2,722	9,073
Total deferred Federal income tax liabilities	26,067	41,294
Net deferred Federal income tax asset	607	7,364
Net deferred state and local income tax asset	2,143	1,571
Net deferred income taxes	\$ 2,750	\$ 8,935

Table of ContentsDOMINO S PIZZA, INC. AND SUBSIDIARIESNOTES TO CONSOLIDATED FINANCIAL STATEMENTS(Continued)

Realization of the Company's deferred tax assets is dependent upon many factors, including, but not limited to, the Company's ability to generate sufficient taxable income. Although realization of the Company's net deferred tax assets is not assured, management believes it is more likely than not that the net deferred tax assets will be realized. On an ongoing basis, management will assess whether it remains more likely than not that the net deferred tax assets will be realized.

For financial reporting purposes, the Company's investment in foreign subsidiaries does not exceed its tax basis. Therefore, no deferred income taxes have been provided.

The Company recognizes the financial statement benefit of a tax position if it is more likely than not that the position is sustainable, based solely on its technical merits and consideration of the relevant taxing authority's widely understood administrative practices and precedents. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company recognizes accrued interest related to unrecognized tax benefits in interest expense and penalties in income tax expense.

At December 31, 2017, the amount of unrecognized tax benefits was \$1.8 million of which, if ultimately recognized, \$1.5 million would be recognized as an income tax benefit and reduce the Company's effective tax rate. At December 31, 2017, the Company had less than \$0.1 million of accrued interest and no accrued penalties.

At January 1, 2017, the amount of unrecognized tax benefits was \$2.0 million of which, if ultimately recognized, \$1.6 million would be recognized as an income tax benefit and reduce the Company's effective tax rate. At January 1, 2017, the Company had less than \$0.1 million of accrued interest and no accrued penalties.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance as of December 28, 2014	\$ 2,939
Additions for tax positions of current year	233
Additions for tax positions of prior years	171
Reductions in tax positions from prior years for:	
Changes in prior year tax positions	(100)
Settlements during the period	(27)
Lapses of applicable statute of limitations	(1,101)
 Balance as of January 3, 2016	 2,115
Additions for tax positions of current year	209
Reductions in tax positions from prior years for:	
Changes in prior year tax positions	(33)

Edgar Filing: DOMINOS PIZZA INC - Form 10-K

Lapses of applicable statute of limitations	(337)
Balance as of January 1, 2017	1,954
Additions for tax positions of current year	224
Additions for tax positions of prior years	42
Reductions in tax positions from prior years for:	
Changes in prior year tax positions	(10)
Lapses of applicable statute of limitations	(373)
Balance as of December 31, 2017	\$ 1,837

Table of Contents

DOMINO S PIZZA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The Company continues to be under examination by certain states. The Company's Federal statute of limitation has expired for years prior to 2014 and the relevant state and foreign statutes vary. The Company expects the current ongoing examinations to be concluded in the next twelve months and does not expect the assessment of any significant additional amounts in excess of amounts reserved.

Tax Cuts and Jobs Act

On December 22, 2017, the Tax Cuts and Jobs Act (the 2017 Tax Act) was enacted. The 2017 Tax Act includes many changes to existing U.S. tax laws that impact the Company, most notably a reduction of the U.S. corporate income tax rate from 35 percent to 21 percent for tax years beginning after December 31, 2017.

The Company recognized the income tax effects of the 2017 Tax Act in its 2017 financial statements in accordance with Staff Accounting Bulletin No. 118, which provides SEC staff guidance for the application of ASC Topic 740, *Income Taxes*, in the reporting period in which the 2017 Tax Act was signed into law. The Company did not identify items for which the income tax effects of the 2017 Tax Act have not been completed and a reasonable estimate could not be determined as of December 31, 2017.

The remeasurement of the deferred tax assets and liabilities was not material to our 2017 financial statements. However, the remeasured amounts incorporate assumptions made based upon the Company's current interpretation of the 2017 Tax Act, mainly related to the deductibility of certain officers' compensation, and may change as the Company receives additional clarification and implementation guidance.

(7) EMPLOYEE BENEFITS

The Company has a retirement savings plan which qualifies under Internal Revenue Code Section 401(k). All employees of the Company who have completed 1,000 hours of service and are at least 21 years of age are eligible to participate in the plan. Effective January 1, 2018, employees of the Company who have completed 1,000 hours of service and are at least 18 years of age are eligible to participate in the plan. The plan requires the Company to match 100% of the first 3% of each employee's elective deferrals and 50% of the next 2% of each employee's elective deferrals. During 2017, 2016 and 2015, the Company's matching contributions were made in the form of cash and vested immediately. The expenses incurred for Company contributions to the plan were approximately \$6.1 million, \$5.2 million and \$4.6 million in 2017, 2016 and 2015, respectively.

The Company has established a non-qualified deferred compensation plan available for certain key employees. Under this self-funding plan, the participants may defer up to 40% of their annual compensation. The participants direct the investment of their deferred compensation within several investment funds. The Company is not required to contribute and did not contribute to this plan during 2017, 2016 or 2015.



The Company has an employee stock purchase discount plan (the "ESPDP"). Under the ESPDP, eligible employees may deduct up to 15% of their eligible wages to purchase common stock at 85% of the market price of the stock at the purchase date. The ESPDP requires employees to hold their purchased common stock for at least one year. The Company purchases common stock on the open market for the ESPDP at the current market price. There were 21,744 shares, 23,317 shares and 23,994 shares of common stock in 2017, 2016 and 2015, respectively, purchased on the open market for participating employees at a weighted-average price of \$188.57 in 2017, \$131.74 in 2016 and \$105.16 in 2015. The expenses incurred under the ESPDP were approximately \$0.7 million, \$0.5 million and \$0.4 million in 2017, 2016 and 2015, respectively.

Table of Contents

DOMINO S PIZZA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(8) FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is a party to stand-by letters of credit. The Company's exposure to credit loss for stand-by letters of credit is represented by the contractual amounts of these instruments. The Company uses the same credit policies in making conditional obligations as it does for on-balance sheet instruments. Total conditional commitments under letters of credit as of December 31, 2017 and January 1, 2017 are \$46.7 million and \$44.3 million, respectively, and relate to the Company's insurance programs and supply chain center leases. The Company has also guaranteed lease payments related to certain franchisees' lease arrangements. The maximum amount of potential future payments under these guarantees was \$1.5 million and \$1.0 million as of December 31, 2017 and January 1, 2017, respectively.

(9) EQUITY INCENTIVE PLANS

The cost of all employee stock options, as well as other equity-based compensation arrangements, is reflected in the consolidated statements of income based on the estimated fair value of the awards and is amortized over the requisite service period of each award.

The Company's current equity incentive plan benefits certain of the Company's employees and directors and is named the Domino's Pizza, Inc. 2004 Equity Incentive Plan (the "2004 Equity Incentive Plan"). As of December 31, 2017, the maximum number of shares that may be granted under the 2004 Equity Incentive Plan is 15,600,000 shares of voting common stock of which 2,845,095 shares were authorized for grant but have not been granted.

The Company recorded total non-cash compensation expense of \$20.7 million, \$18.6 million and \$17.6 million in 2017, 2016 and 2015 respectively. All non-cash compensation expense amounts are recorded in general and administrative expense. The Company recorded a deferred tax benefit related to non-cash compensation expense of approximately \$5.2 million in 2017.

The Company adopted ASU 2016-09 during 2017, which is intended to simplify several areas of accounting for share-based compensation arrangements. As a result, excess tax benefits or deficiencies from equity-based compensation activity are now reflected in the Company's consolidated statements of income as a component of the provision for income taxes, whereas they previously were recognized in the consolidated statement of stockholders deficit. The Company also elected to account for forfeitures as they occur, rather than to use an estimate of expected forfeitures for financial statement reporting purposes. The Company's election to account for forfeitures as they occur had an immaterial impact on its equity-based compensation expense. Refer to Note 1 for additional information related to the impact of adopting ASU 2016-09.

Stock Options

As of December 31, 2017, the number of stock options granted and outstanding under the 2004 Equity Incentive Plan was 2,238,114 options. Stock options granted under the 2004 Equity Incentive Plan and a predecessor plan prior to fiscal 2009 were generally granted with an exercise price equal to the market price at the date of the grant, expired ten

years from the date of grant and vested over five years from the date of grant. Stock options granted in fiscal 2009 through fiscal 2012 were granted with an exercise price equal to the market price at the date of the grant, expire ten years from the date of grant and generally vest over three years from the date of grant. Stock options granted in fiscal 2013 through fiscal 2017 were granted with an exercise price equal to the market price at the date of the grant, expire ten years from the date of grant and generally vest over four years from the date of grant. Additionally, all stock options granted become fully exercisable upon vesting. These awards also contain provisions for accelerated vesting upon the retirement of holders that have achieved specific service and age requirements.

