DENNYS CORP Form 10-Q August 08, 2011

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 June 29, 2011

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 b 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 b 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 of iler by Non-accelerated of Smaller reporting of company of the second of the se

(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 þ

As of August 1, 2011, 97,323,951 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				Two Quarters Ended				
	June 29,		June 30,		June 29,		J	June 30,	
	2011		2010			2011		2010	
			(In tho	usands, excep	pt per s	hare amounts	s)		
Revenue:									
Company restaurant sales	\$	104,021	\$	105,301	\$	208,576	\$	213,084	
Franchise and license revenue		31,832		29,776		63,082		59,565	
Total operating revenue		135,853		135,077		271,658		272,649	
Costs of company restaurant sales:									
Product costs		25,613		24,500		51,248		50,192	
Payroll and benefits		42,419		43,363		86,615		87,539	
Occupancy		6,793		6,908		13,653		14,309	
Other operating expenses		15,329		15,994		30,586		31,858	
Total costs of company restaurant sales		90,154		90,765		182,102		183,898	
Costs of franchise and license revenue		11,085		11,123		22,650		23,489	
General and administrative expenses		14,092		13,111		28,231		26,185	
Depreciation and amortization		7,234		7,291		14,422		14,664	
Operating (gains), losses and other									
charges, net		(419)		(117)		(948)		306	
Total operating costs and expenses, net		122,146		122,173		246,457		248,542	
Operating income		13,707		12,904		25,201		24,107	
Other expenses:									
Interest expense, net		4,901		6,514		10,594		12,912	
Other nonoperating expense, net		268		570		1,746		558	
Total other expenses, net		5,169		7,084		12,340		13,470	
Net income before income taxes		8,538		5,820		12,861		10,637	
Provision for income taxes		408		362		607		591	
Net income	\$	8,130	\$	5,458	\$	12,254	\$	10,046	
Basic and diluted net income per share	\$	0.08	\$	0.05	\$	0.12	\$	0.10	
Weighted average shares outstanding:									
Basic		98,421		99,263		98,700		98,179	
Diluted		100,602		101,983		100,976		101,068	

See accompanying notes

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

	June 29, 2011	De	ecember 29, 2010
	(In	thousands)	
Assets			
Current assets:			
Cash and cash equivalents	\$ 12,937	\$	29,074
Receivables, less allowance for doubtful accounts of			
\$337 and \$207, respectively	15,920		17,280
Inventories	3,644		4,037
Assets held for sale	671		1,933
Prepaid and other current assets	10,123		10,162
Total current assets	43,295		62,486
Property, net of accumulated depreciation of \$248,757			
and \$247,492, respectively	125,399		129,518
Other assets:			
Goodwill	31,218		31,308
Intangible assets, net	50,747		52,054
Deferred financing costs, net	7,010		5,286
Other noncurrent assets	28,993		30,554
Total assets	\$ 286,662	\$	311,206
Liabilities			
Current liabilities:			
Current maturities of long-term debt	\$ 2,586	\$	2,583
Current maturities of capital lease obligations	4,383		4,109
Accounts payable	23,327		25,957
Other current liabilities	52,941		57,685
Total current liabilities	83,237		90,334
Long-term liabilities:			
Long-term debt, less current maturities, net of discount			
of \$2,755 and \$3,455, respectively	214,799		234,143
Capital lease obligations, less current maturities	19,131		18,988
Liability for insurance claims, less current portion	18,068		18,810
Deferred income taxes	13,373		13,339
Other noncurrent liabilities and deferred credits	37,577		39,304
Total long-term liabilities	302,948		324,584
Total liabilities	386,185		414,918
Commitments and contingencies			
Shareholders' deficit			
Common stock \$0.01 par value; authorized - 135,000;	1,022		1,001
June 29, 2011: 102,176 shares issued			

