DOMINOS PIZZA INC
Form 10-K
February 28, 2013


# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

**(Mark One)**

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

**For the fiscal year ended December 30, 2012**

**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** | **38-2511577** |
| **(State or other jurisdiction of** | **(I.R.S. Employer** |
| **incorporation or organization)** | **Identification No.)** |
| **30 Frank Lloyd Wright Drive** | |
| **Ann Arbor, Michigan** | **48105** |
| **(Address of principal executive offices)** | **(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:** | **Name of each exchange on which registered:** |
|---|---|
| **Domino s Pizza, Inc.** | **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 x 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 x

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 x 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 x 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: x

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

| | | | |
|---|---|---|---|
| Large accelerated filer | x | Accelerated filer | ¨ |
| Non-accelerated filer | ¨ (do not check if a smaller reporting company) | Smaller reporting company | ¨ |

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of Domino s Pizza, Inc. as of June 17, 2012 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

$1,635,859,553.

As of February 21, 2013, Domino s Pizza, Inc. had 56,442,532 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 23, 2013 are incorporated by reference into Part III.

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## Part I

### Item 1. Business.

### Overview

Domino s Pizza, Inc. (referred to as the Company, Domino s or in the first person notations of we, us and our ) is the number one pizza deli company in the United States, based on reported consumer spending. We also have a leading international presence and rank as the second largest pizza company in the world, based on number of units and sales. On average, over 1.5 million pizzas are sold each day throughout the Domino s system, with deliveries covering approximately 15 million miles per week. We pioneered the pizza delivery business and have built the Domino s Pizza® brand into one of the most widely-recognized consumer brands in the world. Together with our domestic franchisees, we have supported the Domino s Pizza® brand with an estimated $1.4 billion in advertising spending in the United States over the past five years. Additionally, our international franchisees also commit significant dollars in advertising efforts in their markets. We operate through a network of 10,255 Company-owned and franchise stores, located in all 50 states and in more than 70 international markets. In addition, we operate 16 regional dough manufacturing and supply chain centers, one equipment and supply facility, one thin crust manufacturing center and one vegetable processing center in the contiguous United States, and six dough manufacturing and supply chain centers outside the contiguous United States. The foundation of our system-wide success and leading market position is our strong relationships with our franchisees, comprised of over 2,400 owner-operators throughout the world dedicated to the success of the Domino s Pizza® brand.

Over our 52-year history, we have developed a simple business model focused on our core strength of delivering quality pizza and other complementary items in a timely manner. This business model includes a delivery and carry- out-oriented store design with low capital requirements, a focused menu of pizza and other complementary items, committed owner-operator franchisees and a vertically-integrated supply chain system in the U.S. Our earnings are driven largely by retail sales at our franchise stores, which generate royalty payments and, in the U.S. and Canada, supply chain revenues to us. We also generate earnings through retail sales at our Company-owned stores. However, most geographies are granted to a qualified master franchisee, and this master franchisee can utilize three potential income streams: owning and operating stores, sub-franchising stores and owning and operating supply chain centers.

We operate our business in three segments: domestic stores, domestic supply chain and international.

*Domestic stores.* The domestic stores segment, which is comprised of 4,540 franchise stores and 388 Company-owned stores, generated revenues of $518.7 million and income from operations of $169.9 million during our fiscal year ended December 30, 2012, which we refer to herein as 2012.

*Domestic supply chain.* Our domestic supply chain segment, which manufactures our dough and thin crust products for all of our Company-owned stores and over 99% of our domestic franchise stores, and, processes vegetables and distributes food, equipment and supplies to certain domestic stores, generated revenues of $942.2 million and income from operations of $73.8 million during 2012.

*International.* Our international segment is comprised of 5,327 franchise stores outside the contiguous United States. It also manufactures dough and distributes food and supplies in a limited number of these markets. During 2012, our international segment generated revenues of $217.6 million, of which approximately 55% related to franchise royalties and fees, and generated income from operations of $105.3 million, of which approximately 90% related to franchise royalties and fees.

On a consolidated basis, we generated revenues of nearly $1.7 billion and income from operations (after deducting $66.7 million of unallocated corporate and other expenses) of $282.3 million in 2012. Net income was $112.4 million in 2012. In each of the past three years, we have been able to increase our net income, grow our global retail sales and in those three years have added over 1,200 net stores worldwide. We were able to grow our business with capital expenditures that generally ranged between $20.0 million to $30.0 million per year, as a significant portion of our earnings are derived from retail sales by our franchisees who are responsible for their own capital expenditures.

### Our history

We have been delivering quality, affordable pizza to our customers since 1960 when brothers Thomas and James Monaghan borrowed $900 and purchased a small pizza store in Ypsilanti, Michigan. Since that time, our store count and geographic reach have grown substantially. We opened our first franchise store in 1967 and our first international store in 1983. We celebrated the Company s 50th anniversary on December 9, 2010. During 2012, we opened our 10,000th store worldwide and as of December 30, 2012, we had 10,255 stores worldwide.

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In 1998, an investor group led by investment funds associated with Bain Capital, LLC completed a recapitalization through which the investor group acquired a 93% controlling economic interest in our Company from Thomas Monaghan and his family. In 2004, Domino s Pizza, Inc. completed its initial public offering (the IPO ) and now trades on the New York Stock Exchange under the ticker symbol DPZ. In connection with the IPO, on May 11, 2004, we reincorporated in Delaware. Prior to that, TISM, Inc., the then parent company of the Domino s Pizza business, was a Michigan corporation, which operated through its wholly-owned subsidiary, Domino s Pizza LLC, a Michigan limited liability company. Currently, there are no shares held in the original investment funds associated with Bain Capital, LLC.

During 2007, the Company completed a recapitalization transaction (the 2007 Recapitalization ), primarily consisting of, (i) the issuance of $1.7 billion of borrowings of fixed rate notes, (ii) the purchase and retirement of all outstanding senior subordinated notes, (iii) the repayment of all outstanding borrowings under its senior credit facility, and (iv) the payment of a special cash dividend to shareholders and related anti-dilution payments and adjustments to certain stock option holders.

During 2012, the Company completed a recapitalization transaction (the 2012 Recapitalization ), primarily consisting of, (i) the issuance of $1.575 billion of borrowings of fixed rate notes, (ii) the purchase and retirement of all outstanding 2007 fixed rate notes, (iii) the replacement of its existing variable funding note facility with a new $100.0 million facility, and (iv) the payment of a special cash dividend to shareholders and related anti-dilution payments and adjustments to certain stock option holders.

**Industry overview**

*In this document, we rely on and refer to information regarding the U.S. quick service restaurant, or QSR, sector, the U.S. QSR pizza category and its components and competitors (including us) from the CREST® report 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 QSR sector, U.S. QSR pizza category and U.S. pizza delivery and carry-out represent reported consumer spending obtained by The NPD Group s CREST® report from consumer surveys. This information relates to both our Company-owned and franchise stores. Unless otherwise indicated, all U.S. industry data included in this document is based on reported consumer spending obtained by The NPD Group s CREST® report from consumer surveys.*

The U.S. QSR pizza category is large and fragmented. From 2002 to 2012, the U.S. QSR pizza category in which Domino s Pizza competes has grown from $30.1 billion to $32.5 billion. With sales of $32.5 billion in the twelve months ended November 2012, it is the third largest category within the $247.9 billion U.S. QSR sector. The U.S. QSR pizza category is primarily comprised of delivery, dine-in and carry-out.

We participate primarily in two segments of this industry, the delivery and carry-out segments. During the period from 2002 to 2012, the delivery segment declined from $11.0 billion to $9.6 billion. However, the delivery segment has been relatively flat over the past three years, going from $9.7 billion in 2010 to $9.6 billion in 2012. Its $9.6 billion of sales accounted for approximately 30% of total U.S. QSR pizza category sales in the twelve months ended November 2012. We and our top two competitors account for approximately 53% of U.S. pizza delivery, based on reported consumer spending, with the remaining 47% attributable to regional chains and individual establishments. From 2002 to 2012, the carry-out segment grew from $11.6 billion to $14.6 billion. Additionally, in the past three years the carry-out segment grew from $14.1 billion in 2010 to $14.6 billion for the twelve months ended 2012. We are the market share leader in the delivery segment and the second largest in carry-out, a segment we have been focused on growing given our strong brand, convenient store locations and quality, affordable menu offerings.

In contrast to the United States, international pizza delivery is relatively underdeveloped, with only Domino s and one other competitor having a significant global presence. We believe that demand for international pizza and pizza delivery is large and growing, driven by international consumers increasing emphasis on convenience, and the proven success of our 29 years of conducting business abroad.

**Our competitive strengths**

We believe that our competitive strengths include the following:

***Strong and proven growth and earnings model.*** Over our 52-year history, we have developed a focused growth and earnings model. This model is anchored by strong store-level economics, which provide an entrepreneurial incentive for our franchisees and generate demand for new stores. Our franchise system, in turn, has produced strong and consistent earnings for us through royalty fees and through supply chain revenues, with minimal associated capital expenditures by us.

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***Strong store-level economics***. We have developed a cost-efficient store model, characterized by a delivery and carry-out oriented store design, with low capital requirements and a focused menu of quality, affordable pizza and other complementary items. At the store level, we believe that the simplicity and efficiency of our operations give us significant advantages over our competitors, who, in many cases, also focus on dine-in. Our domestic stores generally do not offer dine-in. Additionally, certain of our international stores offer casual seating, but do not offer full-service dine-in areas. Therefore, our domestic and international stores do not require expensive restaurant facilities and staffing. In addition, our focused menu simplifies and streamlines our production and delivery processes and maximizes economies of scale on purchases of our principal ingredients. As a result of our focused business model and menu, our stores are small (averaging approximately 1,500 square feet) and relatively inexpensive to build, furnish and maintain as compared to many other QSR franchise opportunities. The combination of this efficient store model and strong store sales volume has resulted in strong store-level financial returns and makes Domino s Pizza an attractive business opportunity for existing and prospective franchisees.

***Strong and well-diversified franchise system***. We have developed a large, global, diversified and committed franchise network that is a critical component of our system-wide success, our leading position in pizza delivery and our growing position in carry-out pizza. As of December 30, 2012, our franchise store network consisted of 9,867 stores, 46% of which were located in the contiguous United States. In the United States, nine franchisees operate more than 50 stores, including our largest domestic franchisee who operates 135 stores. Our domestic franchisees own and operate an average of four stores. We generally require our domestic franchisees to forego active, outside business endeavors, aligning their interests with ours and making the success of each Domino s Pizza store of critical importance to our franchisees.

In addition, we generally share 50% (or a higher percentage in the case of Company-owned stores and certain franchisees who operate a larger number of stores) of the pre-tax profits generated by our regional dough manufacturing and supply chain centers with those domestic franchisees who agree to purchase all of their food from our supply chain system. These arrangements strengthen our ties with our franchisees by enhancing their profitability, while providing us with a continuing source of revenues and earnings. This arrangement also provides incentives for franchisees to work closely with us to reduce costs. We believe our strong, mutually-beneficial franchisee relationships are evidenced by the over 99% voluntary participation in our domestic supply chain system, our approximately 99% domestic franchise contract renewal rate and our over 99% collection rate on domestic franchise royalty and domestic supply chain receivables.

