DOMINOS PIZZA INC
Form 10-K
February 21, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 30, 2018

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 incorporation or organization)	**(I.R.S. Employer 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. Common Stock, $0.01 par value	**New York Stock Exchange**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act: Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files): Yes No

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

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

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of Domino s Pizza, Inc. as of June 17, 2018 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 $11,546,079,722.

As of February 14, 2019, Domino s Pizza, Inc. had 41,040,704 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, 2019 are incorporated by reference into Part III.

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

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

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Part I

Item 1. Business.

Overview

Domino s is the largest pizza company in the world based on global retail sales, with more than 15,900 locations in over 85 markets around the world. Founded in 1960, our roots are in convenient pizza delivery, while a significant amount of our sales also come from carryout customers. Although we are a highly-recognized global brand, we focus on serving the local neighborhoods in which we live and do business through our large global network of franchise owners and 390 U.S. Company-owned stores. On average, we and our franchisees sell more than 3 million pizzas each day throughout our global system.

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

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

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

Our History

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

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

Since 1998, the Company has been structured with a leveraged balance sheet and has completed a number of recapitalization events. The Company s most recent recapitalization transaction in 2018 (the 2018 Recapitalization) primarily consisted of the issuance of $825.0 million of fixed rate notes and the repurchase and retirement of

$490.0 million of previously outstanding fixed rate notes. As of December 30, 2018, the Company had $3.53 billion in total debt, which included debt from its 2018 Recapitalization and its previous recapitalization transactions in 2017 and 2015 (the 2017 Recapitalization and the 2015 Recapitalization, and together with the 2018 Recapitalization, the 2018, 2017 and 2015 Recapitalizations). Excess proceeds from our 2018, 2017 and 2015 Recapitalizations were used primarily to repurchase shares of our common stock.

We re-launched our brand in the U.S. in late 2009 by introducing a new recipe for our core pizza product. Since 2008, the majority of our menu has changed, either through the improvement of existing products or the introduction of new products, such as our Handmade Pan Pizza and Specialty Chicken. During this time frame, we also began expanding our focus on technology through our development of innovative ordering platforms and other technological advancements, such as the launch of our Piece of the Pie Rewards® loyalty program in 2015 and the launch of Domino s Delivery HotSpots® in 2018. Globally, we opened our 10,000th store in 2012 and our 15,000th store in 2018. In 2013, we announced a plan requiring all stores to adopt our new carry-out friendly Pizza Theater store design, which is more inviting to customers and allows them to see their orders being made fresh in front of them. The majority of our U.S. and international stores have completed these remodels as of the end of 2018.

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Our Industry

The U.S. QSR pizza category is large and fragmented. From 2008 through 2018, the U.S. QSR pizza category has grown from $32.8 billion to $36.5 billion. It is the second-largest category within the $299.6 billion U.S. QSR sector. The U.S. QSR pizza category is primarily comprised of delivery, dine-in and carryout.

In the U.S., we compete primarily in the delivery and carryout segments of the pizza industry. We are the market share leader in the delivery segment and we are amongst the top three chains in share in the carryout segment. Delivery segment sales of $9.8 billion in 2018 (down from $10.3 billion in 2008) account for approximately 27% of total U.S. QSR pizza. The delivery segment declined slightly during the period from 2008 to 2012, and has increased slightly since 2012, from $9.7 billion in 2012 to $9.8 billion in 2018. The three industry leaders, including Domino s, account for over 56% of U.S. pizza delivery, based on reported consumer spending, with the remaining sales going to regional chains and independent establishments. From 2008 to 2018, the carryout segment grew from $14.1 billion to $17.1 billion. The four industry leaders, including Domino s, account for approximately 48% of the carryout segment.

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

Our Competition

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

Our Customers

The Company s business is not dependent upon a single retail customer or small group of customers, including franchisees. No customer accounted for more than 10% of total consolidated revenues in 2018, 2017 or 2016. Our largest franchisee based on store count, Domino s Pizza Enterprises (DMP: ASX), operates 2,383 stores in seven international markets, and accounts for 15% of our total store count. Revenues from this master franchisee accounted for 1.4% of our consolidated revenues in 2018. Our international business unit only requires a modest amount of general and administrative expenses to support its markets and does not have costs of sales. Therefore, the vast majority of these royalty revenues result in profits to us.

Our Menu

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

Store Image and Operations

We have been focused primarily on pizza delivery for nearly 60 years, as well as carryout as a significant component of our business. In 2012, we introduced our carryout-friendly Pizza Theater store design; the majority of our U.S. and international stores have converted to this design as of the end of 2018. Many stores offer casual seating and enable customers to watch the preparation of their orders, but do not offer a full-service dine-in experience. As a result, our stores generally do not require expensive restaurant facilities and staffing.

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Our Business Segments

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

U.S. Stores

Our U.S. stores segment consists primarily of our franchise operations, which consist of 5,486 franchised stores located in the United States. We also operate a network of 390 U.S. Company-owned stores.

During 2018, our U.S. stores segment accounted for $1.26 billion, or 37% of our consolidated revenues. We use our Company-owned stores as test sites for new products and promotions as well as operational improvements. We also use them for training new store managers and operations team members, as well as developing prospective franchisees. While we are primarily a franchised business, we continuously evaluate our mix of U.S. Company-owned and franchise stores.

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

U.S. Franchise Profile

As of December 30, 2018, our network of 5,486 U.S. franchise stores were owned and operated by 793 independent U.S. franchisees. Our franchise formula enables franchisees to benefit from our brand name with a relatively low initial capital investment. As of December 30, 2018, the average U.S. franchisee owned and operated seven stores and had been in our franchise system for over 18 years. At the same time, 17 of our U.S. franchisees operated more than 50 stores (including our largest U.S. franchisee who operated 179 stores) and 262 of our U.S. franchisees each operated one store.

We apply rigorous standards to prospective U.S. franchisees. We generally require them to manage a store for at least one year and graduate from our franchise management school 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. Substantially all of our 793 independent U.S. franchise owners started their careers with us as delivery drivers or in other in-store positions, which we believe offers advantages in terms of familiarity with our business and store operations. In addition, we generally restrict the ability of U.S. franchisees to be involved in other businesses, which we believe helps focus our franchisees attention on operating their stores. We believe these characteristics and standards are largely unique within the franchise industry and have resulted in qualified and focused franchisees operating Domino s stores.

U.S. Franchise Agreements

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

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

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

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International Franchise

Our international franchise segment is comprised of a network of franchised stores in more than 85 international markets. At December 30, 2018, we had 10,038 international franchise stores. During 2018, this segment accounted for $224.7 million, or 6% of our consolidated revenues. The principal sources of revenues from those operations are royalty payments generated by retail sales from franchised stores.

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

We believe Domino s appeals to potential international franchisees because of our recognized brand name and technological leadership, the moderate capital expenditures required to open and operate our stores and our system s favorable store economics. Stores in eight of our top ten international markets in terms of store count are operated by master franchise companies that are publicly traded on stock exchanges in India (JUBLFOOD: NS), the United Kingdom (DOM: L), Mexico (ALSEA: MX), Australia (DMP: ASX) (which operates the stores in our Australia, Japan, France and Germany markets) and Turkey (DPEU: L). The following table shows our store count as of December 30, 2018 in our top ten international markets, which accounted for approximately 64% of our international stores as of December 30, 2018.

Market	Number of stores
India	1,195
United Kingdom	1,100
Mexico	760
Australia	693
Japan	550
Turkey	535
Canada	487
South Korea	447
France	387
Germany	283

International Franchisee Profile

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

Master Franchise Agreements

Our master franchise agreements generally grant the franchisee exclusive rights to develop and sub-franchise stores and the right to operate supply chain centers in particular geographic areas. Agreements are generally for a term of ten years, with options to renew for additional terms. The agreements typically contain growth clauses requiring franchisees to open a minimum number of stores within a specified period. The master franchisee is generally required to pay an initial, one-time franchise fee as well as an additional franchise fee upon the opening of each new store. The master franchisee is also required to pay a continuing royalty fee as a percentage of sales, which varies among international markets, and averaged approximately 3.0% in 2018.

Supply Chain

Our supply chain segment operates 19 regional dough manufacturing and food supply chain centers in the U.S., one thin crust manufacturing center, one vegetable processing center and one center providing equipment and supplies to our U.S. and certain international stores. We plan to continue investing in additional supply chain centers and capacity initiatives in the future. We also operate five dough manufacturing and food supply chain centers in Canada. Our supply chain segment leases a fleet of more than 800 tractors and trailers. During 2018, our supply chain segment accounted for $1.94 billion, or nearly 57% of our consolidated revenues.

Our centers produce fresh dough and purchase, receive, store and deliver quality food and other complementary items to our U.S. stores and most of our Canadian franchised stores. We regularly supply over 6,300 stores with various food and supplies. Our supply chain segment made approximately 766,000 full-service deliveries in 2018 or approximately 2.5 deliveries per store per week, and we produced over 573 million pounds of fresh dough during 2018.

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

Third-Party Suppliers

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

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

We are party to a multi-year agreement with Coca-Cola® for the contiguous U.S. This contract, renegotiated in December 2013, provides for Coca-Cola to continue to be our exclusive beverage supplier and expires in March 2019.

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

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

Our Strengths

Strong Brand Equity

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

Over the past five years, our U.S. franchise and Company-owned stores have invested an estimated $1.9 billion in national, co-operative and local advertising. Our international franchisees also invest significant amounts in advertising efforts in their markets. We continue to reinforce our brand with extensive advertising through various media channels. We have also enhanced the strength of our brand through marketing affiliations with brands such as Coca-Cola.

We are the number one pizza delivery company in the U.S. with a 31.1% share of pizza delivery based on reported consumer spending. With 5,876 stores located in the U.S., our store delivery areas cover a majority of U.S. households. Our share position and scale allow us to leverage our purchasing power, supply chain strength and marketing investments. We believe our scale and market coverage allow us to effectively serve our customers demands for convenience and timely delivery. Outside the U.S., we have significant market share positions in many of the markets in which we compete.

Strong and Proven Business Model

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

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

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

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

Technological Innovation

Technological innovation is vital to our brand and our long-term success. Digital ordering is critical to competing in the global pizza industry. In 2018, more than half of all global retail sales were derived from digital channels, primarily through our online ordering website and mobile applications. We believe we are among the largest e-commerce retailers in terms of annual transactions. After launching digital ordering in the U.S. in 2008, we made the strategic decision in 2010 to develop our own online ordering platform and to manage this important and growing area of our business internally. Over the next five years, we launched mobile applications that cover 95% of the smartphones and tablets on the U.S. market. In 2013, we launched an enhanced online ordering profiles platform, allowing customers the ability to reorder their favorite order in as few as five clicks, or 30 seconds. In 2014, we introduced Dom, a voice ordering application, which we believe is the first in the restaurant industry, and we also made the Domino s Tracker® available on our ordering platforms. In 2015, we introduced several innovative ordering platforms including Samsung Smart TV®, Twitter, and text message using a pizza emoji. We continued this trend of innovation in 2016 with the introduction of zero-click ordering as well as adding Google Home, Facebook Messenger, Apple Watch, and Amazon Echo to our ordering platforms. In 2017, as part of an industry-first collaboration with Ford Motor Company, we began a meaningful test of delivery using self-driving vehicles. In April 2018, we launched Domino s Delivery HotSpots, featuring over 200,000 non-traditional delivery locations including parks, beaches, local landmarks and other unique gathering spots.

The Company s Piece of the Pie Rewards loyalty program, launched in 2015, is meant to reward customers with a program that is simple to understand and easy to use. Upon signing up for the program, customers become rewards members and can earn points for online orders. When rewards members reach a certain amount of points, they can redeem their points for free pizza. Rewards members may also receive exclusive members-only discounts and bonus offers. We may also occasionally provide additional opportunities for participating customers to benefit under the Piece of the Pie Rewards program.

All of this improved functionality has been developed to work seamlessly with our Domino s PULSE point-of-sale system. Our Domino s PULSE system is designed to drive operating efficiencies for our franchisees and our corporate management and assist franchisees in independently managing their business. We have installed Domino s PULSE in every Company-owned store in the U.S., in more than 99% of our U.S. franchised stores and in approximately 72% of our international stores.

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

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Product Innovation

In late 2009, we reintroduced our core hand-tossed pizza in the U.S. with a new recipe, which we believe has contributed to continued growth in customer reorder rate, consumer traffic and increased sales. This recipe is now in use in other markets around the world. Our nearly 60 years of innovation have resulted in numerous new product developments, including our more recent innovations of Handmade Pan Pizza, Specialty Chicken, Parmesan Bread Bites, Stuffed Cheesy Bread, Marbled Cookie Brownie and Bread Twists, among others. Product innovation is also present in our global markets, where our master franchisees have the ability to recommend products to suit their local market tastes. Products include the Mayo Jaga in Japan (bacon, potatoes and sweet mayonnaise) and the Saumoneta in France (light cream, potatoes, onions, smoked salmon and dill).

Internal Dough Manufacturing and Supply Chain System

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

Our Ideals

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

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

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

Community Involvement

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

Our national philanthropic partner is St. Jude Children s Research Hospital®. St. Jude is internationally-recognized for its pioneering work in finding cures and saving children with cancer and other catastrophic diseases. Through a variety of internal and consumer-based activities, including a national fundraising campaign called *St. Jude Thanks and Giving*®, the Domino s system has contributed $57.5 million to St. Jude since our partnership began in 2004, including raising $10.5 million in 2018. In addition to raising funds, we have supported St. Jude through in-kind donations, including hosting hospital-wide pizza parties for patients and their families. Our system also helps St. Jude build awareness through the inclusion of the St. Jude logo on millions of our pizza boxes and through a link on our consumer website, as well as a St. Jude-themed Pizza Tracker during *Thanks and Giving*®.

We also support the Domino s Pizza Partners Foundation (the Partners Foundation). Founded in 1986, the mission of the Partners Foundation is Team Members Helping Team Members. Primarily funded by team member and franchise contributions, the foundation is a separate, not-for-profit organization that has disbursed more than $6.7 million over the past five years. The Partners Foundation is committed to meeting the needs of Domino s team members facing crisis situations, such as fire, illness, natural disasters or other personal tragedies.

