DENNYS CORP
Form 8-K
February 20, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): February 18, 2004

Denny's Corporation
(Exact name of registrant as specified in its charter)

Delaware	0-18051	13-3487402
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

203 East Main Street, Spartanburg, SC	29319-9966
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code (864) 597-8000

(Former name or former address, if changed since last report)

Item 7. Financial Statements and Exhibits

(c) Exhibits

Exhibit 99.1 -- Press release issued by Denny's Corporation on February 18, 2004.

Item 12. Results of Operations and Financial Condition

On February 18, 2004, Denny's Corporation issued a press release announcing financial results for the fourth quarter and year ended December 31, 2003. A copy of the press release is attached as Exhibit 99.1 hereto and incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Denny's Corporation

Date: February 20, 2004

/s/ Andrew F. Green

Andrew F. Green
Senior Vice President
and Chief Financial Officer

EXHIBIT 99.1

NEWS RELEASE

Investor Contact: Ken Jones
864-597-8658

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DENNY'S CORPORATION REPORTS FOURTH QUARTER AND YEAR END 2003 RESULTS

SPARTANBURG, S.C., February 18, 2004 -- Denny's Corporation (OTCBB: DNYY) today reported results for its fourth quarter and year ended December 31, 2003. Highlights included:

Fourth Quarter 2003

- Same-store sales for the fourth quarter increased 3.0% at company units and 2.8% at franchised units.
- Denny's ended the quarter with 561 company units, down 5 from last year, and 1,077 franchised and licensed units, down 33 from last year.
- Denny's fourth quarter included an additional week of operations, or 14 weeks total, compared with a standard 13 week quarter as reported for the prior year.
- Total operating revenue increased $24.7 million, or 10.9%, to $251.7 million for the quarter.
- Operating income increased $8.9 million to $11.3 million for the quarter, or 4.5% of total revenue compared with 1.1% last year.
- Net loss for the quarter was $10.8 million compared with last year's net income of $0.5 million.
- Last year's fourth quarter net income included nonoperating income of $13.7 million attributable to senior note exchange transactions.
- At quarter end, Denny's $161 million credit facility had net availability of $75 million.

Full Year 2003

- Same-store sales for the year increased 0.2% at company units and declined 0.6% at franchised units.
- Denny's 2003 results included an additional week of operations, or 53 weeks total, compared with a standard 52 week year as reported for 2002.
- Total operating revenue declined $7.6 million, or 0.8%, to $940.9 million for the year.
- Operating income declined $1.2 million to $48.4 million for the year, or 5.1% of total revenue compared with 5.2% last year.
- Net loss for the year was $31.5 million compared with last year's net income of $68.1 million.
- Last year's net income included $32.9 million of nonoperating income attributable to senior note exchange transactions as well as a $60.6 million gain on discontinued operations.

Commenting on Denny's results for the fourth quarter and fiscal year 2003, Nelson J. Marchioli, president and chief executive officer, said, "Denny's same-store sales and customer traffic continue to improve as the fourth quarter built upon the positive sales momentum achieved in the third quarter. We believe much of this success can be attributed to our renewed focus on breakfast and value - Denny's is well recognized for both. During the second half of the year, we were able to leverage our breakfast credibility and began to increase guest traffic across all dayparts.

"We remain encouraged by our sales performance into 2004 as company same-store sales in January increased 5.7% and guest counts improved 2.3%. This marked our fifth consecutive month of positive same-store sales and fourth consecutive month of positive guest counts. We hope to maintain this sales momentum with our current media campaign featuring a limited time offer on our French Toast Slam for only $4.99 nationwide.

"Though 2003 did not live up to our profitability expectations, we are encouraged by our current sales trends, especially our positive guest counts. Consistent customer count growth is the measure that will ultimately define the future success of Denny's," Marchioli concluded.

Fourth Quarter Results

Denny's reported total operating revenue for the fourth quarter of $251.7 million, up $24.7 million from the prior year quarter. Company restaurant sales increased $23.0 million to $228.4 million as the result of an additional week of operations combined with a 3.0% increase in same-store sales. Franchise revenue increased $1.7 million to $23.3 million as the additional operating week, combined with a 2.8% increase in franchise unit same-store sales, more than offset a 33 unit decline in franchised and licensed restaurants.

Company restaurant operating margin for the fourth quarter increased by 2.2 percentage points to 12.1% of company sales compared with 9.9% of sales last year. A 2.5 percentage point decrease in payroll and benefits costs, resulting primarily from more efficient labor scheduling, was offset by a 2.7 percentage point increase in product costs. Higher food costs resulted from increased commodity prices as well as menu mix shifts. The balance of the product cost increase resulted from $1.9 million in deferred gain amortization in last year's fourth quarter with no related amortization in this year's quarter. In addition, operating margin benefited from lower marketing and repairs and maintenance expenses.