Internationally, we have been able to grow our franchise network by attracting franchisees with business experience, capital and local market knowledge. We generally employ our master franchise model, which provides our international franchisees with exclusive rights to operate stores and sub-franchise our well-recognized Domino s Pizza® brand name in specific, agreed-upon market areas, as well as operate their own supply chain systems. From year-end 2007 through 2012, we grew our international franchise network 54%, from 3,469 stores to 5,327 stores. Our largest master franchisee operates 911 stores in five markets, which accounts for approximately 17% of our total international store count and nearly 9% of our global store count. During 2012, we had 492 net international store openings, including 113 net stores in India, 64 net stores in Turkey and 50 net stores in the United Kingdom.

***Strong cash flow and earnings stream***. A substantial percentage of our earnings are generated by our committed franchisees through royalty payments and revenues to our vertically-integrated supply chain system.

We believe that 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, which has enabled us to invest in the Domino s Pizza® brand, our stores, our technology and our supply chain centers, pay significant dividends, repurchase shares of our common stock, repurchase and retire outstanding principal on our fixed rate notes and deliver attractive returns to our stockholders.

***#1 pizza delivery company in the United States with a leading international presence.*** We are the number one pizza delivery company in the United States with a 22.5% share of pizza delivery based on reported consumer spending. With 4,928 stores located in the contiguous United States, our domestic 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 advertising investment across our store base. We also believe that our scale and market coverage allow us to effectively serve our customers demands for convenience and timely delivery.

Outside the United States, we have significant market share positions in the key markets in which we compete, including the United Kingdom, Mexico, India, Australia, South Korea, Canada, Turkey, Japan, France and Taiwan. These top ten international markets, based on store count, accounted for approximately 79% of our international retail sales in 2012. We believe we have a strong presence in each of these markets.

***Strong brand awareness.*** We believe our Domino s Pizza® brand is one of the most widely-recognized consumer brands in the world. We believe consumers associate our brand with the timely delivery of quality, affordable pizza and other complementary items. Over the past five years, our domestic franchise and Company-owned stores have invested an estimated $1.4 billion on national, local and co-operative advertising in the United States. Additionally, we estimate that our international franchisees commit significant dollars in advertising efforts in their markets. Our Domino s Pizza® brand is routinely named a MegaBrand by *Advertising Age*. We continue to reinforce our brand with extensive advertising through television, web-based promotions, radio and print. We have also enhanced the strength of our brand through marketing affiliations with brands such as Coca-Cola®.

We believe that our brand is particularly strong among pizza consumers for whom a meal is a fairly spontaneous event. In these situations, we believe that service and product quality are the consumers priorities. We believe that well established demographic and lifestyle trends will drive continuing emphasis on convenience and will, therefore, continue to play into our brand s strength.

***Internal dough manufacturing and supply chain system.*** In addition to generating significant revenues and earnings, primarily in the United States, we believe that our vertically integrated dough manufacturing and supply chain system enhances the quality and consistency of our products, enhances our relationships with franchisees, leverages economies of scale to offer lower costs to our stores and allows our 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.

In 2012, we made approximately 511,000 full-service food deliveries to our domestic stores, or approximately two deliveries per store, per week, with an on-time delivery performance rate of approximately 94%. All of our Company-owned stores and over 99% of our domestic franchise stores purchase all of their food and supplies from us. This is accomplished through our network of 16 regional dough manufacturing and supply chain centers, each of which is generally located within a one-day delivery radius of the stores it serves, and a leased fleet of over 400 tractors and trailers. Additionally, we supply certain of our domestic and international franchisees with equipment and supplies through our equipment and supply center, which we operate as part of our domestic supply chain segment, offering a full range of non-food products, from ovens to uniforms. We also supply certain of our domestic stores with ingredients that are processed at our vegetable processing center and thin crust product that is manufactured at our thin crust manufacturing center, both of which we operate as part of our domestic supply chain segment.

Because we source the food for substantially all of our domestic stores, our domestic supply chain segment enables us to leverage and monitor our strong supplier relationships to achieve the cost benefits of scale and to ensure compliance with our rigorous quality standards. In addition, the one-stop shop nature of this system, combined with our delivery accuracy, allows our store managers to eliminate a significant component of the typical back-of-store activity that many of our competitors store managers must undertake. Additionally, we operate six supply chain centers that service certain of our international franchise markets.

**Our business strategy**

We intend to achieve further growth and strengthen our competitive position through the continued implementation of our business strategy, which includes the following key elements:

***Continue to execute on our mission statement.*** Our mission statement is Exceptional franchisees and team members on a mission to be the best pizza delivery company in the world. We implement this mission statement by following a business strategy that:

- puts franchisees and Company-owned stores at the foundation of all our thinking and decisions;
- emphasizes our ability to select, develop and retain exceptional team members and franchisees;
- provides a strong infrastructure to support our stores; and

builds excellent store operations to create loyal customers.

We adhere to the following guiding principles, which are based on the concept of one united brand, system and team:

- putting people first;
- demanding integrity;
- striving to make every customer a loyal customer;
- delivering with smart hustle and positive energy; and
- winning by improving results every day.

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*Grow our leading position in an attractive industry.* U.S. pizza delivery and carry-out are the largest components of the U.S. QSR pizza category. They are also highly fragmented. Pizza delivery, through which a majority of our retail sales are generated, had sales of $9.6 billion in the twelve months ended November 2012. As the leader in U.S. pizza delivery, we believe that our strategic store locations to facilitate delivery, simple operating model, widely-recognized brand and efficient supply chain system are competitive advantages that position us to capitalize on future growth.

The carry-out component had $14.6 billion of sales in the twelve months ended November 2012. While our primary focus is on pizza delivery, we are also favorably positioned as a leader in the growing carry-out component given our strong brand, store locations and quality, affordable menu offerings.

*Leverage our strong brand awareness.* We believe that the strength of our Domino s Pizza® brand makes us one of the first choices of consumers seeking a convenient, quality and affordable meal. We intend to continue to promote our brand name and enhance our reputation as the leader in pizza delivery, with a growing position in carry-out pizza. In late 2009, in connection with the launch of our improved pizza recipe, we launched the campaign, Oh Yes We Did. The launch of the new pizza and this campaign received significant attention in the news media, social networking internet sites and other media outlets and we experienced positive same store sales growth in our domestic stores throughout 2010 and 2011. This momentum continued in 2012 with the launch of our Parmesan Bread Bites and our new Handmade Pan Pizza, which contributed to our positive domestic same store sales growth in 2012.

In 2009, domestic stores contributed 5% of their retail sales to support national advertising. Also in 2009, all domestic franchisees amended their standard franchise agreements to require a contribution of 5.5% (subject, in limited instances, to lower rates based on certain incentives and waivers) of their retail sales for national advertising and to eliminate the required market-level contributions. This 5.5% contribution rate, which took effect in 2010, continued throughout 2011 and 2012. In January 2013, with the support of the domestic franchise system, domestic franchisees amended their standard franchise agreements to require a contribution of 6% (subject, in limited instances, to lower rates based on certain incentives and waivers) of their retail sales for national advertising. We currently anticipate that this 6% contribution rate, which took effect in 2013, will remain in place for the foreseeable future.

We intend to leverage our strong brand by continuing to introduce innovative, consumer-tested and profitable new product varieties (such as Handmade Pan Pizza, Artisan pizzas, Oven Baked Sandwiches, Domino s American Legends® pizzas and BreadBowl Pasta ), complementary side items (such as our Parmesan Bread Bites, Stuffed Cheesy Bread, boneless chicken and wings, Cinna Stix® and Chocolate Lava Crunch Cakes) and value promotions, as well as through marketing affiliations with brands such as Coca-Cola®. Additionally, we may from time-to-time partner with other organizations in an effort to promote the Domino s Pizza® brand. We believe these opportunities, when coupled with our scale and share leadership, will allow us to grow our position in both U.S. pizza delivery and carry-out.

*Expand global store base.* We plan to expand our base of domestic stores to take advantage of the attractive growth opportunities in U.S. pizza delivery and carry-out. We believe that our scale will allow us to expand our store base with limited marketing, distribution and other incremental infrastructure costs. Additionally, our franchise-oriented business model will allow us to expand our store base with limited capital expenditures and working capital requirements. While we plan to expand our traditional domestic store base primarily through opening new franchise stores, we will also continually evaluate our mix of Company-owned and franchise stores, strategically acquire franchise stores and refranchise Company-owned stores.

We believe that pizza has global appeal and that there is strong and growing international demand for delivered pizza. We have successfully built a broad international platform, primarily through our master franchise model, as evidenced by our 5,327 international stores in more than 70 international markets. We believe that we continue to have significant long-term growth opportunities in international markets where we have established a leading presence. In our top ten international markets, we believe that our current store base is approximately half of the total long-term potential store base in those markets. Generally, we believe we will achieve long-term growth internationally as a result of the favorable store-level economics of our business model, the growing international demand for pizza and delivered pizza and the strong global recognition of the Domino s Pizza® brand. Our international stores have produced positive quarterly same store sales growth for 76 consecutive quarters. Additionally, during 2012, we had 492 net international store openings, including 113 net stores in India, 64 net stores in Turkey and 50 net stores in the United Kingdom.

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**Store operations**

We believe that our focused and proven store model provides a significant competitive advantage relative to many of our competitors who focus on multiple components of the pizza category, particularly dine-in. We have been focused primarily on pizza delivery for over 50 years. Our domestic stores generally do not offer dine-in. Additionally, certain of our international stores offer casual seating, but do not offer full-service dine-in areas. Therefore, our domestic and international stores do not require expensive restaurant facilities and staffing. Our stores also benefit from lower maintenance costs, as store assets have long lives and updates are not frequently required. Our simple and efficient operational processes, which we have refined through continuous improvement, include:

- strategic store locations to facilitate delivery and carry-out service;
- production-oriented store designs;
- product and process innovations;
- a focused menu;
- efficient order taking, production and delivery;
- Domino s PULSE point-of-sale system with state-of-the-art digital ordering capabilities; and
- a comprehensive store operations evaluation program.

***Strategic store locations to facilitate delivery and carry-out service***

We locate our stores strategically to facilitate timely delivery and carry-out service to our customers. The majority of our domestic stores are located in populated areas in or adjacent to large or mid-size cities, or on or near college campuses. We use geographic information software, which incorporates variables such as traffic volumes, competitor locations, household demographics and visibility, to evaluate and identify potential store locations and new markets.

***Production-oriented store designs***

Our typical store is relatively small, occupying on average approximately 1,500 square feet and is designed with a focus on efficient and timely production of consistently high quality food for delivery and carry-out. The store layout has been refined over time to provide an efficient flow from order-taking to delivery or carry-out. Our stores are primarily production facilities and accordingly, do not have a full-service dine-in area.