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Additional Disclosures

Employees

As of December 30, 2018, we had approximately 14,500 employees in our Company-owned stores, supply chain centers, World Resource Center and regional offices. None of our employees is covered by a collective bargaining agreement. As franchisees are independent business owners, they and their employees are not included in our employee count. We consider our relationship with our employees and franchisees to be good. We estimate the total number of people who work in the Domino s system, including our employees, franchisees and the employees of franchisees, was more than 320,000 as of December 30, 2018.

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 35 through 39.

Government Regulation

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

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

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

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

Privacy and Data Protection

We are subject to a number of privacy and data protection laws and regulations globally. The legislative and regulatory landscape for privacy and data protection continues to evolve, and there has been an increase in attention given to privacy and data protection issues with the potential to directly affect our business. This includes recently-enacted laws and regulations in the U.S. 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. The security of our financial data, customer information and other personal information is a priority for us.

Trademarks

We have many registered trademarks 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.

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Environmental Matters

We are not aware of any federal, state or local environmental laws or regulations that we would expect to materially affect our earnings or competitive position or result in material capital expenditures. However, we cannot predict the effect of possible future environmental legislation or regulations. During 2018, there were no material environmental compliance-related capital expenditures, and no such material expenditures are anticipated in 2019.

Seasonal Operations

The Company s business is not typically seasonal.

Backlog Orders

The Company has no backlog orders as of December 30, 2018.

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 U.S. government.

Available Information

The Company makes available, free of charge, through its internet website biz.dominos.com, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and amendments to those reports filed or furnished pursuant to Section 13(a), 15(d), or 16 of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after electronically filing such material with the Securities and Exchange Commission. Materials filed with the Securities and Exchange Commission are available at www.sec.gov. Retail orders from Domino s stores can be made through its internet website dominos.com. The reference to these website addresses does not constitute incorporation by reference of the information contained on the websites and information appearing on those websites, including biz.dominos.com and dominos.com, should not be considered a part of this document.

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Item 1A. Risk Factors.

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

In the U.S., we compete against regional and local companies as well as national chains Pizza Hut®, Papa John's® and Little Caesars Pizza®. Internationally, we compete primarily with Pizza Hut®, Papa John's® and country-specific national and local companies. 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. Additionally, we face growing competition from the supermarket industry and meal kit and food delivery providers, with the improvement of prepared food offerings and the trend towards convergence in grocery, deli, retail and restaurant services. If we are unable to maintain our competitive position, we could experience downward pressure on prices, lower demand for our products, reduced margins, the inability to take advantage of new business opportunities and the loss of market share, all of which would have an adverse effect on our operating results and could cause our stock price to decline.

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

- consumer tastes;
- international, national, regional or local economic conditions;
- disposable purchasing power;
- demographic trends; and
- currency fluctuations related to international operations.

We compete within the food service market and the quick service restaurant sector not only for customers, but also for management and hourly employees, including drivers, suitable real estate sites and qualified franchisees. Our supply chain segment is also subject to competition from outside suppliers. While all U.S. franchisees purchased food, equipment and supplies from us in 2018, U.S. 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 U.S. 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 U.S. 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 U.S. and international stores. We and our franchisees face many challenges in opening new stores, including, among others:

- availability of financing with acceptable terms;
- selection and availability of suitable new store sites and the ability to renew leases in quality locations;
- negotiation of acceptable lease or financing terms;
- securing required U.S. or foreign governmental permits, licenses and approvals;
- employment and training of qualified personnel; and
- general economic and business conditions.

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

We and our franchisees are currently planning to expand our U.S. and international operations in many of the markets where we currently operate and in select new markets. This may require considerable management time as well as start-up expenses for market development before any significant revenues and earnings are generated. Operations in new foreign markets may achieve low margins or may be unprofitable, and expansion in existing markets may be affected by local economic and market conditions. Therefore, as we continue to 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.

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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 reduce the demand for our products, which would reduce sales and harm our business.

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

Our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could adversely impact our business.

In recent years, there has been a marked increase in the use of social media platforms, including blogs, chat platforms, social media websites, and other forms of internet-based communications that allow individuals access to a broad audience of consumers and other persons. The rising popularity of social media and other consumer-oriented technologies has increased the speed and accessibility of information dissemination. The dissemination of information via social media could harm our business, brand, reputation, marketing partners, financial condition, and results of operations, regardless of the information s accuracy. This could include negative publicity related to our food products or stores or negative publicity related to actions by our executives, team members or franchisees.

In addition, we frequently use social media to communicate with consumers and the public in general. Failure to use social media effectively could lead to a decline in brand value and revenue. Other risks associated with the use of social media include improper disclosure of proprietary information, negative comments about our brand, exposure of personally identifiable information, fraud, hoaxes or malicious dissemination of false information.

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 affecting our global food supply also exists and, if such an event occurs, it could have a negative impact on us and could severely hurt sales and profits. In addition, our reputation is an important asset; as a result, anything that damages our reputation could immediately and severely affect our sales and profits. Media reports of illnesses and injuries, whether accurate or not, could force some stores to close or otherwise reduce sales at such stores. Moreover, as described above, social media has dramatically increased the rate at which negative publicity, including as it relates to food-borne illness, can be disseminated before there is any meaningful opportunity to respond to or address an issue. Even reports of food-borne illnesses or food tampering 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.

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

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

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

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

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

An increase in our operating costs could adversely affect our profitability. Factors such as inflation, increased food costs, increased labor and employee health and benefit costs, increased rent costs and increased energy costs may adversely affect our operating costs. Most of the factors affecting costs are beyond our control and, in many cases, we may not be able to pass along these increased costs to our customers or franchisees. Most ingredients used in our pizza, particularly cheese, are subject to significant price fluctuations as a result of seasonality, weather, demand and other factors. Cheese is a significant cost to us, representing approximately 20-25% of the market basket purchased by our Company-owned stores. Additionally, while we strive to engage in a competitive bidding process for our ingredients, because certain of these ingredients, including meat products, may only be available from a limited number of vendors, we may not always be able to do so effectively. Furthermore, if we need to seek new suppliers, we may be subject to pricing or other terms less favorable to us than those reflected in our current supply arrangements. Labor costs are largely a function of the minimum wage for a majority of our store personnel and certain supply chain center personnel and, generally, are also a function of the availability of labor. Several states in which we operate have recently approved minimum wage increases. As minimum wage increases are implemented in these states or if such increases are approved and implemented in other states in which we operate, we expect our labor costs will continue to increase. The advent of legislation aimed at predictive scheduling could impact labor for our stores and our franchisees stores. Additionally, while we do not currently have any unionized employees, if a significant portion of our employees were to become unionized, our labor costs could increase and our business could be negatively affected by other union requirements that increase our costs, disrupt our business, reduce our flexibility and impact our employee culture. Labor costs and food costs, including cheese, generally represent approximately 50% to 60% of the sales at a typical Company-owned store.

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

We operate 19 regional dough manufacturing and supply chain centers, one thin crust manufacturing center and one vegetable processing center in the U.S. and five dough manufacturing and supply chain centers in Canada. We plan to continue investing in additional supply chain capacity in the future.

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

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

We have been routinely named a Leading National Advertiser by *Advertising Age*. Each Domino s store located in the contiguous U.S. is obligated to pay a percentage of its sales in advertising fees. In fiscal 2018, each store in the contiguous U.S. generally was required to contribute 6% of their sales to DNAF (subject, in certain instances, to lower rates based on certain incentives and waivers), which uses such fees for national advertising in addition to contributions for local market-level advertising. We currently anticipate that this 6% contribution rate will remain in place for the foreseeable future. While additional funds for advertising in the past have been provided by us, our franchisees and other third parties, none of these additional funds are legally required. The lack of continued financial support for advertising activities could significantly curtail our marketing efforts, which may in turn materially and adversely affect our business and our operating results.

We face risks of litigation, investigations, enforcement actions and negative publicity from customers, franchisees, suppliers, employees, regulators and others in the ordinary course of business, which can or could divert our financial and management resources. Litigation, investigations, enforcement actions or publicity may adversely impact our financial condition and results of operations.

Claims of illness or injury relating to food quality or food handling are common in the food service industry, and vehicular accidents and injuries occur in the food delivery business. Claims within our industry of improper supplier actions also occasionally arise that, if made against one of our suppliers, could potentially damage our brand image. In addition, class action lawsuits have been filed, and may continue to be filed, against various quick service restaurants alleging, among other things, that quick service restaurants have failed to disclose the health risks associated with high-fat foods and that quick service restaurant marketing practices have encouraged obesity. State attorney general offices or other regulators may initiate investigations or enforcement actions against us. In addition to decreasing our sales and profitability and diverting our management resources, adverse publicity or a substantial settlement, fine, penalty or 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.

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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 and continue to be subject to these types of claims. If one or more of these claims were to be successful or if there is a significant increase in the number of these claims or if we receive significant negative publicity, our business, financial condition and operating results could be harmed.

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

Our success in the highly competitive pizza delivery and carry-out business will continue to depend to a significant extent on our leadership team and other key management personnel. Although we have entered into employment agreements with Richard E. Allison Jr., and Russell J. Weiner, each of these executives may terminate his agreement on ninety days notice. Our other executive officers may terminate their employment pursuant to their employment agreements at any time. As a result, we may not be able to retain our executive officers and key personnel or attract additional qualified management. While we do not have long-term employment agreements with our executive officers, for all of our executive officers we have non-compete and non-solicitation agreements that extend for 24 months following the termination of such executive officer s employment. Our success will also continue to depend on our ability to attract and retain qualified personnel to operate our stores, dough manufacturing and supply chain centers and international operations. The loss of these employees or our inability to recruit and retain qualified personnel could have a material adverse effect on our operating results.

Adverse global economic conditions subject us to additional risk.

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

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

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

We conduct a significant and growing portion of our business outside the U.S. 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;

tariffs and trade barriers;

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

changes in inflation rates;

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

difficulty in collecting our royalties and longer payment cycles;

expropriation of private enterprises;

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

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

other external factors.

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

Exchange rate fluctuations could have an adverse effect on our results of operations. Approximately 6.5% of our total revenues in 2018, 7.4% of our total revenues in 2017 and 7.2% of our total revenues in 2016 were derived from our international franchise segment, a majority of which were denominated in foreign currencies. We also operate dough manufacturing and distribution facilities in Canada, which generate revenues denominated in Canadian dollars. Sales made by franchise stores outside the U.S. 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 U.S. or lower profitability to our franchisees outside the U.S., or could result in lower revenues for us, on a U.S. dollar basis, from such customers and franchisees. A hypothetical 10% adverse change in the foreign currency rates in our international markets would have resulted in a negative impact on international royalty revenues of approximately $20.0 million in 2018.

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

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

As of December 30, 2018, we had 793 U.S. franchisees operating 5,486 U.S. stores. Seventeen of these franchisees each own and operate more than 50 U.S. stores, including our largest U.S. franchisee who owns and operates 179 stores, and the average franchisee owns and operates seven stores.

Our international master franchisees are generally responsible for the development of significantly more stores than our U.S. franchisees. As a result, our international operations are more closely tied to the success of a smaller number of franchisees than our U.S. operations. Our largest international master franchisee operates 2,383 stores in seven markets, which accounts for approximately 24% of our total international store count. Our U.S. 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.

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, 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 in order to increase brand awareness and further develop our branded products in both U.S. and international markets. We have registered certain trademarks and have other trademark applications pending in the U.S. 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 U.S. 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 U.S. Further, through acquisitions of third parties, we may acquire brands and related trademarks that are subject to the same risks as the brands and trademarks we currently own.

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

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

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

Because we and our franchisees accept electronic forms of payment from customers, our business requires the collection and retention of customer data, including sensitive financial data and other personally identifiable information in various information systems that we and our franchisees maintain and in those maintained by third parties with whom we and our franchisees contract to provide payment processing. A weakness in such third party s systems or software products may provide a mechanism for a cyber threat. In recent years, a significant number of companies have experienced security breaches in which customer information was stolen through vendor access channels. While we select our third-party suppliers carefully, cyber attacks and security breaches at a payment processing contractor could compromise confidential information or adversely affect our ability to deliver products and services to our customers. These problems could negatively affect our results of operations, and remediation could result in significant, unplanned capital investments.

We also maintain important internal Company data, such as personally identifiable information about our employees and franchisees and information relating to our operations. In addition, more than half of all global retail sales in 2018 were derived from digital channels, primarily through our online ordering website and mobile applications, where customers enter personally identifiable information that we retain. Our use and retention of personally identifiable information is regulated by foreign, federal and state laws and regulations, as well as by certain third-party agreements. For example, the European Union adopted a new regulation that became effective in May 2018, the European Union General Data Protection Regulation, which requires companies to meet new requirements regarding the handling of personal data. As privacy and information security laws and regulations change, we may incur additional costs to ensure that we remain in compliance with those laws and regulations. If our security and information systems are compromised or if we, our employees or franchisees fail to comply with these laws, regulations or contract terms, or to successfully implement appropriate processes related to applicable requirements, laws and regulations governing cyber incidents could require us to notify customers, employees or other groups, and could result in adverse publicity, loss of sales and profits, increased fees payable to third parties and penalties or remediation and other costs that could adversely affect our reputation, business and results of operations. Any other material disruption or other adverse event affecting one or more of our digital ordering platforms, including, for instance, power loss, technological failures, user error or cyber attacks, could similarly result in adverse publicity, loss of sales and profits and other costs, which could adversely affect our reputation, business and results of operations.

We may also become subject to private lawsuits or other proceedings for purportedly fraudulent transactions arising out of the actual or alleged theft of our consumers credit or debit card information or if consumer or employee information is obtained by unauthorized persons or used inappropriately. Any such claim or proceeding, or any adverse publicity resulting from such an event, may have a material adverse effect on our business and the potential of incurring significant remediation costs.