Operating income for the quarter increased $8.9 million to $11.3 million, reflecting higher sales, improved margins and the additional operating week. In addition, operating income benefited from a $4.9 million reduction in depreciation and amortization expense. In January 1998, certain assets were revalued and assigned a five-year life as a result of the predecessor company's reorganization. Those assets became fully amortized in January 2003, resulting in lower depreciation and amortization expense in 2003.

Net loss for the fourth quarter was $10.8 million, or $0.26 per diluted common share, compared with last year's fourth quarter net income of $0.5 million, or $0.01 per diluted common share. Last year's fourth quarter included nonoperating income of $13.7 million attributable to senior note exchange transactions.

Full Year Results

For 2003, total operating revenue decreased $7.6 million to $940.9 million due primarily to a 5 unit decline in company restaurants combined with a 33 unit decline in franchised units during the year.

Company restaurant operating margin for the year decreased by 2.7 percentage points to 11.3% of company sales compared with 14.0% of sales last year. The largest contributors to the margin decline were higher product costs as well as increased payroll and benefits costs.

Operating income for the year decreased $1.2 million to $48.4 million as a result of lower operating margins partially offset by a $23.3 million reduction in depreciation and amortization expense.

Net loss for the year was $31.5 million, or $0.77 per diluted common share, compared with last year's net income of $68.1 million, or $1.68 per diluted common share. Last year's results included nonoperating income of $32.9 million attributable to senior note exchange transactions as well as a $60.6 million gain on discontinued operations.

Revolving Credit Facility

Effective December 31, 2003, commitments under the Denny's credit facility were reduced to $161 million as scheduled in the credit agreement. At the end of the fourth quarter, the credit facility consisted of outstanding term loans of $40 million, revolver advances of $11 million, and letters of credit of $35 million, leaving a net availability of $75 million. As of today, revolver advances have increased to $24 million, leaving a net availability of $62 million.

Capital Structure

The Company continues to explore possible alternatives to improve its long-term liquidity and capital structure and during 2003 retained UBS Securities LLC as a financial advisor to assist in that regard. The Company has not made a determination at this time whether it will ultimately seek to implement any specific alternative, and there can be no assurance that, if it does so, its efforts will be successful.

Further Information

Denny's will host its quarterly conference call for investors and analysts today, Wednesday, February 18, 2004 at 1:00 p.m. EST. Interested parties are invited to join a live, listen only broadcast of the conference call. The call may be accessed through our website at www.dennys.com. On the front page of the website, follow the link to "About Us;" then follow the link to "Investor Info;" and then select the "Live Webcast" icon. A replay of the call may be accessed at the same location later in the day and will remain available for at least 30 days.

Denny's is America's largest full-service family restaurant chain, consisting of 561 company-owned units and 1,077 franchised and licensed units, with operations in the United States, Canada, Costa Rica, Guam, Mexico, New Zealand and Puerto Rico. For further information on Denny's, including news releases, links to SEC filings and other financial information, please visit our website referenced above.

Certain matters discussed in this release may constitute forward looking statements involving risks, uncertainties, and other factors that may cause the actual performance of Denny's Corporation, its subsidiaries and underlying restaurants to be materially different from the performance indicated or implied by such statements. Factors that could cause actual performance to differ materially from the performance indicated by such statements include, among others: the competitive pressures from within the restaurant industry; the level of success of the Company's operating initiatives and advertising and promotional efforts; adverse publicity; changes in business strategy or development plans; terms and availability of capital; regional weather conditions; overall changes in the general economy, particularly at the retail level; political environment (including acts of war and terrorism); and other factors from time to time set forth in the Company's SEC reports, including but not limited to the discussion in Management's Discussion and Analysis and the risks identified in Exhibit 99 contained in the Company's Annual Report on Form 10-K for the year ended December 25, 2002 (and in the Company's subsequent quarterly reports on Form 10-Q).