Table of ContentsDOMINO S PIZZA, INC. AND SUBSIDIARIESNOTES TO CONSOLIDATED FINANCIAL STATEMENTS(Continued)

Stock option activity related to the 2004 Equity Incentive Plan is summarized as follows:

	Outstanding	Common Stock Options Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value (In thousands)
Stock options at December 28, 2014	3,590,115	\$ 22.47		
Stock options granted	193,970	111.63		
Stock options cancelled	(32,176)	73.55		
Stock options exercised	(428,433)	11.70		
Stock options at January 3, 2016	3,323,476	\$ 28.57		
Stock options granted	233,280	129.42		
Stock options cancelled	(12,798)	104.23		
Stock options exercised	(1,045,648)	14.38		
Stock options at January 1, 2017	2,498,310	\$ 43.54		
Stock options granted	126,720	201.19		
Stock options cancelled	(28,991)	101.97		
Stock options exercised	(357,925)	17.05		
Stock options at December 31, 2017	2,238,114	\$ 55.94	4.7	\$ 299,518
Exercisable at December 31, 2017	1,827,568	\$ 36.61	3.9	\$ 278,438

The total intrinsic value of stock options exercised was approximately \$62.0 million, \$128.0 million and \$41.7 million in 2017, 2016 and 2015, respectively. Cash received from the exercise of stock options was approximately \$6.1 million, \$15.2 million and \$4.8 million in 2017, 2016 and 2015, respectively. The tax benefit realized from stock options exercised was approximately \$23.0 million, \$46.1 million and \$14.7 million in 2017, 2016 and 2015, respectively.

The Company recorded total non-cash compensation expense of \$6.8 million, \$4.9 million and \$3.9 million in 2017, 2016 and 2015, respectively, related to stock option awards. All non-cash compensation expense amounts are recorded in general and administrative expense. As of December 31, 2017, there was \$8.1 million of total unrecognized compensation cost related to unvested stock options granted under the 2004 Equity Incentive Plan which generally will be recognized on a straight-line basis over the related vesting period. This unrecognized compensation

cost is expected to be recognized over a weighted average period of 2.5 years.

Management estimated the fair value of each option grant made during 2017, 2016 and 2015 as of the date of the grant using the Black-Scholes option pricing method. Weighted average assumptions are presented in the following table. The risk-free interest rate is based on the estimated effective life, and is estimated based on U.S. Treasury Bond rates as of the grant date. The expected life is based on several factors, including, among other things, the vesting term and contractual term as well as historical experience. The expected volatility is based principally on the historical volatility of the Company's share price.

	2017	2016	2015
Risk-free interest rate	2.0%	1.3%	1.7%
Expected life (years)	5.5	5.5	5.5
Expected volatility	25.8%	26.0%	28.4%
Expected dividend yield	0.9%	1.2%	1.1%
Weighted average fair value per stock option	\$ 49.57	\$ 29.59	\$ 28.45

Table of ContentsDOMINO S PIZZA, INC. AND SUBSIDIARIESNOTES TO CONSOLIDATED FINANCIAL STATEMENTS(Continued)

Option valuation models require the input of highly subjective assumptions. In management's opinion, existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options, as changes in subjective input assumptions can significantly affect the fair value estimate.

Other Equity-Based Compensation Arrangements

The Company granted 4,410 shares, 6,920 shares and 8,350 shares of restricted stock in 2017, 2016 and 2015, respectively, to members of its Board of Directors. These grants generally vest one year from the date of the grant and have a fair value equal to the market price of the Company's stock on the grant date. These awards also contain provisions for accelerated vesting upon the retirement of holders that have achieved specific service and age requirements. The Company recorded total non-cash compensation expense of \$0.8 million, \$0.9 million and \$0.9 million in 2017, 2016 and 2015, respectively, related to these restricted stock awards. All non-cash compensation expense amounts are recorded in general and administrative expense. As of December 31, 2017, there was less than \$0.1 million of total unrecognized compensation cost related to these restricted stock grants.

The Company granted 67,840 shares, 90,730 shares and 88,250 shares of performance-based restricted stock in 2017, 2016 and 2015, respectively, to certain employees of the Company. These performance-based restricted stock awards are separated into four tranches and have time-based and performance-based vesting conditions with the last tranche vesting four years from the issuance date. These awards also contain provisions for accelerated vesting upon the retirement of holders that have achieved specific service and age requirements. These awards are considered granted for accounting purposes when the performance target is set, which is generally in the fourth quarter of each year. The Company recorded total non-cash compensation expense of \$13.1 million, \$12.8 million and \$12.8 million in 2017, 2016 and 2015, respectively, related to these awards. All non-cash compensation expense amounts are recorded in general and administrative expense. As of December 31, 2017, there was an estimated \$24.1 million of total unrecognized compensation cost related to performance-based restricted stock.

Restricted stock and performance-based restricted stock activity related to the 2004 Equity Incentive Plan is summarized as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2017	276,220	\$ 97.48
Shares granted (1)	72,250	205.21
Shares cancelled	(16,109)	115.71
Shares vested	(137,757)	80.55

Nonvested at December 31, 2017	194,604	\$	147.94
--------------------------------	---------	----	--------

- (1) The weighted average grant date fair value for performance-based restricted shares granted was calculated based on the market price on the grant dates. Certain tranches will ultimately be valued when the performance condition is established for each tranche, which generally occurs in the fourth quarter of each fiscal year.

(10) CAPITAL STRUCTURE

The Company has a Board of Directors-approved open market share repurchase program of the Company's common stock. The open market share repurchase program has historically been funded by excess cash flow.

Table of ContentsDOMINO S PIZZA, INC. AND SUBSIDIARIESNOTES TO CONSOLIDATED FINANCIAL STATEMENTS(Continued)

On July 27, 2017, the Company's Board of Directors authorized a new share repurchase program to repurchase up to \$1.25 billion of the Company's common stock. This repurchase program replaced the remaining availability under the Company's previous \$250.0 million share repurchase program. On August 2, 2017, the Company entered into the \$1.0 billion 2017 ASR Agreement with a counterparty. Pursuant to the terms of the 2017 ASR Agreement, on August 3, 2017, as part of its new \$1.25 billion share repurchase program, the Company used a portion of the proceeds from the 2017 Recapitalization to pay the counterparty \$1.0 billion in cash to repurchase shares of the Company's common stock. Final settlement of the 2017 ASR Agreement occurred on October 11, 2017. In connection with the 2017 ASR Agreement, the Company received and retired a total of 5,218,670 shares of its common stock at an average price of \$191.62.

On October 23, 2015, the Company's Board of Directors authorized a share repurchase program to repurchase up to \$800.0 million of the Company's common stock. On October 27, 2015, the Company entered into the \$600.0 million 2015 ASR Agreement with a counterparty. Pursuant to the terms of the 2015 ASR Agreement, on October 30, 2015, as part of its \$800.0 million share repurchase authorization, the Company used a portion of the proceeds from the 2015 Recapitalization to pay the counterparty \$600.0 million in cash and received 4,858,994 shares of the Company's common stock. During the first quarter of 2016, the Company received and retired 456,936 shares of its common stock in connection with the final settlement of its \$600.0 million accelerated share repurchase program. In connection with the 2015 ASR Agreement, the Company received and retired a total of 5,315,930 shares of its common stock at an average price of \$112.87.

During 2017, 2016 and 2015, the Company repurchased 5,576,249 shares, 2,816,716 shares (including the 456,936 shares of its common stock received in the first quarter of 2016 in connection with the settlement of the 2015 ASR Agreement), and 6,152,918 shares of common stock for approximately \$1.06 billion, \$300.3 million and \$738.6 million, respectively. At December 31, 2017, the Company had \$198.5 million remaining under the \$1.25 billion authorization. The Company's policy is to recognize the difference between the purchase price and par value of the common stock in additional paid-in capital. In instances where there is no additional paid-in capital, the difference is recognized in retained deficit.

As of December 31, 2017, authorized common stock consists of 160,000,000 voting shares and 10,000,000 non-voting shares. The share components of outstanding common stock at December 31, 2017 and January 1, 2017 are as follows:

	2017	2016
Voting	42,881,905	48,083,721
Non-Voting	16,424	16,422
<b>Total Common Stock</b>	<b>42,898,329</b>	<b>48,100,143</b>



(11) SEGMENT INFORMATION

The Company has three reportable segments: (i) Domestic Stores; (ii) Supply Chain; and (iii) International Franchise.