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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;
- labor and employment, including minimum wage, overtime, insurance and other labor requirements;
- working and safety conditions;
- franchise arrangements;
- public company compliance, disclosure and governance matters;
- taxation;
- antitrust;
- discrimination;
- payment card industry standards and requirements; and
- information privacy and consumer protection.

We are subject to a Federal Trade Commission rule and to various state and foreign laws that govern the offer and sale of franchises. 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.

In 2015, the National Labor Relations Board adopted a new and broader standard for determining when two or more otherwise unrelated employers may be found to be a joint employer of the same employees under the National Labor Relations Act. Although elements of this joint employer liability standard continue to be subject to judicial review, if this standard is generally upheld or adopted by other government agencies such as the Department of Labor, the Equal Employment Opportunity Commission, and the Occupational Safety and Health Administration and/or applied generally to franchise relationships, it could cause us to be liable or held responsible for unfair labor practices and other violations of our franchisees and subject us to other liabilities, and require us to conduct collective bargaining negotiations regarding employees of totally separate, independent employers, most notably our franchisees. In such event, our operating expenses may increase as a result of required modifications to our business practices, increased litigation, governmental investigations or proceedings, administrative enforcement actions, fines and civil liability.

The Patient Protection and Affordable Care Act (as amended, the Affordable Care Act) requires employers such as us to provide health insurance for all qualifying employees or pay penalties for not providing coverage. The majority of the increases in these costs began in 2015, and while the incremental costs of this program have not been material to us to date, we cannot predict what effect these costs will have on our results of operations and financial position, or the effects of the Affordable Care Act on some of our larger franchisees. Modifications to, or repeal of, all or certain provisions of the Affordable Care Act are possible, consistent with statements made by certain elected officials.

The Tax Cuts and Jobs Act of 2017 (the 2017 Tax Act) was signed into law on December 22, 2017, significantly reforming the Internal Revenue Code of 1986, as amended. The 2017 Tax Act, among other things, includes changes to U.S. Federal tax rates, imposes significant additional limitations on the deductibility of interest, allows for the expensing of capital expenditures, puts into effect the migration from a worldwide system of taxation to a territorial system and modifies or repeals many business deductions and credits. We continue to examine the impact the 2017 Tax Act may have on our business. The estimated impact of the 2017 Tax Act is based on our management s current knowledge and assumptions and recognized impacts could be materially different from current estimates based on our actual results and our further analysis of the new law. We revalued our net deferred tax assets and liabilities at the newly enacted corporate tax rate in fiscal 2017 and recorded a significantly lower effective tax rate in 2018. Although some uncertainty remains about the effects of this new legislation on our business, we currently expect lower effective tax rates for the Company in 2018 will continue in future periods.

We may also become subject to legislation or regulation seeking to tax and/or regulate high-fat foods, foods with high sugar and salt content, or foods otherwise deemed to be unhealthy, and our capital expenditures could increase due to remediation and compliance measures related to these laws or regulations.

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If we fail to comply with existing or future laws and regulations, we may be subject to governmental or judicial fines, sanctions and other enforcement measures.

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

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

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

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

- variations in the timing and volume of our sales and our franchisees sales;
- the timing of expenditures in anticipation of future sales;
- sales promotions by us and our competitors;
- changes in competitive and economic conditions generally;
- changes in the cost or availability of our ingredients or labor; and
- foreign currency exposure.

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

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

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

- planned or actual changes to our capital or debt structure;
- variations in our operating results;
- changes in revenues or earnings estimates or publication of research reports by analysts;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as sales promotions, acquisitions or restructurings;
- actions by institutional and other stockholders;
- changes in our dividend policy or any share repurchase program;
- changes in the market values of public companies that operate in our business segments;
- maintenance and growth of the value of our brand;
- significant litigation;
- legislation or other regulatory developments affecting us or our industry;
- general market conditions; and
- U.S. and international economic factors unrelated to our performance.

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

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

We have a substantial amount of indebtedness. As of December 30, 2018, our consolidated total indebtedness was approximately $3.53 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 for 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.

Further, a portion of our indebtedness bears interest at fluctuating interest rates based on the London interbank offered rate (LIBOR), and there is currently uncertainty around whether LIBOR will continue to exist after 2021. If LIBOR ceases to exist, we may need to renegotiate certain loan documents and we cannot predict what alternative index would be negotiated with our lenders. As a result, our interest expense could increase, in which event we may have difficulties making interest payments and funding our other fixed costs, and our available cash flow for general corporate requirements may be adversely affected.

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.

Downgrades in our credit ratings could impact our ability to access capital and materially adversely affect our business, financial condition and results of operations.

Our debt is rated by credit rating agencies. These agencies may downgrade their credit ratings for us based on the performance of our business, our capital strategies or their overall view of our industry. There can be no assurance that any rating assigned to our currently outstanding indebtedness will remain in effect for any given period of time or that any such ratings will not be lowered, suspended or withdrawn entirely by a rating agency if, in that agency s judgment, circumstances so warrant. A downgrade of our credit ratings could, among other things, increase our cost of borrowing, limit our ability to access capital, result in more restrictive covenants in agreements governing the terms of any future indebtedness that we may incur, including restrictions on our ability to pay dividends or repurchase shares, or require us to provide collateral for future borrowings, and thereby adversely impact our business, financial condition and results of operations.

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

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

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

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

- sell assets;
- alter the business we conduct;
- engage in mergers, acquisitions and other business combinations;
- declare dividends or redeem or repurchase capital stock;
- incur, assume or permit to exist additional indebtedness or guarantees;
- make loans and investments;
- incur liens; and
- enter into transactions with affiliates.

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

During the term following issuance, the outstanding senior notes will accrue interest in accordance with the terms of the debt agreements. Additionally, our senior notes have original scheduled principal payments of $35.3 million in each of 2019 through 2021, $888.0 million in 2022, $26.3 million in each of 2023 and 2024, $1.14 billion in 2025, $14.0 million in 2026 and $1.27 billion in 2027. In accordance with our debt agreements, the payment of principal on the outstanding senior notes shall be suspended if the leverage ratios for the Company are less than or equal to 5.0x total debt, as defined, to adjusted EBITDA, as defined, and no catch-up provisions are applicable. As of December 30, 2018, we also had $65.0 million outstanding under our variable funding notes with a legal maturity date in July 2022, subject to two additional one-year extensions at the option of the Company, subject to certain conditions.

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

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

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

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

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Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We lease approximately 270,000 square feet for our World Resource Center located in Ann Arbor, Michigan under an operating lease with Domino s Farms Office Park, L.L.C., an unrelated company. Under an amendment to this lease, Domino s Farms Office Park, L.L.C. is currently constructing a new 33,000 square foot building that will be leased to the Company upon completion, which is expected to occur in 2019. The lease, as amended, expires in 2029 and has two five-year renewal options.

We own five supply chain center buildings. We also own two store buildings that we lease to U.S. franchisees. All other U.S. Company-owned stores are leased by us, typically under five-year leases with one or two five-year renewal options. All other U.S. and international supply chain centers are leased by us, typically under leases ranging between five and 20 years with one or two five-year renewal options. All other franchise stores are leased or owned directly by the respective franchisees. We believe that our existing headquarters and other leased and owned facilities are adequate to meet our current requirements.

Item 3. Legal Proceedings.

We are a party to lawsuits, revenue agent reviews by taxing authorities and administrative proceedings in the ordinary course of business which include, without limitation, workers compensation, general liability, automobile and franchisee claims. We are also subject to suits related to employment practices.

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

On February 14, 2011, Domino s Pizza LLC was named as a defendant in a lawsuit along with Fischler Enterprises of C.F., Inc., a franchisee, and Jeffrey S. Kidd, the franchisee s delivery driver, filed by Yvonne Wiederhold, the plaintiff, as Personal Representative of the Estate of Richard E. Wiederhold, deceased. The case involved a traffic accident in which the franchisee s delivery driver is alleged to have caused an accident involving a vehicle driven by Richard Wiederhold. Mr. Wiederhold sustained spinal injuries resulting in quadriplegia and passed away several months after the accident. The jury returned a $10.1 million judgment for the plaintiff where the Company and Mr. Kidd were found to be 90% liable (after certain offsets and other deductions the final verdict was $8.9 million). In the second quarter of 2016, the trial court ruled on all post-judgment motions and entered the judgment. The Company denies liability and in the third quarter of 2016 filed an appeal of the verdict on a variety of grounds. On May 11, 2018, the court of appeals reversed and remanded the case to the trial court for a new trial based on the plaintiff s improper closing argument. The Company continues to deny liability in this matter.

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

Item 4. Mine Safety Disclosures.

Not applicable.

Item 4A. Executive Officers of the Registrant.

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

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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 14, 2019, Domino s Pizza, Inc. had 170,000,000 authorized shares of common stock, par value $0.01 per share, of which 41,040,704 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.

Our Board of Directors declared a quarterly dividend of $0.65 per common share on February 20, 2019 payable on March 29, 2019 to shareholders of record at the close of business on March 15, 2019.

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

As of February 14, 2019, there were 1,565 registered holders of record of Domino s Pizza, Inc. s common stock.

As of December 30, 2018, we had a Board of Directors-approved share repurchase program for up to $750.0 million of our common stock, of which $158.8 million remained available for future purchases of our common stock. Any future purchases of our common stock would be funded by current cash amounts, available borrowings or future excess cash flow. The following table summarizes our repurchase activity during the fourth quarter ended December 30, 2018:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (2)	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (in thousands)
Period #10 (September 10, 2018 to October 7, 2018)	5,574	$ 276.41	4,424	$ 319,595
Period #11 (October 8, 2018 to November 4, 2018)	331,613	264.29	330,291	232,305
Period #12 (November 5, 2018 to December 2, 2018)	76,562	254.79	75,391	213,119
Period #13 (December 3, 2018 to December 30, 2018)	226,270	240.11	226,270	158,788
Total	640,019	$ 254.71	636,376	$ 158,788

(1) 3,643 shares were purchased as part of the Company s employee stock purchase discount plan. During the fourth quarter, the shares were purchased at an average price of $274.26.

(2) From December 31, 2018 through February 14, 2019, the Company repurchased and retired an additional 33,549 shares of common stock for a total of approximately $8.1 million, or an average price of $242.74 per share. Authorization for the repurchase program may be modified, suspended, or discontinued at any time. The repurchase of shares in any particular period and the actual amount of such purchases remain at the discretion of the Board of Directors, and no assurance can be given that shares will be repurchased in the future.

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The following comparative stock performance line graph compares the cumulative shareholder return on the common stock of Domino s Pizza, Inc. (NYSE: DPZ) for the five-year period between December 31, 2013 and December 31, 2018, with cumulative total return on (i) the Total Return Index for the New York Stock Exchange (the NYSE Composite Index), (ii) the Standard & Poor s 500 Index (the S&P 500) and (iii) the peer group, the Standard & Poor s 400 Restaurant Index (the S&P 400 Restaurant Index). Management believes that the companies included in the S&P 400 Restaurant Index appropriately reflect the scope of the Company s operations and match the competitive market in which the Company operates. The cumulative total return computations set forth in the performance graph assume the investment of $100 in the Company s common stock, the NYSE Composite Index, the S&P 500 Index and the S&P 400 Restaurant Index on December 31, 2013.

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Item 6. Selected Financial Data.

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

	Fiscal year ended (8)				
(dollars in millions, except per share data)	**December 30, 2018 (4) (5)**	**December 31, 2017 (6)**	**January 1, 2017**	**January 3, 2016 (7)**	**December 28, 2014**
Income statement data:					
Revenues:					
U.S. Company-owned stores	$ 514.8	$ 490.8	$ 439.0	$ 396.9	$ 348.5
U.S. franchise royalties and fees	391.5	351.4	312.3	272.8	230.2
U.S. franchise advertising (1)	358.5				
U.S. stores	1,264.8	842.2	751.3	669.7	578.7
Supply chain	1,943.3	1,739.0	1,544.3	1,383.2	1,262.5
International franchise royalties and fees	224.7	206.7	177.0	163.6	152.6
Total revenues	3,432.9	2,788.0	2,472.6	2,216.5	1,993.8
Cost of sales	2,130.2	1,922.0	1,704.9	1,533.4	1,399.1
Operating margin	1,302.7	866.0	767.7	683.1	594.8
General and administrative expense	372.5	344.8	313.6	277.7	249.4
U.S. franchise advertising (1)	358.5				
Income from operations	571.7	521.2	454.0	405.4	345.4
Interest income	3.3	1.5	0.7	0.3	0.1
Interest expense	(146.3)	(122.5)	(110.1)	(99.5)	(86.9)
Income before provision for income taxes	428.7	400.2	344.7	306.2	258.6
Provision for income taxes	66.7	122.2	130.0	113.4	96.0
Net income	$ 362.0	$ 277.9	$ 214.7	$ 192.8	$ 162.6
Earnings per share:					
Common stock basic	$ 8.65	$ 6.05	$ 4.41	$ 3.58	$ 2.96
Common stock diluted	8.35	5.83	4.30	3.47	2.86
Dividends declared per share	$ 2.20	$ 1.84	$ 1.52	$ 1.24	$ 1.00
Balance sheet data (at end of period):					
Cash and cash equivalents	$ 25.4	$ 35.8	$ 42.8	$ 133.4	$ 30.9
Restricted cash and cash equivalents	167.0	191.8	126.5	180.9	121.0
	45.0	27.3	25.1	19.9	25.1

Cash and cash equivalents included in advertising fund assets, restricted					
Working capital (2)	14.6	(10.3)	(34.3)	45.7	41.8
Total assets	907.4	836.8	716.3	799.8	596.3
Total debt net of debt issuance cost	3,531.6	3,153.8	2,187.9	2,240.8	1,500.6
Total stockholders deficit	(3,039.9)	(2,735.4)	(1,883.1)	(1,800.3)	(1,219.5)

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(dollars in millions)	Fiscal year ended (8) December 30, 2018 (4) (5)	December 31, 2017 (6)	January 1, 2017	January 3, 2016 (7)	December 28, 2014
Other financial data:					
Depreciation and amortization	$ 53.7	$ 44.4	$ 38.1	$ 32.4	$ 35.8
Capital expenditures	119.7	90.3	61.5	62.4	71.8
Same store sales growth (3):					
U.S. Company-owned stores	4.8%	8.7%	10.4%	12.2%	6.2%
U.S. franchise stores	6.8%	7.6%	10.5%	11.9%	7.7%
U.S. stores	6.6%	7.7%	10.5%	12.0%	7.5%
International stores	3.5%	3.4%	6.3%	7.8%	6.9%
Store counts (at end of period):					
U.S. Company-owned stores	390	392	392	384	377
U.S. franchise stores	5,486	5,195	4,979	4,816	4,690
U.S. stores	5,876	5,587	5,371	5,200	5,067
International stores	10,038	9,269	8,440	7,330	6,562
Total stores	15,914	14,856	13,811	12,530	11,629

(1) The adoption of ASC 606 in 2018 resulted in the recognition of $358.5 million in revenue in 2018 related to U.S. franchise contributions to DNAF. In prior years, under accounting standards in effect at that time, we had presented these contributions net with the related disbursements in our consolidated statement of income. Refer to Note 1 to the consolidated financial statements for additional information related to the adoption of this new accounting standard.