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and 97,408 shares outstanding; December 29, 2010: 100,073 shares issued and 99,036 shares outstanding		
Paid-in capital	554,979	548,490
Deficit	(617,860)	(630,114)
Accumulated other comprehensive loss, net of tax	(19,199)	(19,199)
Shareholders' deficit before treasury stock	(81,058)	(99,822)
Treasury stock, at cost, 4,768 and 1,037 shares,		
respectively	(18,465)	(3,890)
Total Shareholders' Deficit	(99,523)	(103,712)
Total Liabilities and Shareholders' Deficit	\$ 286,662	\$ 311,206

See accompanying notes

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

	Common Shares	n Stock Amount	Treasury Shares	Amount	Paid-in Capital nousands)		Accumulated Other omprehensiv&h Loss, Net	Total areholders' Deficit
Balance,								
December 29,	100.072	ф 1 001	(1.007)	d (2.000) d	7. 5.40. 400	Φ (620.114)	Φ (10.100) Φ	(102.710)
2010	100,073	\$ 1,001	(1,037)	\$ (3,890) \$	5 548,490	\$ (630,114)	\$ (19,199) \$	(103,712)
Comprehensive								
income: Net income						- 12,254		12,254
Comprehensive	_			_	_	- 12,234	_	12,234
income	_	_				- 12,254		12,254
Share-based						12,234		12,234
compensation on								
equity								
classified awards	_			_	1,889	<u> </u>		1,889
Purchase of					,			,
treasury stock	_		(3,731)	(14,575)	_	_	- —	(14,575)
Issuance of								
common stock for								
share-based								
compensation	126	1	_	_	(1)	_	- —	_
Exercise of								
common stock		- 0						
options	1,977	20	_		4,601	_		4,621
Balance, June 29,	100 156	ф 1 0 2 С	(4.7.60)	ф (10.46 %) ф	554050	Φ (61 5 060)	d (10.100) d	(00.500)
2011	102,176	\$ 1,022	(4,768)	\$ (18,465) \$	554,979	\$ (617,860)	\$ (19,199) \$	(99,523)

