

DENNYS CORP  
Form 10-Q  
November 03, 2010

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

FORM 10-Q

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

For the Quarterly Period Ended September 29, 2010

Commission File Number 0-18051  
DENNY'S CORPORATION  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

13-3487402  
(I.R.S. Employer  
Identification No.)

203 East Main Street  
Spartanburg, South Carolina 29319-0001  
(Address of principal executive offices)  
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

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

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(Do not check if a  
smaller  
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of October 28, 2010, 99,697,084 shares of the registrant's common stock, par value \$.01 per share, were outstanding.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

Denny's Corporation and Subsidiaries  
Condensed Consolidated Statements of Operations  
(Unaudited)

	Quarter Ended		Three Quarters Ended	
	September 29, 2010	September 30, 2009	September 29, 2010	September 30, 2009
	(In thousands, except per share amounts)			
Revenue:				
Company restaurant sales	\$ 107,171	\$ 116,579	\$ 320,255	\$ 377,655
Franchise and license revenue	32,761	29,485	92,326	89,982
Total operating revenue	139,932	146,064	412,581	467,637
Costs of company restaurant sales:				
Product costs	25,405	26,924	75,597	88,513
Payroll and benefits	41,533	44,712	129,072	154,623
Occupancy	7,097	7,808	21,406	24,908
Other operating expenses	17,158	18,147	49,016	56,739
Total costs of company restaurant sales	91,193	97,591	275,091	324,783
Costs of franchise and license revenue	12,009	10,308	35,498	32,295
General and administrative expenses	14,375	14,313	40,560	44,067
Depreciation and amortization	7,320	7,865	21,984	24,592
Operating (gains), losses and other charges, net	(1,900)	(2,648)	(1,594)	(6,101)
Total operating costs and expenses	122,997	127,429	371,539	419,636
Operating income	16,935	18,635	41,042	48,001
Other expenses:				
Interest expense, net	6,394	8,117	19,306	24,847
Other nonoperating expense (income), net	188	(363)	746	(1,594)
Total other expenses, net	6,582	7,754	20,052	23,253
Net income before income taxes	10,353	10,881	20,990	24,748
Provision for income taxes	419	848	1,010	1,072
Net income	\$ 9,934	\$ 10,033	\$ 19,980	\$ 23,676

## Net income per share:

Basic	\$ 0.10	\$ 0.10	\$ 0.20	\$ 0.25
Diluted	\$ 0.10	\$ 0.10	\$ 0.20	\$ 0.24

## Weighted average shares outstanding:

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Basic	99,579	96,506	98,646	96,221
Diluted	101,305	99,158	101,264	98,295

See accompanying notes

Denny's Corporation and Subsidiaries  
Condensed Consolidated Balance Sheets  
(Unaudited)

	September 29, 2010	December 30, 2009
(In thousands)		
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 40,638	\$ 26,525
Receivables, less allowance for doubtful accounts of \$177 and \$171, respectively	13,718	18,106
Inventories	3,743	4,165
Assets held for sale	6,541	—
Prepaid and other current assets	11,260	9,549
<b>Total current assets</b>	<b>75,900</b>	<b>58,345</b>
Property, net of accumulated depreciation of \$247,975 and \$258,695, respectively	118,090	131,484
<b>Other assets:</b>		
Goodwill	31,892	32,440
Intangible assets, net	52,888	55,110
Deferred financing costs, net	2,773	2,676
Other noncurrent assets	31,135	32,572
<b>Total assets</b>	<b>\$ 312,678</b>	<b>\$ 312,627</b>
<b>Liabilities and shareholders' deficit</b>		
<b>Current liabilities:</b>		
Current maturities of notes and debentures	\$ 754	\$ 900
Current maturities of capital lease obligations	3,899	3,725
Accounts payable	19,248	22,842
Other current liabilities	62,738	64,641
<b>Total current liabilities</b>	<b>86,639</b>	<b>92,108</b>
<b>Long-term liabilities:</b>		
Notes and debentures, less current maturities	239,446	254,357
Capital lease obligations, less current maturities	18,960	19,684
Liability for insurance claims, less current portion	19,082	21,687
Deferred income taxes	13,121	13,016
Other noncurrent liabilities and deferred credits	37,854	39,273
<b>Total long-term liabilities</b>	<b>328,463</b>	<b>348,017</b>
<b>Total liabilities</b>	<b>415,102</b>	<b>440,125</b>
<b>Commitments and contingencies</b>		
<b>Shareholders' deficit:</b>		
Common stock \$0.01 par value; authorized - 135,000; issued - 99,627 and 96,613, respectively	996	966