(2) The working capital amounts exclude restricted cash and cash equivalents, advertising fund assets, restricted, and advertising fund liabilities.

(3) Same store sales growth is calculated including only sales from stores that also had sales in the comparable period of the prior year. International same store sales growth is calculated similarly to U.S. 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 2015 had no impact on reported same store sales growth amounts.

(4) In 2018, the Company began managing its franchised stores in Alaska and Hawaii as part of its U.S. Stores segment. Prior to 2018, store counts and retail sales from these franchised stores were included in the Company s international stores in the table above. Consolidated results of the Company have not been impacted by this change and prior year amounts have not been reclassified to conform to the current year presentation due to immateriality.

(5) In connection with our 2018 Recapitalization, the Company issued $825.0 million of fixed rate notes. A portion of the proceeds from the 2018 Recapitalization was used to repay the remaining $490.1 million in outstanding principal and interest under the Company s 2015 five-year fixed rate notes, pre-fund a portion of the principal and interest payable on the 2018 Notes, pay transaction fees and expenses and repurchase and retire shares of the Company s common stock. Refer to Note 4 of the consolidated financial statements for additional detail related to the 2018 Recapitalization.

(6) In connection with our 2017 Recapitalization, the Company issued $1.9 billion of fixed and floating rate notes. A portion of the proceeds from the 2017 Recapitalization was used to repay the remaining $910.2 million in

outstanding principal under the Series 2012-1 5.216% Fixed Rate Senior Secured Notes, Class A-2 (the 2012 Fixed Rate Notes), pre-fund a portion of the principal and interest payable on the 2017 fixed and floating rate notes and pay transaction fees and expenses. The Company also used a portion of the proceeds from the 2017 Recapitalization to enter into a $1.0 billion accelerated share repurchase agreement to repurchase the Company s common stock. Refer to Note 4 of the consolidated financial statements for additional detail related to the 2017 Recapitalization.

(7) In connection with our 2015 Recapitalization, the Company issued $1.3 billion of fixed rate notes. A portion of the proceeds from the 2015 Recapitalization was used to make an optional prepayment of approximately $551.3 million in aggregate principal amount of its 2012 Fixed Rate Notes, at par, pay scheduled principal catch-up amounts on its 2012 Fixed Rate Notes, make an interest reserve deposit, pre-fund a portion of the principal and interest payable on the 2015 fixed rate notes and pay transaction fees and expenses. The Company also used a portion of the proceeds from the 2015 Recapitalization to enter into a $600.0 million accelerated share repurchase agreement to repurchase the Company s common stock. Refer to Note 4 of the consolidated financial statements for additional detail related to the 2015 Recapitalization.

(8) The 2015 fiscal year includes 53 weeks and the 2018, 2017, 2016, and 2014 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 2018, 2017 and 2016 each consisted of 52 weeks.

Description of the Business

Domino s is the largest pizza company in the world based on global retail sales, with more than 15,900 locations in over 85 markets around the world. Founded in 1960, our roots are in convenient pizza delivery, while a significant amount of our sales also come from carryout customers. Although we are a highly-recognized global brand, we focus on serving the local neighborhoods in which we live and do business through our large network of franchise owners and Company-owned stores. On average, we and our franchisees sell more than 3 million pizzas each day throughout our global system.

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

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

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

Fiscal 2018 Highlights

- Global retail sales (which are total retail sales at Company-owned and franchised stores worldwide) increased 10.6% as compared to 2017.

- Same store sales increased 6.6% in our U.S. stores and increased 3.5% in our international stores.

- Our revenues increased 23.1%.

Our income from operations increased 9.7%.

Our net income increased 30.3%.

Our diluted earnings per share increased 43.2%.

The adoption of Accounting Standards Codification 606, *Revenue from Contracts with Customers* (ASC 606) in 2018 resulted in the recognition of $358.5 million in revenue in 2018 related to U.S. franchise contributions to Domino s National Advertising Fund Inc. (DNAF), our consolidated not-for-profit advertising fund. In 2017, under accounting standards in effect at that time, we had presented these contributions net with the related disbursements in our consolidated statement of income. Refer to Note 1 to the consolidated financial statements for additional information related to the adoption of this new accounting standard.

During 2018, we continued our rapid global expansion with the opening of 1,058 net new stores. Our international franchise segment led the way with 800 net new store openings, including the opening of our 10,000th international store. We also continued our strong U.S. and international same store sales performance with 31 straight quarters of positive U.S. same store sales and 100 straight quarters of positive international same store sales. Our Domino s Piece of the Pie Rewards loyalty program continues to contribute to our U.S. same store sales performance. Additionally, we remained focused on growing online ordering and improving the digital customer experience through our technology platforms, including the recent launch of Domino s Delivery HotSpots. Our emphasis on technology innovation helped the Domino s system generate more than half of global retail sales from digital channels in 2018. Overall, we believe our focus in 2018 on global growth and technology will continue to strengthen our brand in the future.

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Fiscal 2017 Highlights

Global retail sales increased 12.7% as compared to 2016.

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

Our revenues increased 12.8%.

Our income from operations increased 14.8%.

Our net income increased 29.5%.

Our diluted earnings per share increased 35.6%.

During 2017, we continued our rapid global expansion with the opening of 1,045 net new stores. Our international franchise segment led the way with 829 net new store openings. We continued our focus on growing online ordering and the digital customer experience as well as other technological advancements. In 2017, as part of an industry-first collaboration with Ford Motor Company, Domino s began a meaningful test of delivery using self-driving vehicles. Our emphasis on technology innovation helped the Domino s system generate more than half of global retail sales from digital channels in 2017.

Critical accounting policies and estimates

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

Revenue recognition. We earn revenues through our network of U.S. Company-owned and franchised stores, dough manufacturing and supply chain centers and international operations. Retail sales from franchise stores are reported to the Company by its franchisees and are not included in Company revenues. Retail sales from Company-owned stores and royalty revenues resulting from the retail sales from franchised stores are recognized as revenues when the items are delivered to or carried out by customers. Retail sales are generally reported and related royalties paid to the Company based on a percentage of retail sales, as specified in the related standard franchise agreement (generally 5.5% of U.S. franchise retail sales and, on average, 3.0% of international franchise retail sales). The Company also generates revenues from U.S. franchise advertising contributions to DNAF, its consolidated not-for-profit advertising fund (generally 6.0% of U.S. franchise retail sales). Although these revenues are restricted to be used only for advertising and promotional activities to benefit franchised stores, the Company has determined there are not performance obligations associated with the franchise advertising contributions received by DNAF that are separate from its U.S. royalty payment stream and as a result, these franchise contributions and the related expenses are presented gross in the Company s consolidated statement of income.

Revenues from Company-owned stores and revenues from franchised stores (including U.S. franchise royalties and fees and U.S. franchise advertising revenues) can fluctuate from time-to-time as a result of store count and sales level changes. This can occur when a Company-owned store is sold to a franchisee. If a Company-owned store that generated $1,000,000 in revenue in fiscal 2017 was sold to a franchisee in fiscal 2018, revenues from Company-owned stores would have declined by $1,000,000 in fiscal 2018, while U.S. franchise royalty revenues would have increased by $55,000 and U.S. franchise advertising revenues would have increased by $60,000 in fiscal 2018, as we generally collect 5.5% of a U.S. franchisee s retail sales as royalty revenue and 6.0% of a U.S. franchisee s retail sales for advertising contributions. 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.

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

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

A significant portion of our goodwill relates to acquisitions of U.S. franchise stores and is included in our U.S. stores segment, specifically, in our Company-owned stores division. We evaluate goodwill annually for impairment by comparing the fair value of the reporting unit (which is primarily determined using the present value of future cash flows) to its carrying value. If the carrying value of the reporting unit exceeds the fair value, goodwill would be impaired. We have not made any significant changes in the methodology used to evaluate goodwill impairment during the years presented. At December 30, 2018, 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. The Company did not record any impairment charges during fiscal 2018, fiscal 2017 or fiscal 2016.

We adopted ASU 2017-04, *Intangibles Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (ASU 2017-04) during 2018. ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. As the fair value of our business operations exceeded their recorded carrying value in Step 1 of the impairment test, the adoption of this standard did not have an impact on our evaluation of goodwill impairment.

Insurance and legal matters. We are a party to lawsuits and legal proceedings arising in the ordinary course of business. Management closely monitors these legal matters and estimates the probable costs for the resolution of such matters. These estimates are primarily determined by consulting with both internal and external parties handling the matters and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. Legal judgments can be volatile and difficult to predict. Accordingly, if our estimates relating to legal matters proved inaccurate for any reason, we may be required to increase or decrease the related expense in future periods. We had accruals for legal matters of approximately $1.9 million at December 30, 2018 and $1.7 million at December 31, 2017.

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

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Our methodology for determining our exposure has remained consistent throughout the years presented. Management believes that the various assumptions developed and actuarial methods used to determine our self-insurance reserves are reasonable and provide meaningful data that management uses to make its best estimate of our exposure to these risks. Changes in assumptions for such factors as medical costs and legal actions, as well as changes in actual experience, could cause our estimates to change in the near term which could result in an increase or decrease in the related expense in future periods. A 10% change in our self-insurance liability at December 30, 2018 would have affected our income before provision for income taxes by approximately $5.3 million for fiscal 2018. We had accruals for insurance matters of approximately $53.3 million at December 30, 2018 and $51.4 million at December 31, 2017.

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

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

Income taxes. We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. We measure deferred tax assets and liabilities using current enacted tax rates that will apply in the years in which we expect the temporary differences to be recovered or paid. Judgment is required in determining the provision for income taxes, related reserves and deferred tax assets and liabilities. These include establishing a valuation allowance related to the ability to realize certain deferred tax assets, if necessary. On an ongoing basis, management will assess whether it remains more likely than not that the net deferred tax assets will be realized. The Company did not have any valuation allowances recorded for deferred tax assets as of December 30, 2018 or December 31, 2017. Our accounting for deferred tax assets represents our best estimate of future events. Our net deferred tax assets assume that we will generate sufficient taxable income in specific tax jurisdictions, based on our estimates and assumptions. Changes in our current estimates due to unanticipated events could have a material impact on our financial condition and results of operations.

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

Same Store Sales Growth

	2018 (1)	2017	2016
U.S. Company-owned stores	4.8%	8.7%	10.4%
U.S. franchise stores	6.8%	7.6%	10.5%
U.S. stores	6.6%	7.7%	10.5%
International stores (excluding foreign currency impact)	3.5%	3.4%	6.3%

(1) In the first quarter of 2018, the Company began managing its franchised stores in Alaska and Hawaii as part of its U.S. Stores segment. Prior to 2018, store counts, retail sales and royalty revenues from these franchised stores were included in the Company s international operations in the tables above. Consolidated results of the Company have not been impacted by this change and prior year amounts have not been reclassified to conform to the current year presentation due to immateriality.

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Store Growth Activity

	U.S. Company-owned Stores	U.S. Franchise Stores	Total U.S. Stores	International Stores	Total
Store count at January 3, 2016	384	4,816	5,200	7,330	12,530
Openings	8	186	194	1,178	1,372
Closings	(1)	(22)	(23)	(68)	(91)
Transfers	1	(1)			
Store count at January 1, 2017	392	4,979	5,371	8,440	13,811
Openings	16	213	229	891	1,120
Closings		(13)	(13)	(62)	(75)
Transfers	(16)	16			
Store count at December 31, 2017	392	5,195	5,587	9,269	14,856
Openings	12	255	267	916	1,183
Closings		(9)	(9)	(116)	(125)
Transfers (1)	(14)	45	31	(31)	
Store count at December 30, 2018	390	5,486	5,876	10,038	15,914

Income Statement Data

(dollars in millions)	**2018 (1) (2)**		**2017**		**2016**	
U.S. Company-owned stores	$ 514.8		$ 490.8		$ 439.0	
U.S. franchise royalties and fees	391.5		351.4		312.3	
Supply chain	1,943.3		1,739.0		1,544.3	
International franchise royalties and fees	224.7		206.7		177.0	
U.S. franchise advertising	358.5					
Total revenues	3,432.9	100.0%	2,788.0	100.0%	2,472.6	100.0%
U.S. Company-owned stores	398.2		377.7		331.9	
Supply chain	1,732.0		1,544.3		1,373.1	
Cost of sales	2,130.2	62.1%	1,922.0	68.9%	1,704.9	69.0%
Operating margin	1,302.7	37.9%	866.0	31.1%	767.7	31.0%
General and administrative	372.5	10.8%	344.8	12.4%	313.6	12.7%
U.S. franchise advertising	358.5	10.4%		%		%
Income from operations	571.7	16.7%	521.2	18.7%	454.0	18.3%
Interest expense, net	(143.0)	(4.2)%	(121.1)	(4.3)%	(109.4)	(4.4)%

Income before provision for income taxes	428.7	12.5%	400.2	14.4%	344.7	13.9%
Provision for income taxes	66.7	2.0%	122.2	4.4%	130.0	5.2%
Net income	$ 362.0	10.5%	$ 277.9	10.0%	$ 214.7	8.7%

(1) In 2018, the Company began managing its franchised stores in Alaska and Hawaii as part of its U.S. Stores segment. Prior to 2018, store counts, retail sales and royalty revenues from these franchised stores were included in the Company s international operations in the tables above. Consolidated results of the Company have not been impacted by this change and prior year amounts have not been reclassified to conform to the current year presentation due to immateriality. Also, see Note 12 to the consolidated financial statements for additional information related to the store transfers between U.S. Company-owned stores and U.S. franchise stores.