***Product and process innovations***

Our over 50 years of experience and innovative culture have resulted in numerous new product and process developments that increase both quality and efficiency. These include our efficient, vertically-integrated supply chain system, a sturdier corrugated pizza box and a mesh screen that helped cook pizza crust more evenly. The Domino s HeatWave® hot bag keeps our pizzas hot during delivery. We also continue to introduce new products such as Domino s American Legends® pizzas and Domino s BreadBowl Pasta , both launched in 2009; improved new boneless chicken and wings, Domino s Artisan pizzas and Stuffed Cheesy Bread, each launched in 2011; and Parmesan Bread Bites and our new Handmade Pan Pizza, both launched in 2012. Additionally, we have added a number of complementary side items to our menu such as bread sticks, Cinna Stix® and Chocolate Lava Crunch Cakes. In 2009, we introduced our improved pizza recipe, which was a change to our core pizza recipe.

***Focused menu***

We maintain a focused menu that is designed to present an attractive, quality offering to customers, while minimizing order errors, and expediting the order taking and food preparation processes. Our basic menu has three choices for pizza products: pizza type, pizza size and pizza toppings. Most of our stores carry two or three sizes of Traditional Hand-Tossed, Brooklyn Style and Crunchy Thin Crust pizza. Our typical store also offers Domino s Handmade Pan Pizza, Domino s Artisan pizzas, Domino s American Legends® pizzas, Domino s Oven Baked Sandwiches, Domino s Bread Bowl Pasta , boneless chicken and wings, bread sticks, Cinna Stix®, Chocolate Lava Crunch Cakes, Stuffed Cheesy Bread, Parmesan Bread Bites and Coca-Cola® soft drink products. We also occasionally offer other products on a promotional or a regional basis, such as salads. We believe that our focused menu creates a strong identity among consumers, improves operating efficiency and maintains food quality and consistency.

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***Efficient order taking, production and delivery***

Each store executes an operational process that includes order taking, pizza preparation, cooking (via automated, conveyor-driven ovens), boxing and delivery. The entire order taking and pizza production process is designed for completion in approximately 12-15 minutes. These operational processes are supplemented by an extensive employee training program designed to ensure world-class quality and customer service. It is our priority to ensure that every Domino s store operates in an efficient, consistent manner while maintaining our high standards of food quality and team member safety.

***Domino s PULSE point-of-sale system with state-of-the-art digital ordering capabilities***

Our computerized management information systems are designed to improve operating efficiencies, provide corporate management with timely access to financial and marketing data and reduce store and corporate administrative time and expense. We have installed Domino s PULSE , our proprietary point-of-sale system, in every Company-owned store in the United States, in more than 99% of our domestic franchise stores and in over 50% of the international stores. Domino s PULSE features include:

- touch screen ordering, which ensures accuracy and facilitates more efficient order taking;
- a delivery driver routing system, which ensures delivery efficiency;
- administrative and reporting capabilities, which enable store managers to better focus on store operations and customer satisfaction; and
- state-of-the-art digital ordering capability, including Pizza Tracker and Pizza Builder.

We require our domestic franchisees to install and maintain Domino s PULSE . Additionally, Domino s PULSE has been installed in over 2,700 international franchise stores. Management believes that utilizing Domino s PULSE throughout our domestic system, and a growing portion of our global system, provides us with competitive advantages over other point-of-sales systems, including:

- consistent execution and communication of operational best practices in our stores;
- real-time dissemination of data with field management, which enables efficient and informed decision making;
- data collection capability, which provides senior management insight into store operations;
- innovation sharing throughout the system, which allows all users to be more efficient and profitable; and
- electronic dissemination of materials and information to our stores, which reduces training and operating costs.

Since the rollout of Domino s PULSE to our domestic stores, our online ordering transactions have grown. Currently, on average, approximately one-third of our domestic stores sales originate online. In 2010, we made the strategic decision to develop our own online ordering platform and manage this important and growing area of our business internally. In 2011, we launched a new mobile application for the iPhone and iPod touch to provide further convenience for our customers when ordering online. In 2012, we launched a new mobile application for the Android smartphone and for Amazon s Kindle Fire, and we also launched a new Spanish-language ordering mobile application for smartphones. We intend to continue to enhance and grow our online ordering capabilities.

***Comprehensive store operations evaluation program***

We utilize a comprehensive evaluation program to ensure that our stores are meeting both our stringent standards as well as the expectations of our customers. The program focuses primarily on the quality of the pizza the store is producing, the customer service the store is providing and the condition of the store as viewed by the customer. We believe that this program is an integral part of our strategy to maintain high standards in our stores.

**Segment overview**

We operate in three business segments:

- *Domestic stores.* Our domestic stores segment consists of our domestic franchise operations, which oversees a network of 4,540 franchise stores located in the contiguous United States, and our domestic Company-owned store operations, which operates a network of 388 Company-owned stores located in the contiguous United States;

- *Domestic supply chain.* Our domestic supply chain segment operates 16 regional dough manufacturing and food supply chain centers, one thin crust manufacturing center, one supply chain center providing equipment and supplies to certain of our domestic and international stores and one vegetable processing center; and

- *International.* Our international segment is comprised of our network of 5,327 international franchise stores in more than 70 international markets. Our international segment also distributes food to a limited number of markets from six dough manufacturing and supply chain centers in Canada (four), Alaska and Hawaii.

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***Domestic stores***

During 2012, our domestic stores segment accounted for $518.7 million, or nearly 31% of our consolidated revenues. Our domestic franchises are operated by entrepreneurs who own and operate an average of four stores. Nine of our domestic franchisees operate more than 50 stores, including our largest domestic franchisee who operates 135 stores. Our principal sources of revenues from domestic store operations are Company-owned store sales and royalty payments based on retail sales by our franchisees. Our domestic network of Company-owned stores also plays an important strategic role in our predominantly franchised operating structure. In addition to generating revenues and earnings, we use our domestic Company-owned stores as test sites for new products and promotions as well as store operational improvements and as forums for training new store managers and prospective franchisees. We also believe that our domestic Company-owned stores add to the economies of scale available for advertising, marketing and other costs that are primarily borne by our franchisees. While we continue to be primarily a franchised business, we continually evaluate our mix of domestic Company-owned and franchise stores in an effort to optimize our long-term profitability.

Our domestic Company-owned store operations are divided into eight geographic areas located throughout the contiguous United States while our domestic franchise operations are divided into four regions. Our team members within these areas provide direct supervision over our domestic Company-owned stores; provide training, store operational audits and marketing services and provide financial analysis and store development services to our franchisees. We maintain a close relationship with our franchise stores through regional franchise teams, an array of computer-based training materials that help franchise stores comply with our standards and franchise advisory groups that facilitate communications between us and our franchisees.

***Domestic supply chain***

During 2012, our domestic supply chain segment accounted for $942.2 million, or 56% of our consolidated revenues. Our domestic supply chain segment is comprised primarily of 16 regional dough manufacturing and supply chain centers that manufacture fresh dough on a daily basis and purchase, receive, store and deliver quality pizza-related food products and other complementary items to all of our Company-owned stores and over 99% of our domestic franchise stores. On average, each regional dough manufacturing and supply chain center serves approximately 300 stores, generally located within a one-day delivery radius. We regularly supply nearly 5,000 stores with various supplies and ingredients, of which, nine product groups account for over 90% of the volume. Our domestic supply chain segment made approximately 511,000 full-service deliveries in 2012 or approximately two deliveries per store, per week; and we produced over 314 million pounds of dough during 2012.

We believe that 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. In addition, our domestic supply chain segment offers a profit-sharing arrangement to franchisees that purchase all of their food for their stores from our domestic dough manufacturing and supply chain centers. This profit-sharing arrangement generally offers domestic 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. Profits are shared with the franchisees based upon each franchisee s purchases from our supply chain centers. We believe these arrangements strengthen our ties with these franchisees.

The information systems used by our domestic dough manufacturing and supply chain centers are an integral part of the quality service we provide our stores. We use routing strategies and software to optimize our daily delivery schedules, which maximizes on-time deliveries. Through our strategically located dough manufacturing and supply chain center locations and proven routing systems, we achieved an on-time delivery performance rate of approximately 94% during 2012. Our supply chain center drivers unload food and supplies and stock store shelves typically during non-peak store hours, which minimize disruptions in store operations.

***International***

During 2012, our international segment accounted for $217.6 million, or 13% of our consolidated revenues. At December 30, 2012, we had 5,327 international franchise stores. The principal sources of revenues from our international operations are royalty payments generated by retail sales from franchise stores and sales of food and supplies to franchisees in certain markets.

We have grown by more than 1,800 international stores over the past five years. During 2012, we had 492 net international store openings, including 113 net stores in India, 64 net stores in Turkey and 50 net stores in the United Kingdom. Our international franchisees adapt our standard operating model, within certain parameters, to satisfy the local eating habits and consumer preferences of various regions outside the United States. Currently, most of our international stores are operated under master franchise agreements, and we plan to continue entering into master franchise agreements with qualified franchisees to expand our international operations in selected markets. We believe that our international franchise stores appeal to potential franchisees because of our well-recognized brand name, the limited capital expenditures required to open and operate our stores and our system s favorable store economics. While we had a significant presence in our top ten international markets, we believe that these markets contain opportunities for additional growth of the Domino s Pizza® brand. Currently, our master franchise companies based in Australia, India, Mexico and the United Kingdom are publicly traded entities in their respective country. The following table shows our store count as of December 30, 2012 in our top ten international markets, which account for approximately 74% of our international stores.

| Market | Number of stores |
|---|---|
| United Kingdom | 720 |
| Mexico | 581 |
| India | 552 |
| Australia | 464 |
| South Korea | 372 |
| Canada | 368 |
| Turkey | 284 |
| Japan | 245 |
| France | 215 |
| Taiwan | 140 |

**Domestic franchise program**

As of December 30, 2012, our 4,540 domestic franchise stores were owned and operated by our 1,026 domestic franchisees. The success of our franchise formula, which enables franchisees to benefit from our brand name with a relatively low initial capital investment, has attracted a large number of motivated entrepreneurs as franchisees. As of December 30, 2012, the average domestic franchisee owned and operated four stores and had been in our franchise system for nearly fifteen years. At the same time, nine of our domestic franchisees operated more than 50 stores, including our largest domestic franchisee who operates 135 stores.

***Franchisees***

We apply rigorous standards to prospective franchisees. We generally require prospective domestic franchisees 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. We also generally restrict the ability of domestic franchisees to be involved in other businesses, which focuses our franchisees attention on operating their stores. As a result, the vast majority of our domestic franchisees have historically come from within the Domino s Pizza system. We believe these standards are largely unique to the franchise industry and result in qualified and focused franchisees operating their stores.

***Franchise agreements***

We enter into franchise agreements with domestic franchisees under which the franchisee is granted the right to operate a store in a particular location for a term of ten years, with options to renew for an additional term of ten years. We currently 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 franchise store. During the term of the franchise agreement, the franchisee is required to pay a 5.5% royalty fee on sales, subject, in limited instances, to lower rates based on area development agreements, sales initiatives and new store incentives. 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 make required payments when due or failure to adhere to specified Company policies and standards.