DENNY'S CORPORATION
Condensed Consolidated Statements of Operations
(Unaudited)

(In thousands, except per share amounts)	14 Weeks Ended 12/31/03	13 Week Ended 12/25/0
Revenue:		
Company restaurant sales	$ 228,379	$ 205,
Franchise and license revenue	23,275	21,
Total operating revenue	251,654	226,
Costs of company restaurant sales	200,829	185,
Costs of franchise and license revenue	7,054	6,
General and administrative expenses	13,039	10,
Depreciation and amortization	16,069	20,
Restructuring charges and exit costs	1,479	
Impairment charges	2,097	3,
Gains on disposition of assets and other, net	(197)	(3,
Total operating costs and expenses	240,370	224,
Operating income	11,284	2,
Other expenses:		
Interest expense, net	20,994	19,
Other nonoperating expense (income), net	1,078	(13,
Total other expenses, net	22,072	5,
Loss before income taxes	(10,788)	(3,
Provision for income taxes	(37)	
Loss from continuing operations	(10,751)	(3,
Gain on discontinued operations, net	--	4,
Net income (loss)	$ (10,751)	$
Basic net income (loss) per share:		

Loss on continuing operations	$	(0.26)	$	(0
Gain on disposal of discontinued operations		--		0
Net income (loss)	$	(0.26)	$	0
Basic weighted average shares outstanding		40,746		40,
Diluted net income (loss) per share:				
Loss on continuing operations	$	(0.26)	$	(0
Gain on disposal of discontinued operations		--		0
Net income (loss)	$	(0.26)	$	0
Diluted weighted average shares outstanding		40,746		40,

DENNY'S CORPORATION
Condensed Consolidated Statements of Operations
(Unaudited)

(In thousands, except per share amounts)		53 Weeks Ended 12/31/03		52 Week Ended 12/25/0
Revenue:				
Company restaurant sales	$	851,853	$	858,
Franchise and license revenue		89,092		90,
Total operating revenue		940,945		948,
Costs of company restaurant sales		755,430		738,
Costs of franchise and license revenue		27,125		28,
General and administrative expenses		51,268		50,
Depreciation and amortization		60,000		83,
Restructuring charges and exit costs		613		3,
Impairment charges		3,986		4,
Gains on disposition of assets and other, net		(5,844)		(9,
Total operating costs and expenses		892,578		898,
Operating income		48,367		49,
Other expenses:				
Interest expense, net		78,190		76,
Other nonoperating expense (income), net		901		(32,
Total other expenses, net		79,091		43,
Income (loss) before income taxes		(30,724)		6,
Provision for (benefit from) income taxes		759		(1,

Income (loss) from continuing operations		(31,483)		7,
Gain on discontinued operations, net		--		60,
Net income (loss)	$	(31,483)	$	68,
Basic income (loss) per share:				
Income (loss) from continuing operations	$	(0.77)	$	0
Gain on discontinued operations, net		--		1
Net income (loss)	$	(0.77)	$	1
Basic weighted average shares outstanding		40,687		40,
Diluted income (loss) per share:				
Income (loss) from continuing operations	$	(0.77)	$	0
Gain on discontinued operations, net		--		1
Net income (loss)	$	(0.77)	$	1
Diluted weighted average shares outstanding		40,687		40,

DENNY'S CORPORATION
Condensed Consolidated Balance Sheet
(Unaudited)

(In thousands)		12/31/03		12/25
ASSETS				
Current Assets				
Cash and cash equivalents	$	7,363	$	5
Other		24,894		28
		32,257		33
Property, net		296,995		324
Goodwill		50,404		50
Intangible assets, net		83,879		92
Other assets		43,117		50
Total Assets	$	506,652	$	551
LIABILITIES AND SHAREHOLDERS' DEFICIT				
Current Liabilities				
Current maturities of notes and debentures	$	51,714	$	
Current maturities of capital lease obligations		3,462		3
Accounts payable and other accrued liabilities		137,549		148

	192,725	152
Long-Term Liabilities		
Notes and debentures, less current maturities	509,593	560
Capital lease obligations, less current maturities	28,728	31
Other	88,538	86
	626,859	677
Total Liabilities	819,584	830
Total Shareholders' Deficit	(312,932)	(278
Total Liabilities and Shareholders' Deficit	$ 506,652	$ 551

DENNY'S CORPORATION
Quarterly Operating Margins
(Unaudited)

(In millions)	14 Weeks Ended 12/31/03		13 Weeks Ended 12/25/02	
Total operating revenue (1)	$ 251.7	100.0%	$ 226.9	100.0
Company restaurant operations: (2)				
Company restaurant sales	228.4	100.0%	205.4	100.0
Costs of company restaurant sales:				
Product costs	60.9	26.7%	49.2	24.0
Payroll and benefits	96.9	42.4%	92.1	44.9
Occupancy	12.7	5.6%	12.2	6.0
Other operating costs:				
Utilities	10.0	4.4%	8.7	4.3
Repairs and maintenance	4.1	1.8%	5.7	2.8
Marketing	7.4	3.2%	9.6	4.7
Other	8.8	3.9%	7.6	3.7
Total costs of company restaurant sales	200.8	87.9%	185.1	90.1
Company restaurant operating margin	$ 27.6	12.1%	$ 20.3	9.9
Franchise operations: (3)				
Franchise and license revenue	23.3	100.0%	21.5	100.0
Costs of franchise and license revenue	7.1	30.3%	6.6	30.7
Franchise operating margin	$ 16.2	69.7%	$ 14.9	69.3
Total operating margin (1)	$ 43.8	17.4%	$ 35.2	15.5
Other operating expenses: (1) (4)				
General and administrative expenses	13.0	5.2%	11.0	4.8