The Company's operations are organized by management on the combined basis of line of business and geography. The Domestic Stores segment includes operations with respect to all franchised and Company-owned stores throughout the contiguous United States. The Supply Chain segment primarily includes the distribution of food, equipment and supplies to stores from the Company's supply chain center operations in the United States and Canada. The International Franchise segment primarily includes operations related to the Company's franchising business in foreign and non-contiguous United States markets.

The accounting policies of the reportable segments are the same as those described in Note 1. The Company evaluates the performance of its segments and allocates resources to them based on earnings before interest, taxes, depreciation, amortization and other, referred to as Segment Income.

Table of ContentsDOMINO S PIZZA, INC. AND SUBSIDIARIESNOTES TO CONSOLIDATED FINANCIAL STATEMENTS(Continued)

The tables below summarize the financial information concerning the Company's reportable segments for fiscal 2017, 2016 and 2015. Intersegment Revenues are comprised of sales of food, equipment and supplies from the Supply Chain segment to the Company-owned stores in the Domestic Stores segment. Intersegment sales prices are market based. The Other column as it relates to Segment Income and income from operations information below primarily includes corporate administrative costs. The Other column as it relates to capital expenditures primarily includes capitalized software, certain equipment and leasehold improvements. Tabular amounts presented below are in thousands.

	Domestic Stores	Supply Chain	International Franchise	Intersegment Revenues__	Other	Total
Revenues-						
2017	\$ 842,233	\$ 1,874,943	\$ 206,708	\$ (135,905)		\$ 2,787,979
2016	751,284	1,669,000	176,999	(124,655)		2,472,628
2015	669,724	1,495,308	163,643	(112,147)		2,216,528
Segment Income-						
2017	\$ 306,406	\$ 163,077	\$ 161,263	N/A	\$ (46,958)	\$ 583,788
2016	271,794	144,130	138,487	N/A	(42,802)	511,609
2015	240,942	127,155	130,650	N/A	(42,075)	456,672
Income from Operations-						
2017	\$ 298,852	\$ 151,622	\$ 161,066	N/A	\$ (90,308)	\$ 521,232
2016	261,826	133,745	138,306	N/A	(79,835)	454,042
2015	233,248	117,185	130,601	N/A	(75,595)	405,439
Capital Expenditures-						
2017	\$ 20,579	\$ 34,123	\$ 28	N/A	\$ 35,527	\$ 90,257
2016	18,225	11,527	642	N/A	31,143	61,537
2015	25,120	9,928		N/A	27,317	62,365

The following table reconciles total Segment Income to income before provision for income taxes:

	2017	2016	2015
Total Segment Income	\$ 583,788	\$ 511,609	\$ 456,672
Depreciation and amortization	(44,369)	(38,140)	(32,434)
Gains (losses) on sale/disposal of assets	3,148	(863)	(316)
Non-cash compensation expense	(20,713)	(18,564)	(17,623)
Recapitalization-related expenses	(622)		(860)
Income from operations	521,232	454,042	405,439

Edgar Filing: DOMINOS PIZZA INC - Form 10-K

Interest income	1,462	685	313
Interest expense	(122,541)	(110,069)	(99,537)
Income before provision for income taxes	\$ 400,153	\$ 344,658	\$ 306,215

**Table of Contents****DOMINO S PIZZA, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Continued)**

The following table summarizes the Company's identifiable asset information as of December 31, 2017 and January 1, 2017:

	2017	2016
Domestic Stores	\$ 96,771	\$ 89,220
Domestic supply chain	206,059	172,210
Total domestic assets	302,830	261,430
International Franchise	19,728	17,436
International supply chain	24,925	19,368
Total international assets	44,653	36,804
Unallocated	489,270	418,061
Total consolidated assets	\$ 836,753	\$ 716,295

Unallocated assets primarily include cash and cash equivalents, restricted cash and cash equivalents, advertising fund assets, investments in marketable securities, certain long-lived assets and deferred income taxes.

The following table summarizes the Company's goodwill balance as of December 31, 2017 and January 1, 2017:

	2017	2016
Domestic Stores	\$ 14,356	\$ 14,991
Supply Chain	1,067	1,067
Consolidated goodwill	\$ 15,423	\$ 16,058

**(12) SALE AND CLOSURE OF COMPANY-OWNED STORES**

During 2017, the Company sold 17 Company-owned stores to franchisees for proceeds of \$6.8 million. In connection with the sale of the stores, the Company recorded a \$4.0 million pre-tax gain on the sale of the related assets, which was net of a \$0.6 million reduction in goodwill. The gain was recorded in general and administrative expense in the Company's consolidated statements of income.

The Company closed one Company-owned store in 2016. In connection with the closure, the Company recorded a reduction of goodwill of less than \$0.1 million in general and administrative expense in the Company's consolidated statements of income.

During 2015, the Company sold four Company-owned stores to franchisees for proceeds of \$1.2 million. In connection with the sale of the four stores, the Company recorded a \$0.7 million pre-tax gain on the sale of the related assets, which was net of a \$0.2 million reduction in goodwill. The gain was recorded in general and administrative expense in the Company's consolidated statements of income.

Table of ContentsDOMINO S PIZZA, INC. AND SUBSIDIARIESNOTES TO CONSOLIDATED FINANCIAL STATEMENTS(Continued)

## (13) PERIODIC FINANCIAL DATA (UNAUDITED; IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

The Company's convention with respect to reporting periodic financial data is such that each of the first three fiscal quarters consists of 12 weeks while the last fiscal quarter consists of 16 weeks or 17 weeks. The fourth quarters of 2017 and 2016 are comprised of 16 weeks.

	For the Fiscal Quarter Ended				For the
	March 26, 2017	June 18, 2017	September 10, 2017	December 31, 2017	Fiscal Year Ended December 31, 2017
Total revenues	\$ 624,217	\$ 628,611	\$ 643,642	\$ 891,509	\$ 2,787,979
Operating margin	193,816	192,845	198,478	280,852	865,991
Income before provision for income taxes	90,514	88,532	84,551	136,556	400,153
Net income	62,469	65,741	56,368	93,327	277,905
Earnings per common share basic (1)	\$ 1.31	\$ 1.37	\$ 1.22	\$ 2.17	\$ 6.05
Earnings per common share diluted (1)	\$ 1.26	\$ 1.32	\$ 1.18	\$ 2.09	\$ 5.83
Common stock dividends declared per share	\$ 0.46	\$ 0.46	\$ 0.46	\$ 0.46	\$ 1.84

	For the Fiscal Quarter Ended				For the
	March 27, 2016	June 19, 2016	September 11, 2016	January 1, 2017	Fiscal Year Ended January 1, 2017
Total revenues	\$ 539,175	\$ 547,341	\$ 566,677	\$ 819,435	\$ 2,472,628
Operating margin	167,216	171,838	173,903	254,734	767,691
Income before provision for income taxes	72,842	78,692	75,814	117,310	344,658
Net income	45,451	49,261	47,232	72,734	214,678
Earnings per common share basic	\$ 0.91	\$ 1.00	\$ 0.98	\$ 1.52	\$ 4.41
Earnings per common share diluted (1)	\$ 0.89	\$ 0.98	\$ 0.96	\$ 1.48	\$ 4.30
Common stock dividends declared per share	\$ 0.38	\$ 0.38	\$ 0.38	\$ 0.38	\$ 1.52

(1) Earnings per share figures may not sum to the total due to the rounding of each individual calculation.



**Table of Contents**

**DOMINO S PIZZA, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Continued)**

**(14) SUBSEQUENT EVENTS**

On February 14, 2018, the Company's Board of Directors declared a quarterly dividend of \$0.55 per common share payable on March 30, 2018 to shareholders of record at the close of business on March 15, 2018. The Board of Directors also authorized a new share repurchase program to repurchase up to \$750.0 million of the Company's common stock. This repurchase program replaces the remaining availability of approximately \$198.5 million under the Company's previously approved \$1.25 billion share repurchase program that was authorized by the Board on July 27, 2017.



---

**Table of Contents**

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

(a) Evaluation of Disclosure Controls and Procedures.

The Company carried out an evaluation as of the end of the period covered by this report, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in ensuring that all information required in the reports it files or submits under the Exchange Act was accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure and was recorded, processed, summarized and reported within the time period required by the rules and regulations of the Securities and Exchange Commission.

(b) Changes in Internal Control over Financial Reporting.

There have been no changes in internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

(c) Management's Annual Report on Internal Control over Financial Reporting.

The management of Domino's Pizza, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) promulgated under the Exchange Act, as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting as of December 31, 2017 based on the framework in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management concluded that its internal control over financial reporting was effective as of December 31, 2017. The effectiveness of the Company's internal control over financial reporting as of December 31, 2017, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

**Item 9B. Other Information.**

None.

75

**Table of Contents****Part III****Item 10. Directors, Executive Officers and Corporate Governance.**

The following table sets forth information about our executive officers and directors.

<b>Name</b>	<b>Age</b>	<b>Position</b>
David A. Brandon	65	Chairman of the Board of Directors
J. Patrick Doyle	54	President, Chief Executive Officer and Director
Jeffrey D. Lawrence	44	Executive Vice President, Chief Financial Officer
Richard E. Allison, Jr.	51	President, Domino's International
Russell J. Weiner	49	President, Domino's USA
Troy A. Ellis	52	Executive Vice President, Supply Chain Services
Stanley J. Gage	51	Executive Vice President, Team USA
Scott R. Hinshaw	55	Executive Vice President, Franchise Operations and Development
Timothy P. McIntyre	55	Executive Vice President, Communication, Investor Relations and Legislative Affairs
Kevin S. Morris	57	Executive Vice President, General Counsel
J. Kevin Vasconi	57	Executive Vice President, Chief Information Officer
Judith L. Werthausser	52	Executive Vice President, Chief People Officer
C. Andrew Ballard	45	Director
Andrew B. Balson	51	Director
Diana F. Cantor	60	Director
Richard L. Federico	63	Director
James A. Goldman	59	Director

**David A. Brandon** has served as our Chairman of the Board of Directors since March 1999. Mr. Brandon is currently Chairman and CEO of Toys 'R Us, Inc., the world's largest specialty retailer of toy and baby products, a position he has held since July 2015. Previously, he was the Director of Athletics at the University of Michigan from March 2010 to October 2014. Mr. Brandon served as our Chief Executive Officer from March 1999 to March 2010 and was retained by the Company as a Special Advisor from March 2010 to January 2011. Prior to joining Domino's, Mr. Brandon was President and Chief Executive Officer of Valassis, Inc., a company in the sales promotion and coupon industries, from 1989 to 1998 and Chairman of the Board of Directors of Valassis, Inc. from 1997 to 1998. In addition to serving on the Boards of Directors for Domino's and Toys 'R Us, Mr. Brandon also serves on the boards of DTE Energy and Herman Miller Inc. He previously served on the boards of Burger King Corporation, Kaydon Corporation, Northwest Airlines and the TJX Companies, Inc.

**J. Patrick Doyle** has served as our President and Chief Executive Officer since March 2010 and was appointed to the Board of Directors in February 2010. Mr. Doyle served as President, Domino's USA from September 2007 to March 2010, Executive Vice President, Team USA from 2004 to 2007, Executive Vice President of International from May 1999 to October 2004 and as interim Executive Vice President of Build the Brand from December 2000 to July 2001. Mr. Doyle served as Senior Vice President of Marketing from the time he joined Domino's in 1997 until May 1999. Mr. Doyle serves on the Board of Directors of Best Buy Co., Inc. and also previously served on the Board of Directors of G&K Services, Inc. In January 2018, Mr. Doyle announced that he will resign from his position as President, Chief Executive Officer and Director of the Company effective June 30, 2018.

**Jeffrey D. Lawrence** has served as Executive Vice President and Chief Financial Officer since August 2015. He previously served as Vice President Finance and Treasurer from January 2014 to August 2015, and as Vice President of International Finance, Strategy & Insights and Administration from 2008 to January 2014. Prior to joining the International team, Mr. Lawrence served as Vice President and Corporate Controller from 2002 to 2008. Mr. Lawrence began his career at Domino's in 2000. Prior to joining Domino's, Mr. Lawrence was a Manager of Audit and Business Advisory Services in the Detroit office of Arthur Andersen LLP.

**Richard E. Allison, Jr.** has served as our President, Domino's International since October 2014, after joining the Company in March 2011 as Executive Vice President of International. In January 2018, the Company announced that the Board of Directors has appointed Mr. Allison to succeed Mr. Doyle as the Company's Chief Executive Officer, effective July 1, 2018. Mr. Allison shall also be appointed to the Company's Board of Directors as soon as practical after July 1, 2018. Prior to joining Domino's, Mr. Allison served as a Partner at Bain & Company, Inc. from 2004 through December 2010, as co-leader of Bain's restaurant practice and was employed with Bain & Company for more than 13 years.

---

**Table of Contents**

**Russell J. Weiner** has served as President, Domino's USA (which represents our domestic franchised and Company-owned store operations, in addition to U.S. marketing) since October 2014. Mr. Weiner served as Executive Vice President and Chief Marketing Officer, from September 2008 to October 2014. In January 2018, the Company announced that the Board of Directors has appointed Mr. Weiner to the newly-created role of Chief Operating Officer and President of the Americas, effective July 1, 2018. Prior to joining Domino's, Mr. Weiner held various marketing positions at PepsiCo, Inc. from 1998 to 2008, most recently serving as Vice President of Marketing, Colas for Pepsi-Cola North America. Mr. Weiner serves on the Board of Directors of The Clorox Company.

**Troy A. Ellis** has served as our Executive Vice President, Supply Chain Services since June 2015. Prior to joining Domino's, Mr. Ellis served as Senior Vice President of Conversion of Coca-Cola Refreshments, overseeing manufacturing, transportation planning and third-party logistics. Prior to that role, he spent nearly three years as Senior Vice President of Manufacturing after joining Coca-Cola Refreshments in 2010. From 2000 to 2010, Mr. Ellis held various leadership roles with Coca-Cola Enterprises including Central Business Unit Vice President of Supply Chain. Prior to joining Coca-Cola, he worked for PepsiCo and Kimberly Clark Corp., after serving in the U.S. Army from 1988-1991.

**Stanley J. Gage** has served as our Executive Vice President, Team USA (which represents our Company-owned store division) since August 2014. Prior to his appointment, Mr. Gage served as Vice President of the Americas Region and International Training since October 2012 and as Vice President of Operations Training and Support from 2008 through October 2012. Mr. Gage joined Domino's in 1985.

**Scott R. Hinshaw** has served as our Executive Vice President, Franchise Operations and Development since January 2008. Mr. Hinshaw served as Executive Vice President, Team USA from September 2007 to January 2008. Mr. Hinshaw also served as a Vice President within Team USA from 1994 through September 2007. Mr. Hinshaw joined Domino's in 1986.

**Timothy P. McIntyre** has served as Executive Vice President, Communication, Investor Relations and Legislative Affairs since May 2016. Mr. McIntyre served as Vice President of Communication from August 1997 to May 2016. Mr. McIntyre serves on Eastern Michigan University's College of Business Marketing Advisory Board and served on the Board of Directors of Food Gatherers through December 2017. Mr. McIntyre joined Domino's in 1985.

**Kevin S. Morris** has served as our Executive Vice President, General Counsel since January 2017. Prior to joining Domino's, Mr. Morris served at New York-based Equinox Holdings, Inc. and its various operating subsidiaries and affiliates from December 2012 to January 2017, most recently as Senior Vice President, General Counsel and Corporate Secretary. Mr. Morris operated his own private legal practice from July 2009 to November 2012. Prior to 2009, Mr. Morris served as Vice President and Associate General Counsel at Global Hyatt Corporation (the predecessor in interest to Hyatt Hotels Corporation) from 1999 to 2008. Prior to 1999, Mr. Morris served as a Senior International Attorney and Staff Director at McDonald's Corporation after beginning his career as an attorney at Rudnick & Wolfe.

**J. Kevin Vasconi** has served as our Executive Vice President and Chief Information Officer since March 2012. Mr. Vasconi served as Chief Information Officer and Vice President of Engineering at Stanley Black & Decker Stanley Security Solutions from 2011 to March 2012. Prior to his role at Stanley Security Solutions, Mr. Vasconi served in a variety of roles at R.L. Polk & Co. from 2003 to 2011, most recently as Senior Vice President and Chief Information Officer of Polk Global Automotive.

**Judith L. Werthaus** has served as Executive Vice President and Chief People Officer since January 2016. Ms. Werthaus previously served as Senior Vice President of Human Resources at Target Corp. Ms. Werthaus

joined Target in 2008, holding increasing levels of human resources responsibilities. Prior to Target, Ms. Werthaus was Senior Vice President of Human Resources for U.S. Bancorp in Minneapolis, held several senior human resources positions at Marshall Field's department stores and directed student programs at the University of Minnesota. Ms. Werthaus was also the co-owner and operations leader of Aljohn's and Junkyard Retailers, a diverse retailing and manufacturing company that she grew from one to 11 locations.