See accompanying notes

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

June 29, 2011

Two Quarters Ended

June 30, 2010

Cash flows from operating activities: \$ 12,254 \$ 10,046 Adjustments to reconcile net income to cash flows provided by operating activities: Use preciation and amortization 14,422 14,664 Operating (gains), losses and other charges, net (948) 306 Amortization of debt discount 284 — Loss on early extinguishment of debt 1,984 7 Loss on interest rate swap — 167 Deferred income tax expense 34 93 Share-based compensation 2,149 1,249 Changes in assets and liabilities, net of effects of acquisitions and dispositions: 2 2 Decrease (increase) in assets: 1,929 2,344 Inventories 393 424 Other current assets 39 3,040 Other assets 182 1,268 Increase (decrease) in liabilities: 182 1,268 Increase (decrease) in liabilities: 553 7,899 Accrued salaries and vacations 553 7,899 Accrued salaries and vacations 553 7,899		(In thousands)				
Adjustments to reconcile net income to cash flows provided by operating activities: Depreciation and amortization 14,422 14,664 Operating (gains), losses and other charges, net (948) 306 Amortization of deferred financing costs Amortization of debt discount 284 —————————————————————————————————	Cash flows from operating activities:					
Provided by operating activities: Depreciation and amortization 14,422 14,664 306 30	Net income	\$	12,254	\$	10,046	
Depreciation and amortization	Adjustments to reconcile net income to cash flows					
Operating (gains), losses and other charges, net (948) 306 Amortization of deferred financing costs 662 516 Amortization of debt discount 284 — Loss on early extinguishment of debt 1,984 7 Loss on interest rate swap — 167 Deferred income tax expense 34 93 Share-based compensation 2,149 1,249 Changes in assets and liabilities, net of effects of acquisitions and dispositions: — 4 Decrease (increase) in assets: — 2,344 Receivables 1,929 2,344 Inventories 393 3,040 Other current assets 39 3,040 Other assets 182 (1,268) Increase (decrease) in liabilities 137 (2,472) Accounts payable 137 (2,472) Accrued salaries and vacations 553 (7,899) Accrued taxes 79 (105) Other accrued liabilities and deferred credits (3,321) (1,870) Net cash flows from investing activit	provided by operating activities:					
Amortization of deferred financing costs 662 516 Amortization of debt discount 284 — Loss on early extinguishment of debt 1,984 7 Loss on interest rate swap — 167 Deferred income tax expense 34 93 Share-based compensation 2,149 1,249 Changes in assets and liabilities, net of effects of acquisitions and dispositions: — 2 Decrease (increase) in assets. 1,929 2,344 Receivables 393 3,040 Other current assets 39 3,040 Other assets 182 (1,268) Increase (decrease) in liabilities: — 1 Accounts payable 137 (2,472) Accrued salaries and vacations 553 (7,899) Accrued taxes 79 (105) Other accrued liabilities (5,897) (2,470) Other accrued liabilities and deferred credits (3,321) (1,870) Net cash flows provided by operating activities 24,935 10,692 Cash flows from inv	Depreciation and amortization		14,422		14,664	
Amortization of debt discount	Operating (gains), losses and other charges, net		(948)		306	
Loss on early extinguishment of debt 1,984 7 Loss on interest rate swap — 167 Deferred income tax expense 34 93 Share-based compensation 2,149 1,249 Changes in assets and liabilities, net of effects of acquisitions and dispositions: Usercase (increase) in assets: Beceivables 1,929 2,344 Inventories 393 424 Other current assets 39 (3,040) Other assets 182 (1,268) Increase (decrease) in liabilities: Usercase (decrease) in liabilities: Accounts payable 137 (2,472) Accrued salaries and vacations 553 (7,899) Accrued taxes 79 (105) Other accrued liabilities (5,897) (2,470) Other noncurrent liabilities and deferred credits (3,321) (1,870) Net cash flows provided by operating activities 24,935 10,692 Cash flows from investing activities: Usercase of property (8,854) (6,310) Proceeds from disposition of property	Amortization of deferred financing costs		662		516	
Loss on interest rate swap	Amortization of debt discount		284			
Deferred income tax expense 34 93 Share-based compensation 2,149 1,249 Changes in assets and liabilities, net of effects of acquisitions and dispositions:	Loss on early extinguishment of debt		1,984		7	
Share-based compensation 2,149 1,249 Changes in assets and liabilities, net of effects of acquisitions and dispositions:	Loss on interest rate swap		_		167	