***Franchise store development***

We assist domestic franchisees with selecting store sites and conforming the space to the physical specifications required for a Domino s Pizza store. Each domestic franchisee selects the location and design for each store, subject to our approval, based on accessibility and visibility of the site and demographic factors, including population density and anticipated traffic levels. We also sell fixtures and equipment to many of our franchise stores.

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**International franchise program**

*Franchisees*

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 or have access to local market knowledge required to establish and develop Domino s Pizza stores. The local market knowledge focuses on the ability to identify and access targeted real estate sites along with expertise in local customs, culture, consumer behavior and laws. 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 or sub-franchise stores and the right to operate supply chain centers in a particular geographic area for a term of 10 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. In addition, the master franchisee is required to pay a continuing royalty fee as a percentage of retail sales, which varies among international markets, and averaged approximately 3.0% in 2012.

**Franchise training and support**

Training store managers and employees is a critical component of our success. We require all domestic franchisees to complete initial and ongoing training programs provided by us. In addition, under the standard domestic franchise agreement, domestic franchisees are required to implement training programs for their store employees. We assist our domestic and international franchisees by making training materials available to them for their use in training store managers and employees, including computer-based training materials, comprehensive operations manuals and franchise development classes. We also maintain communications with our franchisees online through various newsletters, electronic communications and through face-to-face meetings.

**Franchise operations**

We enforce stringent standards over franchise operations to protect the Domino s Pizza® brand. All franchisees are required to operate their stores in compliance with written policies, standards and specifications, which include matters such as menu items, ingredients, materials, supplies, services, furnishings, decor and signs. Each franchisee has discretion to determine the prices to be charged to customers. We also provide ongoing support to our franchisees, including training, marketing assistance and consultation to franchisees who experience financial or operational difficulties. We have established several advisory boards, through which franchisees contribute to developing system-wide initiatives.

**Marketing operations**

In our recent history, depending on the fiscal year, our domestic stores have contributed 4% or 5% of their retail sales to fund national marketing and advertising campaigns, with additional required contributions to local market-level programs. During 2009, all domestic franchisees amended their master franchise agreements to require a contribution of 5.5% (subject, in limited instances, to lower rates based on certain incentives and waivers) of their retail sales to fund national marketing and advertising campaigns and to eliminate the required market-level contributions. This 5.5% contribution rate, which began in 2010, continued in 2011 and 2012. In January 2013, with the support of the domestic franchise system, domestic franchisees amended their standard franchise agreements to require a contribution of 6% (subject, in limited instances, to lower rates based on certain incentives and waivers) of their retail sales for national advertising. We currently anticipate that this 6% contribution rate, which took effect in 2013, will remain in place for the foreseeable future. In those markets where we have co-operative advertising programs, our domestic stores are still able to contribute to market-level media campaigns at their discretion. These national and market-level funds are administered by Domino s National Advertising Fund Inc., or DNAF, our not-for-profit advertising subsidiary. The funds remitted to DNAF are used primarily to purchase media for advertising, but also support market research, field communications, public relations, commercial production, talent payments and other activities supporting the Domino s Pizza® brand. DNAF also provides cost-effective print resources to our domestic stores for use in local marketing that reinforce our national branding strategy. In addition to the national and market-level advertising contributions, domestic stores spend additional amounts on local store marketing, including targeted database mailings, saturation print mailings and community involvement through school and civic organizations. Additionally, we may from time-to-time partner with other organizations in an effort to promote the Domino s Pizza® brand.

By communicating a common brand message at the national, local market and store levels, we create and reinforce a powerful, consistent marketing message to consumers. This is evidenced by our successful marketing campaign with the slogan Oh Yes We Did. Since introducing our improved pizza recipe and this new marketing campaign in the fourth quarter of 2009, we have received significant attention in the news media, social networking internet sites and other media outlets, and have experienced positive same store sales growth in our domestic stores. Additionally in May 2011, *Pizza Today*, the leading publication of the pizza industry, named Domino s its Chain of the Year for the second straight year making the Company a three-time overall winner of the honor, and the first pizza delivery company to receive the honor in back-to-back years. Over the past five years, we estimate that domestic stores have invested approximately $1.4 billion on national, local and co-operative advertising in the United States.

Internationally, marketing efforts are the responsibility of the franchisee in each local market. We assist international franchisees with their marketing efforts through marketing workshops and knowledge sharing of best practices and successful concepts.

**Third-party suppliers**

We have maintained active relationships of 20 years or more with more than half of our major third-party suppliers. Our third-party suppliers are required to meet strict quality standards to ensure food safety. We review and evaluate our third-party suppliers quality assurance programs through, among other actions, on-site visits, third party audits and product evaluations to ensure compliance with our standards. We believe that the length and quality of our relationships with third-party suppliers provides us with priority service and quality products at competitive prices.

We believe that two factors have been critical to maintaining long-lasting relationships and keeping our purchasing costs low. First, we are one of the largest domestic volume purchasers of pizza-related products such as flour, cheese, sauce and pizza boxes, which allows us to maximize leverage with our third-party suppliers when items are put out for bid on a scheduled basis. Second, we use a combination of single-source and multi-source procurement strategies. Each supply category is evaluated along a number of criteria including value of purchasing leverage, consistency of quality and reliability of supply to determine the appropriate number of third-party suppliers.

We currently purchase our pizza cheese from a single supplier. Under the arrangement with this supplier, which was entered into in October 2012, the supplier agreed to provide an uninterrupted supply of cheese and the Company agreed to a five-year pricing period during which it agreed to purchase all of its primary pizza cheese for the Company s domestic stores from this supplier or, alternatively, pay to the supplier an amount reflecting any benefit previously received by the Company under the new pricing terms. The pricing schedule is directly correlated to the Chicago Mercantile Exchange (CME) block cheddar price. The majority of our meat toppings come from a single supplier under a contract that began in November 2010 and expires in October 2013. We have the right to terminate these arrangements for quality failures and for uncured breaches.

We believe that alternative third-party suppliers for all of these ingredients are available, and all of our pizza boxes, sauces and other ingredients are sourced from various third-party suppliers. While we may incur additional costs if we are required to replace any of our third-party suppliers, we do not believe that such additional costs would have a material adverse effect on our business. We also entered into a multi-year agreement with Coca-Cola effective January 1, 2003 for the contiguous United States. The contract provides for Coca-Cola to be our exclusive beverage supplier and expires at such time as a minimum number of cases of Coca-Cola® products are purchased by us. We continually evaluate each supply category to determine the optimal sourcing strategy.

We have not experienced any significant shortages of supplies or any delays in receiving our food or beverage inventories, restaurant supplies or products. Prices charged to us by our third-party suppliers are subject to fluctuation and we have historically been able to pass increased costs and savings on to our stores. We periodically enter into supplier contracts, and infrequently utilize financial instruments, 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.

**Competition**

The U.S. and international pizza delivery and carry-out segments are highly competitive. Domestically, 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 against Pizza Hut® and country-specific national and local companies. We generally compete on the basis of product quality, location, image, service and price. We also compete on a broader scale with quick service and other international, national, regional and local restaurants. In addition, the overall food service industry and the QSR sector in particular are intensely competitive with respect to product quality, price, service, convenience and concept. The industry is often affected by changes in consumer tastes, economic conditions, demographic trends and consumers disposable income. We compete within the food service industry and the QSR sector not only for customers, but also for personnel, suitable real estate sites and qualified franchisees.

**Government regulation**

We are subject to various federal, state and local laws affecting the operation of our business, as are our franchisees, including various health, sanitation, fire and safety standards. 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 our food service personnel are paid at rates related to the applicable minimum wage, and past increases in the minimum wage have increased our 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 operating subsidiary, Domino s Pizza LLC and experience. Substantive state laws that regulate the franchisor-franchisee relationship presently exist in a substantial number of states, and bills have been introduced in Congress from time to time that would provide for federal regulation of the franchisor-franchisee relationship. The state laws often limit, among other things, the duration and scope of non-competition provisions, the ability of a franchisor to terminate or refuse to renew a franchise and the ability of a franchisor to designate sources of supply. We believe that 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 often are 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 that 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 increasing attention to privacy and data protection issues with the potential to affect directly our business, including 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 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.

**Environmental matters**

We are not aware of any federal, state or local environmental laws or regulations that will 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 2012, there were no material capital expenditures for environmental control facilities, and no such material expenditures are anticipated in 2013.

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**Employees**

As of December 30, 2012, we had approximately 10,000 employees, who we refer to as team members, in our Company-owned stores, supply chain centers, World Resource Center (our corporate headquarters) and regional offices. None of our team members 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 Pizza system, including our employees, franchisees and the employees of franchisees, was over 205,000 as of December 30, 2012.

**Safety**

Our commitment to safety is embodied in our hiring, training and review process. Before an applicant is considered for hire as a delivery driver in the United States, motor vehicle records are reviewed to ensure a minimum safe driving record of one or two years. In addition, we require regular checks of driving records and proof of insurance for delivery drivers throughout their employment with us. Each domestic Domino s driver, including drivers employed by franchisees, are required to complete our safe delivery training program. We have also implemented several safe driving incentive programs.

Our safety and security department oversees security matters for our domestic Company-owned stores. Regional security and safety directors oversee security measures at domestic Company-owned store locations and assist local authorities in investigations of incidents involving our stores or personnel.

**Community activities**

We believe in supporting the communities we serve, and we base our corporate giving on three simple elements: delivering charitable support to our own team members, to our customers, and to national programs.

***National philanthropic partner***

We have a tradition of creating multi-year partnerships with a national charity to raise funds and public awareness for the organization. Our current 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 *Thanks and Giving*, the Domino s Pizza system has contributed more than $16.0 million to St. Jude during our nine years of partnership, including approximately $3.5 million in 2012. In addition to raising funds, the Domino s Pizza system has supported St. Jude through in-kind donations, including hosting hospital-wide pizza parties for patients and their families. The Domino s Pizza 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 web site.

***The Domino s Pizza Partners Foundation***

Founded in 1986, the mission of the Partners Foundation is Team Members Helping Team Members. Completely funded by team member and franchise contributions, the foundation is a separate, not-for-profit organization that has disbursed nearly $13.0 million since its inception, to meet the needs of team members facing crisis situations, such as fire, accidents, illness or other personal tragedies.

***Domino s Pizza contributions***

During 2012, the Domino s Pizza system in the U.S. directly contributed as well as helped raise approximately $4.1 million to external charitable organizations in monetary and in-kind giving.

***Franchisee involvement***

In addition to the work that we do in the community on a corporate level, we are proud to have the support of more than 2,400 franchisees around the world who choose to get involved with local charities to make a difference in their communities. Franchisees participate in numerous local programs with schools, hospitals and other charitable organizations, delivering pizzas and offering monetary support.

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**Research and development**

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

**Insurance**

We maintain insurance coverage for general liability, owned and non-owned automobile liability, workers compensation, employment practices liability, directors and officers liability, fiduciary, property (including leaseholds and equipment, as well as business interruption), commercial crime, global risks, data asset and network security risks, product contamination and other coverages in such form and with such limits as we believe are customary for a business of our size and type.