---

**Table of Contents**

**C. Andrew Ballard** has served on our Board of Directors since July 2015 and is a member of the Compensation Committee and the Nominating and Corporate Governance Committee of the Board of Directors. Mr. Ballard currently serves as the CEO and Co-founder of Wiser Solutions, Inc., a technology and data company, and is also the Founder and Managing Partner of Figtree Partners, an investment firm focused on digital media. In addition, he is a Senior Advisor at the private equity firm Hellman & Friedman, where he was previously a Managing Director. Prior to joining Hellman & Friedman in 2003, Mr. Ballard worked at Bain Capital in San Francisco and Boston, as well as Bain & Company from 1994 to 2002. In addition to serving on Domino's Board, Mr. Ballard is currently Chairman of Dacor, Inc. and Vice Chairman of Zignal Labs, and has held previous board roles at Activant Solutions Inc., Catalina Marketing Corporation, DoubleClick Inc., Getty Images, Internet Brands, Inc. and Vertafore, Inc. Mr. Ballard is the Chair of the Board of Trustees and Chair of the Investment Committee of the San Francisco Foundation. He is also actively involved with Family Connections, a tuition free preschool for under-served families.

**Andrew B. Balson** has served on our Board of Directors since March 1999 and serves as the Chairperson of the Compensation Committee of the Board of Directors. Mr. Balson is currently the Managing Partner of Cove Hill Partners, a firm formed to make private equity investments. Previously, Mr. Balson was the CEO of Match Beyond, a position he held from January 2015 to June 2016. Prior to becoming the CEO of Match Beyond, Mr. Balson was a Managing Director at Bain Capital, a global investment company, from 2001 to 2013. Mr. Balson became a Principal of Bain Capital in January 1998. Mr. Balson previously served on the Boards of Directors of Bloomin' Brands, Inc., FleetCor Technologies, Inc., Dunkin' Brands, Inc., Skylark Co., Ltd., Bellsystem24, Burger King Corporation, and Bright Horizons Solutions, as well as numerous private companies.

**Diana F. Cantor** has served on our Board of Directors since October 2005, serves as the Chairperson of the Audit Committee of the Board of Directors and also serves on the Nominating and Corporate Governance Committee of the Board of Directors. Ms. Cantor is currently a Partner at Alternative Investment Management, LLC, a position she has held since January 2010, and is the Vice Chairman of the Virginia Retirement System, where she also serves on the Audit and Compliance Committee. Ms. Cantor was a Managing Director with New York Private Bank and Trust from January 2008 through the end of 2009. Ms. Cantor served as Executive Director of the Virginia College Savings Plan, the state's 529 college savings program, from 1996 to January 2008. Ms. Cantor served seven years as Vice President of Richmond Resources, Ltd. from 1990 through 1996, and as Vice President of Goldman, Sachs & Co. from 1985 to 1990. Ms. Cantor serves on the Board of Directors of Universal Corporation, and she previously served on the Boards of Directors of Media General, Inc., Revlon, Inc., Vistage International, Knowledge Universe US, Edelman Financial Services and Service King Body and Paint LLC.

**Richard L. Federico** has served on our Board of Directors since February 2011 and is a member of the Audit Committee and the Compensation Committee of the Board of Directors. Mr. Federico is currently the Non-Executive Chairman of P.F. Chang's China Bistro Inc., based in Scottsdale, Arizona. Mr. Federico previously served as the Chairman and Chief Executive Officer or Co-Chief Executive Officer of P.F. Chang's from September 1997 to March 2015 and as Executive Chairman from March 2015 to February 2016. Mr. Federico serves as the Chairman of the Board of Directors of Jamba Inc., also serves on a private company board, and is a founding director of Chances for Children.

**James A. Goldman** has served on our Board of Directors since March 2010 and serves as the Chairperson of the Nominating and Corporate Governance Committee and as a member of the Audit Committee of the Board of Directors. Mr. Goldman served as President and CEO and Board member of Godiva Chocolatier Inc., based in New York City from 2004 to 2014. Mr. Goldman was President of the Food and Beverage Division at Campbell Soup Company from 2001 to 2004. Mr. Goldman worked in various executive positions at Nabisco Inc. from 1992 to 2000. Prior to his work at Nabisco Inc., Mr. Goldman was a senior consulting associate at McKinsey & Co. Mr. Goldman is currently a Senior Advisor at Eurazeo, a private equity firm listed on the Paris Stock Exchange. Mr. Goldman is also

Edgar Filing: DOMINOS PIZZA INC - Form 10-K

currently on the Board of Trustees of Save the Children in Fairfield, CT, the Executive Board of the International Tennis Hall of Fame in Newport, RI and the Advisory Boards of FEED Projects in New York, NY and Sugarfina in Los Angeles, CA. Mr. Goldman previously served as a member of the Board of Directors at The Children's Place Retail and served on its Compensation Committee. Mr. Goldman previously served on the Board of Trustees at the YMCA Camps Becket and Chimney Corners in Becket, MA.

The remaining information required by this item is incorporated by reference from Domino's Pizza, Inc.'s definitive proxy statement, which will be filed within 120 days of December 31, 2017.



**Table of Contents**

**Item 11. Executive Compensation.**

Information regarding executive compensation is incorporated by reference from Domino's Pizza, Inc.'s definitive proxy statement, which will be filed within 120 days of December 31, 2017. However, no information set forth in the proxy statement regarding the Audit Committee Report shall be deemed incorporated by reference into this Form 10-K.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

Information regarding security ownership of certain beneficial owners and management and related stockholder matters is incorporated by reference from Domino's Pizza, Inc.'s definitive proxy statement, which will be filed within 120 days of December 31, 2017.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

Information regarding certain relationships and related transactions is incorporated by reference from Domino's Pizza, Inc.'s definitive proxy statement, which will be filed within 120 days of December 31, 2017.

**Item 14. Principal Accountant Fees and Services.**

Information regarding principal accountant fees and services is incorporated by reference from Domino's Pizza, Inc.'s definitive proxy statement, which will be filed within 120 days of December 31, 2017.

**Table of Contents****Part IV****Item 15. Exhibits, Financial Statement Schedules.**

(a)1. Financial Statements: The following financial statements for Domino's Pizza, Inc. and subsidiaries are included in Item 8, Financial Statements and Supplementary Data :

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2017 and January 1, 2017

Consolidated Statements of Income for the Years Ended December 31, 2017, January 1, 2017 and January 3, 2016

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2017, January 1, 2017 and January 3, 2016

Consolidated Statements of Stockholders' Deficit for the Years Ended December 31, 2017, January 1, 2017 and January 3, 2016

Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, January 1, 2017 and January 3, 2016

Notes to Consolidated Financial Statements

2. Financial Statement Schedules: The following financial statement schedules are attached to this report.  
Schedule I Condensed Financial Information of the Registrant

Schedule II Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable, not required, or the information is included in the financial statements or the notes thereto.

3. Exhibits: Certain of the following Exhibits have been previously filed with the Securities and Exchange Commission pursuant to the requirements of the Securities Act of 1933 and the Securities Exchange Act of 1934. Such exhibits are identified by the parenthetical references following the listing of each such exhibit and are incorporated herein by reference.

Exhibit

Number	Description
3.1	<u>Form of Second Restated Certificate of Incorporation of Domino's Pizza, Inc. (Incorporated by reference to Exhibit 3.1 to the Domino's Pizza, Inc. registration statement on Form S-1 filed on April 13, 2004 (Reg. No. 333-114442) (the "S-1")).</u>
3.2	<u>Certificate of Amendment to the Second Restated Certificate of Incorporation of Domino's Pizza, Inc. (Incorporated by reference to Exhibit 3.2 to the Form 10-Q for the quarter ended June 14, 2015).</u>

- 3.3 Second Amended and Restated By-Laws of Domino s Pizza, Inc. (Incorporated by reference to Exhibit 3.3 to the registrant s annual report on Form 10-K for the year ended January 3, 2016).
- 10.1 Lease Agreement dated as of December 21, 1998 by and between Domino s Farms Office Park Limited Partnership and Domino s, Inc. (Incorporated by reference to Exhibit 10.3 to the Domino s, Inc. registration statement on Form S-4 filed on March 22, 1999 (Reg. No. 333-74797)).
- 10.2 Fourth Amendment to the Lease Agreement between Domino s Farms Office Park, L.L.C. and Domino s Pizza LLC, dated as of August 28, 2012 (Incorporated by reference to Exhibit 10.2 to the registrant s annual report on Form 10-K for the year ended December 30, 2012 (the 2012 10-K )).
- 10.3 Fifth Amendment to a Lease Agreement between Domino s Farms Office Park, L.L.C. and Domino s Pizza LLC, dated as of February 1, 2015 (Incorporated by reference to Exhibit 10.3 to the registrant s annual report on Form 10-K for the year ended January 1, 2017 (the 2016 10-K )).
- 10.4 Sixth Amendment to a Lease Agreement between Domino s Farms Office Park, L.L.C. and Domino s Pizza LLC, dated as of February 1, 2015 (Incorporated by reference to Exhibit 10.4 to the 2016 10-K).
- 10.5 Seventh Amendment to a Lease Agreement between Domino s Farms Office Park, L.L.C. and Domino s Pizza LLC, dated as of April 19, 2016 (Incorporated by reference to Exhibit 10.5 to the 2016 10-K).

**Table of Contents**

- 10.6 Eighth Amendment to a Lease Agreement between Domino's Farms Office Park, L.L.C. and Domino's Pizza LLC, dated as of November 4, 2016 (Incorporated by reference to Exhibit 10.6 to the 2016 10-K).
- 10.7 Ninth Amendment to a Lease Agreement between Domino's Farms Office Park, L.L.C. and Domino's Pizza LLC, dated as of February 16, 2017 (Incorporated by reference to Exhibit 10.7 to the 2016 10-K).
- 10.8 Tenth Amendment to a Lease Agreement between Domino's Farms Office Park, L.L.C. and Domino's Pizza LLC, dated as of November 7, 2017.
- 10.9\* Domino's Pizza, Inc. Deferred Compensation Plan adopted effective January 1, 2005 (Incorporated by reference to Exhibit 10.9 to the registrant's annual report on Form 10-K for the year ended January 1, 2006).
- 10.10\* First Amendment to the Domino's Pizza Deferred Compensation Plan effective January 1, 2007 (Incorporated by reference to Exhibit 10.9 to the registrant's annual report on Form 10-K for the year ended December 31, 2006).
- 10.11\* Second Amendment to the Domino's Pizza Deferred Compensation Plan effective February 8, 2013 (Incorporated by reference to Exhibit 10.5 to the 2012 10-K).
- 10.12\* Amended Domino's Pizza, Inc. 2004 Equity Incentive Plan (Incorporated by reference to Exhibit 10.1 to the registrant's quarterly report on Form 10-Q for the quarter ended March 22, 2009 (the March 2009 10-Q)).
- 10.13\* Form of Employee Stock Option Agreement under the Amended Domino's Pizza, Inc. 2004 Equity Incentive Plan (Incorporated by reference to Exhibit 10.8 to the 2012 10-K).
- 10.14\* Form of 2013 Special Employee Stock Option Agreement under the Amended Domino's Pizza, Inc. 2004 Equity Incentive Plan (Incorporated by reference to Exhibit 10.9 to the 2012 10-K).
- 10.15\* Form of Director Stock Option Agreement under the Amended Domino's Pizza, Inc. 2004 Equity Incentive Plan (Incorporated by reference to Exhibit 10.3 to the March 2009 10-Q).
- 10.16\* Form of Amendment to Existing Director Stock Option Grants (Incorporated by reference to Exhibit 10.5 to the March 2009 10-Q).
- 10.17\* Form of Performance-Based Restricted Stock Agreement (Incorporated by reference to Exhibit 10.12 to the 2012 10-K).
- 10.18\* Form of 2013 Special Performance-Based Restricted Stock Agreement (Incorporated by reference to Exhibit 10.13 to the 2012 10-K).
- 10.19\* Form of Performance-Based Restricted Stock Unit Award Agreement (Incorporated by reference to Exhibit 10.14 to the 2012 10-K).
- 10.20\* Form of 2013 Special Performance-Based Restricted Stock Unit Award Agreement (Incorporated by reference to Exhibit 10.15 to the 2012 10-K).
- 10.21\* Form of Domino's Pizza, Inc. 2004 Equity Incentive Plan Restricted Stock Agreement for Directors (Incorporated by reference to Exhibit 10.19 to the registrant's annual report on Form 10-K for the year ended January 3, 2010).
- 10.22\* Amended and Restated Domino's Pizza Senior Executive Annual Incentive Plan. (Incorporated by reference to Exhibit 10.20 to the registrant's annual report on Form 10-K for the year ended January 2, 2011).
- 10.23\*

Amended and Restated Domino's Pizza, Inc. Employee Stock Payroll Deduction Plan (Incorporated by reference to Exhibit 10.18 to the registrant's annual report on Form 10-K for the year ended December 29, 2013).

10.24\* Form of Domino's Pizza, Inc. Dividend Reinvestment & Direct Stock Purchase and Sale Plan (Incorporated by reference to Exhibit 10.32 to the S-1).

**Table of Contents**

- 10.25\* Form of 2018 Restricted Stock Agreement (Incorporated by reference to Exhibit 10.4 to the registrant's current report on Form 8-K filed on January 11, 2018 (the January 2018 8-K)).
- 10.26\* Employment Agreement dated as of February 23, 2015 between Domino's Pizza LLC and J. Patrick Doyle (Incorporated by reference to Exhibit 10.20 to the registrant's annual report on Form 10-K for the year ended December 28, 2014 (the 2014 10-K)).
- 10.27\* Time Sharing Agreement dated as of February 23, 2015 between Domino's Pizza LLC and J. Patrick Doyle (Incorporated by reference to Exhibit 10.21 to the 2014 10-K).
- 10.28\* Employment Agreement dated as of August 28, 2015 between Domino's Pizza LLC and Jeffrey Lawrence (Incorporated by reference to Exhibit 10.1 to the registrant's quarterly report on Form 10-Q for the quarter ended September 6, 2015).
- 10.29\* Employment Agreement dated as of September 2, 2008 between Domino's Pizza LLC and Russell J. Weiner (Incorporated by reference to Exhibit 1.01 to the registrant's current report on Form 8-K filed on September 4, 2008).
- 10.30\* Amendment to the Employment agreement dated as of September 2, 2008 between Domino's Pizza LLC and Russell J. Weiner (Incorporated by reference to Exhibit 10.4 to the registrant's current report on Form 8-K filed on December 24, 2008).
- 10.31\* Amendment to the Employment Agreement dated as of July 26, 2010 between Domino's Pizza LLC and Russell J. Weiner (Incorporated by reference to Exhibit 10.3 to the registrant's quarterly report on Form 10-Q for the quarter ended June 20, 2010).
- 10.32\* Employment Agreement dated as of January 8, 2018 between Domino's Pizza, Inc., Domino's Pizza LLC and Russell J. Weiner (Incorporated by reference to Exhibit 10.2 to the January 2018 8-K).
- 10.33\* Employment Agreement dated as of March 14, 2011 between Domino's Pizza LLC and Richard E. Allison, Jr. (Incorporated by reference to Exhibit 10.1 to the registrant's quarterly report on Form 10-Q for the quarter ended March 27, 2011).
- 10.34\* Employment Agreement dated as of January 8, 2018 between Domino's Pizza, Inc., Domino's Pizza LLC and Richard E. Allison, Jr. (Incorporated by reference to Exhibit 10.1 to the January 2018 8-K).
- 10.35\* Time Sharing Agreement dated as of January 8, 2018 between Domino's Pizza LLC and Richard E. Allison, Jr. (Incorporated by reference to Exhibit 10.3 to the January 2018 8-K).
- 10.36\* Employment Agreement dated as of December 7, 2016 between Domino's Pizza LLC and Kevin S. Morris.
- 10.37 Form of Indemnification Agreement (Incorporated by reference to Exhibit 10.33 to the S-1).
- 10.38 Amended and Restated Base Indenture dated March 15, 2012 among Domino's Pizza Master Issuer LLC, Domino's Pizza Distribution LLC, Domino's IP Holder LLC and Domino's SPV Canadian Holding Company Inc., each as Co-Issuer, and Citibank, N.A., as Trustee and Securities Intermediary (Incorporated by reference to Exhibit 4.1 to the registrant's current report on Form 8-K filed on March 19, 2012 (the March 2012 8-K)).
- 10.39 First Supplement dated as of September 16, 2013 to the Amended and Restated Base Indenture dated as of March 15, 2012 (Incorporated by reference to Exhibit 4.1 to the registrant's current report on Form 8-K filed on October 22, 2015 (the October 2015 8-K)).
- 10.40 Second Supplement dated as of October 21, 2015 to the Amended and Restated Base Indenture dated as of March 15, 2012 (Incorporated by reference to Exhibit 4.2 to the October 2015 8-K).

- 10.41 Third Supplement dated as of October 21, 2015 to the Amended and Restated Base Indenture dated as of March 15, 2012 (Incorporated by reference to Exhibit 4.3 to the October 2015 8-K).

**Table of Contents**

- 10.42 Fourth Supplement dated as of July 24, 2017 to the Amended and Restated Base Indenture dated as of March 15, 2012 by and among Domino's Pizza Master Issuer LLC, Domino's SPV Canadian Holding Company Inc., Domino's Pizza Distribution LLC and Domino's IP Holder LLC, each as Co-Issuer, and Citibank, N.A., as Trustee and Securities Intermediary (Incorporated by reference to Exhibit 4.1 to the Domino's Pizza, Inc. Current Report on Form 8-K, filed on July 25, 2017 (the July 2017 8-K)).
- 10.43 Series 2012-1 Supplement dated March 15, 2012 to the Amended and Restated Base Indenture dated March 15, 2012 among Domino's Pizza Master Issuer LLC, Domino's Pizza Distribution LLC, Domino's IP Holder LLC and Domino's SPV Canadian Holding Company Inc., each as a Co-Issuer of the Series 2012-1 5.216% Fixed Rate Senior Secured Notes, Class A-2 and the Series 2012-1 Variable Funding Senior Notes, Class A-1, and Citibank, N.A., as Trustee and Series 2012-1 Securities Intermediary (Incorporated by reference to Exhibit 4.2 to the March 2012 8-K).
- 10.44 Series 2015-1 Supplement dated as of October 21, 2015 to the Amended and Restated Base Indenture dated March 15, 2012 among Domino's Pizza Master Issuer LLC, Domino's Pizza Distribution LLC, Domino's IP Holder LLC and Domino's SPV Canadian Holding Company Inc., each as a Co-Issuer of the Series 2015-1 3.484% Fixed Rate Senior Secured Notes, Class A-2-I, the Series 2015-1 4.474% Fixed Rate Senior Secured Notes, Class A-2-II and the Series 2015-1 Variable Funding Senior Notes, Class A-1, and Citibank, N.A., as Trustee and Series 2015-1 Securities Intermediary (Incorporated by reference to Exhibit 4.4 to the October 2015 8-K).
- 10.45 Series 2017-1 Supplement dated as of July 24, 2017 by and among Domino's Pizza Master Issuer LLC, Domino's SPV Canadian Holding Company Inc., Domino's Pizza Distribution LLC and Domino's IP Holder LLC, each as Co-Issuer, and Citibank, N.A., as Trustee, Series 2017-1 Securities Intermediary and Calculation Agent (Incorporated by reference to Exhibit 4.2 to the July 2017 8-K).
- 10.46 Purchase Agreement dated as of October 14, 2015 among Domino's Pizza Master Issuer LLC, Domino's IP Holder LLC, Domino's Pizza Distribution LLC and Domino's SPV Canadian Holding Company Inc. for the Series 2015-1 3.484% Fixed Rate Senior Secured Notes, Class A-2-I and the Series 2015-1 4.474% Fixed Rate Senior Secured Notes, Class A-2-II (Incorporated by reference to Exhibit 10.1 to the October 2015 8-K).
- 10.47 Purchase Agreement dated as of June 12, 2017 among Domino's Pizza Master Issuer LLC, Domino's SPV Canadian Holding Company Inc., Domino's Pizza Distribution LLC and Domino's IP Holder LLC, each as Co-Issuer, Domino's SPV Guarantor LLC, Domino's Pizza Franchising LLC, Domino's Pizza International Franchising Inc., Domino's Pizza Canadian Distribution ULC, Domino's RE LLC and Domino's EQ LLC, each as Guarantor, Domino's Pizza LLC, as manager, Domino's Pizza, Inc. and Domino's Inc., as parent companies, and Guggenheim Securities, LLC and Barclays Capital Inc., as initial purchasers (Incorporated by reference to Exhibit 10.1 to the Domino's Pizza, Inc. Current Report on Form 8-K, filed on June 14, 2017 (the June 2017 8-K)).
- 10.48 Class A-1 Note Purchase Agreement dated as of March 15, 2012 among Domino's Pizza Master Issuer LLC, Domino's IP Holder LLC, Domino's Pizza Distribution LLC and Domino's SPV Canadian Holding Company Inc., each as a Co-Issuer, Domino's Pizza LLC, as Manager, certain conduit investors, certain financial institutions and certain funding agents, Barclays Bank PLC, as L/C Provider, as Swingline Lender and as Administrative Agent (Incorporated by reference to Exhibit 10.1 to the March 2012 8-K).
- 10.49 Class A-1 Note Purchase Agreement dated as of October 21, 2015 among Domino's Pizza Master Issuer LLC, Domino's SPV Canadian Holding Company Inc., Domino's Pizza Distribution LLC and Domino's IP Holder LLC, each as a Co-Issuer, Domino's Pizza Franchising LLC, Domino's Pizza International Franchising Inc., Domino's Pizza Canadian Distribution ULC, Domino's RE LLC, Domino's EQ LLC and



Domino's SPV Guarantor LLC, each as Guarantor, Domino's Pizza LLC, as Manager, certain conduit investors, certain financial institutions and certain funding agents, Rabobank Nederland, New York Branch, as L/C Provider, as Swingline Lender and as Administrative Agent (Incorporated by reference to Exhibit 10.2 to the October 2015 8-K).

**Table of Contents**

- 10.50 Class A-1 Note Purchase Agreement dated June 12, 2017 among Domino's Pizza Master Issuer LLC, Domino's SPV Canadian Holding Company Inc., Domino's Pizza Distribution LLC and Domino's IP Holder LLC, each as Co-Issuer, Domino's SPV Guarantor LLC, Domino's Pizza Franchising LLC, Domino's Pizza International Franchising Inc., Domino's Pizza Canadian Distribution ULC, Domino's RE LLC and Domino's EQ LLC, each as Guarantor, Domino's Pizza LLC, as manager, certain conduit investors, financial institutions and funding agents, and Coöperatieve Rabobank U.A., New York Branch, as provider of letters of credit, as swingline lender and as administrative agent (Incorporated by reference to Exhibit 10.2 to the June 2017 8-K).
- 10.51 Amended and Restated Guarantee and Collateral Agreement dated as of March 15, 2012 among Domino's SPV Guarantor LLC, Domino's Pizza Franchising LLC, Domino's Pizza International Franchising Inc., Domino's Pizza Canadian Distribution ULC, Domino's RE LLC and Domino's EQ LLC, each as a Guarantor, in favor of Citibank, N.A., as Trustee (Incorporated by reference to Exhibit 10.2 to the March 2012 8-K).
- 10.52 Amended and Restated Management Agreement dated as of March 15, 2012 among Domino's Pizza Master Issuer LLC, certain subsidiaries of Domino's Pizza Master Issuer LLC party thereto, Domino's Pizza LLC, as Manager and in its individual capacity, Domino's Pizza NS Co., and Citibank, N.A. as Trustee (Incorporated by reference to Exhibit 10.3 to the March 2012 8-K).
- 10.53 Amendment No. 1 dated as of October 21, 2015 to the Amended and Restated Management Agreement dated as of March 15, 2012 among Domino's Pizza Master Issuer LLC, certain subsidiaries of Domino's Pizza Master Issuer LLC party thereto, Domino's Pizza LLC, as Manager and in its individual capacity, Domino's Pizza NS Co., and Citibank, N.A. as Trustee (Incorporated by reference to Exhibit 10.3 to the October 2015 8-K).
- 10.54 Amendment No. 2 dated as of July 24, 2017 to the Amended and Restated Management Agreement dated as of March 15, 2012 by and among Domino's Pizza Master Issuer LLC, certain subsidiaries of Domino's Pizza Master Issuer LLC party thereto, Domino's SPV Guarantor LLC, Domino's Pizza LLC, as manager and in its individual capacity, Domino's Pizza NS Co., and Citibank, N.A., as Trustee (Incorporated by reference to Exhibit 10.1 to the July 2017 8-K).
- 10.55 Parent Company Support Agreement dated as of March 15, 2012 made by Domino's Pizza, Inc. in favor of Citibank, N.A., as Trustee (Incorporated by reference to Exhibit 10.4 to the October 2015 8-K).
- 10.56 Amendment No. 1 dated as of October 21, 2015 to the Parent Company Support Agreement dated as of March 15, 2012 made by Domino's Pizza, Inc. in favor of Citibank, N.A., as Trustee (Incorporated by reference to Exhibit 10.5 to the October 2015 8-K).
- 10.57 Master Confirmation Uncollared Accelerated Share Repurchase dated as of October 27, 2015 between Domino's Pizza, Inc., and JP Morgan Chase Bank, National Association (Incorporated by reference to Exhibit 10.1 to the registrant's current report on Form 8-K filed on October 27, 2015).
- 10.58 Fixed Dollar Accelerated Share Repurchase Transaction Confirmation, dated August 2, 2017 (Incorporated by reference to Exhibit 10.1 to the Domino's Pizza, Inc. Current Report on Form 8-K, filed on August 2, 2017).
- 10.59 Omnibus Amendment No. 1, dated December 15, 2017, among Domino's Pizza Master Issuer LLC, Domino's SPV Canadian Holding Company Inc., Domino's Pizza Distribution LLC and Domino's IP Holder LLC, each as Co-Issuer, Domino's SPV Guarantor LLC, Domino's Pizza Franchising LLC, Domino's Pizza International Franchising Inc., Domino's Pizza Canadian Distribution ULC, Domino's RE LLC and Domino's EQ LLC, each as Guarantor, Domino's Pizza LLC, as manager, certain conduit investors, financial institutions and funding agents, and Coöperatieve Rabobank U.A., New York Branch, as provider of letters of credit, as swingline lender and as administrative agent (Incorporated by reference to Exhibit 10.1 to the

Domino s Pizza, Inc. Current Report on Form 8-K, filed on December 19, 2017).