(2) The adoption of ASC 606 in 2018 resulted in the recognition of $358.5 million in revenue in 2018 related to U.S. franchise contributions to DNAF. In prior years, under accounting standards in effect at that time, we had presented these contributions net with the related disbursements in our consolidated statement of income. Refer to Note 1 to the consolidated financial statements for additional information related to the adoption of this new accounting standard.

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2018 compared to 2017

(tabular amounts in millions, except percentages)

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

Consolidated revenues increased $644.9 million or 23.1% in 2018. The adoption of ASC 606 in 2018 resulted in the recognition of $358.5 million in revenue in 2018 related to U.S. franchise contributions to DNAF. In 2017, under accounting standards in effect at that time, we had presented these contributions net with the related disbursements in our consolidated statement of income. Refer to Note 1 to the consolidated financial statements for additional information related to the adoption of this new accounting standard. The remaining increase was due primarily to higher supply chain food volumes as well as higher U.S. franchise, Company-owned store and international franchise revenues resulting from retail sales growth. These changes in revenues are more fully described below.

U.S. stores. Revenues from U.S. stores are primarily comprised of retail sales from U.S. Company-owned store operations and royalties, advertising contributions and other fees from U.S. franchised stores, as summarized in the following table.

	2018		2017	
U.S. Company-owned stores	$ 514.8	40.7%	$ 490.8	58.3%
U.S. franchise royalties and fees	391.5	31.0%	351.4	41.7%
U.S. franchise advertising	358.5	28.3%		%
Total U.S. stores revenues	$ 1,264.8	100.0%	$ 842.2	100.0%

U.S. stores revenues increased $422.6 million, or 50.2%, in 2018. This increase was driven by the adoption of ASC 606, which requires a gross presentation of U.S. franchise advertising contributions in our consolidated statement of income, as well as higher royalty revenues earned on higher franchise same store sales and an increase in the average number of stores open in 2018 as compared to the prior year. Higher U.S. Company-owned same store sales also contributed to the increase in revenue. These changes in U.S. stores revenues are more fully described below.

U.S. Company-owned stores. Revenues from U.S. Company-owned store operations increased $24.0 million or 4.9% in 2018 due primarily to a 4.8% increase in same store sales as compared to 2017.

U.S. franchise royalties and fees. Revenues from U.S. franchise operations increased $40.1 million or 11.4% in 2018. The increase was driven by a 6.8% increase in same store sales as compared to 2017 and an increase in the average number of stores open during the year. Revenues further benefited from higher fees paid by franchisees for the use of our internally developed technology platforms. U.S. franchise royalties and fees were reduced by $17.9 million in 2018 due to the adoption of ASC 606, primarily related to the reclassification of certain advertising revenues from U.S. franchise royalties and fees to U.S. franchise advertising revenues.

U.S. franchise advertising. Revenues from U.S. franchise advertising contributions were $358.5 million in 2018. In years prior to 2018, based on accounting guidance in effect at the time, the U.S. franchise advertising contributions were shown net with the related disbursements in our consolidated statement of income. In 2018, we adopted ASC 606, which required these revenues and expenses to be presented gross on our consolidated statement of income. Refer to Note 1 to the consolidated financial statements for additional information related to the adoption of this new accounting standard.

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

	2018		**2017**	
U.S. supply chain	$ 1,760.8	90.6%	$ 1,574.9	90.6%
International supply chain	182.5	9.4%	164.1	9.4%
Total supply chain	$ 1,943.3	100.0%	$ 1,739.0	100.0%

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U.S. supply chain. U.S. supply chain revenues increased $185.9 million or 11.8% in 2018, driven primarily by higher volumes from increased order counts at the store level, higher market basket pricing to stores and store count growth. Our market basket pricing to stores increased 4.0% during 2018, which resulted in an estimated $52.9 million increase in U.S. supply chain revenues.

International supply chain. International supply chain revenues increased $18.4 million or 11.2% in 2018, driven primarily by higher volumes from increased order counts at the store level.

International franchise royalties and fees. International franchise revenues primarily consist of royalties from retail sales and other fees from our international franchise stores. Revenues from international franchise operations increased $18.0 million or 8.7% in 2018. This increase was due primarily to an increase in the average number of international stores open during 2018 as well as higher same store sales. The negative impact of changes in foreign currency exchange rates of approximately $1.1 million in 2018 partially offset these increases. Excluding the impact of foreign currency exchange rates, same store sales increased 3.5% in 2018 compared to 2017.

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

	2018		2017	
Consolidated revenues	$ 3,432.9	100.0%	$ 2,788.0	100.0%
Consolidated cost of sales	2,130.2	62.1%	1,922.0	68.9%
Consolidated operating margin	$ 1,302.7	37.9%	$ 866.0	31.1%

The $436.7 million or 50.4% increase in consolidated operating margin was primarily driven by the adoption of ASC 606, which requires a gross presentation of U.S. franchise advertising contributions on our consolidated statement of income. Higher U.S. and international franchise revenues, as well as higher supply chain and Company-owned store margins also contributed to the increased operating margin in 2018. Franchise royalties and fees and U.S. franchise advertising revenues do not have a cost of sales component, so changes in these revenues have a disproportionate effect on the operating margin.

As a percentage of total revenues, our consolidated operating margin increased 6.8 percentage points in 2018 due primarily to the adoption of ASC 606, which requires a gross presentation of U.S. franchise advertising contributions on our consolidated statement of income. Company-owned store operating margin decreased 0.4 percentage points in 2018 and supply chain operating margin decreased 0.3 percentage points in 2018. These changes in margin are more fully discussed below.

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

	2018		2017	
Revenues	$ 514.8	100.0%	$ 490.8	100.0%

Cost of sales	398.2	77.3%	377.7	76.9%
Store operating margin	$ 116.6	22.7%	$ 113.2	23.1%

The $3.4 million or 3.1% increase in the U.S. Company-owned store operating margin was due primarily to higher same store sales and lower insurance expense but was partially offset by higher food and labor costs. As a percentage of store revenues, the store operating margin decreased 0.4 percentage points in 2018, as discussed in more detail below.

Food costs increased 0.7 percentage points to 27.4% in 2018, due primarily to higher food prices.

Labor costs increased 0.6 percentage points to 30.1% in 2018, due primarily to an increase in labor rates in certain markets.

Insurance costs decreased 0.4 percentage points to 3.0% in 2018, due primarily to better claims experience and leveraging of higher same store sales.

Occupancy costs, which include rent, telephone, utilities and depreciation, decreased 0.2 percentage points to 7.7%, due primarily to the leveraging of higher same store sales.

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

	2018		2017	
Revenues	$ 1,943.3	100.0%	$ 1,739.0	100.0%
Cost of sales	1,732.0	89.1%	1,544.3	88.8%
Supply chain operating margin	$ 211.3	10.9%	$ 194.7	11.2%

The $16.6 million or 8.5% increase in the supply chain operating margin was due primarily to higher volumes from increased store orders. As a percentage of supply chain revenues, the supply chain operating margin decreased 0.3 percentage points in 2018, due primarily to higher delivery and labor costs, offset in part by procurement savings.

General and administrative expenses. General and administrative expenses increased $27.7 million, or 8.0%, in 2018 due primarily to continued investments in technological initiatives and other strategic areas. Higher expense related to professional fees, advertising and stock compensation also contributed to the increase. General and administrative expenses were reduced by $17.1 million in 2018 due to the adoption of ASC 606, primarily related to the reclassification of certain advertising expenses from general and administrative expenses to U.S. franchise advertising expenses.

U.S. franchise advertising. U.S. franchise advertising expenses were $358.5 million in 2018. In years prior to 2018, U.S. franchise advertising expenses were shown net with the related contributions in our consolidated statement of income. In 2018, we adopted ASC 606, which required these revenues and expenses to be presented gross on our consolidated statement of income. Refer to Note 1 to the consolidated financial statements for additional information related to the adoption of this new accounting standard.

Interest income. Interest income increased $1.9 million to $3.3 million in 2018 due to a higher average cash balance and higher interest rates on our cash equivalents.

Interest expense. Interest expense increased $23.8 million to $146.3 million in 2018. This increase was driven by higher average borrowings resulting from our 2018 Recapitalization and 2017 Recapitalization, offset in part by a lower weighted average borrowing rate in 2018. We also recorded approximately $3.3 million of incremental interest expense in 2018 in connection with the 2018 Recapitalization. During 2017, we recorded $5.8 million of incremental interest expense in connection with our 2017 Recapitalization.

The Company s weighted average borrowing rate decreased to 4.0% in 2018 from 4.2% in 2017 due to the lower interest rates on the debt outstanding 2018 as compared 2017.

Provision for income taxes. Provision for income taxes decreased $55.5 million to $66.7 million in 2018 due primarily to a lower effective tax rate resulting from the lower federal statutory rate of 21% related to the 2017 Tax Act enacted in December 2017. Lower excess tax benefits on equity-based compensation, which are recorded as a reduction to the income tax provision, partially offset this decrease. Excess tax benefits recorded were lower by $3.4 million in 2018 as compared to 2017. The effective tax rate decreased to 15.6% in 2018 as compared to 30.6% in 2017.

2017 compared to 2016

(tabular amounts in millions, except percentages)

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

U.S. stores. U.S. stores revenues are summarized in the following table.

	2017		**2016**	
U.S. Company-owned stores	$ 490.8	58.3%	$ 439.0	58.4%
U.S. franchise royalties and fees	351.4	41.7%	312.3	41.6%
Total U.S. stores revenues	$ 842.2	100.0%	$ 751.3	100.0%

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

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

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

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

	2017		2016	
U.S. supply chain	$ 1,574.9	90.6%	$ 1,408.8	91.2%
International supply chain	164.1	9.4%	135.5	8.8%
Total supply chain	$ 1,739.0	100.0%	$ 1,544.3	100.0%

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

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

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

Cost of sales / Operating margin. The changes to the consolidated operating margin are summarized in the following table.

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

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

As a percentage of total revenues, our consolidated operating margin increased 0.1 percentage points in 2017 due to a higher mix of franchise revenues and higher supply chain margin as a percentage of supply chain revenues.

Company-owned store operating margin decreased 1.3 percentage points during 2017. These changes in margin are more fully discussed below.

U.S. Company-owned stores. The changes to U.S. Company-owned store operating margin are summarized in the following table.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The increase in interest expense was offset in part by a lower weighted-average borrowing rate.

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

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

Liquidity and capital resources

Historically, we have operated with minimal positive working capital or negative working capital, primarily because our receivable collection periods and inventory turn rates are faster than the normal payment terms on our current liabilities. We generally collect our receivables within three weeks from the date of the related sale and we generally experience 35 to 45 inventory turns per year. In addition, our sales are not typically seasonal, which further limits our working capital requirements. These factors, coupled with the use of our ongoing cash flows from operations to service our debt obligations, invest in our business, pay dividends and repurchase our common stock, reduce our working capital amounts. As of December 30, 2018, we had working capital of $14.6 million, excluding restricted cash and cash equivalents of $167.0 million, advertising fund assets, restricted, of $112.7 million and advertising fund liabilities of $107.2 million. Working capital includes total unrestricted cash and cash equivalents of $25.4 million.

As of December 30, 2018, we had approximately $130.3 million of restricted cash held for future principal and interest payments, $36.5 million of restricted cash held in a three-month interest reserve as required by the related debt agreements and $0.2 million of other restricted cash for a total of $167.0 million of restricted cash and cash equivalents. As of December 30, 2018, we also held $45.0 million of advertising fund restricted cash and cash equivalents, which can only be used for activities that promote the Domino s Pizza brand.

Our primary source of liquidity is cash flows from operations and availability of borrowings under our variable funding notes. In connection with the 2017 Recapitalization, the Company issued a variable funding note facility which allows for advances of up to $175.0 million of Series 2017-1 Variable Funding Senior Secured Notes, Class A-1 Notes and certain other credit instruments, including letters of credit (the 2017 Variable Funding Notes). As of December 30, 2018, we had $65.0 million of outstanding borrowings and $61.9 million of available borrowing capacity under our 2017 Variable Funding Notes, net of letters of credit issued of $48.1 million. The letters of credit are primarily related to our casualty insurance programs and certain supply chain center leases. Borrowings under the 2017 Variable Funding Notes are available to fund our working capital requirements, capital expenditures and, subject to other limitations, other general corporate purposes including dividend payments and share repurchases.

2018 Recapitalization

On April 24, 2018, we completed the 2018 Recapitalization in which certain of our subsidiaries issued new notes pursuant to an asset-backed securitization. The notes consisted of $425.0 million Series 2018-1 4.116% Fixed Rate Senior Secured Notes, Class A-2-I with an anticipated term of 7.5 years (the 2018 7.5-Year Fixed Rate Notes), and $400.0 million Series 2018-1 4.328% Fixed Rate Senior Secured Notes, Class A-2-II with an anticipated term of 9.25 years (the 2018 9.25-Year Fixed Rate Notes and, collectively with the 2018 7.5-Year Fixed Rate Notes, the 2018 Notes) in an offering exempt from registration under the Securities Act of 1933, as amended. Gross proceeds from the issuance of the 2018 Notes were $825.0 million. Additional information related to the 2018 Recapitalization transaction is included in Note 4 to our consolidated financial statements.

A portion of the proceeds from the 2018 Recapitalization was used to repay the remaining $490.1 million in outstanding principal and interest under the Company s 2015 Five-Year Fixed Rate Notes, pre-fund a portion of the principal and interest payable on the 2018 Notes, pay transaction fees and expenses and repurchase and retire shares of the Company s common stock. In connection with the repayment of the 2015 Five-Year Fixed Rate Notes, the Company expensed approximately $3.2 million for the remaining unamortized debt issuance costs associated with these notes. Additionally, in connection with the 2018 Recapitalization, the Company capitalized $8.2 million of debt issuance costs, which are being amortized into interest expense over the expected terms of the 2018 Notes.

2017 Recapitalization

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

Recapitalization transaction is included in Note 4 to our consolidated financial statements.

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

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On August 2, 2017, we entered into a $1.0 billion accelerated share repurchase agreement (the 2017 ASR Agreement) with a counterparty. Pursuant to the terms of the 2017 ASR Agreement, on August 3, 2017, we used a portion of the proceeds from the 2017 Recapitalization to pay the counterparty $1.0 billion in cash and received 4,558,863 shares of the Company s common stock. Final settlement of the 2017 ASR Agreement occurred on October 11, 2017. In connection with the 2017 ASR Agreement, we received and retired a total of 5,218,670 shares of our common stock at an average price of $191.62.

2015 Recapitalization

On October 21, 2015, we completed the 2015 Recapitalization in which certain of our subsidiaries, among other things, replaced $551.3 million of the 2012 Fixed Rate Notes and its 2012 variable funding notes with new notes issued pursuant to an asset-backed securitization. The notes consisted of $500.0 million of Series 2015-1 3.484% Fixed Rate Senior Secured Notes, Class A-2-I (the 2015 Five-Year Fixed Rate Notes), $800.0 million Series 2015-1 4.474% Fixed Rate Senior Secured Notes, Class A-2-II (the 2015 Ten-Year Fixed Rate Notes and collectively with the 2015 Five-Year Fixed Rate Notes, the 2015 Fixed Rate Notes) and $125.0 million of Series 2015-1 Variable Funding Senior Secured Notes, Class A-1 (the 2015 Variable Funding Notes and, collectively with the 2015 Fixed Rate Notes, the 2015 Notes). Gross proceeds from the issuance of the 2015 Notes were $1.3 billion. The 2015 Five-Year Fixed Rate Notes were repaid in connection with the 2018 Recapitalization. Additional information related to the 2015 Recapitalization transaction is included in Note 4 to our consolidated financial statements. The 2018 Notes, the 2017 Fixed and Floating Rate Notes and the 2015 Fixed Rate Notes are collectively referred to as the 2018, 2017 and 2015 Notes.

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

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

2018, 2017 and 2015 Notes

The 2018, 2017 and 2015 Notes have original scheduled principal payments of $35.3 million in each of 2019 through 2021, $888.0 million in 2022, $26.3 million in each of 2023 and 2024, $1.14 billion in 2025, $14.0 million in 2026 and $1.27 billion in 2027. However, in accordance with our debt agreements, the payment of principal on the outstanding senior notes shall be suspended if the leverage ratio for the Company is less than or equal to 5.0x total debt, as defined, to adjusted EBITDA, as defined, and no catch-up provisions are applicable. As of December 30, 2018, we also had $65.0 million outstanding under our variable funding notes with a legal maturity date in July 2022, subject to two additional one-year extensions at the option of the Company, subject to certain conditions.

The 2018, 2017 and 2015 Notes are subject to certain financial and non-financial covenants, including a debt service coverage calculation, as defined in the related agreements. In the event that certain covenants are not met, the 2018, 2017 and 2015 Notes may become due and payable on an accelerated schedule.

Under the provisions of the Company s previously existing debt agreements, during the first and second quarters of 2017, the Company met the maximum leverage ratios of less than 4.5x and accordingly, did not make previously scheduled debt amortization payments in accordance with the debt agreements. Subsequent to the 2017 Recapitalization and through 2018, the Company s leverage ratios exceeded the new maximum leverage ratio of 5.0x and, accordingly, the Company began making the scheduled amortization payments.

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Share Repurchase Programs

The Company s open market share repurchase programs have historically been funded by excess operating cash flows, excess proceeds from our recapitalization transactions and borrowings under our variable funding notes. The Company used cash of approximately $591.2 million in 2018, $1.06 billion in 2017 and $300.3 million in 2016 for share repurchases. The Company s Board of Directors authorized a share repurchase program to repurchase up to $750.0 million of the Company s common stock on February 14, 2018. The Company had approximately $158.8 million left under this share repurchase program as of December 30, 2018. From December 31, 2018 through February 14, 2019, the Company repurchased and retired an additional 33,549 shares of common stock for a total of approximately $8.1 million, or an average price of $242.74 per share.

Capital Expenditures

In the past three years, we have invested approximately $268.5 million in capital expenditures. In 2018, we invested $119.9 million in capital expenditures which primarily related to investments in our supply chain centers, our digital ordering platform, our proprietary internally developed point-of-sale system (Domino s PULSE), our internal enterprise systems, asset upgrades and reimages for our existing Company-owned stores and new Company-owned stores. We did not have any material commitments for capital expenditures as of December 30, 2018.

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

	Fiscal Year Ended		
(In millions)	**December 30, 2018**	**December 31, 2017 (1)**	**January 1, 2017 (1)**
Cash Flows Provided By (Used In)			
Net cash provided by operating activities	$ 394.2	$ 341.3	$ 292.5
Net cash used in investing activities	(88.3)	(83.7)	(55.3)
Net cash used in financing activities	(322.8)	(197.1)	(375.8)
Exchange rate changes	(0.5)	0.1	(1.3)
Change in cash and cash equivalents, restricted cash and cash equivalents	$ (17.4)	$ 60.4	$ (139.9)

(1) In 2018, the Company adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that restricted cash and cash equivalents be included as components of total cash and cash equivalents as presented on the consolidated statement of cash flows. The prior year amounts have been recast. Refer to Note 1 to the consolidated financial statements for additional information related to the adoption of this new accounting standard.

Operating Activities

Cash provided by operating activities increased $52.9 million in 2018, primarily due to an increase in net income of $84.1 million. This increase was partially offset by the negative impact of changes in operating assets and liabilities of $32.1 million. Our cash outflows for operating assets and liabilities in 2018 were higher than in 2017 due primarily to higher inventory balances and the timing of payments on accounts payable and accrued liabilities.

Cash provided by operating activities increased $48.8 million in 2017 from 2016, primarily due to an increase in net income of $63.2 million. Net income in 2017 included a $27.2 million benefit from the adoption of ASU 2016-09, which requires tax benefits on equity-based compensation to be recorded as a reduction to the provision from income taxes in net income and as a component of cash provided by operating activities. In 2016, these tax benefits were recorded directly to stockholders deficit and as a financing activity in the statement of cash flows. Cash provided by operating activities was also positively impacted by an increase in non-cash amounts of $18.1 million. These increases were offset in part by the negative impact of changes in operating assets and liabilities of $32.5 million, primarily related to the timing of payments on accounts payable and accrued liabilities during 2017 as compared to 2016.

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

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Investing Activities

Cash used in investing activities was $88.3 million in 2018, which consisted primarily of $119.9 million of capital expenditures (driven primarily by investments in supply chain centers, technology initiatives and our Company-owned stores) and purchases of restricted advertising fund investments of $70.2 million. These uses of cash were partially offset by maturities of restricted advertising fund investments of $94.0 million. The Company adopted ASC 606 in the first quarter of 2018, which superseded the agency guidance the Company historically applied to present advertising fund activities net in the Company s consolidated statement of cash flows. Refer to Note 1 to the consolidated financial statements for additional information related to the Company s adoption of ASC 606. These uses of cash were offset in part by the proceeds from the sale of assets of $8.4 million.

Cash used in investing activities was $83.7 million in 2017, which consisted primarily of $90.0 million of capital expenditures (driven by investments in our technological initiatives, supply chain centers and Company-owned stores), offset in part by the proceeds from the sale of assets of $6.8 million.

Cash used in investing activities was $55.3 million in 2016, which consisted primarily of $58.6 million of capital expenditures (driven by investments related to the reimaging of our existing Company-owned stores and investments in our supply chain centers and training facilities, our proprietary internally developed point-of-sale system, our digital ordering platform, our internal enterprise systems and other technology initiatives), offset in part by proceeds from the sale of assets of $4.9 million.

Financing Activities

Cash used in financing activities was $322.8 million in 2018. We issued $825.0 million of debt in connection with our 2018 Recapitalization and borrowed $145.0 million under our variable funding notes. However, these increases in cash were offset by repayments of long-term debt of $604.1 million (of which $490.0 million was an optional prepayment on our 2015 Five-Year Fixed Rate Notes using a portion of the proceeds received from the 2018 Recapitalization and $80.0 million related to the repayment of borrowings under the 2017 Variable Funding Notes), purchases of common stock of $591.2 million, funding dividend payments to our shareholders of $92.2 million, and cash paid for financing costs related to our 2018 Recapitalization of $8.2 million. We also received proceeds of $9.8 million from the exercise of stock options and made $7.0 million in tax payments for restricted stock upon vesting.

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

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

Our ability to continue to fund these items and continue to reduce debt could be adversely affected by the occurrence of any of the events described in Item 1A. Risk Factors. There can be no assurance that our business will generate sufficient cash flows from operations or that future borrowings will be available under the 2017 Variable Funding Notes or otherwise to enable us to service our indebtedness, or to make anticipated capital expenditures. Our future operating performance and our ability to service, extend or refinance the 2018, 2017 and 2015 Notes and to service, extend or refinance the 2017 Variable Funding Notes will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control.

Impact of inflation

Inflation did not have a material impact on our operations in 2018, 2017 or 2016. Severe increases in inflation, however, could affect the global and U.S. economies and could have an adverse impact on our business, financial condition and results of operations. Further discussion on the impact of commodities and other cost pressures is included above as well as in Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

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New accounting pronouncements

The impact of new accounting pronouncements adopted during 2018 and the estimated impact of new accounting pronouncements that we will adopt in future years is included in Note 1 to the consolidated financial statements.

Contractual obligations

The following is a summary of our significant contractual obligations at December 30, 2018.

(dollars in millions)	2019	2020	2021	2022	2023	Thereafter	Total
Long-term debt (1):							
Principal	$ 35.3	$ 35.3	$ 35.3	$ 953.0	$ 26.3	$ 2,457.1	$ 3,542.1
Interest (2)	142.0	144.0	141.4	125.7	104.8	281.9	939.8
Capital leases (3)	2.4	2.4	2.4	2.5	2.5	23.8	36.0
Operating leases (4)	40.8	37.5	34.5	30.8	27.4	100.3	271.3

(1) We have outstanding long-term secured notes with varying maturities. For additional information, see Note 4 of the Notes to Consolidated Financial Statements under Part II Item 8 Financial Statements and Supplementary Data.
(2) Represents interest payments on our 2018, 2017 and 2015 Notes and 2017 Variable Funding Notes. The interest rate on the 2017 Variable Funding Notes will be payable at a per year rate equal to LIBOR plus 150 basis points.
(3) The principal portion of the capital lease obligation amounts above, which totaled $17.0 million at December 30, 2018, are classified as debt in our consolidated financial statements.
(4) We lease certain retail store and supply chain center locations, supply chain vehicles, various equipment and our World Resource Center under leases with expiration dates through 2034.

As of December 30, 2018, we have entered into additional operating leases for supply chain center tractors and trailers and a build-to-suit arrangement for a new building constructed by the Company s landlord that had not yet commenced with estimated future minimum rental commitments of approximately $39.1 million. We have also entered into an additional finance lease for a supply chain center that had not yet commenced with estimated future minimum rental commitments of approximately $28.7 million. These leases are expected to commence in 2019 with lease terms of up to 15 years. These amounts are not included in the table above.

Liabilities for unrecognized tax benefits of $2.0 million are excluded from the above table, as we are unable to make a reasonably reliable estimate of the amount and period of payment. For additional information on unrecognized tax benefits see Note 6 to the consolidated financial statements included in this Form 10-K.

Off-balance sheet arrangements

We are party to letters of credit and, to a lesser extent, financial guarantees with off-balance sheet risk. Our exposure to credit loss for letters of credit and financial guarantees is represented by the contractual amounts of these instruments. Total conditional commitments under letters of credit as of December 30, 2018 were approximately $48.1 million and relate to our insurance programs and supply chain center leases. The Company has guaranteed lease payments related to certain franchisees lease arrangements. The maximum amount of potential future payments under these guarantees is $2.4 million as of December 30, 2018. We believe that none of these arrangements has or is likely to have a material effect on our results of operations, financial condition, revenues or expenses, capital expenditures or liquidity.

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

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

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

Forward-looking statements relating to our anticipated profitability, estimates in same store sales growth, the growth of our U.S. and international business, ability to service our indebtedness, our future cash flows, our operating performance, trends in our business and other descriptions of future events reflect management s expectations based upon currently available information and data. While we believe these expectations and projections are based on reasonable assumptions, such forward-looking statements are inherently subject to risks, uncertainties and assumptions about us, including the risk factors listed under Item 1A. Risk Factors, as well as other cautionary language in this Form 10-K.

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

- our substantial increased indebtedness as a result of the 2015 Recapitalization, 2017 Recapitalization and 2018 Recapitalization and our ability to incur additional indebtedness or refinance or renegotiate key terms of that indebtedness in the future;

- the impact a downgrade in our credit rating may have on our business, financial condition and results of operations;

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

- the effectiveness of our advertising, operations and promotional initiatives;

- the strength of our brand, including our ability to compete in the U.S. and internationally in our intensely competitive industry;

- the impact of social media and other consumer-oriented technologies on our business, brand and reputation;

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

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

our ability to successfully implement cost-saving strategies;

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

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

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

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

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

changes in foreign currency exchange rates;

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

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

changes in government legislation or regulation, including changes in laws and regulations regarding information privacy and consumer protection;

adverse legal judgments or settlements;

food-borne illness or contamination of products;

data breaches, power loss, technological failures, user error or other cyber risks;

the effect of war, terrorism or catastrophic events;

our ability to pay dividends and repurchase shares;

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

changes in accounting policies; and

adequacy of our insurance coverage.

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

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

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

Market risk

We do not engage in speculative transactions nor do we hold or issue financial instruments for trading purposes. In connection with the 2017 Recapitalization, we issued fixed and floating rate notes and, at December 30, 2018, we are exposed to interest rate risk on borrowings under our 2017 Floating Rate Notes and our 2017 Variable Funding Notes. As of December 30, 2018, we had $65.0 million in outstanding borrowings under our 2017 Variable Funding Notes. Our 2017 Floating Rate Notes and our 2017 Variable Funding Notes bear interest at fluctuating interest rates based on LIBOR. A hypothetical 1.0% adverse change in the LIBOR rate would have resulted in higher interest expense of approximately $3.0 million in 2018.

There is currently uncertainty around whether LIBOR will continue to exist after 2021. If LIBOR ceases to exist, we may need to renegotiate our loan documents and we cannot predict what alternative index would be negotiated with our lenders. As a result, our interest expense could increase, in which event we may have difficulties making interest payments and funding our other fixed costs, and our available cash flow for general corporate requirements may be adversely affected.

Our fixed rate debt exposes the Company to changes in market interest rates reflected in the fair value of the debt and to the risk that the Company may need to refinance maturing debt with new debt at a higher rate.

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

Foreign currency exchange rate risk

We have exposure to various foreign currency exchange rate fluctuations for revenues generated by our operations outside the U.S., which can adversely impact our net income and cash flows. Approximately 6.5% of our total revenues in 2018, 7.4% of our total revenues in 2017 and 7.2% of our total revenues in 2016 were derived from our international franchise segment, a majority of which were denominated in foreign currencies. We also operate dough manufacturing and distribution facilities in Canada, which generate revenues denominated in Canadian dollars. We do not enter into financial instruments to manage this foreign currency exchange risk. A hypothetical 10% adverse change in the foreign currency rates for our international markets would have resulted in a negative impact on royalty revenues of approximately $20.0 million in 2018.

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Item 8. Financial Statements and Supplementary Data.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors

of Domino s Pizza, Inc.:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Domino s Pizza, Inc. and its subsidiaries (the Company) as of December 30, 2018 and December 31, 2017, and the related consolidated statements of income, statements of comprehensive income, statements of stockholders deficit, and statements of cash flows for each of the three years in the period ended December 30, 2018, including the related notes, the schedules of condensed financial information of the registrant as of December 30, 2018 and December 31, 2017 and for the three years in the period ended December 30, 2018 and valuation and qualifying accounts for each of the three years in the period December 30, 2018 appearing under Item 16 (collectively referred to as the consolidated financial statements). We also have audited the Company s internal control over financial reporting as of December 30, 2018, based on criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 30, 2018 and December 31, 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 30, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2018, based on criteria established in Internal Control Integrated Framework (2013) issued by the COSO.

Change in Accounting Principles

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for revenue and the manner in which it accounts for restricted cash and cash equivalents in 2018. As discussed in Note 6 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in 2017.

Basis for Opinions

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

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

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

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Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ PricewaterhouseCoopers LLP

Detroit, Michigan

February 21, 2019

We have served as the Company s auditor since 2002.

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Domino s Pizza, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	December 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 25,438	$ 35,768
Restricted cash and cash equivalents	166,993	191,762
Accounts receivable, net of reserves of $1,879 in 2018 and $1,424 in 2017	190,091	173,677
Inventories	45,975	39,961
Prepaid expenses and other	25,710	18,389
Advertising fund assets, restricted	112,744	120,223
Total current assets	566,951	579,780
Property, plant and equipment:		
Land and buildings	41,147	29,171
Leasehold and other improvements	170,498	128,613
Equipment	243,654	216,599
Construction in progress	31,822	32,482
	487,121	406,865
Accumulated depreciation and amortization	(252,182)	(237,279)
Property, plant and equipment, net	234,939	169,586
Other assets:		
Investments in marketable securities, restricted	8,718	8,119
Goodwill	14,919	15,423
Capitalized software, net of accumulated amortization of $89,161 in 2018 and $78,696 in 2017	63,809	52,823
Other assets, net of accumulated amortization of $776 in 2018 and $776 in 2017	12,523	8,272
Deferred income taxes	5,526	2,750
Total other assets	105,495	87,387
Total assets	$ 907,385	$ 836,753
Liabilities and stockholders deficit		
Current liabilities:		

Current portion of long-term debt	$ 35,893	$ 32,324
Accounts payable	92,546	106,894
Accrued compensation	40,962	37,417
Accrued interest	25,981	22,095
Insurance reserves	22,210	20,754
Advertising fund liabilities	107,150	120,223
Other accrued liabilities	55,001	58,578
Total current liabilities	379,743	398,285
Long-term liabilities:		
Long-term debt, less current portion	3,495,691	3,121,490
Insurance reserves	31,065	30,611
Other accrued liabilities	40,807	21,751
Total long-term liabilities	3,567,563	3,173,852
Total liabilities	3,947,306	3,572,137
Commitments and contingencies		
Stockholders deficit		
Common stock, par value $0.01 per share; 170,000,000 shares authorized; 40,977,561 in 2018 and 42,898,329 in 2017 issued and outstanding	410	429
Preferred stock, par value $0.01 per share; 5,000,000 shares authorized, none issued		
Additional paid-in capital	569	5,654
Retained deficit	(3,036,471)	(2,739,437)
Accumulated other comprehensive loss	(4,429)	(2,030)
Total stockholders deficit	(3,039,921)	(2,735,384)
Total liabilities and stockholders deficit	$ 907,385	$ 836,753

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

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Domino s Pizza, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

	For the Years Ended December 30, 2018	December 31, 2017	January 1, 2017
Revenues:			
U.S. Company-owned stores	$ 514,804	$ 490,846	$ 439,024
U.S. franchise royalties and fees	391,493	351,387	312,260
Supply chain	1,943,297	1,739,038	1,544,345
International franchise royalties and fees	224,747	206,708	176,999
U.S. franchise advertising	358,526		
Total revenues	3,432,867	2,787,979	2,472,628
Cost of sales:			
U.S. Company-owned stores	398,158	377,674	331,860
Supply chain	1,732,030	1,544,314	1,373,077
Total cost of sales	2,130,188	1,921,988	1,704,937
Operating margin	1,302,679	865,991	767,691
General and administrative	372,464	344,759	313,649
U.S. franchise advertising	358,526		
Income from operations	571,689	521,232	454,042
Interest income	3,334	1,462	685
Interest expense	(146,345)	(122,541)	(110,069)
Income before provision for income taxes	428,678	400,153	344,658
Provision for income taxes	66,706	122,248	129,980
Net income	$ 361,972	$ 277,905	$ 214,678
Earnings per share:			
Common Stock basic	$ 8.65	$ 6.05	$ 4.41
Common Stock diluted	$ 8.35	$ 5.83	$ 4.30
Dividends declared per share	$ 2.20	$ 1.84	$ 1.52

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

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Domino s Pizza, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	For the Years Ended December 30, 2018	December 31, 2017	January 1, 2017
Net income	$ 361,972	$ 277,905	$ 214,678
Other comprehensive income (loss), before tax:			
Currency translation adjustment	(2,048)	1,080	(94)
Tax attributes of items in other comprehensive income (loss):			
Currency translation adjustment			532
Other comprehensive income (loss), net of tax	(2,048)	1,080	438
Comprehensive income	$ 359,924	$ 278,985	$ 215,116

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

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Domino s Pizza, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS DEFICIT

(In thousands, except share data)

	Common Stock		Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)
	Shares	Amount			
Balance at January 3, 2016	49,838,221	$ 498	$ 6,942	$ (1,804,143)	$ (3,548)
Net income				214,678	
Common stock dividends and equivalents				(73,958)	
Issuance of common stock, net	80,267	1			
Tax payments for restricted stock upon vesting	(47,277)		(5,646)		
Purchases of common stock	(2,816,716)	(28)	(82,125)	(218,097)	
Exercises of stock options	1,045,648	10	15,224		
Tax impact from equity-based compensation			48,129		
Non-cash compensation expense			18,564		
Other			(82)		
Currency translation adjustment, net of tax					438
Balance at January 1, 2017	48,100,143	481	1,006	(1,881,520)	(3,110)
Net income				277,905	
Common stock dividends and equivalents				(84,215)	
Issuance of common stock, net	65,669	1			
Tax payments for restricted stock upon vesting	(49,159)	(1)	(9,448)		
Purchases of common stock	(5,576,249)	(56)	(12,590)	(1,051,607)	
Exercises of stock options	357,925	4	6,095		
Non-cash compensation expense			20,713		
Other			(122)		
Currency translation adjustment					1,080
Balance at December 31, 2017	42,898,329	429	5,654	(2,739,437)	(2,030)
Net income				361,972	
Common stock dividends and equivalents				(92,211)	
Issuance of common stock, net	79,868	1			
Tax payments for restricted stock upon vesting	(27,308)		(6,962)		
Purchases of common stock	(2,387,430)	(24)	(30,743)	(560,445)	
Exercises of stock options	414,102	4	9,828		
Non-cash compensation expense			22,792		
Adoption of ASC 606 (Note 1)				(6,701)	

Currency translation adjustment					(2,048)
Reclassification adjustment for stranded taxes (Note 1)				351	(351)
Balance at December 30, 2018	40,977,561	$ 410	$ 569	$ (3,036,471)	$ (4,429)

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

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Domino s Pizza, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the Years Ended		
	December 30, 2018	December 31, 2017	January 1, 2017
Cash flows from operating activities:			
Net income	$ 361,972	$ 277,905	$ 214,678
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	53,665	44,369	38,140
(Gain) loss on sale/disposal of assets	(4,737)	(3,148)	863
Amortization of debt issuance costs	8,033	10,976	6,418
(Benefit) provision for deferred income taxes	(872)	6,160	(3,059)
Non-cash compensation expense	22,792	20,713	18,564
Excess tax benefits from equity-based compensation	(23,786)	(27,227)	(48,129)
Provision (benefit) for losses and accounts and notes receivable	899	(277)	(224)
Changes in operating assets and liabilities:			
Increase in accounts receivable	(18,172)	(22,649)	(18,724)
(Increase) decrease in inventories, prepaid expenses and other	(12,455)	1,527	(2,947)
Increase in accounts payable and accrued liabilities	10,010	22,267	78,929
Increase in insurance reserves	2,174	8,420	2,764
Changes in advertising fund assets and liabilities, restricted	(5,352)	2,225	5,187
Net cash provided by operating activities	394,171	341,261	292,460
Cash flows from investing activities:			
Capital expenditures	(119,888)	(90,011)	(58,555)
Proceeds from sale of assets	8,367	6,835	4,936
Maturities of advertising fund investments, restricted	94,007		
Purchases of advertising fund investments, restricted	(70,152)		
Other	(591)	(562)	(1,661)
Net cash used in investing activities	(88,257)	(83,738)	(55,280)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	970,000	1,900,000	63,000
Repayments of long-term debt and capital lease obligations	(604,088)	(928,193)	(122,334)
Proceeds from exercise of stock options	9,832	6,099	15,234
Excess tax benefits from equity-based compensation			48,129
Purchases of common stock	(591,212)	(1,064,253)	(300,250)
Tax payments for restricted stock upon vesting	(6,962)	(9,449)	(5,646)
Payments of common stock dividends and equivalents	(92,166)	(84,298)	(73,925)

Cash paid for financing costs	(8,207)	(16,846)	
Other		(205)	
Net cash used in financing activities	(322,803)	(197,145)	(375,792)
Effect of exchange rate changes on cash	(538)	66	(1,279)
Change in cash and cash equivalents, restricted cash and cash equivalents	$ (17,427)	$ 60,444	$ (139,891)
Cash and cash equivalents, beginning of period	35,768	42,815	133,449
Restricted cash and cash equivalents, beginning of period	191,762	126,496	180,940
Cash and cash equivalents included in advertising fund assets, restricted, beginning of period	27,316	25,091	19,904
Cash and cash equivalents, restricted cash and cash equivalents and cash and cash equivalents included in advertising fund assets, restricted, beginning of period	$ 254,846	$ 194,402	$ 334,293
Cash and cash equivalents, end of period	25,438	35,768	42,815
Restricted cash and cash equivalents, end of period	166,993	191,762	126,496
Cash and cash equivalents included in advertising fund assets, restricted, end of period	44,988	27,316	25,091
Cash and cash equivalents, restricted cash and cash equivalents and cash and cash equivalents included in advertising fund assets, restricted, end of period	$ 237,419	$ 254,846	$ 194,402

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

Domino s Pizza, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Description of Business and Summary of Significant Accounting Policies

Description of Business

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

Principles of Consolidation

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

Fiscal Year

The Company s fiscal year ends on the Sunday closest to December 31. The 2018 fiscal year ended on December 30, 2018, the 2017 fiscal year ended on December 31, 2017 and the 2016 fiscal year ended on January 1, 2017. The 2018, 2017 and 2016 fiscal years all consisted of fifty-two weeks.

Cash and Cash Equivalents

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

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents at December 30, 2018 includes approximately $130.3 million of restricted cash held for future principal and interest payments, $36.5 million of restricted cash held in a three-month interest reserve as required by the related debt agreements and $0.2 million of other restricted cash. As of December 30, 2018, the Company also held $45.0 million of advertising fund restricted cash and cash equivalents, which can only be used for activities that promote the Domino s Pizza brand.

Restricted cash and cash equivalents at December 31, 2017 includes $122.9 million of cash and cash equivalents held for future principal and interest payments, $32.1 million of cash equivalents held in a three-month interest reserve, $36.7 million of cash held as collateral for outstanding letters of credit and $0.1 million of other restricted cash. As of December 31, 2017, the Company also held $27.3 million of advertising fund restricted cash and cash equivalents, which can only be used for activities that promote the Domino s Pizza brand.