We have 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. We are generally responsible for up to $1.0 million per occurrence under these retention programs for workers compensation and general liability. We are also generally responsible for between $500,000 and $3.0 million per occurrence under these retention programs for owned and non-owned automobile liabilities. Pursuant to the terms of our standard franchise agreement, franchisees are also required to maintain minimum levels of insurance coverage at their expense and to have us named as an additional insurer on their liability policies.

**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 41through 43.

**Customers**

The Company s business is not dependent upon a single customer or small group of customers, including franchisees. No customer accounted for more than 10% of total consolidated revenues in 2010, 2011 or 2012. Our largest franchisee operates 911 stores in five international markets, and accounted for approximately 8.9% of our total store count. Additionally, royalty revenues from this franchisee accounted for approximately 1.2% of our consolidated revenues in 2012. Further, as our international franchise business does not have cost of sales and has a minimal amount of general and administrative expenses allocated to its markets, a disproportionate amount of these royalty revenues result in earnings to us.

**Seasonal operations**

The Company s business is not typically seasonal.

**Backlog orders**

The Company has no backlog orders as of December 30, 2012.

**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 28 through 29, Item 7. and 7A., pages 30 through 46 and Item 8., pages 47 through 76, respectively, of this Form 10-K.

**Available information**

The Company makes available, free of charge, through its internet website www.dominosbiz.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) or 15(d) 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, DC 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. The reference to these website addresses does not constitute incorporation by reference of the information contained on the websites and should not be considered part of this document.

**Item 1A. Risk Factors.**

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

We compete in the United States against three national chains, as well as many regional and local businesses. 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. 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 our 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, suitable real estate sites and qualified franchisees. Our domestic supply chain segment is also subject to competition from outside suppliers. While over 99% of domestic franchisees purchased food, equipment and supplies from us in 2012, 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 store locations;
- negotiation of acceptable lease or financing terms;
- securing required domestic or foreign governmental permits 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.

We are currently planning to expand our international operations in many of the markets where we currently operate and in selected 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.

***The food service market is affected by consumer preferences and perceptions. Changes in these preferences and perceptions may lessen 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 more healthy, 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.

***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 nation s 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. The cheese block price per pound averaged $1.69 in 2012, and the estimated increase in Company-owned store food costs from a hypothetical $0.25 adverse change in the average cheese block price per pound would have been approximately $2.0 million in 2012. 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. Food, including cheese costs and labor represent approximately 50% to 60% of a typical Company-owned store s sales.

***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 written contracts or formal long-term 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 fresh food products that meet our specifications. Shortages or interruptions in the supply of fresh food products caused by unanticipated demand, 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, which would adversely affect our operating results.

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

We operate 16 regional dough manufacturing and supply chain centers, one thin crust manufacturing center and one vegetable processing center in the contiguous United States and a total of six dough manufacturing and supply chain centers in Alaska, Hawaii and Canada. Our domestic dough manufacturing and supply chain centers service all of our Company-owned stores and over 99% of our 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 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 MegaBrand 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 2012, each store in the contiguous United States generally was required to contribute 5.5% 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. In January 2013, with the support of the domestic franchise system, domestic franchisees amended their standard franchise agreements to require a contribution of 6% (subject, in limited instances, to lower rates based on certain incentives and waivers) of their retail sales for national advertising. We currently anticipate that this 6% contribution rate, which took effect in 2013, 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 have also recently arisen 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 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 personnel or our inability to attract and retain new qualified personnel 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. Other than with our President and Chief Executive Officer, J. Patrick Doyle, we do not have long-term employment agreements with any of our executive officers. 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 also will 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.

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***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 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
- other external factors.

***Adverse economic conditions and the global debt crisis 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 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.

The ongoing deterioration of the sovereign debt of several European countries, together with the risk of contagion to other more stable countries, has exacerbated the global economic crisis. Despite taking various measures, including the creation of the European Financial Stability Fund by the European Commission and the allocation of funds to affected countries, concerns persist regarding the debt burden of these countries and their ability to meet future financial obligations. The European debt crisis has also raised concerns over the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances among countries that use the euro as their currency. These concerns could lead to the re-introduction of individual currencies in one or more of these countries, or, in more extreme circumstances, the possible dissolution of the euro currency entirely. Should the euro dissolve entirely, the legal and contractual consequences for holders of euro denominated obligations would be determined by laws in effect at such time. In addition, the capital market disruption that would likely accompany any such redenomination event could have a material adverse impact on our liquidity and financial condition. Furthermore, any redenomination event would likely be accompanied by significant economic dislocation, particularly within the eurozone countries, which in turn could have an adverse impact on demand for our products, and accordingly, on our revenue and cash flows. As of December 30, 2012, we had 1,676 stores in Europe, up from 975 in 2008.

As part of the reforms to resolve the European debt crisis, some European countries have adopted or may adopt austerity measures in terms of fiscal policy, which could negatively impact employment, consumer confidence and household disposable income, resulting in reduced consumer expenditures for our products. Such austerity measures could also adversely affect the ability of third party suppliers to meet our requirements in a timely fashion, or at all. There can be no assurance that any such austerity measures will be successful or that future assistance packages will be available or, even if provided, will be sufficient to stabilize the affected countries and markets in Europe or elsewhere.

Nations outside of the European Union also face significant debt burdens, which have the potential to negatively impact the global economy. On August 5, 2011, Standard & Poor s lowered its long term sovereign credit rating on the United States of America from AAA to AA+. This downgrade, along with market concerns about possible further downgrades and about the government s credit in general, could have a material adverse impact on financial markets and economic conditions in the United States and throughout the world.

***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 11.2% of our total revenues in 2010, 12.2% of our total revenues in 2011 and 13.0% of our revenues in 2012 were derived from our international segment, a majority of which were denominated in foreign currencies. 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 each of our top ten international markets, based on store count, would have resulted in a negative impact on revenues of approximately $8.7 million in 2012.

***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 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.

***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 generated by our franchise stores. Franchisees are independent operators, and their employees are not our employees. We provide limited training and support to franchisees, but the quality of franchise store operations may be diminished by any number of factors beyond our control. Consequently, franchisees may not successfully operate stores in a manner consistent with our standards and requirements, or may not hire and train qualified managers and other store personnel. If they do not, our image and reputation may suffer, and as a result our revenues and stock price could decline. While we try to ensure that our franchisees maintain the quality of our brand and branded products, our franchisees may take actions that adversely affect the value of our intellectual property or reputation. As of December 30, 2012, we had 1,026 domestic franchisees operating 4,540 domestic stores. Nine of these franchisees each operate over 50 domestic stores, including our largest domestic franchisee who operates 135 stores, and the average franchisee owns and operates four stores. In addition, 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 911 stores in five markets, which accounts for approximately 17% 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.

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***Interruption, failure or compromise of our information technology, communications systems and electronic data could hurt our ability to effectively serve our customers and protect customer data, which could damage our reputation and adversely affect our business and operating results.***

An increasingly significant portion of our retail sales depends on the continuing operation of our information technology and communications systems, including but not limited to, Domino s PULSE , our online ordering platform and our credit card processing systems. Our information technology, communication systems and electronic data may be vulnerable to damage or interruption from earthquakes, terrorist attacks, floods, fires, power loss, telecommunications failures, computer viruses, loss of data, unauthorized data breaches or other attempts to harm our systems. Additionally, we operate data centers that are also subject to break-ins, sabotage and intentional acts of vandalism that could cause disruptions in our ability to serve our customers and protect customer data. Some of our systems are not fully redundant, and our disaster recovery planning cannot account for all eventualities. The occurrence of a natural disaster, intentional sabotage or other unanticipated problems could result in lengthy interruptions in our service. Any errors or vulnerabilities in our systems, or damage to or failure of our systems, could result in interruptions in our services and non-compliance with certain regulations, which could reduce our revenues and profits, and damage our business and brand.

***We rely on proprietary and commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential customer information, such as payment card and personal information and any unauthorized data breaches could damage our reputation and adversely affect our business***.

Unauthorized intrusion into the portions of our computer systems or those of our franchisees that process and store information related to customer transactions may result in the theft of customer data. Furthermore, the systems currently used for transmission and approval of payment card transactions, and the technology utilized in payment cards themselves, all of which can put payment card data at risk, are determined and mandated by payment card industry standards, not by us. In addition to improper activities by third parties, bugs in newly-deployed or early stage advances in hardware and software capabilities, encryption technology, and other events or developments may facilitate or result in a compromise or breach of our computer systems. Any such compromises or breaches could cause interruptions in operations and damage to the reputation of the Domino s Pizza® brand, subject us to costs and liabilities and hurt sales, revenues and profits.

***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 (PCI DSS) and similar requirements;
- compliance with the Patient Protection and Affordable Care Act, and subsequent amendments; and
- compliance with the Dodd-Frank Wall Street Reform and Consumer Protection Act and any rules promulgated thereunder.

The Patient Protection and Affordable Care Act requires employers such as us to provide health insurance for all qualifying employees or pay penalties for not providing coverage. We are evaluating the impact the new law will have on us, and although we cannot predict with certainty the financial and operational impacts the new law will have, we expect that the requirement that we provide expanded health care coverage to employees above what we currently provide could have an adverse effect on our results of operations and financial position, as well as some of our larger franchisees. We anticipate the increases in costs will begin in 2014 and escalate in subsequent years. Such increases may be large enough to materially impact labor costs for us and our franchisees.

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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 also 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.

***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:

- 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;
- 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.

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***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 30, 2012, our consolidated long-term indebtedness was approximately $1.56 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.

***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 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 a specified financial ratio 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 this financial ratio 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 insurers have the right to assume control of substantially all of the securitized assets.

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During the seven-year term following issuance, the senior notes will accrue interest at a fixed rate of 5.216% per year. Additionally, the senior notes have scheduled principal payments of $23.6 million in each of 2013 and 2014, $29.5 million in 2015, $37.4 million in 2016, $39.4 million in each of 2017 and 2018, and $9.8 million in 2019. If we meet certain conditions, including a maximum leverage ratio of 4.5x total debt to EBITDA, we may elect to not make the scheduled principal payments. If the leverage ratio subsequently exceeds 4.5x, we must make up the payments we had elected not to make.

If we are unable to refinance or repay amounts under the securitized debt prior to the expiration of the seven-year 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 the seven-year term), the funds available to us would be reduced or eliminated, which would in turn reduce our ability to operate or grow our business.

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

None.

**Item 2. Properties.**

We lease approximately 223,000 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. The lease, as amended, expires in December 2022 and has two five-year renewal options.

We own two domestic Company-owned store buildings and five supply chain center buildings. We also own four 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. Included in the matters described above, we are party to three employment practice cases and five casualty cases. We have established legal and insurance accruals for losses relating to these cases which we believe are reasonable based upon our assessment of the current facts and circumstances. However, it is reasonably possible that our ultimate losses could exceed the amounts recorded by $5.0 million. The remaining cases described 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.

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

**Item 4. Mine Safety Disclosures.**

Not applicable.

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**Part II**

**Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

As of February 21, 2013, Domino s Pizza, Inc. had 170,000,000 authorized shares of common stock, par value $0.01 per share, of which 56,442,532 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.

| | High | Low | Dividends Declared Per Share |
|---|---|---|---|
| **2011:** | | | |
| First quarter (January 3, 2011 March 27, 2011) | $ 18.19 | $ 16.17 | $ |
| Second quarter (March 28, 2011 June 19, 2011) | 24.92 | 17.87 | |
| Third quarter (June 20, 2011 September 11, 2011) | 28.05 | 23.17 | |
| Fourth quarter (September 12, 2011 January 1, 2012) | 34.91 | 26.00 | |
| **2012:** | | | |
| First quarter (January 2, 2012 March 25, 2012) | $ 38.22 | $ 28.92 | $ 3.00 |
| Second quarter (March 26, 2012 June 17, 2012) | 37.81 | 28.75 | |
| Third quarter (June 18, 2012 September 9, 2012) | 36.19 | 28.75 | |
| Fourth quarter (September 10, 2012 December 30, 2012) | 43.46 | 33.93 | |

Our Board of Directors declared a quarterly dividend of $0.20 per common share on February 27, 2013 payable on March 29, 2013 to shareholders of record at the close of business on March 15, 2013.

We anticipate continuing the payment of quarterly cash dividends. The actual amount of such dividends 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 21, 2013, there were 729 registered holders of record of Domino s Pizza, Inc. s common stock.

We currently have a Board of Directors-approved open market share repurchase program for up to $200.0 million of our common stock, of which approximately $152.4 million remained available at December 30, 2012 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 30, 2012:

| Period | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program |
|---|---|---|---|---|
| Period #1 (September 10, 2012 to October 7, 2012) | 108,473 | $ 35.03 | 106,573 | $ 194,169,316 |
| | 1,645 | 40.44 | | 194,169,316 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Period #2 (October 8, 2012 to November 4, 2012) | | | | | | |
| Period #3 (November 5, 2012 to December 2, 2012) | 643,853 | | 40.05 | 641,595 | | 168,477,564 |
| Period #4 (December 3, 2012 to December 30, 2012) | 388,480 | | 41.44 | 388,480 | | 152,378,451 |
| Total | 1,142,451 | $ | 40.05 | 1,136,648 | $ | 152,378,451 |

(1) Includes 5,803 shares 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 $40.25. All of the remaining shares presented were purchased pursuant to the publicly announced program.

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The comparative stock performance line graph below compares the cumulative shareholder return on the common stock of Domino s Pizza, Inc. for the five-year period between December 31, 2007 through December 31, 2012, 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 & Poors 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, 2007.

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**Item 6. Selected Financial Data.**

The selected financial data set forth below 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 below, with the exception of store counts and same store sales growth, have 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.

| | Fiscal year ended (5) | | | | |
|---|---|---|---|---|---|
| (dollars in millions, except per share data) | December 28, 2008 | January 3, 2010 | January 2, 2011 | January 1, 2012 | December 30, 2012 (4) |
| **Income statement data:** | | | | | |
| Revenues: | | | | | |
| Domestic Company-owned stores | $ 357.7 | $ 335.8 | $ 345.6 | $ 336.3 | $ 323.7 |
| Domestic franchise | 153.9 | 157.8 | 173.3 | 187.0 | 195.0 |
| Domestic stores | 511.6 | 493.6 | 519.0 | 523.4 | 518.7 |
| Domestic supply chain | 771.1 | 763.7 | 875.5 | 927.9 | 942.2 |
| International | 142.4 | 146.8 | 176.4 | 200.9 | 217.6 |
| Total revenues | 1,425.1 | 1,404.1 | 1,570.9 | 1,652.2 | 1,678.4 |
| Cost of sales | 1,061.9 | 1,017.1 | 1,132.3 | 1,181.7 | 1,177.1 |
| Operating margin | 363.3 | 387.0 | 438.6 | 470.5 | 501.3 |
| General and administrative expense | 168.2 | 197.5 | 210.9 | 211.4 | 219.0 |
| Income from operations | 195.0 | 189.5 | 227.7 | 259.1 | 282.3 |
| Interest income | 2.7 | 0.7 | 0.2 | 0.3 | 0.3 |
| Interest expense | (114.9) | (110.9) | (96.8) | (91.6) | (101.4) |
| Other (1) | | 56.3 | 7.8 | | |
| Income before provision for income taxes | 82.9 | 135.5 | 138.9 | 167.8 | 181.2 |
| Provision for income taxes | 28.9 | 55.8 | 51.0 | 62.4 | 68.8 |
| Net income | $ 54.0 | $ 79.7 | $ 87.9 | $ 105.4 | $ 112.4 |
| Earnings per share: | | | | | |
| Common stock basic | $ 0.93 | $ 1.39 | $ 1.50 | $ 1.79 | $ 1.99 |
| Common stock diluted | 0.93 | 1.38 | 1.45 | 1.71 | 1.91 |
| Dividends declared per share | $ | $ | $ | $ | $ 3.00 |
| **Balance sheet data (at end of period):** | | | | | |
| Cash and cash equivalents | $ 45.4 | $ 42.4 | $ 47.9 | $ 50.3 | $ 54.8 |
| Restricted cash and cash equivalents | 78.9 | 91.1 | 85.5 | 92.6 | 60.0 |
| Working capital (2) | 25.8 | (31.9) | 33.4 | 37.1 | 16.8 |
| Total assets | 463.8 | 453.8 | 460.8 | 480.5 | 478.2 |
| Total long-term debt | 1,704.4 | 1,522.5 | 1,451.3 | 1,450.4 | 1,536.4 |
| Total debt | 1,704.8 | 1,572.8 | 1,452.2 | 1,451.3 | 1,560.8 |
| Total stockholders deficit | (1,424.6) | (1,321.0) | (1,210.7) | (1,209.7) | (1,335.5) |

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| (dollars in millions) | December 28, 2008 | January 3, 2010 | Fiscal year ended (5) January 2, 2011 | January 1, 2012 | December 30, 2012 (4) |
|---|---|---|---|---|---|
| **Other financial data:** | | | | | |
| Depreciation and amortization | $ 28.4 | $ 24.1 | $ 24.1 | $ 24.0 | $ 23.2 |
| Capital expenditures | 19.4 | 22.9 | 25.4 | 24.3 | 29.3 |
| **Same store sales growth (3):** | | | | | |
| Domestic Company-owned stores | (2.2)% | (0.9)% | 9.7% | 4.1% | 1.3% |
| Domestic franchise stores | (5.2)% | 0.6% | 10.0% | 3.4% | 3.2% |
| Domestic stores | (4.9)% | 0.5% | 9.9% | 3.5% | 3.1% |
| International stores | 6.2% | 4.3% | 6.9% | 6.8% | 5.2% |
| **Store counts (at end of period):** | | | | | |
| Domestic Company-owned stores | 489 | 466 | 454 | 394 | 388 |
| Domestic franchise stores | 4,558 | 4,461 | 4,475 | 4,513 | 4,540 |
| Domestic stores | 5,047 | 4,927 | 4,929 | 4,907 | 4,928 |
| International stores | 3,726 | 4,072 | 4,422 | 4,835 | 5,327 |
| Total stores | 8,773 | 8,999 | 9,351 | 9,742 | 10,255 |

(1) The fiscal 2009 and fiscal 2010 Other amounts represent the net gains recognized on the repurchase and retirement of principal on the 2007 fixed rate notes.

(2) The working capital amounts exclude restricted cash amounts of $78.9 million in 2008, $91.1 million in 2009, $85.5 million in 2010, $92.6 million in 2011 and $60.0 million in 2012.

(3) Same store sales growth is calculated including only sales from stores that also had sales in the comparable period of the prior year, but excluding sales from certain seasonal locations such as stadiums and concert arenas. 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 53rd week in fiscal 2009 had no impact on reported same store sales growth percentages.

(4) In connection with our recapitalization in 2012, Domino s Pizza, Inc. borrowed $1.575 billion of fixed rate notes and used a portion of the proceeds from the borrowings to repay in full the outstanding principal under the 2007 fixed rate notes, pay accrued interest on the 2007 fixed rate notes, pay transaction-related fees and expenses and fund a reserve account for the payment of interest on the 2012 fixed rate notes. In fiscal 2012, the Company recorded $32.5 million of deferred financing costs as an asset in the consolidated balance sheet. This amount, in addition to the $7.4 million recorded on the consolidated balance sheet in fiscal 2011 is expected to be amortized into interest expense over the seven-year expected term of the debt. In connection with the repayment of the 2007 fixed rate notes, we wrote off $8.1 million, net, of unamortized deferred financing fees and interest rate swap. Additionally, we incurred $2.1 million of interest expense on the 2007 borrowings subsequent to the closing of the 2012 Recapitalization but prior to the repayment of the 2007 fixed rate notes, resulting in the payment of interest on both the 2007 and 2012 facilities for a short period of time. Further, the Company incurred $0.3 million of other net 2012 Recapitalization-related general and administrative expenses, including stock compensation expenses, payroll taxes related to the payments made to certain stock option holders and legal and professional fees incurred in connection with the 2012 Recapitalization. In connection with the 2012 Recapitalization, the Company also paid a special cash dividend on our outstanding common stock totaling $171.1 million, made a corresponding anti-dilution equivalent payment of $13.5 million on certain stock options and accrued an estimated $2.4 million for payments to be made to certain performance-based restricted stock grants upon vesting. Total cash paid for common stock dividends and related anti-dilution payments totaled $185.5 million in fiscal 2012 and as of December 30, 2012 the total estimated liability recorded for future cash payments on certain performance-based restricted stock was approximately $1.5 million. Of the total amount of $187.0 million recorded for common stock dividends and related anti-dilution payments, $10.2 million was recorded as a reduction of additional paid-in capital and $176.8 million was recorded as an increase in retained deficit.

(5) The 2009 fiscal year includes 53 weeks, while the 2008, 2010, 2011 and 2012 fiscal years each include 52 weeks.

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**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 53rd) week in the fourth quarter. Fiscal 2010, fiscal 2011 and fiscal 2012 each consisted of 52 weeks.*

**Description of the Business**

We are the number one pizza delivery company in the United States with a 22.5% share of the pizza delivery market based on reported consumer spending. We also have a leading international presence and rank as the second largest pizza company in the world, based on number of units. We operate through a network of 388 Company-owned stores, all of which are in the United States, and 9,867 franchise stores located in all 50 states and in more than 70 international markets. In addition, we operate 19 regional manufacturing and supply chain centers in the contiguous United States as well as six dough manufacturing and supply chain centers outside the contiguous United States.

Our financial results are driven largely by retail sales at our franchise and Company-owned stores. Changes in retail sales are driven by changes in same store sales and store counts. We monitor both of these metrics very closely, as they directly impact our revenues and profits, and strive to consistently increase both same store sales and our store counts. Retail sales drive royalty payments from franchisees as well as Company-owned store and supply chain revenues. Retail sales are primarily impacted by the strength of the Domino s Pizza® brand, the results of our marketing promotions, our ability to execute our store operating model, the overall global economic environment and the success of our business strategies.

We devote significant attention to our brand-building efforts, which is evident in our system s estimated $1.4 billion of domestic advertising spending over the past five years and our frequent designation as a MegaBrand by *Advertising Age*. We plan on continuing to build our brand and retail sales by satisfying customers worldwide with our pizza delivery and carry-out offerings and by continuing to invest significant amounts in the advertising and marketing of the Domino s Pizza® brand.

We also pay particular attention to the store economics, or the investment performance of a store to its owner, of both our franchise and Company-owned stores. We believe that our system s favorable store economics benefit from the relatively small initial and ongoing investments required to own and operate a Domino s Pizza store. We believe these favorable investment requirements, coupled with a strong brand message supported by significant advertising spending, as well as high-quality and focused menu offerings, drive strong store economics, which, in turn, drive demand for new stores.

**Business Performance**

During 2012, the Company continued to produce steady, consistent results with strong earnings per share growth and cash flows. The Company produced positive order count growth, sales growth and store growth domestically, while also producing sales growth and record store growth internationally. In 2012, we celebrated the opening of our 10,000th store, which is a significant milestone for our global brand. The results in 2012 demonstrated that we continue to deliver the products, service and value that are resonating with our global consumers. We have continued to improve store level profitability for our domestic franchise and Company-owned stores in 2012. Further, over the past several years, our focus domestically has been improving our Company through several initiatives, including investments to improve upon our menu, marketing, technology, operations and franchise base. Our menu improvements in 2012 included launching our Parmesan Bread Bites and our new Handmade Pan Pizza. Technology remains a focus for us as digital orders continue to grow. In 2011, we launched a new mobile application for the iPhone and iPod touch, and in 2012, we launched a new mobile application for the Android smartphone and for Amazon s Kindle Fire. We believe our new product platforms combined with an innovative, transparent and effective advertising campaign, continued focus on operational excellence and new technology, generated strong sales and earnings growth for the Company in 2010, 2011 and 2012.

Our international division continued to post strong same store sales growth (5.2% in 2012) and had a record 492 net store openings, including 113 net stores in India, 64 net stores in Turkey and 50 net stores in the United Kingdom. Continued strong same store sales growth combined with continued store count growth, demonstrate the consistency and reliability of this growing business segment.

These strong results from both our domestic and international stores produced earnings per share growth and increased cash flows in 2012. We believe that our franchise business model provides a solid structure on which to build consistent retail sales and store growth that results in strong cash flows that we can deploy to drive shareholder value.

Worldwide store counts have increased from 8,999 at the beginning of 2010 to 10,255 at the end of 2012. This growth in store counts can be attributed to the global growth of our brand and our pizza delivery and carry-out concepts as well as the economics inherent in our system, which attract new franchisees and encourage existing franchisees to grow their businesses. Domestic same store sales increased 9.9% in 2010, 3.5% in 2011 and 3.1% in 2012. The significant increase in domestic same store sales in 2010 was attributable to our innovative and effective advertising campaign for our improved pizza recipe, continued focus on operational excellence and efforts to strengthen our franchisee base over the course of several years. The increase in domestic same store sales during both 2011 and 2012 demonstrates that our products and promotions continue to resonate with consumers. The Company experienced traffic increases in our domestic stores in 2010, 2011 and 2012. International same store sales increased 6.9% in 2010, 6.8% in 2011 and 5.2% in 2012. Internationally, same stores sales growth continues to result from the growing acceptance of pizza and delivered pizza around the globe and the successful execution of the Domino s Pizza concept.

In 2012, global retail sales, which are total retail sales at Company-owned and franchise stores worldwide, increased 6.5% as compared to 2011. Retail sales for franchise stores are reported to the Company by its franchisees and are not included in Company revenues. This increase was driven primarily by both domestic and international same store sales growth as well as an increase in our worldwide store counts during the trailing four quarters, offset in part by the negative impact of foreign currency exchange rates. Domestic same store sales growth reflected the sustained positive sales trends and the continued success of our new products and promotions. International same store sales growth reflected continued strong performance in the markets where we compete. In 2011, global retail sales increased 11.0% as compared to 2010, driven primarily by both domestic and international same store sales growth, growth in worldwide store counts, and the positive impact of foreign currency exchange rates on our international sales.

Our revenues increased $26.2 million or 1.6% in 2012 and increased $81.3 million or 5.2% in 2011. The increase in revenues in 2012 was driven primarily by higher international revenues attributable to same store sales and store count growth, higher supply chain revenues due primarily to a change in the mix of products sold, offset in part by slightly lower volumes and higher domestic franchise revenues due to an increase in same store sales. These increases were offset, in part by lower Company-owned store revenues, resulting from the sale of 58 Company-owned stores to multiple franchisees during fiscal 2011 and six Company-owned stores in the first quarter of 2012, as well as the negative impact on international revenues of changes in foreign currency exchange rates. The increase in revenues in 2011 was driven by higher domestic supply chain revenues resulting from higher cheese and other commodity prices and higher international revenues attributable to same store sales, store count growth and the positive impact of foreign currency exchange rates. Additionally, domestic franchise revenues were higher due to an increase in domestic same store sales and fees paid by franchisees related to the in-sourcing of certain services, such as online ordering and a call center. We also incurred an increase in general and administrative expenses for these services paid by franchisees. These increases were offset in part by lower Company-owned store revenues resulting from the sale of 58 Company-owned stores to multiple franchisees during 2011.

Income from operations increased $23.2 million or 8.9% in 2012 and increased $31.4 million or 13.8% in 2011. The increase in 2012 was driven primarily by higher royalty revenues from both domestic and international franchise stores, higher domestic Company-owned store margins and higher domestic supply chain margins as described in more detail below. These increases were offset, in part, by the negative impact of the changes in foreign currency exchange rates and higher general and administrative expenses. The increase in 2011 was driven primarily by higher royalty revenues from both domestic and international franchise stores and to a lesser extent, the positive impact of changes in foreign currency exchange rates. Additionally, income from operations in 2011 benefited from higher domestic Company-owned store margins.

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Net income increased $7.0 million or 6.7% in 2012 and increased $17.5 million or 19.8% in 2011. The increase in 2012 was due primarily to domestic and international same store sales growth, global store growth, higher domestic Company-owned store margins and higher domestic supply chain margins and was negatively impacted by changes in foreign currency exchange rates and higher general and administrative expenses. Additionally, fiscal 2012 was negatively impacted by approximately $10.5 million of net pre-tax expenses incurred in connection with the Company s recapitalization. The increase in net income in 2011 was due primarily to the aforementioned increase in income from operations and lower interest expense. The increase was offset in part by gains recorded on the extinguishment of debt in 2010.

We operate with significant levels of debt. As of December 30, 2012, consolidated debt was $1.56 billion. Historically, a large portion of our cash flows from operations has been used to make principal and interest payments on our indebtedness as well as distributions to shareholders in the form of dividends and stock repurchases. Our securitized debt requires principal and interest payments until the expected repayment date of January 2019. The scheduled principal payments are $23.6 million in each of 2013 and 2014, $29.5 million in 2015, $37.4 million in 2016, $39.4 million in each of 2017 and 2018, and $9.8 million in 2019. During fiscal 2012, the Company made principal payments of approximately $17.7 million. Overall, we believe that our ability to consistently produce significant excess cash flows allows us the flexibility not only to service our debt but also to invest in our growing business as well as return cash to our shareholders.

**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 of America. 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, allowances for uncollectible receivables, 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 franchise stores, dough manufacturing and supply chain centers and international operations. Retail sales from Company-owned stores and royalty revenues resulting from the retail sales from franchise 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 on a weekly basis based on a percentage of retail sales, as specified in the related standard franchise agreement (generally 5.5% of domestic franchise retail sales). In the event that retail sales are not reported timely by a franchisee, the Company will record royalty revenues in the period earned based on an estimate of the franchisee s sales; however, these estimates are not significant and have historically been materially consistent with the actual amounts. Revenues from Company-owned stores and royalty revenues from franchise stores fluctuate from time-to-time as a result of store count changes. For example, if a Company-owned store that generated $500,000 in revenue in fiscal 2011 is sold to a franchisee in fiscal 2012, revenues from Company-owned stores would have declined by $500,000 in fiscal 2012, while franchise royalty revenues would have increased by only $27,500 in fiscal 2012, 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.

*Allowances for uncollectible receivables.* We closely monitor our accounts and notes receivable balances and provide allowances for uncollectible amounts as a result of our reviews. These estimates are based on, among other factors, historical collection experience and a review of our receivables by aging category. Additionally, we may also provide allowances for uncollectible receivables based on specific customer collection issues that we have identified. While write-offs of bad debts have historically been within our expectations and the provisions established, management cannot guarantee that future write-offs will not exceed historical rates. Specifically, if the financial condition of our franchisees were to deteriorate resulting in an impairment of their ability to make payments, additional allowances may be required.

At December 30, 2012, our total allowance for uncollectible accounts receivables was approximately $5.9 million, compared to $5.4 million at January 1, 2012, representing approximately 5.9% of our consolidated gross accounts receivable at both those respective year-ends. A 10% change in our allowance for uncollectible accounts receivables at December 30, 2012 would result in a change in reserves of approximately $0.6 million and a change in income before provision for income taxes by the same amount. Currently, management does not believe that there is a reasonable likelihood that there will be a material change in the future estimates or assumptions that were used to calculate our allowance for uncollectible accounts receivables.

*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 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, 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 or 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. At December 30, 2012, we determined that our long-lived assets were not impaired.

A significant portion of our goodwill relates to acquisitions of domestic franchise stores and is included in our domestic stores segment, specifically, our Company-owned stores. We evaluate goodwill annually for impairment by comparing the fair value of the reporting unit, which is primarily determined using the present value of historical 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 30, 2012, the fair value of our business operations with 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. While historically our actual losses have been materially consistent with our reserves, 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 $10.1 million at January 1, 2012 and approximately $5.0 million at December 30, 2012.

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. Over the past several years, we have experienced improvements in frequency of claims; however increasing severity of claims and medical costs has partially offset these trends.

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. While historically our actual losses have been materially consistent with our reserves, 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 30, 2012 would have affected our income before provision for income taxes by approximately $3.7 million for fiscal 2012. We had accruals for insurance matters of approximately $34.4 million at January 1, 2012 and $37.2 million at December 30, 2012.

*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 are also required to estimate the expected forfeiture rate and only recognize expense for those awards expected to vest. We use historical data to determine these assumptions. 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 and reserves for uncertain tax positions. 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 and related reserves, deferred tax assets and liabilities. These include establishing a valuation allowance related to the ability to realize certain deferred tax assets, if necessary. During fiscal 2012 and in connection with the sale of its six remaining Company-owned stores in a certain market to a franchisee, the Company recorded a deferred tax asset related to the capital loss that resulted from the write-off of the tax basis goodwill associated with the market that was sold. Management believes it is more likely than not that a portion of the deferred tax asset will not be realized and provided a valuation allowance of approximately $0.9 million. The valuation allowance was recorded as an increase to the provision for income taxes and increased the Company s effective tax rate in 2012. On an ongoing basis, management will assess whether it remains more likely than not that the net deferred tax asset will be realized. The Company had no additional valuation allowances recorded for deferred tax assets as of December 30, 2012. 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 operation.

The amounts relating to taxes recorded on the balance sheet, including tax reserves, also consider the ultimate resolution of revenue agent reviews based on estimates and assumptions. We believe we have adequately 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; for example the completion of a tax audit, or the expiration of a statute of limitations, or changes in penalty and interest reserves associated with uncertain tax positions. 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.

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**Same Store Sales Growth**

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Domestic Company-owned stores | 9.7% | 4.1% | 1.3% |
| Domestic franchise stores | 10.0% | 3.4% | 3.2% |
| Domestic stores | 9.9% | 3.5% | 3.1% |
| International stores | 6.9% | 6.8% | 5.2% |

**Store Growth Activity**

| | Domestic Company-owned Stores | Domestic Franchise | Domestic Stores | International Stores | Total |
|---|---|---|---|---|---|
| **Store count at January 3, 2010** | 466 | 4,461 | 4,927 | 4,072 | 8,999 |
| Openings | | 88 | 88 | 392 | 480 |
| Closings | (1) | (85) | (86) | (42) | (128) |
| Transfers | (11) | 11 | | | |
| **Store count at January 2, 2011** | 454 | 4,475 | 4,929 | 4,422 | 9,351 |
| Openings | 1 | 66 | 67 | 473 | 540 |
| Closings | (3) | (86) | (89) | (60) | (149) |
| Transfers | (58) | 58 | | | |
| **Store count at January 1, 2012** | 394 | 4,513 | 4,907 | 4,835 | 9,742 |
| Openings | 2 | 80 | 82 | 559 | 641 |
| Closings | (2) | (59) | (61) | (67) | (128) |
| Transfers | (6) | 6 | | | |
| **Store count at December 30, 2012** | 388 | 4,540 | 4,928 | 5,327 | 10,255 |

**Income Statement Data**

| (dollars in millions) | 2010 | | 2011 | | 2012 | |
|---|---|---|---|---|---|---|
| Domestic Company-owned stores | $ 345.6 | | $ 336.3 | | $ 323.7 | |
| Domestic franchise | 173.3 | | 187.0 | | 195.0 | |
| Domestic supply chain | 875.5 | | 927.9 | | 942.2 | |
| International | 176.4 | | 200.9 | | 217.6 | |
| Total revenues | 1,570.9 | 100.0% | 1,652.2 | 100.0% | 1,678.4 | 100.0% |
| Domestic Company-owned stores | 278.3 | | 267.1 | | 247.4 | |
| Domestic supply chain | 778.5 | | 831.7 | | 843.3 | |
| International | 75.5 | | 82.9 | | 86.4 | |
| Cost of sales | 1,132.3 | 72.1% | 1,181.7 | 71.5% | 1,177.1 | 70.1% |
| Operating margin | 438.6 | 27.9% | 470.5 | 28.5% | 501.3 | 29.9% |
| General and administrative | 210.9 | 13.4% | 211.4 | 12.8% | 219.0 | 13.1% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Income from operations | 227.7 | 14.5% | 259.1 | 15.7% | 282.3 | 16.8% |
| Interest expense, net | (96.6) | (6.2)% | (91.3) | (5.5)% | (101.1) | (6.0)% |
| Other | 7.8 | 0.5% | | | | |
| Income before provision for income taxes | 138.9 | 8.8% | 167.8 | 10.2% | 181.2 | 10.8% |
| Provision for income taxes | 51.0 | 3.2% | 62.4 | 3.8% | 68.8 | 4.1% |
| Net income | $ 87.9 | 5.6% | $ 105.4 | 6.4% | $ 112.4 | 6.7% |

**2012 compared to 2011**

(tabular amounts in millions, except percentages)

*Revenues.* Revenues primarily consist of retail sales from our Company-owned stores, royalties from our domestic and international franchise stores and sales of food, equipment and supplies from our supply chain centers to substantially all of our domestic franchise stores and certain international franchise stores. Company-owned store and franchise store revenues may vary significantly from period to period due to changes in store count mix, while supply chain revenues may vary significantly as a result of fluctuations in commodity prices, primarily cheese and meats.

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Consolidated revenues increased $26.2 million or 1.6% in 2012. This increase in revenues was due primarily to higher international revenues attributable to same store sales and store count growth, higher supply chain revenues due primarily to a change in the mix of products sold, offset in part by slightly lower volumes and higher domestic franchise revenues due to an increase in same store sales and store count growth. These increases were offset, in part by lower Company-owned store revenues, resulting from the sale of 58 Company-owned stores to multiple franchisees during fiscal 2011 and six Company-owned stores in the first quarter of 2012, and the negative impact on international revenues of changes in foreign currency exchange rates. These changes in revenues are more fully described below.

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

| | **2011** | | **2012** | |
|---|---|---|---|---|
| Domestic Company-owned stores | $ 336.3 | 64.3% | $ 323.7 | 62.4% |
| Domestic franchise | 187.0 | 35.7% | 195.0 | 37.6% |
| Total domestic stores revenues | $ 523.4 | 100.0% | $ 518.7 | 100.0% |

Domestic stores revenues decreased $4.7 million or 0.9% in 2012. This decrease was due primarily to lower Company-owned store revenues, resulting from the sale of 58 Company-owned stores to multiple franchisees during fiscal 2011 and six Company-owned stores in the first quarter of 2012. The decrease was offset in part by higher domestic Company-owned and franchise same store sales. These results are more fully described below.

*Domestic Company-owned stores.* Revenues from domestic Company-owned store operations decreased $12.6 million or 3.8% in 2012. This decrease was due to fewer Company-owned stores being open during 2012, primarily as a result of the sale of 58 Company-owned stores to multiple franchisees during fiscal 2011 and six Company-owned stores in the first quarter of 2012. The decrease was partially offset by a 1.3% increase in same store sales compared to 2011. There were 394 domestic Company-owned stores in operation as of January 1, 2012 and 388 domestic Company-owned stores in operation as of December 30, 2012.

*Domestic franchise.* Revenues from domestic franchise operations increased $8.0 million or 4.3% in 2012. This increase was due primarily to higher domestic franchise same store sales and an increase in the average number of domestic franchise stores open during 2012. Additionally, domestic franchise revenues in 2012 benefited from a 3.2% increase in same store sales compared to 2011. There were 4,513 domestic franchise stores in operation as of January 1, 2012 and 4,540 domestic franchise stores in operation as of December 30, 2012.

*Domestic supply chain.* Revenues from domestic supply chain operations increased $14.3 million or 1.5% in 2012. This increase was due primarily to a change in the mix of products sold and an increase in the number of franchise stores in operation. This was offset in part by slightly lower volumes and slightly lower overall commodity prices, including cheese. Cheese prices negatively impacted revenues by approximately $9.9 million in 2012.

*International.* International revenues primarily consist of royalties from our international franchise stores and international supply chain sales. Revenues from international operations increased $16.7 million or 8.3% in 2012. This increase was due primarily to higher international royalty and other revenues and higher international supply chain revenues. This increase was negatively impacted by approximately $4.0 million related to changes in foreign currency exchange rates. These changes in international revenues are more fully described below.

| | **2011** | | **2012** | |
|---|---|---|---|---|
| International royalty and other | $ 107.9 | 53.7% | $ 120.1 | 55.2% |
| International supply chain | 93.0 | 46.3% | 97.5 | 44.8% |
| Total international revenues | $ 200.9 | 100.0% | $ 217.6 | 100.0% |

*International royalty and other.* Revenues from international royalties and other increased $12.2 million or 11.2% in 2012. This increase was due primarily to higher same store sales and an increase in the average number of international stores open during 2012, offset in part by the negative impact of changes in foreign currency exchange rates of approximately $4.0 million in 2012. On a constant dollar basis (which excludes the impact of foreign currency exchange rates), same store sales increased 5.2% in 2012 compared to 2011. On a historical dollar basis (which includes the impact of foreign currency exchange rates), same store sales increased 2.1% in 2012 compared to 2011. The variance in our same store sales on a constant dollar basis versus a historical dollar basis in 2012 was caused by stronger U.S. dollar when compared to the currencies in the international markets in which we compete. There were 4,835 international stores in operation as of January 1, 2012 and 5,327 international stores in operation as of December 30, 2012.

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*International supply chain.* Revenues from international supply chain operations increased $4.5 million or 4.9% in 2012. This increase resulted primarily from higher volumes in 2012.

*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 consolidated operating margin, which we define as revenues less cost of sales, increased $30.8 million or 6.6% in 2012, as summarized in the following table.

| | 2011 | | 2012 | |
|---|---|---|---|---|
| Consolidated revenues | $ 1,652.2 | 100.0% | $ 1,678.4 | 100.0% |
| Consolidated cost of sales | 1,181.7 | 71.5% | 1,177.1 | 70.1% |
| Consolidated operating margin | $ 470.5 | 28.5% | $ 501.3 | 29.9% |

The $30.8 million increase in consolidated operating margin was due primarily to higher domestic and international franchise revenues, higher margins at our Company-owned stores and higher domestic supply chain margins. Franchise revenues do not have a cost of sales component and, as such, changes in franchise revenues have a disproportionate effect on the consolidated operating margin.

As a percentage of total revenues, our consolidated operating margin increased 1.4 percentage points in 2012, due primarily to a higher mix of franchise revenues, higher Company-owned stores operating margins and lower overall commodity prices, including cheese.

*Domestic Company-owned stores.* The domestic Company-owned store operating margin ,which does not include other store-level costs such as royalties and advertising, increased $7.0 million or 10.1% in 2012, as summarized in the following table.

| | 2011 | | 2012 | |
|---|---|---|---|---|
| Revenues | $ 336.3 | 100.0% | $ 323.7 | 100.0% |
| Cost of sales | 267.1 | 79.4% | 247.4 | 76.4% |
| Store operating margin | $ 69.3 | 20.6% | $ 76.3 | 23.6% |

The $7.0 million increase in the domestic Company-owned store operating margin was due primarily to lower food costs, lower labor and related expenses, lower occupancy expenses, lower insurance expenses and the positive impact of a higher average customer price paid per order. The sale of 58 Company-owned stores to multiple franchisees in fiscal 2011 and six Company-owned stores in the first quarter of 2012 had a slightly positive impact on the domestic Company-owned stores operating margin in 2012. As a percentage of store revenues, the store operating margin increased 3.0 percentage points in 2012, as discussed in more detail below.

As a percentage of store revenues, food costs decreased 1.2 percentage points to 27.1% in 2012, due primarily to the positive impact of a higher average customer price paid per order and lower overall commodity prices, including cheese. The cheese block price per pound averaged $1.69 in 2012 compared to $1.80 in 2011.

As a percentage of store revenues, occupancy costs, which include rent, telephone, utilities and depreciation, decreased 0.8 percentage points to 9.5% in 2012 due primarily to lower rates and reduced usage per store, and to a lesser extent, the positive impact of a higher average custome