- 10.60 Agreement dated as of January 6, 2009 between Domino s Pizza, Inc., Blue Harbour Strategic Value Partners Master Fund, LP and Blue Harbour Institutional Partners Master Fund, L.P. (Incorporated by reference to Exhibit 10.1 to the registrant s current report on Form 8-K filed on January 9, 2009).
- 10.61 Board of Directors Compensation.

---

**Table of Contents**

12.1	<u>Ratio of Earnings to Fixed Charges.</u>
21.1	<u>Subsidiaries of Domino s Pizza, Inc.</u>
23.1	<u>Consent of PricewaterhouseCoopers LLP.</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, relating to Domino s Pizza, Inc.</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, relating to Domino s Pizza, Inc.</u>
32.1	<u>Certification of Chief Executive Officer 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.</u>
32.2	<u>Certification of Chief Financial Officer 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.</u>
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.

\* A management contract or compensatory plan or arrangement required to be filed as an exhibit to this report pursuant to Item 15(b) of Form 10-K.

**Item 16. Form 10-K Summary.**

Not applicable.

Table of Contents**SCHEDULE I CONDENSED FINANCIAL INFORMATION OF THE REGISTRANT**DOMINO S PIZZA, INC.PARENT COMPANY CONDENSED BALANCE SHEETS

(In thousands, except share and per share amounts)

	December 31, 2017	January 1, 2017
<b><u>ASSETS</u></b>		
<b>ASSETS:</b>		
Cash	\$ 6	\$ 6
Total assets	\$ 6	\$ 6
<b><u>LIABILITIES AND STOCKHOLDERS DEFICIT</u></b>		
<b>LIABILITIES:</b>		
Equity in net deficit of subsidiaries	\$ 2,735,384	\$ 1,883,143
Due to subsidiary	6	6
Total liabilities	2,735,390	1,883,149
<b>STOCKHOLDERS DEFICIT:</b>		
Common stock, par value \$0.01 per share; 170,000,000 shares authorized; 42,898,329 in 2017 and 48,100,143 in 2016 issued and outstanding	429	481
Preferred stock, par value \$0.01 per share; 5,000,000 shares authorized, none issued		
Additional paid-in capital	5,654	1,006
Retained deficit	(2,739,437)	(1,881,520)
Accumulated other comprehensive loss	(2,030)	(3,110)
Total stockholders deficit	(2,735,384)	(1,883,143)
Total liabilities and stockholders deficit	\$ 6	\$ 6

See accompanying notes to the Schedule I.

**Table of Contents****DOMINO S PIZZA, INC.****PARENT COMPANY CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

(In thousands, except per share amounts)

	For the Years Ended		
	December 31,	January 1,	January 3,
	2017	2017	2016
REVENUES	\$	\$	\$
Total revenues			
OPERATING EXPENSES			
Total operating expenses			
INCOME FROM OPERATIONS			
Equity earnings in subsidiaries	277,905	214,678	192,789
INCOME BEFORE PROVISION FOR INCOME TAXES	277,905	214,678	192,789
PROVISION FOR INCOME TAXES			
NET INCOME	\$ 277,905	\$ 214,678	\$ 192,789
COMPREHENSIVE INCOME	\$ 278,985	\$ 215,116	\$ 191,902
EARNINGS PER SHARE:			
Common Stock basic	\$ 6.05	\$ 4.41	\$ 3.58
Common Stock diluted	\$ 5.83	\$ 4.30	\$ 3.47

See accompanying notes to the Schedule I.

**Table of Contents****DOMINO S PIZZA, INC.****PARENT COMPANY CONDENSED STATEMENTS OF CASH FLOWS**

(In thousands)

	For the Years Ended		
	December 31, 2017	January 1, 2017	January 3, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net cash provided by operating activities	\$ 299,576	\$ 281,731	\$ 226,912
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Dividends from subsidiaries	852,325	82,856	594,591
Net cash provided by investing activities	852,325	82,856	594,591
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Payments of common stock dividends	(84,298)	(73,925)	(80,329)
Purchase of common stock	(1,064,253)	(300,250)	(738,557)
Other	(3,350)	9,588	(2,617)
Net cash used in financing activities	(1,151,901)	(364,587)	(821,503)
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>			
CASH AND CASH EQUIVALENTS, AT BEGINNING OF PERIOD	6	6	6
CASH AND CASH EQUIVALENTS, AT END OF PERIOD	\$ 6	\$ 6	\$ 6

See accompanying notes to the Schedule I.

---

**Table of Contents**

**DOMINO S PIZZA, INC.**

**NOTES TO PARENT COMPANY FINANCIAL STATEMENTS**

**(1) INTRODUCTION AND BASIS OF PRESENTATION**

Domino s Pizza, Inc., on a stand-alone basis, (the Parent Company ) has accounted for majority-owned subsidiaries using the equity method of accounting. The accompanying condensed financial statements of the Parent Company should be read in conjunction with the consolidated financial statements of Domino s Pizza, Inc. and its subsidiaries (the Company ) and the notes thereto included in Item 8 of this Form 10-K. These financial statements have been provided to comply with Rule 4-08(e) of Regulation S-X.

**Use of Estimates**

The use of estimates is inherent in the preparation of financial statements in accordance with generally accepted accounting principles. Actual results could differ from those estimates.

**Recently Adopted Accounting Standards**

In March 2016, the Financial Accounting Standards Board ( FASB ) issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09). ASU 2016-09 is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. The new standard was effective for the Parent Company beginning January 2, 2017.

As a result, excess tax benefits or deficiencies from equity-based compensation activity are reflected in the parent company condensed statements of income and comprehensive income as a component of equity earnings in subsidiaries. The Company also elected to account for forfeitures as they occur, rather than to use an estimate of expected forfeitures for financial statement reporting purposes. The adoption of ASU 2016-09 resulted in an increase to net income of \$27.2 million in fiscal 2017, primarily due to the recognition of excess tax benefits for options exercised and the vesting of equity awards. The Company s election to account for forfeitures as they occur had an immaterial impact on its equity-based compensation expense.

**(2) SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

During 2017, 2016 and 2015, the Parent Company received dividends from its subsidiaries primarily consisting of amounts received to repurchase common stock in connection with the Company s 2017 and 2015 recapitalization transactions. See Note 4 to the Company s consolidated financial statements as filed in this Form 10-K for a description of the recapitalization transactions that occurred in 2017 and 2015.



**Table of Contents****SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS****Domino s Pizza, Inc. and Subsidiaries**

(in thousands)	<b>Balance Beginning of Year</b>	<b>Provision (Benefit)</b>	<b>Additions/ Deductions from Reserves *</b>	<b>Translation Adjustments</b>	<b>Balance End of Year</b>
Allowance for doubtful accounts receivable:					
2017	\$ 2,342	\$ (88)	\$ (830)	\$	\$ 1,424
2016	2,662	(51)	(269)		2,342
2015	3,361	(582)	(109)	(8)	2,662

\* Consists primarily of write-offs, recoveries of bad debt and certain reclassifications.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrants have duly caused this annual report to be signed on their behalf by the undersigned, thereunto duly authorized.

DOMINO S PIZZA, INC.

/s/ Jeffrey D. Lawrence  
Jeffrey D. Lawrence  
Chief Financial Officer

February 20, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrants and in the capacities and on the dates indicated.

/s/ J. Patrick Doyle J. Patrick Doyle February 20, 2018	President, Chief Executive Officer and Director  (Principal Executive Officer)
/s/ Jeffrey D. Lawrence Jeffrey D. Lawrence February 20, 2018	Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ David A. Brandon David A. Brandon February 20, 2018	Chairman of the Board of Directors
/s/ C. Andrew Ballard C. Andrew Ballard February 20, 2018	Director
/s/ Andrew B. Balson Andrew B. Balson February 20, 2018	Director
/s/ Diana F. Cantor Diana F. Cantor February 20, 2018	Director
/s/ Richard L. Federico Richard L. Federico February 20, 2018	Director
/s/ James A. Goldman	Director

James A. Goldman  
February 20, 2018