Inventories

Inventories are valued at the lower of cost (on a first-in, first-out basis) or net realizable value. Inventories at December 30, 2018 and December 31, 2017 are comprised of the following (in thousands):

	2018	2017
Food	$ 42,921	$ 36,645
Equipment and supplies	3,054	3,316
Inventories	$ 45,975	$ 39,961

Other Assets

Current and long-term other assets primarily include prepaid expenses such as insurance, rent and taxes, deposits, notes receivable, software licenses, covenants not-to-compete and other intangible assets primarily arising from franchise acquisitions. As of December 30, 2018 and December 31, 2017, all intangible assets with useful lives were fully amortized.

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Domino s Pizza, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Property, Plant and Equipment

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

Buildings	20	
Leasehold and other improvements	7	15
Equipment	3	15

Included in land and buildings as of December 30, 2018 are capital lease assets of approximately $22.2 million, which are related to the leases of five supply chain centers and the lease of one Company-owned store. Included in accumulated depreciation and amortization as of December 30, 2018 is $6.7 million of accumulated amortization related to these leases. Included in land and buildings as of December 31, 2017 are capital lease assets of approximately $10.5 million, which are related to the lease of one supply chain center building and the lease of one Company-owned store. Included in accumulated depreciation and amortization as of December 31, 2017 is $6.2 million of accumulated amortization related to these leases. The capital lease assets are being amortized using the straight-line method over the respective lease terms.

Depreciation and amortization expense on property, plant and equipment was approximately $35.0 million, $29.6 million and $27.3 million in 2018, 2017 and 2016, respectively.

Impairments of Long-Lived Assets

The Company evaluates the potential impairment of long-lived assets at least annually based on various analyses including the projection of undiscounted cash flows and whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. For Company-owned stores, the Company performs this evaluation on an operating market basis, which the Company has determined to be the lowest level for which identifiable cash flows are largely independent of other cash flows. If the carrying amount of a long-lived asset exceeds the amount of the expected future undiscounted cash flows of that asset, the Company estimates the fair value of the assets. If the carrying amount of the asset exceeds the estimated fair value of the asset, an impairment loss is recognized, and the asset is written down to its estimated fair value. The Company did not record any impairment losses on long-lived assets in 2018, 2017 or 2016.

Investments in Marketable Securities

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

Goodwill

The Company s goodwill amounts primarily relate to franchise store acquisitions and are not amortized. The Company performs its required impairment tests in the fourth quarter of each fiscal year and did not recognize any goodwill impairment charges in 2018, 2017 and 2016.

Capitalized Software

Capitalized software is recorded at cost and includes purchased, internally-developed and externally-developed software used in the Company s operations. Amortization expense is provided using the straight-line method over the estimated useful lives of the software, which range from one to seven years. Capitalized software amortization expense was approximately $18.7 million, $14.8 million and $10.8 million in 2018, 2017 and 2016, respectively. As of December 30, 2018, scheduled amortization for the next five fiscal years for capitalized software that has been placed in service was approximately $16.6 million, $11.5 million, $7.7 million, $4.2 million and $1.7 million for 2019, 2020, 2021, 2022 and 2023, respectively.

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Domino s Pizza, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Debt Issuance Costs

Debt issuance costs are recorded as a reduction to the Company s debt balance and primarily include the expenses incurred by the Company as part of the 2018, 2017 and 2015 Recapitalizations. See Note 4 for a description of the 2018, 2017 and 2015 Recapitalizations. Amortization is recorded on a straight-line basis (which is materially consistent with the effective interest method) over the expected term of the respective debt instrument to which the costs relate and is included in interest expense.

In connection with the 2018, 2017 and 2015 Recapitalizations, the Company recorded $8.2 million, $16.8 million and $17.4 million of debt issuance costs, respectively. In connection with 2018 Recapitalization, the Company repaid the 2015 Five-Year Fixed Rate Notes and expensed approximately $3.2 million for the remaining unamortized debt issuance costs associated with these notes. The remaining debt issuance costs are being amortized into interest expense over the expected terms of the 2018, 2017 and 2015 Notes, as described in Note 4.

The Company expensed debt issuance costs of approximately $3.4 million, $5.7 million and $0.6 million in 2018, 2017 and 2016, respectively in connection with the write-off of debt issuance costs resulting from the repayment of the Company s outstanding notes, including scheduled principal payments. Debt issuance cost expense, including these write-off amounts, was approximately $8.0 million, $11.0 million and $6.4 million in 2018, 2017 and 2016, respectively.

Insurance Reserves

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

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

Contract Liabilities

Contract liabilities consist of deferred franchise fees and deferred development fees. As of December 30, 2018, $4.0 million of deferred franchise fees and deferred development fees were included in current other accrued liabilities and $15.9 million of deferred franchise fees and deferred development fees were included in long-term other accrued liabilities. As of December 31, 2017, $1.4 million of deferred development fees were included in current other accrued liabilities and $3.0 million of deferred development fees were included in long-term other accrued liabilities. On January 1, 2018, the Company recorded a contract liability of approximately $15.0 million (of which $2.4 million was current and $12.6 million was long-term) associated with deferred franchise fees received through December 31, 2017 in connection with the adoption of new revenue recognition guidance, which is discussed in the new accounting pronouncements section below.

Changes in deferred franchise fees and deferred development fees in 2018 were as follows:

(In thousands)	**Fiscal Year Ended December 30, 2018**
Deferred franchise fees and deferred development fees at beginning of period	$ 19,404
Revenue recognized during the period	(5,235)
New deferrals due to cash received and other	5,731
Deferred franchise fees and deferred development fees at end of period	$ 19,900

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Domino s Pizza, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The Company expects to recognize revenue of $4.0 million in 2019, $3.1 million in 2020, $2.8 million in 2021, $2.5 million in 2022, $2.2 million in 2023 and $5.3 million thereafter associated with the total deferred franchise fee and deferred development fee amount above.

The Company has applied the sales-based royalty exemption which permits exclusion of variable consideration in the form of sales-based royalties from the disclosure of remaining performance obligations.

Other Accrued Liabilities

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

Foreign Currency Translation

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

Revenue Recognition

U.S. Company-owned stores revenues are comprised of retail sales of food through Company-owned Domino s Pizza stores located in the U.S. and are recognized when the items are delivered to or carried out by customers. Customer payments are generally due at the time of sale. Sales taxes related to these sales are collected from customers and remitted to the appropriate taxing authority and are not reflected in the Company s consolidated statements of income as revenue.

U.S. franchise royalties and fees are primarily comprised of royalties and fees from Domino s Pizza franchisees with operations in the U.S. Each franchisee is generally required to pay a 5.5% royalty fee on sales. In certain instances, the Company will collect lower rates based on area development agreements, sales initiatives and new store incentives. Royalty revenues are based on a percentage of franchise retail sales and are recognized when the items are delivered to or carried out by franchisees customers. U.S. franchise fee revenue primarily relates to per-transaction technology fees that are recognized as the related sales occur. Payments for U.S. royalties and fees are generally due within seven days of the prior week end date.

Supply chain revenues are primarily comprised of sales of food, equipment and supplies to franchised Domino s Pizza stores located in the U.S. and Canada. Revenues from the sale of food are recognized upon delivery of the food to franchisees and payments for food purchases are generally due within 30 days of the shipping date. Revenues from the sale of equipment and supplies are recognized upon delivery or shipment of the related products to franchisees, based on shipping terms, and payments for equipment and supplies are generally due within 90 days of the shipping date. The Company also offers profit sharing rebates and volume discounts to its franchisees. Obligations for profit sharing rebates are calculated based on actual results of its supply chain centers and are recognized as a reduction to revenue. Volume discounts are based on annual sales. The Company estimates the amount that will be earned and records a reduction to revenue.

International franchise royalties and fees are primarily comprised of royalties and fees from Domino s Pizza franchisees outside of the U.S. Royalty revenues are recognized when the items are delivered to or carried out by franchise customers. Store opening fees received from international franchisees are recognized as revenue on a straight-line basis over the term of each respective franchise store agreement, which is typically ten years. Development fees received from international master franchisees are also deferred when amounts are received and are recognized as revenue on a straight-line basis over the term of the respective master franchise agreement, which is typically ten years. International franchise royalties and fees are invoiced at least quarterly and payments are generally due within 60 days.

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Domino s Pizza, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

U.S. franchise advertising revenues are primarily comprised of contributions from Domino s Pizza franchisees with operations in the U.S. to the Domino s National Advertising Fund Inc. (DNAF), the Company s consolidated not-for-profit subsidiary that administers the Domino s Pizza system s national and market level advertising activities in the U.S. Each franchisee is generally required to contribute 6% of their retail sales to fund national marketing and advertising campaigns (subject, in certain instances, to lower rates based on certain incentives and waivers). These revenues are recognized when items are delivered to or carried out by franchisees customers. Payments for U.S. franchise advertising revenues are generally due within seven days of the prior week end date. Although these revenues are restricted to be used only for advertising and promotional activities to benefit franchised stores, the Company has determined there are not performance obligations associated with the franchise advertising contributions received by DNAF that are separate from its U.S. royalty payment stream and as a result, these franchise contributions and the related expenses are presented gross in the Company s consolidated statement of income.

Reclassification of Revenues

In the first quarter of 2018, the Company began managing its franchised stores in Alaska and Hawaii as part of its U.S. Stores segment (Note 11). Prior to 2018, the revenues from these franchised stores were included in the Company s International Franchise segment (Note 11). International franchise royalties and fees revenues in 2017 and 2016 included $2.6 million and $2.3 million, respectively, of franchise revenues related to these stores. These amounts have not been reclassified to conform to the current year presentation due to immateriality.

Disaggregation of Revenue

Current accounting standards require that companies disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. The Company has included its revenues disaggregated in its consolidated statements of income to satisfy this requirement.

Supply Chain Profit-Sharing Arrangements

The Company enters into profit-sharing arrangements with U.S. and Canadian stores that purchase all of their food from Supply Chain (Note 11). These profit-sharing arrangements generally offer Company-owned stores and participating franchisees with 50% (or a higher percentage in the case of Company-owned stores and certain franchisees who operate a larger number of stores) of their regional supply chain center s pre-tax profits based upon each store s purchases from the supply chain center. Profit-sharing obligations are recorded as a revenue reduction in Supply Chain in the same period as the related revenues and costs are recorded, and were $132.7 million, $119.7 million and $99.8 million in 2018, 2017 and 2016, respectively.

Advertising

U.S. Stores (Note 11) are generally required to contribute 6% of sales to DNAF. U.S. franchise advertising costs are accrued and expensed when the related U.S. franchise advertising revenues are recognized, as DNAF is obligated to expend such revenues on advertising. Advertising costs funded by Company-owned stores are generally expensed as incurred and are included in general and administrative expense. The contributions from Company-owned stores that have not yet been expended are included in advertising fund assets, restricted on the Company s consolidated balance sheet. As of December 30, 2018, advertising fund assets, restricted of $112.7 million included approximately $5.5 million of cash contributed from Company-owned stores that had not yet been expended and approximately $107.2 million of other assets which consisted of $95.1 million of cash, cash equivalents and investments, $15.3 million of accounts receivable and $2.3 million of prepaid expenses.

U.S. franchise advertising costs expended by DNAF are included in U.S. franchise advertising expenses in the Company s consolidated statement of income. Certain costs incurred by the Company on behalf of DNAF were included in general and administrative expense in years prior to 2018. Refer to the New Accounting Pronouncements section within Note 1 for the full impact of the adoption of ASC 606 on the Company s financial statements.

Rent

The Company leases certain equipment, vehicles, retail store and supply chain center locations and its corporate headquarters under operating leases with expiration dates through 2034. Rent expenses totaled approximately $62.5 million, $57.9 million and $49.9 million during 2018, 2017 and 2016, respectively.

Domino s Pizza, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Common Stock Dividends

The Company declared and paid dividends of approximately $92.2 million (or $2.20 per share) in 2018, approximately $84.2 million (or $1.84 per share) in 2017 and approximately $74.0 million (or $1.52 per share) in 2016.

Stock Options and Other Equity-Based Compensation Arrangements

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

Earnings Per Share

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

Supplemental Disclosures of Cash Flow Information

The Company paid interest of approximately $132.8 million, $107.4 million and $104.6 million during 2018, 2017 and 2016, respectively. Cash paid for income taxes was approximately $71.7 million, $122.6 million and $74.3 million in 2018, 2017 and 2016, respectively.

The Company had $3.8 million, $4.0 million and $3.8 million of non-cash investing activities related to accruals for capital expenditures at December 30, 2018, December 31, 2017, and January 1, 2017. The Company also had non-cash financing activities related to capital assets and liabilities in 2018. During 2018, the Company renewed the leases of four supply chain center buildings and extended the terms of the leases. As a result, the Company recorded non-cash financing activities of $12.0 million for the increase in capital lease assets and liabilities during 2018. The Company also recorded $1.9 million in non-cash financing activities related to a build-to-suit arrangement in which the Company s landlord is constructing a new building that will be leased to the Company upon completion, which is expected to occur in 2019.

New Accounting Pronouncements

Recently Adopted Accounting Standards

Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606)

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)* and has since issued various amendments which provide additional clarification and implementation guidance. This standard has been codified as ASC 606. This guidance outlines a single, comprehensive model for entities to use in accounting for revenue arising from contracts with customers and superseded most revenue recognition guidance issued by the FASB, including industry specific guidance. On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method.

The Company recognized the cumulative effect of initially applying ASC 606 as an adjustment to the opening balance of retained deficit. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The Company has determined that the store opening fees received from international franchisees do not relate to separate and distinct performance obligations from the franchise right and those upfront fees will therefore be recognized as revenue over the term of each respective franchise store agreement, which is typically 10 years. In the past, the Company recognized such fees as revenue when the related store opened. An adjustment to beginning retained deficit and a corresponding contract liability of approximately $15.0 million (of which $2.4 million was current and $12.6 million was long-term) was established on the date of adoption associated with the fees received through December 31, 2017 that would have been deferred and recognized over the term of each respective franchise store agreement if the new guidance had been applied in the past. A deferred tax asset of $3.5 million related to this contract liability was also established on the date of adoption.

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The Company has also determined that ASC 606 requires a gross presentation on the consolidated statement of income for franchisee contributions received by and related expenses of DNAF, the Company s consolidated not-for-profit subsidiary. DNAF