Changes in assets and liabilities, net of effects of acquisitions and dispositions: Decrease (increase) in assets: Receivables 1,929 2,344 Inventories 393 424 Other current assets 39 (3,040) Other assets 182 (1,268) Increase (decrease) in liabilities: 39 (2,472) Accounts payable 137 (2,472) Accrued salaries and vacations 553 (7,899) Accrued taxes 79 (105) Other accrued liabilities (5,897) (2,470) Other noncurrent liabilities and deferred credits (3,321) (1,870) Net cash flows provided by operating activities 24,935 10,692 Cash flows from investing activities: 24,935 10,692 Cash flows from disposition of property (8,854) (6,310) Proceeds from disposition of property 3,893 3,322 Collections on notes receivable 450 2,691 Net cash flows used in investing activities: (4,511) (297) Cash flows from financing activities: (22,084) (16,793) Long	Deferred income tax expense		34		93	
acquisitions and dispositions: Decrease (increase) in assets: Receivables 1,929 2,344 Inventories 393 424 Other current assets 39 (3,040) Other assets 182 (1,268) Increase (decrease) in liabilities:	Share-based compensation		2,149		1,249	
Decrease (increase) in assets: Receivables	Changes in assets and liabilities, net of effects of					
Receivables 1,929 2,344 Inventories 393 424 Other current assets 39 (3,040) Other assets 182 (1,268) Increase (decrease) in liabilities:	acquisitions and dispositions:					
Inventories 393 424 Other current assets 39 (3,040) Other assets 182 (1,268) Increase (decrease) in liabilities:	Decrease (increase) in assets:					
Other current assets 39 (3,040) Other assets 182 (1,268) Increase (decrease) in liabilities: 	Receivables		1,929		2,344	
Other assets 182 (1,268) Increase (decrease) in liabilities: Accounts payable 137 (2,472) Accrued salaries and vacations 553 (7,899) Accrued taxes 79 (105) Other accrued liabilities (5,897) (2,470) Other noncurrent liabilities and deferred credits (3,321) (1,870) Net cash flows provided by operating activities 24,935 10,692 Cash flows from investing activities: Purchase of property (8,854) (6,310) Proceeds from disposition of property 3,893 3,322 Collections on notes receivable 450 2,691 Net cash flows used in investing activities (4,511) (297) Cash flows from financing activities: Long-term debt payments (22,084) (16,793) Proceeds from exercise of stock options 4,621 3,336 Debt transaction costs (795) —	Inventories		393		424	
Increase (decrease) in liabilities: (2,472) Accounts payable 137 (2,472) Accrued salaries and vacations 553 (7,899) Accrued taxes 79 (105) Other accrued liabilities (5,897) (2,470) Other noncurrent liabilities and deferred credits (3,321) (1,870) Net cash flows provided by operating activities 24,935 10,692 Cash flows from investing activities: (6,310) Purchase of property (8,854) (6,310) Proceeds from disposition of property 3,893 3,322 Collections on notes receivable 450 2,691 Net cash flows used in investing activities: (4,511) (297) Cash flows from financing activities: (22,084) (16,793) Proceeds from exercise of stock options 4,621 3,336 Debt transaction costs (795) —	Other current assets		39		(3,040)	
Accounts payable 137 (2,472) Accrued salaries and vacations 553 (7,899) Accrued taxes 79 (105) Other accrued liabilities (5,897) (2,470) Other noncurrent liabilities and deferred credits (3,321) (1,870) Net cash flows provided by operating activities 24,935 10,692 Cash flows from investing activities: Value of the company of	Other assets		182		(1,268)	
Accrued salaries and vacations 553 (7,899) Accrued taxes 79 (105) Other accrued liabilities (5,897) (2,470) Other noncurrent liabilities and deferred credits (3,321) (1,870) Net cash flows provided by operating activities 24,935 10,692 Cash flows from investing activities: Value of the company of the comp	Increase (decrease) in liabilities:					
Accrued taxes 79 (105) Other accrued liabilities (5,897) (2,470) Other noncurrent liabilities and deferred credits (3,321) (1,870) Net cash flows provided by operating activities 24,935 10,692 Cash flows from investing activities: Purchase of property (8,854) (6,310) Proceeds from disposition of property 3,893 3,322 Collections on notes receivable 450 2,691 Net cash flows used in investing activities (4,511) (297) Cash flows from financing activities: Long-term debt payments (22,084) (16,793) Proceeds from exercise of stock options 4,621 3,336 Debt transaction costs (795)	Accounts payable		137		(2,472)	
Other accrued liabilities (5,897) (2,470) Other noncurrent liabilities and deferred credits (3,321) (1,870) Net cash flows provided by operating activities 24,935 10,692 Cash flows from investing activities: Purchase of property (8,854) (6,310) Proceeds from disposition of property 3,893 3,322 Collections on notes receivable 450 2,691 Net cash flows used in investing activities (4,511) (297) Cash flows from financing activities: Long-term debt payments (22,084) (16,793) Proceeds from exercise of stock options 4,621 3,336 Debt transaction costs (795)	Accrued salaries and vacations		553		(7,899)	