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Paid-in capital	547,473	542,576
Deficit	(632,847)	(652,827)
Accumulated other comprehensive loss, net of tax	(18,046)	(18,213)
Total shareholders' deficit	(102,424)	(127,498)
Total liabilities and shareholders' deficit	\$ 312,678	\$ 312,627

See accompanying notes

Denny's Corporation and Subsidiaries  
Condensed Consolidated Statement of Shareholders' Deficit and Comprehensive Income  
(Unaudited)

	Common Stock		Paid-in	Deficit	Accumulated	Total
	Shares	Amount	Capital		Other	Shareholders'
					Comprehensive	Deficit
					Loss, Net	
	(In thousands)					
Balance, December 30, 2009	96,613	\$ 966	\$ 542,576	\$ (652,827)	\$ (18,213)	\$ (127,498)
Comprehensive income:						
Net income	—	—	—	19,980	—	19,980
Amortization of unrealized loss on hedged transactions, net of tax	—	—	—	—	167	167
Comprehensive income	—	—	—	19,980	167	20,147
Share-based compensation on equity classified awards	—	—	1,588	—	—	1,588
Issuance of common stock for share-based compensation	459	4	(4)	—	—	—
Exercise of common stock options	2,555	26	3,313	—	—	3,339
Balance, September 29, 2010	99,627	\$ 996	\$ 547,473	\$ (632,847)	\$ (18,046)	\$ (102,424)

See accompanying notes



Denny's Corporation and Subsidiaries  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)

	Three Quarters Ended	
	September 29, 2010	September 30, 2009
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 19,980	\$ 23,676
Adjustments to reconcile net income to cash flows provided by operating activities:		
Depreciation and amortization	21,984	24,592
Operating (gains), losses and other charges, net	(1,594)	(6,101)
Amortization of deferred financing costs	771	811
Loss on early extinguishment of debt	221	40
(Gain) loss on interest rate swap	167	(1,486)
Deferred income tax expense	105	650
Share-based compensation	2,010	3,899
Changes in assets and liabilities, net of effects of acquisitions and dispositions:		
Decrease (increase) in assets:		
Receivables	1,704	3,313
Inventories	422	1,314
Other current assets	(1,716)	(4,691)
Other assets	(2,117)	(2,175)
Increase (decrease) in liabilities:		
Accounts payable	(977)	(2,949)
Accrued salaries and vacations	(5,600)	(3,009)
Accrued taxes	1,932	1,105
Other accrued liabilities	(1,496)	(7,107)
Other noncurrent liabilities and deferred credits	(4,203)	(4,482)
Net cash flows provided by operating activities	31,593	27,400
Cash flows from investing activities:		
Purchase of property	(13,202)	(12,484)
Proceeds from disposition of property	9,917	20,730
Collections on notes receivable	3,151	—
Net cash flows (used in) provided by investing activities	(134)	8,246
Cash flows from financing activities:		
Long-term debt payments	(17,747)	(22,906)
Proceeds from exercise of stock options	3,339	102
Tax withholding on share-based payments	(154)	(253)
Net bank overdrafts	(2,716)	(3,745)
Deferred financing costs	(58)	—
Debt transaction costs	(10)	—
Net cash flows used in financing activities	(17,346)	(26,802)

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Increase in cash and cash equivalents	14,113	8,844
Cash and cash equivalents at:		
Beginning of period	26,525	21,042
End of period	\$ 40,638	\$ 29,886

See accompanying notes

Denny's Corporation and Subsidiaries  
Notes to Condensed Consolidated Financial Statements  
(Unaudited)

Note 1. Introduction and Basis of Presentation

Denny's Corporation, or Denny's, is one of America's largest family-style restaurant chains. At September 29, 2010, the Denny's brand consisted of 1,612 restaurants, 1,380 (86%) of which were franchised/licensed restaurants and 232 (14%) of which were company-owned and operated.

The following table shows the unit activity for the quarter and three quarters ended September 29, 2010 and September 30, 2009:

	Quarter Ended		Three Quarters Ended	
	September 29, 2010	September 30, 2009	September 29, 2010	September 30, 2009
Company-owned restaurants, beginning of period	228	263	233	315
Units opened	6	—	10	1
Units sold to franchisees	(2)	(7)	(11)	(59)
Units closed	—	—		