Depreciation and amortization		16.1	6.4%		21.0	9.2
Restructuring, exit costs and impairment		3.6	1.4%		4.0	1.8
Gains on disposition of assets and other, net		(0.2)	(0.1)%		(3.2)	1.4
Total other operating expenses	$	32.5	12.9%	$	32.8	14.5
Operating income (1)	$	11.3	4.5%	$	2.4	1.1

(1) As a percentage of total operating revenue
(2) As a percentage of company restaurant sales
(3) As a percentage of franchise and license revenue
(4) Other operating expenses such as general and administrative expenses and depreciation and amortization relate to both company and franchise operations and are not allocated to costs of company restaurant sales and costs of franchise and license revenue. As such, operating margins may be considered a non-GAAP financial measure. Operating margins should be considered as a supplement to, not as a substitute for, operating income, net income or other financial measures prepared in accordance with accounting principles generally accepted in the United States of America.

DENNY'S CORPORATION
EBITDA Reconciliation
(Unaudited)

(in millions)		14 Weeks Ended 12/31/03		13 Weeks Ended 12/25/02		53 E 12
Net income (loss) from continuing operations	$	(10.8)	$	(3.6)	$	
Provision for (benefit from) income taxes		0.0		0.4		
Interest expense, net		21.0		19.2		
Depreciation and amortization		16.1		21.0		
EBITDA (1) (2)	$	26.3	$	37.0	$	

(1) Following SEC guidance, we changed our definition of EBITDA in the second quarter of 2003. Amounts previously reported for EBITDA have been reclassified to conform to the current presentation.
(2) We believe that, in addition to other financial measures, EBITDA is an appropriate indicator to assist in the evaluation of our operating performance because it provides additional information with respect to our ability to meet our future debt service, capital expenditures and working capital needs. However, EBITDA should be considered as a supplement to, not a substitute for, operating income, net income or

other financial performance measures prepared in accordance with accounting principles generally accepted in the United States of America.

	14 Weeks Ended 12/31/03	13 Weeks Ended 12/25/02	53 E 12
Other financial data: (3)			
Restructuring charges and exit costs	$ 1.5	$ 0.4	$
Impairment charges	2.1	3.6	
Gains on disposition of assets and other, net	(0.2)	(3.2)	
Other nonoperating expense (income), net (4)	1.1	(13.7)	

(3) The line items in this section are components of both net income and EBITDA as shown above.
(4) The fourth quarter and year-to-date results in 2002 included gains of $13.7 million and $32.9 million, respectively, which were attributable to senior note debt exchanges completed in April and December of 2002.

DENNY'S CORPORATION
Statistical Data
(Unaudited)

Same-Store Sales (increase/(decrease) vs. prior year)	14 Weeks Ended 12/31/03	53 Weeks Ended 12/31/03
Company-Owned Same-Store Sales	3.0%	0.2%
Guest Check Average	2.0%	3.2%
Guest Counts	1.0%	(2.9%)
Franchised Same-Store Sales	2.8%	(0.6%)

Aggregate Unit Sales ($ in millions)	14 Weeks Ended 12/31/03	13 Weeks Ended 12/25/02	53 Weeks Ended 12/31/03
Sales at Company-Owned Units	$ 228.4	$ 205.4	$ 851.9
Sales at Franchised Units	$ 359.7	$ 325.1	$ 1,377.0

Average Unit Sales ($ in thousands)	14 Weeks Ended 12/31/03	13 Weeks Ended 12/25/02	53 Weeks Ended 12/31/03
Company-Owned	$ 408.5	$ 361.5	$ 1,520.0
Franchised	$ 336.0	$ 296.9	$ 1,254.8

Restaurant Units	Company	Franchised	Licensed
Ending Units 12/25/02	566	1,095	15
Units Opened/Acquired	1	17	0
Units Reacquired	1	(1)	0
Units Refranchised	0	0	0
Units Closed	(7)	(49)	0
Net Change	(5)	(33)	0
Ending Units 12/31/03	561	1,062	15

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