Other noncurrent liabilities and deferred credits Net cash flows provided by operating activities Cash flows from investing activities: Purchase of property (8,854) (6,310) Proceeds from disposition of property 3,893 3,322 Collections on notes receivable At 50 2,691 Net cash flows used in investing activities (4,511) (297) Cash flows from financing activities: Long-term debt payments (22,084) (16,793) Proceeds from exercise of stock options Debt transaction costs (795)	Accrued taxes		79		(105)	
Net cash flows provided by operating activities 24,935 10,692 Cash flows from investing activities: Purchase of property (8,854) (6,310) Proceeds from disposition of property 3,893 3,322 Collections on notes receivable 450 2,691 Net cash flows used in investing activities (4,511) (297) Cash flows from financing activities: Long-term debt payments (22,084) (16,793) Proceeds from exercise of stock options 4,621 3,336 Debt transaction costs (795)	Other accrued liabilities		(5,897)		(2,470)	
Cash flows from investing activities: Purchase of property Proceeds from disposition of property Collections on notes receivable Net cash flows used in investing activities Cash flows from financing activities: Long-term debt payments Proceeds from exercise of stock options Debt transaction costs (8,854) (6,310) (6,310) (4,511) (2,081) (2,081) (2,084) (16,793) (16,793) (16,793)	Other noncurrent liabilities and deferred credits		(3,321)		(1,870)	
Purchase of property (8,854) (6,310) Proceeds from disposition of property 3,893 3,322 Collections on notes receivable 450 2,691 Net cash flows used in investing activities (4,511) (297) Cash flows from financing activities: Long-term debt payments (22,084) (16,793) Proceeds from exercise of stock options 4,621 3,336 Debt transaction costs (795)	Net cash flows provided by operating activities		24,935		10,692	
Purchase of property (8,854) (6,310) Proceeds from disposition of property 3,893 3,322 Collections on notes receivable 450 2,691 Net cash flows used in investing activities (4,511) (297) Cash flows from financing activities: Long-term debt payments (22,084) (16,793) Proceeds from exercise of stock options 4,621 3,336 Debt transaction costs (795)						
Proceeds from disposition of property Collections on notes receivable Net cash flows used in investing activities Cash flows from financing activities: Long-term debt payments Proceeds from exercise of stock options Debt transaction costs 3,893 4,601 (297) (297) (297) (16,793) 2,336	Cash flows from investing activities:					
Collections on notes receivable 450 2,691 Net cash flows used in investing activities (4,511) (297) Cash flows from financing activities: Long-term debt payments (22,084) (16,793) Proceeds from exercise of stock options 4,621 3,336 Debt transaction costs (795)	Purchase of property		(8,854)		(6,310)	
Net cash flows used in investing activities (4,511) (297) Cash flows from financing activities: Long-term debt payments (22,084) (16,793) Proceeds from exercise of stock options 4,621 3,336 Debt transaction costs (795)	Proceeds from disposition of property		3,893		3,322	
Cash flows from financing activities: Long-term debt payments (22,084) (16,793) Proceeds from exercise of stock options 4,621 3,336 Debt transaction costs (795)	Collections on notes receivable		450		2,691	
Long-term debt payments(22,084)(16,793)Proceeds from exercise of stock options4,6213,336Debt transaction costs(795)—	Net cash flows used in investing activities		(4,511)		(297)	
Long-term debt payments(22,084)(16,793)Proceeds from exercise of stock options4,6213,336Debt transaction costs(795)—						
Proceeds from exercise of stock options 4,621 3,336 Debt transaction costs (795)	Cash flows from financing activities:					
Proceeds from exercise of stock options 4,621 3,336 Debt transaction costs (795)	Long-term debt payments		(22,084)		(16,793)	
			4,621		3,336	
	Debt transaction costs		(795)		_	
Deferred financing costs (3,247)	Deferred financing costs		(3,247)		_	
Purchase of treasury stock (14,280)						
Net bank overdrafts (776) (1,786)	· · · · · · · · · · · · · · · · · · ·				(1,786)	
Net cash flows used in financing activities (36,561) (15,243)	Net cash flows used in financing activities		(36,561)		(15,243)	

Decrease in cash and cash equivalents		(16,137)	(4,848)
Cash and cash equivalents at:			
Beginning of period		29,074	26,525
End of period	\$	12,937	\$ 21,677
	See accompanying note	es	
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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 June 29, 2011, the Denny's brand consisted of 1,677 restaurants, 1,452 (87%) of which were franchised/licensed restaurants and 225 (13%) of which were company-owned and operated.

The following table shows the unit activity for the quarter and two quarters ended June 29, 2011 and June 30, 2010: