DOMINOS PIZZA INC
Form 10-K
February 24, 2009
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 28, 2008

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 number)

30 Frank Lloyd Wright Drive

Ann Arbor, Michigan 48106

(Address of principal executive offices)

(734) 930-3030

(Registrant s telephone number, including area code)

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

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Act): Yes [ ] No [X]

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act): Check one:

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]

The aggregate market value of the voting and non-voting stock held by non-affiliates of Domino s Pizza, Inc. as of June 15, 2008 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 $523,471,468.

As of February 17, 2009, Domino s Pizza, Inc. had 57,177,117 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 28, 2009 are incorporated by reference into Part III.

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Part I

Item 1. Business.

Overview

Domino s Pizza, Inc. (referred to as the Company, Domino s or in the first person notations of we, us and our) is the number one pizza deli company in the United States, based on reported consumer spending, and has a leading presence internationally. On average, over one million pizzas are sold each day throughout the system, with deliveries covering approximately ten million miles per week. We pioneered the pizza delivery business and have built the Domino s Pizza® brand into one of the most widely recognized consumer brands in the world. Together with our franchisees, we have supported the Domino s Pizza® brand with an estimated $1.4 billion in domestic advertising spending over the past five years. We operate through a network of 8,773 Company-owned and franchise stores, located in all 50 states and in more than 60 countries. In addition, we operate 17 regional dough manufacturing and supply chain centers in the contiguous United States and six dough manufacturing and supply chain centers outside the contiguous United States. The foundation of our system-wide success and leading market position is our strong relationships with our franchisees, comprised of over 2,000 owner-operators dedicated to the success of the Domino s Pizza® brand.

Over our 48-year history, we have developed a simple business model focused on our core strength of delivering quality pizza in a timely manner. This business model includes a delivery-oriented store design with low capital requirements, a focused menu of pizza and complementary side items, committed owner-operator franchisees and a vertically-integrated supply chain system. Our earnings are driven largely from retail sales at our franchise stores, which generate royalty payments and supply chain revenues to us. We also generate earnings through retail sales at our Company-owned stores.

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

Domestic stores. The domestic stores segment, which is comprised of 4,558 franchise stores and 489 Company-owned stores, generated revenues of $511.6 million and income from operations of $126.9 million during 2008.

Domestic supply chain. Our domestic supply chain segment, which manufactures dough, processes vegetables and distributes food, equipment and supplies to all of our Company-owned stores and over 99% of our domestic franchise stores, generated revenues of $771.1 million and income from operations of $47.1 million during 2008.

International. Our international segment oversees 3,726 franchise stores outside the contiguous United States. It also manufactures dough and distributes food and supplies in a limited number of these markets. During 2008, our international segment generated revenues of $142.4 million, of which approximately 51% resulted from the collection of franchise royalties and fees, and generated income from operations of $63.9 million, of which approximately 93% resulted from the collection of franchise royalties and fees.

On a consolidated basis, we generated revenues of more than $1.4 billion and income from operations (after deducting $42.9 million of unallocated corporate and other expenses) of $195.0 million in 2008. Net income was $54.0 million in 2008. We have been able to increase our income from operations over the past five years through global retail sales growth and the net addition of over 1,300 stores worldwide. This growth was achieved with capital expenditures by us that generally range between only $20.0 million to $30.0 million on an annualized basis, since a significant portion of our earnings are derived from retail sales by our franchisees.

During 2007, the Company completed a recapitalization transaction (the 2007 Recapitalization), consisting of (i) $1.7 billion of borrowings of fixed rate notes, (ii) a stock tender offer resulting in the purchase of 2,242 shares of the Company s common stock at a purchase price of $30.00 per share, (iii) the purchase and retirement at a premium of all the outstanding Domino s, Inc. 8 1/4% senior subordinated notes due 2011, (iv) the repayment of all outstanding borrowings under its senior credit facility, and (v) a $13.50 per share special cash dividend to shareholders and related anti-dilution payments and adjustments to certain option holders.

Additionally, in 2007 the Board of Directors approved an open market share repurchase program for up to $200.0 million of the Company s common stock, to be funded by future free cash flow and borrowings available under our variable funding notes. During 2007 and 2008, the Company repurchased 3,614,310 and 3,369,522 shares of common stock for approximately $54.4 million and $42.9 million, respectively. The Company has approximately $102.7 million remaining under the open market share repurchase program.

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Our history

We have been delivering quality, affordable pizza to our customers since 1960 when brothers Thomas and James Monaghan borrowed $900 and purchased a small pizza store in Ypsilanti, Michigan. Since that time, our store count and geographic reach have grown substantially. We opened our first franchise store in 1967, our first international store in 1983 and, by 1998, we had expanded to over 6,200 stores, including more than 1,700 international stores, on six continents. During 2005, we opened our 8,000th store worldwide. At December 28, 2008, we had 8,773 stores worldwide in more than 60 countries.

In 1998, an investor group led by investment funds associated with Bain Capital, LLC completed a recapitalization through which the investor group acquired a 93% controlling economic interest in our Company from Thomas Monaghan and his family. At the time of the recapitalization, Mr. Monaghan retired, and, in March 1999, David A. Brandon was named our Chairman and Chief Executive Officer. In 2004, Domino s Pizza, Inc. completed its initial public offering (the IPO) and now trades on the New York Stock Exchange under the ticker symbol DPZ.

Our company was founded in 1960. TISM, Inc., a Michigan corporation and our predecessor, operated through its wholly-owned subsidiary, Domino s Pizza LLC, a Michigan limited liability company. In connection with the IPO, TISM, Inc. reincorporated in Delaware under the name Domino s Pizza, Inc.

Industry overview

In this document, we rely on and refer to information regarding the U.S. quick service restaurant, or QSR, sector, the U.S. QSR pizza category and its components and competitors (including us) from the CREST report prepared by The NPD Group, as well as market research reports, analyst reports and other publicly-available information. Although we believe this information to be reliable, we have not independently verified it. Domestic sales information relating to the QSR sector, U.S. QSR pizza category and U.S. pizza delivery and carry-out represent reported consumer spending obtained by The NPD Group s CREST report from consumer surveys. This information relates to both our Company-owned and franchise stores. Unless otherwise indicated, all U.S. industry data included in this document is based on reported consumer spending obtained by The NPD Group s CREST report from consumer surveys.

The U.S. QSR pizza category is large and fragmented. With sales of $33.9 billion in the twelve months ended November 2008, the U.S. QSR pizza category is the second largest category within the $230.3 billion U.S. QSR sector. The U.S. QSR pizza category is primarily comprised of delivery, dine-in and carry-out.

We operate primarily within U.S. pizza delivery. Its $10.9 billion of sales accounted for 32% of total U.S. QSR pizza category sales in the twelve months ended November 2008. We and our top two competitors account for approximately 47% of U.S. pizza delivery, based on reported consumer spending, with the remaining 53% attributable to regional chains and individual establishments.

We also compete in carry-out, which together with pizza delivery are the largest components of the U.S. QSR pizza category. U.S. carry-out pizza had $13.8 billion of sales in the twelve months ended November 2008 and while our primary focus is on pizza delivery, we are also favorably positioned to compete in carry-out given our strong brand, convenient store locations and quality, affordable menu offerings.

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

Our competitive strengths

We believe that our competitive strengths include the following:

Strong and proven growth and earnings model. Over our 48-year history, we have developed a focused growth and earnings model. This model is anchored by strong store-level economics, which provide an entrepreneurial incentive for our franchisees and generate demand for new stores. Our franchise system, in turn, has produced strong and consistent earnings for us through royalty payments and supply chain revenues, with minimal associated capital expenditures by us.

Strong store-level economics. We have developed a cost-efficient store model, characterized by a delivery and carry-out oriented store design, with low capital requirements and a focused menu of quality, affordable pizza and complementary side items. At the store level, we believe that the simplicity and efficiency of our operations give us significant advantages over our competitors who in many cases also focus on dine-in.

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Our domestic stores, and the majority of our international stores, do not offer dine-in areas and thus do not require expensive restaurant facilities and staffing. In addition, our focused menu of pizza and complementary side items simplifies and streamlines our production and delivery processes and maximizes economies of scale on purchases of our principal ingredients. As a result of our focused business model and menu, our stores are small (averaging approximately 1,000 to 1,300 square feet) and inexpensive to build, furnish and maintain as compared to many other QSR franchise opportunities. The combination of this efficient store model and strong store sales volume has resulted in strong store-level financial returns and makes Domino s Pizza an attractive business opportunity for existing and prospective franchisees.

Strong and well-diversified franchise system. We have developed a large, global, diversified and committed franchise network that is a critical component of our system-wide success and our leading position in pizza delivery. As of December 28, 2008, our franchise store network consisted of 8,284 stores, 55% of which were located in the contiguous United States. In the United States, only six franchisees operate more than 50 stores, including our largest domestic franchisee, which operates 144 stores. Our domestic franchisees, on average, operate between three and four stores. We generally require our domestic franchisees to forego active, outside business endeavors, aligning their interests with ours and making the success of each Domino s Pizza franchise of critical importance to our franchisees.

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

Internationally, we have also been able to grow our franchise network by attracting franchisees with business experience and local market knowledge. We generally use our master franchise model, which provides our international franchisees with exclusive rights to operate stores or sub-franchise our well-recognized Domino s Pizza® brand name in specific, agreed-upon market areas. From year-end 2003 through 2008, we grew our international franchise network 48%, from 2,523 stores to 3,726 stores. Our largest master franchisee operates 729 stores in five markets, which accounts for approximately 20% of our total international store count.

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

We believe that our store economics have led to a strong, well diversified franchise system. This established franchise system has produced strong cash flow and earnings for us, enabling us to invest in the Domino s Pizza® brand and our stores, pay significant dividends, repurchase shares of our common stock and deliver attractive returns to our stockholders.

#1 pizza delivery company in the United States with a leading international presence. We are the number one pizza delivery company in the United States with a 17.5% share based on reported consumer spending. With 5,047 stores located in the contiguous United States, our domestic store delivery areas cover a majority of U.S. households. Our share position and scale allow us to leverage our purchasing power, supply chain strength and advertising investment across our store base. We also believe that our scale and market coverage allow us to effectively serve our customers demands for convenience and timely delivery.

Outside the United States, we have significant share positions in the key markets in which we compete, including, among other countries, Mexico, where we are the largest QSR company in terms of store count in any QSR category, the United Kingdom, Australia, South Korea, Canada, India, Japan, France and Taiwan. Our top ten international markets, based on store count, accounted for approximately 80% of our international retail sales in 2008. We believe we have a leading presence in these markets.

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

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

Internal dough manufacturing and supply chain system. In addition to generating significant revenues and earnings, we believe that our vertically integrated dough manufacturing and supply chain system enhances the quality and consistency of our products, enhances our relationships with franchisees, leverages economies of scale to offer lower costs to our stores and allows our store managers to better focus on store operations and customer service by relieving them of the responsibility of mixing dough in the stores.

In 2008, we made approximately 575,000 full-service food deliveries to our domestic stores, or between two and three deliveries per store, per week, with a delivery accuracy rate of approximately 99%. All of our Company-owned and over 99% of our domestic franchise stores purchase all of their food and supplies from us. This is accomplished through our network of 17 regional dough manufacturing and supply chain centers, each of which is generally located within a one-day delivery radius of the stores it serves, and a leased fleet of over 400 tractors and trailers. Additionally, we supply our domestic and international franchisees with equipment and supplies through our equipment and supply center, which we operate as part of our domestic supply chain segment. Our equipment and supply center sells and delivers a full range of products, including ovens and uniforms. We also supply certain of our domestic stores with ingredients that are processed at our vegetable processing supply chain center, which we operate as part of our domestic supply chain segment.

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

Our business strategy

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

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

puts franchisees and Company-owned stores at the foundation of all our thinking and decisions;

emphasizes our ability to select, develop and retain exceptional team members and franchisees;

provides a strong infrastructure to support our stores; and

builds excellent store operations to create loyal customers.

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

putting people first;

demanding integrity;

striving to make every customer a loyal customer;

delivering with smart hustle and positive energy; and

winning by improving results every day.

Grow our leading position in an attractive industry. U.S. pizza delivery and carry-out are the largest components of the U.S. QSR pizza category. They are also highly fragmented. Pizza delivery, through which a majority of our retail sales are generated, had sales of $10.9 billion in the twelve months ended November 2008. As the leader in U.S. pizza delivery, we believe that our convenient store locations, simple operating model, widely-recognized brand and efficient supply chain system are competitive advantages that position us to capitalize on future growth.

Carry-out had $13.8 billion of sales in the twelve months ended November 2008. While our primary focus is on pizza delivery, we are also favorably positioned as a leader in carry-out given our strong brand, convenient store locations and quality, affordable menu offerings.

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Leverage our strong brand awareness. We believe that the strength of our Domino s Pizza® brand makes us one of the first choices of consumers seeking a convenient, quality and affordable meal. We intend to continue to promote our brand name and enhance our reputation as the leader in pizza delivery. In 2007 we launched the campaign, You Got 30 Minutes , which built on the Company s 30-minute delivery heritage.

In 2007 and 2008, each of our domestic stores contributed 4% of their retail sales to our advertising fund for national advertising in addition to contributions for market-level advertising. Additionally, for 2007 our domestic stores within active co-operatives elected to allocate an additional 1% of their advertising contributions to support national advertising initiatives.

We intend to leverage our strong brand by continuing to introduce innovative, consumer-tested and profitable new product varieties (such as Domino s Brooklyn Style Pizza and Domino s Oven Baked Sandwiches), complementary side items (such as buffalo wings, cheesy bread, Domino s Buffalo Chicken Kickers® and Cinna Stix®) and value promotions as well as through marketing affiliations with brands such as Coca-Cola®. Additionally, we may from time-to-time partner with other organizations in an effort to promote the Domino s Pizza® brand. We believe these opportunities, when coupled with our scale and share leadership, will allow us to grow our position in U.S. pizza delivery.

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

Continue to grow our international business. We believe that pizza has global appeal and that there is strong and growing international demand for delivered pizza. We have successfully built a broad international platform, almost exclusively through our master franchise model, as evidenced by our 3,726 international stores in more than 60 countries. We believe that we continue to have significant long-term growth opportunities in international markets where we have established a leading presence. In our current top ten international markets, we believe that our store base in total for these ten markets is approximately half of the total long-term potential store base in those markets. Generally, we believe we will achieve long-term growth internationally as a result of the favorable store-level economics of our business model, the growing international demand for delivered pizza and the strong global recognition of the Domino s Pizza® brand. Our international stores have produced positive quarterly same store sales growth for 60 consecutive quarters.

Store operations

We believe that our focused and proven store model provides a significant competitive advantage relative to many of our competitors who focus on multiple components of the pizza category, particularly dine-in. We have been focused on pizza delivery for 48 years. Because our domestic stores and most of our international stores do not offer dine-in areas, they typically do not require expensive real estate, are relatively small and are relatively inexpensive to build and equip. Our stores also benefit from lower maintenance costs, as store assets have long lives and updates are not frequently required. Our simple and efficient operational processes, which we have refined through continuous improvement, include:

strategic store locations to facilitate delivery service;

production-oriented store designs;

product and process innovations;

a focused menu;

efficient order taking, production and delivery;

Domino s PULSE point-of-sale system; and

a comprehensive store audit program.

Strategic store locations to facilitate delivery service

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

Production-oriented store designs

Our typical store is relatively small, occupying approximately 1,000 to 1,300 square feet, and is designed with a focus on efficient and timely production of consistently high quality pizza for delivery. The store layout has been refined over time to provide an efficient flow from order taking to delivery. Our stores are primarily production facilities and, accordingly, do not typically have a dine-in area.

Product and process innovations

Our 48 years of experience and innovative culture have resulted in numerous new product and process developments that increase both quality and efficiency. These include our efficient, vertically-integrated supply chain system, a sturdier corrugated pizza box and a mesh screen that helps cook pizza crust more evenly. The Domino s HeatWave® hot bag, which was introduced in 1998, keeps our pizzas hot during delivery. We also continue to introduce new products such as Domino s Oven Baked Sandwiches, which we launched in 2008. Additionally, we have added a number of complementary side items to our menu such as buffalo wings, Domino s Buffalo Chicken Kickers®, bread sticks, cheesy bread and Cinna Stix®.

Focused menu

We maintain a focused menu that is designed to present an attractive, quality offering to customers, while minimizing order errors, and expediting the order taking and food preparation processes. Our basic menu has three choices for pizza products: pizza type, pizza size and pizza toppings. Most of our stores carry two or three sizes of Traditional Hand-Tossed, Ultimate Deep Dish, Brooklyn Style and Crunchy Thin Crust pizza. During 2008, we added the new Domino s Oven Baked Sandwiches to our menu that are available in four main varieties. Our typical store also offers buffalo wings, Domino s Buffalo Chicken Kickers®, bread sticks, cheesy bread, Cinna Stix® and Coca-Cola® soft drink products. We also occasionally offer other products on a promotional basis. We believe that our focused menu creates a strong identity among consumers, improves operating efficiency and maintains food quality and consistency.

Efficient order taking, production and delivery

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

Domino s PULSE point-of-sale system

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

- touch screen ordering, which improves accuracy and facilitates more efficient order taking;
- a delivery driver routing system, which improves delivery efficiency;
- improved administrative and reporting capabilities, which enable store managers to better focus on store operations and customer satisfaction; and
- enhanced online ordering capability, including Pizza Tracker which was introduced in 2007.

We require our domestic franchisees to install Domino s PULSE and are in the process of installing Domino s PULSE in the remaining domestic franchise stores. Additionally, we have installed Domino s PULSE in over 1,000 international franchise stores.

Comprehensive store audit program

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

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Segment overview

We operate in three business segments:

Domestic stores. Our domestic stores segment consists of our domestic franchise operations, which oversee our network of 4,558 franchise stores located in the contiguous United States, and our domestic Company-owned store operations, which operate our network of 489 Company-owned stores located in the contiguous United States;

Domestic supply chain. Our domestic supply chain segment operates 17 regional dough manufacturing and food supply chain centers, one supply chain center providing equipment and supplies to certain of our domestic and international stores and one vegetable processing supply chain center; and

International. Our international segment oversees our network of 3,726 international franchise stores in more than 60 countries. Our international segment also distributes food to a limited number of markets from six dough manufacturing and supply chain centers in Alaska, Hawaii and Canada (four).

Domestic stores

During 2008, our domestic stores segment accounted for $511.6 million, or 36%, of our consolidated revenues. Our domestic franchises are operated by entrepreneurs who own and operate an average of three to four stores. Only six of our domestic franchisees operate more than 50 stores, including our largest domestic franchisee, which operates 144 stores. Our principal sources of revenues from domestic store operations are Company-owned store sales and royalty payments based on retail sales by our franchisees. Our domestic network of Company-owned stores also plays an important strategic role in our predominantly franchised operating structure. In addition to generating revenues and earnings, we use our domestic Company-owned stores as test sites for new products and promotions as well as store operational improvements and as forums for training new store managers and prospective franchisees. We also believe that our domestic Company-owned stores add to the economies of scale available for advertising, marketing and other costs that are primarily borne by our franchisees. While we continue to be primarily a franchised business, we continually evaluate our mix of domestic Company-owned and franchise stores in an effort to optimize our profitability.

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

Domestic supply chain

During 2008, our domestic supply chain segment accounted for $771.1 million, or 54%, of our consolidated revenues. Our domestic supply chain segment is comprised of dough manufacturing and supply chain centers that manufacture fresh dough on a daily basis and purchase, receive, store and deliver quality pizza-related food products and complementary side items to all of our Company-owned stores and over 99% of our domestic franchise stores. Each regional dough manufacturing and supply chain center serves approximately 300 stores, generally located within a one-day delivery radius. We regularly supply approximately 5,000 stores with various supplies and ingredients, of which, eight product groups account for over 90% of the volume. Our domestic supply chain segment made approximately 575,000 full-service deliveries in 2008 or between two and three deliveries per store, per week; and we produced over 273 million pounds of dough during 2008.

We believe that our franchisees voluntarily choose to obtain food, supplies and equipment from us because we provide the most efficient, convenient and cost-effective alternative, while also providing both quality and consistency. In addition, our domestic supply chain segment offers a profit-sharing arrangement to stores that purchase all of their food from our domestic dough manufacturing and supply chain centers. This profit-sharing arrangement generally provides domestic Company-owned stores and participating franchisees with 50% of their regional supply chain center s pre-tax profits. Profits are shared with the franchisees based upon each franchisee s purchases from our supply chain centers. We believe these arrangements strengthen our ties with these franchisees.

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The information systems used by our domestic dough manufacturing and supply chain centers are an integral part of the quality service we provide our stores. We use routing strategies and software to optimize our daily delivery schedules, which maximizes on-time deliveries. Through our strategic dough manufacturing and supply chain center locations and proven routing systems, we achieved delivery accuracy rates of approximately 99% during 2008. Our supply chain center drivers unload food and supplies and stock store shelves typically during non-peak store hours, which minimizes disruptions in store operations.

International

During 2008, our international segment accounted for $142.4 million, or 10%, of our consolidated revenues. We have 592 franchise stores in Mexico, representing the largest presence of any QSR company in Mexico, 512 franchise stores in the United Kingdom, 412 franchise stores in Australia, 305 franchise stores in South Korea, 296 franchise stores in Canada, 227 franchise stores in India and over 100 franchise stores in each of Japan, France, Taiwan and Turkey. The principal sources of revenues from our international operations are royalty payments generated by retail sales from franchise stores and sales of food and supplies to franchisees in certain markets.

We have grown by more than 1,200 international stores over the past five years. We empower our managers and franchisees to adapt the standard operating model, within certain parameters, to satisfy the local eating habits and consumer preferences of various regions outside the contiguous United States. Currently, most of our international stores are operated under master franchise agreements, and we plan to continue entering into master franchise agreements with qualified franchisees to expand our international operations in selected countries. We believe that our international franchise stores appeal to potential franchisees because of our well-recognized brand name, the limited capital expenditures required to open and operate our stores and our system s favorable store economics. The following table shows our store count as of December 28, 2008 in our top ten international markets, which account for 78% of our international stores.

Market	Number of stores
Mexico	592
United Kingdom	512
Australia	412
South Korea	305
Canada	296
India	227
Japan	181
France	140
Taiwan	120
Turkey	106

Our franchise program

As of December 28, 2008, our 4,558 domestic franchise stores were owned and operated by our 1,216 domestic franchisees. The success of our franchise formula, which enables franchisees to benefit from our brand name with a relatively low initial capital investment, has attracted a large number of motivated entrepreneurs as franchisees. As of December 28, 2008, the average domestic franchisee operated approximately three to four stores and had been in our franchise system for twelve years. At the same time, only six of our domestic franchisees operated more than 50 stores, including our largest domestic franchisee, which operates 144 stores.

Domestic franchisees

We apply rigorous standards to prospective franchisees. We generally require prospective domestic franchisees to manage a store for at least one year before being granted a franchise. This enables us to observe the operational and financial performance of a potential franchisee prior to entering into a long-term contract. We also generally restrict the ability of domestic franchisees to become involved in other businesses, which focuses our franchisees attention on operating their stores. As a result, the vast majority of our franchisees come from within the Domino s Pizza system. We believe these standards are unique to the franchise industry and result in qualified and focused franchisees operating their stores.

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Franchise agreements

We enter into franchise agreements with domestic franchisees under which the franchisee is granted the right to operate a store in a particular location for a term of ten years, with options to renew for an additional term of ten years. We currently have a franchise contract renewal rate of over 99%. Under the current standard franchise agreement, we assign an exclusive area of primary responsibility to each franchise store. During the term of the franchise agreement, the franchisee is required to pay a 5.5% royalty fee on sales, subject, in limited instances, to lower rates based on area development agreements, sales initiatives and new store incentives. We have the contractual right, subject to state law, to terminate a franchise agreement for a variety of reasons, including, but not limited to, a franchisee s failure to make required payments when due or failure to adhere to specified Company policies and standards.

Franchise store development

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

Franchise training and support

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

Franchise operations

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

International franchisees

The vast majority of our markets outside of the contiguous United States are operated by master franchisees with franchise and distribution rights for entire regions or countries. In select regions or countries, we franchise directly to individual store operators. Our master franchise agreements generally grant the franchisee exclusive rights to develop or sub-franchise stores and the right to operate supply chain centers in a particular geographic area for a term of ten to twenty 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. Prospective master franchisees are required to possess or have access to local market knowledge required to establish and develop Domino s Pizza stores. The local market knowledge focuses on the ability to identify and access targeted real estate sites along with expertise in local customs, culture, consumer behavior and laws. We also seek candidates that have access to sufficient capital to meet their growth and development plans. The master franchisee is generally required to pay an initial, one-time franchise fee as well as an additional franchise fee upon the opening of each new store. In addition, the master franchisee is required to pay a continuing royalty fee as a percentage of retail sales, which varies among international markets.

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Marketing operations

Our domestic stores generally contribute between 4% to 5% of their retail sales to fund national marketing and advertising campaigns. In addition to the required national advertising contributions, in those markets where we have co-operative advertising programs, our domestic stores also generally contribute to market-level media campaigns. These national and market-level funds are administered by Domino s National Advertising Fund Inc., or DNAF, our not-for-profit advertising subsidiary. The funds remitted to DNAF are used primarily to purchase television advertising, but also support market research, field communications, public relations, commercial production, talent payments and other activities supporting the Domino s Pizza® brand. DNAF also provides cost-effective print materials to our domestic stores for use in local marketing that reinforce our national branding strategy. In addition to the national and market-level advertising contributions, domestic stores spend additional amounts on local store marketing, including targeted database mailings, saturation print mailings and community involvement through school and civic organizations. Additionally, we may from time-to-time partner with other organizations in an effort to promote the Domino s Pizza® brand.

By communicating a common brand message at the national, local market and store levels, we create and reinforce a powerful, consistent marketing message to consumers. This is evidenced by our successful previous marketing campaign with the slogan Get the Door. It s Domino® s. and our current marketing campaign with the slogan You Got 30 Minutes. Over the past five years, we estimate that domestic stores have invested approximately $1.4 billion on national, local and co-operative advertising.

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

Third-party suppliers

We have maintained active relationships of 15 years or more with more than half of our major suppliers. Our suppliers are required to meet strict quality standards to ensure food safety. We review and evaluate our suppliers quality assurance programs through, among other actions, on-site visits, third party audits and product evaluations to ensure compliance with our standards. We believe that the length and quality of our relationships with suppliers provides us with priority service and quality products at competitive prices.

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

We currently purchase our pizza cheese from a single supplier. In 2007, the Company entered into a new arrangement with this supplier. Under this arrangement, the supplier agreed to provide an uninterrupted supply of cheese and the Company agreed to a five year pricing period during which it agreed to purchase all of its primary pizza cheese for the Company s United States stores from this supplier or, alternatively, pay to the supplier an amount reflecting any benefit previously received by the Company under the new pricing terms. The pricing schedule is directly correlated to the CME block cheddar price. The majority of our meat toppings come from a single supplier under a contract that began in July 2008 and expires in July 2010. The Crunchy Thin Crust dough is currently sourced by another single supplier pursuant to requirements contracts that expire in 2009. We have the right to terminate these arrangements for quality failures and for uncured breaches.

We believe that alternative suppliers for all of these ingredients are available, and all of our pizza boxes, sauces and other ingredients are sourced from various suppliers. While we may incur additional costs if we are required to replace any of our suppliers, we do not believe that such additional costs would have a material adverse effect on our business. We also entered into a multi-year agreement with Coca-Cola effective January 1, 2003 for the contiguous United States. The contract provides for Coca-Cola to be our exclusive beverage supplier and expires on the later of December 31, 2009 or such time as a minimum number of cases of Coca-Cola® products are purchased by us. We continually evaluate each supply category to determine the optimal sourcing strategy.

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We have not experienced any significant shortages of supplies or any delays in receiving our food or beverage inventories, restaurant supplies or products. The current economic environment has created additional financial pressures for some of our suppliers; however we do not currently anticipate disruptions in our supplies. Prices charged to us by our suppliers are subject to fluctuation, and we have historically been able to pass increased costs and savings on to our stores. We may periodically enter into financial instruments to manage the risk from changes in commodity prices. We do not engage in speculative transactions nor do we hold or issue financial instruments for trading purposes.

Competition

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

Government regulation

We are subject to various federal, state and local laws affecting the operation of our business, as are our franchisees, including various health, sanitation, fire and safety standards. Each store is subject to licensing and regulation by a number of governmental authorities, which include zoning, health, safety, sanitation, building and fire agencies in the jurisdiction in which the store is located. In connection with the re-imaging of 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 licensed and subject to similar regulations by federal, state and local health and fire codes.

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

We are subject to the rules and regulations of the Federal Trade Commission and various state laws regulating the offer and sale of franchises. The Federal Trade Commission and various state laws require that we furnish a franchise disclosure document containing certain information to prospective franchisees, and a number of states require registration of the franchise disclosure document with state authorities. We are operating under exemptions from registration in several states based on the net worth of our operating subsidiary, Domino s Pizza LLC and experience. Substantive state laws that regulate the franchisor-franchisee relationship presently exist in a substantial number of states, and bills have been introduced in Congress from time to time that would provide for federal regulation of the franchisor-franchisee relationship. The state laws often limit, among other things, the duration and scope of non-competition provisions, the ability of a franchisor to terminate or refuse to renew a franchise and the ability of a franchisor to designate sources of supply. We believe that our franchise disclosure document, together with any applicable state versions or supplements, and franchising procedures comply in all material respects with both the Federal Trade Commission guidelines and all applicable state laws regulating franchising in those states in which we have offered franchises.

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

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Trademarks

We have many registered trademarks and service marks and believe that the Domino ® s mark and Domino s Pizza® names and logos, in particular, have significant value and are important to our business. Our policy is to pursue registration of our trademarks and to vigorously oppose the infringement of any of our trademarks. We license the use of our registered marks to franchisees through franchise agreements.

Environmental matters

We are not aware of any federal, state or local environmental laws or regulations that will materially affect our earnings or competitive position, or result in material capital expenditures. However, we cannot predict the effect of possible future environmental legislation or regulations. During 2008, there were no material capital expenditures for environmental control facilities, and no such material expenditures are anticipated in 2009.

Employees

As of December 28, 2008, we had approximately 10,500 employees, who we refer to as team members, in our Company-owned stores, supply chain centers, World Resource Center (our corporate headquarters) and regional offices. As franchisees are independent business owners, they and their employees are not included in our employee count. We consider our relationship with our employees and franchisees to be good. We estimate the total number of people who work in the Domino s Pizza system, including our employees, franchisees and the employees of franchisees, was over 175,000 as of December 28, 2008.

None of our employees are represented by a labor union or covered by a collective bargaining agreement.

Safety

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

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

Community activities

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

National Philanthropic Partner

We have a tradition of creating multi-year partnerships with a national charity to raise funds and public awareness for the organization. Our current national philanthropic partner is St. Jude Children s Research Hospital. St. Jude is internationally recognized for its pioneering work in finding cures and saving children with cancer and other catastrophic diseases. Through a variety of internal and consumer-based activities, including a national fundraising campaign called Thanks and Giving, the Domino s Pizza system has contributed more than $4.5 million to St. Jude in the first five years of the partnership. In addition to raising funds, the Domino s Pizza system has supported St. Jude through in-kind donations including hosting hospital-wide pizza parties for patients and their families. The Domino s Pizza system also helps St. Jude build awareness through the inclusion of the St. Jude logo on millions of our pizza boxes and through a link on our consumer web site.

The Domino s Pizza Partners Foundation

Founded in 1986, the mission of the Partners Foundation is Team Members Helping Team Members. Completely funded by team member and franchise contributions, the foundation is a separate, not-for-profit organization that has disbursed nearly $7.0 million since its inception, to meet the needs of team members facing crisis situations, ranging from fire, accidents, illness or other personal tragedies.

Domino s Pizza Contributions

Over the last four years, the Domino s Pizza system has contributed approximately $7.0 million to external charitable organizations in monetary and in-kind giving.

Franchisee Involvement

In addition to the work that we do in the community on a corporate level, we are proud to have the support of more than 2,000 franchisees around the world who choose to get involved with local charities to make a difference in their communities. Franchisees participate in numerous local programs with schools, hospitals and other charitable organizations, delivering pizzas and offering monetary support. Franchisees also support specific initiatives such as the Delivering the Dough fundraising card program. Launched in 2004, this program assists not-for-profit organizations in raising funds, and generated an estimated $4.4 million for not-for-profits in its first year alone.

Research and development

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

Insurance

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

We have retention programs for workers compensation, general liability and owned and non-owned automobile liabilities for certain periods prior to December 1998 and for periods after December 2001. We are generally responsible for up to $1.0 million per occurrence under these retention programs for workers compensation and general liability. We are also generally responsible for between $500,000 and $3.0 million per occurrence under these retention programs for owned and non-owned automobile liabilities. Pursuant to the terms of our standard franchise agreement, franchisees are also required to maintain minimum levels of insurance coverage at their expense and to have us named as an additional insured on their liability policies.

Working capital

Information about the Company s working capital is included in Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7., page 36.

Customers

The Company s business is not dependent upon a single customer or small group of customers, including franchisees. No customer accounted for more than 10% of total consolidated revenues in 2006, 2007 or 2008.

Seasonal operations

The Company s business is not typically seasonal.

Backlog orders

The Company has no backlog orders as of December 28, 2008.

Government contracts

No material portion of the Company s business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the United States government.

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Financial information about business segments and geographic areas

Financial information about international and United States markets and business segments is incorporated herein by reference to Selected Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related footnotes in Part II, Item 6., pages 25 through 26, Item 7., pages 27 through 40 and Item 8., pages 42 through 70, respectively, of this Form 10-K.

Available information

The Company makes available through its internet website www.dominosbiz.com its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after electronically filing such material with the Securities and Exchange Commission. You may read and copy any materials filed with the Securities and Exchange Commission at the Securities and Exchange Commission s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. This information is also available at www.sec.com. The reference to these website addresses does not constitute incorporation by reference of the information contained on the websites and should not be considered part of this document.

Item 1A. Risk Factors.

Risks relating to our business and industry

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

We compete in the United States against two national chains, as well as many regional and local businesses. We could experience increased competition from existing or new companies in the pizza category, which could create increasing pressures to grow our business in order to maintain our market share. If we are unable to maintain our competitive position, we could experience downward pressure on prices, lower demand for our products, reduced margins, the inability to take advantage of new business opportunities and the loss of market share, all of which would have an adverse effect on our operating results and could cause our stock price to decline.

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

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

We compete within the food service market and the quick service restaurant sector not only for customers, but also for management and hourly employees, suitable real estate sites and qualified franchisees. Our domestic supply chain segment is also subject to competition from outside suppliers. If other suppliers who meet our qualification standards were to offer lower prices or better service to our franchisees for their ingredients and supplies and, as a result, our franchisees chose not to purchase from our domestic supply chain centers, our financial condition, business and results of operations would be adversely affected.

If we fail to successfully implement our growth strategy, which includes opening new domestic and international stores, our ability to increase our revenues and operating profits could be adversely affected.

A significant component of our growth strategy is opening new domestic and international stores. We and our franchisees face many challenges in opening new stores, including, among others:

- selection and availability of suitable store locations;
- negotiation of acceptable lease or financing terms;
- securing required domestic or foreign governmental permits and approvals;
- employment and training of qualified personnel; and
- general economic and business conditions.

The opening of additional franchise stores also depends, in part, upon the availability of prospective franchisees who meet our criteria. Our failure to add a significant number of new stores would adversely affect our ability to increase revenues and operating income.

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We are currently planning to expand our international operations in many of the markets where we currently operate and in selected new markets. This may require considerable management time as well as start-up expenses for market development before any significant revenues and earnings are generated. Operations in new foreign markets may achieve low margins or may be unprofitable, and expansion in existing markets may by affected by local economic and market conditions. Therefore, as we expand internationally, we may not experience the operating margins we expect, our results of operations may be negatively impacted and our common stock price may decline.

We may also pursue strategic acquisitions as part of our business. If we are able to identify acquisition candidates, such acquisitions may be financed, to the extent permitted under our debt agreements, with substantial debt or with potentially dilutive issuances of equity securities.

The food service market is affected by consumer preferences and perceptions. Changes in these preferences and perceptions may lessen the demand for our products, which would reduce sales and harm our business.

Food service businesses are affected by changes in consumer tastes, national, regional and local economic conditions, and demographic trends. For instance, if prevailing health or dietary preferences cause consumers to avoid pizza and other products we offer in favor of foods that are perceived as more healthy, our business and operating results would be harmed. Moreover, because we are primarily dependent on a single product, if consumer demand for pizza should decrease, our business would suffer more than if we had a more diversified menu, as many other food service businesses do.

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 benefit costs and increased energy costs may adversely affect our operating costs. Most of the factors affecting costs are beyond our control and, in many cases, we may not be able to pass along these increased costs to our customers or franchisees. Most ingredients used in our pizza, particularly cheese, are subject to significant price fluctuations as a result of seasonality, weather, demand and other factors. The cheese block price per pound averaged $1.89 in 2008, and the estimated increase in Company-owned store food costs from a hypothetical $0.25 adverse change in the average cheese block price per pound would have been approximately $2.3 million in 2008. 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 a function of the availability of labor. Food, including cheese costs, and labor represent approximately 50% to 60% of a typical Company-owned store s cost of sales.

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

As a result of the 2007 Recapitalization, we hold a substantial amount of indebtedness and are highly leveraged. As of December 28, 2008, our consolidated long-term indebtedness was $1.7 billion. We may also incur additional debt, which would not be prohibited under the terms of the securitized debt. Our substantial indebtedness and the fact that a large portion of our cash flow from operations must be used to make payments on our indebtedness could have important consequences to our business and our shareholders. For example, they 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 competitors that may have less debt.

In addition, the financial and other covenants we agreed to with our lenders will 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.

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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, if currently anticipated cost savings and operating improvements are not realized on schedule, in the amounts projected or at all, or if future borrowings are not available to us under our variable funding notes in amounts sufficient to fund our other liquidity needs, our financial condition and results of operations may be adversely affected. If we cannot generate sufficient cash flow from operations to make scheduled principal and interest payments on our debt obligations in the future, we may need to refinance all or a portion of our indebtedness on or before maturity, sell assets, delay capital expenditures or seek additional equity. If we are unable to refinance any of our indebtedness on commercially reasonable terms or at all or to effect any other action relating to our indebtedness on satisfactory terms or at all, our business may be harmed.

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

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

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

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

In the event that one or both of the insurance companies that provide financial guaranties of our fixed and variable funding note payments were to become the subject of insolvency or similar proceedings, our lenders would not be required to fund our variable funding notes. Additionally, under the terms of our indenture governing our notes, an event of default would occur if: (i) one or both of the insurance companies were to become the subject of insolvency or similar proceedings and (ii) the related insurance policy were not continued or sold to a third party (who would assume one or both of the insurance companies obligations under the related policies), but instead were terminated or canceled as a result of those proceedings. In an event of default, all unpaid amounts under the fixed and variable rate notes could become immediately due and payable at the direction or consent of holders of a majority of the outstanding fixed rate notes or the remaining insurance company that is not the subject of insolvency or similar proceedings. Such acceleration of our debt could have a material adverse effect on our liquidity if we were unable to negotiate mutually acceptable terms with our lenders or if alternate funding were not available to us.

We expect that, during the first five years following issuance, the senior notes will accrue interest at a fixed rate of 5.261% per year and the subordinated notes will accrue interest at a fixed rate of 7.629%. If we do not exercise either of our two one-year extension options following the five-year interest-only period, our securitized debt will be subject to principal amortization and may also be subject to an increased interest rate if it is not repaid or refinanced. If we do exercise one or both extensions, then we may be subject to an increased interest rate.

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If we are unable to refinance or repay amounts under the securitized debt prior to the expiration of the five-year interest-only term (six or seven-year interest-only term if we satisfy certain conditions and exercise one or both of our one-year extension elections), our cash flow would be directed to the repayment of the securitized debt and, other than a weekly servicing fee sufficient to cover minimal selling, general and administrative expenses, would not be available for operating our business.

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

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

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

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

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

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

We and our franchisees are dependent on frequent deliveries of fresh food products that meet our specifications. Shortages or interruptions in the supply of fresh food products caused by unanticipated demand, problems in production or distribution, financial or other difficulties of suppliers, inclement weather or other conditions could adversely affect the availability, quality and cost of ingredients, which would adversely affect our operating results.

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

We operate 17 regional dough manufacturing and supply chain centers and one vegetable processing supply chain center in the contiguous United States and a total of six dough manufacturing and supply chain centers in Alaska, Hawaii and Canada. Our domestic dough manufacturing and supply chain centers service all of our Company-owned stores and over 99% of our domestic franchise stores. As a result, any prolonged disruption in the operations of any of these facilities, whether due to technical or labor difficulties, destruction or damage to the facility, real estate issues or other reasons, could adversely affect our business and operating results.

We face risks of litigation from customers, franchisees, employees and others in the ordinary course of business, which diverts our financial and management resources. Any adverse litigation or publicity may negatively impact our financial condition and results of operations.

Claims of illness or injury relating to food quality or food handling are common in the food service industry. In addition, class action lawsuits have been filed, and may continue to be filed, against various quick service restaurants alleging, among other things, that quick service restaurants have failed to disclose the health risks associated with high-fat foods and that quick service restaurant marketing practices have encouraged obesity. In addition to decreasing our sales and profitability and diverting our management resources, adverse publicity or a substantial judgment against us could negatively impact our financial condition, results of operations and brand reputation, hindering our ability to attract and retain franchisees and grow our business.

Further, we may be subject to employee, franchisee and other claims in the future based on, among other things, discrimination, harassment, wrongful termination and wage, rest break and meal break issues, including those relating to overtime compensation. We have been subject to these types of claims in the past, and in 2007, settled a purported class action claim of this type in California relating to rest break and meal break compensation. If one or more of these claims were to be successful or if there is a significant increase in the number of these claims, our business, financial condition and operating results could be harmed.

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

Our success in the highly competitive business of pizza delivery will continue to depend to a significant extent on our leadership team and other key management personnel. Other than with our Chairman and Chief Executive Officer, David A. Brandon, we do not have long-term employment agreements with any of our executive officers. As a result, we may not be able to retain our executive officers and key personnel or attract additional qualified management. Our success also will continue to depend on our ability to attract and retain qualified personnel to operate our stores, dough manufacturing and supply chain centers and international operations. The loss of these employees or our inability to recruit and retain qualified personnel could have a material adverse effect on our operating results.

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

We conduct a portion of our business outside the United States. Our financial condition and results of operations may be adversely affected if global markets in which our franchise stores compete are affected by changes in political, economic or other factors. These factors, over which neither we nor our franchisees have control, may include:

- recessionary or expansive trends in international markets;
- changing labor conditions and difficulties in staffing and managing our foreign operations;
- increases in the taxes we pay and other changes in applicable tax laws;
- legal and regulatory changes and the burdens and costs of our compliance with a variety of foreign laws;
- changes in inflation rates;
- changes in exchange rates and the imposition of restrictions on currency conversion or the transfer of funds;
- difficulty in collecting our royalties and longer payment cycles;
- expropriation of private enterprises;
- political and economic instability; 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 8.6%, 8.7% and 10.0% of our total revenues were derived from our international segment in 2006, 2007 and 2008, respectively, a majority of which were denominated in foreign currencies. Sales made by our stores outside the United States are denominated in the currency of the country in which the store is located, and this currency could become less valuable prior to conversion to U.S. dollars as a result of exchange rate fluctuations. Unfavorable currency fluctuations could lead to increased prices to customers outside the United States or lower profitability to our franchisees outside the United States, or could result in lower revenues for us, on a U.S. dollar basis, from such customers and franchisees.

We may not be able to adequately protect our intellectual property, which could harm the value of our brand and branded products and adversely affect our business.

We depend in large part on our brand and branded products and believe that they are very important to our business. We rely on a combination of trademarks, copyrights, service marks, trade secrets and similar intellectual property rights to protect our brand and branded products. The success of our business depends on our continued ability to use our existing trademarks and service marks in order to increase brand awareness and further develop our branded products in both domestic and international markets. We have registered certain trademarks and have other trademark registrations pending in the United States and foreign jurisdictions. Not all of the trademarks that we currently use have been registered in all of the countries in which we do business, and they may never be registered in all of these countries. We may not be able to adequately protect our trademarks, and our use of these trademarks may result in liability for trademark infringement, trademark dilution or unfair competition. All of the steps we have taken to protect our intellectual property in the United States and in foreign countries may not be adequate. In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent as the laws of the United States. Further, through acquisitions of third parties, we may acquire brands and related trademarks that are subject to the same risks as the brands and trademarks we currently own.

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

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

A significant portion of our earnings comes from royalties generated by our franchise stores. Franchisees are independent operators, and their employees are not our employees. We provide limited training and support to franchisees, but the quality of franchise store operations may be diminished by any number of factors beyond our control. Consequently, franchisees may not successfully operate stores in a manner consistent with our standards and requirements, or may not hire and train qualified managers and other store personnel. If they do not, our image and reputation may suffer, and our revenues and stock price could decline. While we try to ensure that our franchisees maintain the quality of our brand and branded products, our franchisees may take actions that adversely affect the value of our intellectual property or reputation. As of December 28, 2008, we had 1,216 domestic franchisees operating 4,558 domestic stores. Six of these franchisees each operate over 50 domestic stores, including our largest domestic franchisee, which operates 144 stores, and the average franchisee operates three to four stores. In addition, our international master franchisees are generally responsible for the development of significantly more stores than our domestic franchisees. As a result, our international operations are more closely tied to the success of a smaller number of franchisees than our domestic operations. Our largest international master franchisee operates 729 stores in five markets, which accounts for approximately 20% of our total international store count. Our domestic and international franchisees may not operate their franchises successfully. If one or more of our key franchisees were to become insolvent or otherwise were unable or unwilling to pay us our royalties or other amounts owed, our business and results of operations would be adversely affected.

We are subject to extensive government regulation, 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, including those relating to:

- the preparation and sale of food;
- building and zoning requirements;
- environmental protection;
- minimum wage, overtime and other labor requirements;
- compliance with securities laws and New York Stock Exchange listed company rules;
- compliance with the Americans with Disabilities Act;
- working and safety conditions; and
- menu labeling requirements.

We may become subject to legislation or regulation seeking to tax and/or regulate high-fat foods. If we fail to comply with existing or future laws and regulations, we may be subject to governmental or judicial fines or sanctions. In addition, our capital expenditures could increase due to remediation measures that may be required if we are found to be noncompliant with any of these laws or regulations.

We are also subject to a Federal Trade Commission rule and to various state and foreign laws that govern the offer and sale of franchises. Additionally, these laws regulate various aspects of the franchise relationship, including terminations and the refusal to renew franchises. The failure to comply with these laws and regulations in any jurisdiction or to obtain required government approvals could result in a ban or temporary suspension on future franchise sales, fines or other penalties or require us to make offers of rescission or restitution, any of which could adversely affect our business and operating results.

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

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

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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:

- 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 current principal stockholders have significant influence over us, and they could delay, deter or prevent a change of control or other business combination or otherwise cause us to take action with which you may disagree.

Investment funds associated with Bain Capital, LLC together beneficially own approximately 30% of our outstanding common stock. In addition, two of our directors are representatives of investment funds associated with Bain Capital, LLC. As a result, these investment funds associated with Bain Capital, LLC have significant influence over our decision to enter into any corporate transaction and may have the ability to prevent any transaction that requires the approval of stockholders regardless of whether or not other stockholders believe that such transaction is in their own best interests. Such concentration of voting power could have the effect of delaying, deterring or preventing a change of control or other business combination that might otherwise be beneficial to our stockholders.

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

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

- variations in our operating results;
- changes in revenues or earnings estimates or publication of research reports by analysts;
- speculation in the press or investment community;
- strategic actions by us or our competitors, such as sales promotions, acquisitions or restructurings;
- actions by institutional and other stockholders;
- changes in our dividend policy;
- changes in the market values of public companies that operate in our business segments;
- general market conditions; and
- domestic and international economic factors unrelated to our performance.

The stock markets in general have recently 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.

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

We lease approximately 200,000 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., which is owned and operated by our founder and former majority shareholder. The lease, as amended, expires in December 2013 and has two five-year renewal options.

We own four domestic Company-owned store buildings and five supply chain center buildings. We also own six store buildings that we lease to domestic franchisees. All other domestic Company-owned stores are leased by us, typically under five-year leases with one or two five-year renewal options. All other domestic supply chain centers are leased by us, typically under leases ranging between five and 15 years with one or two five-year renewal options. All other franchise stores are leased or owned directly by the respective franchisees. We believe that our existing headquarters and other leased and owned facilities are adequate to meet our current requirements.

Item 3. Legal Proceedings.

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

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

Item 4. Submission of Matters to a Vote of Security Holders.

None.

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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 17, 2009, Domino s Pizza, Inc. had 170,000,000 authorized shares of common stock, par value $0.01 per share, of which 57,177,117 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. Prior to our July 2004 initial public offering, there was no established public trading market for Domino s Pizza, Inc. s common stock.

The following table presents the high and low closing prices by quarter for Domino s Pizza, Inc. s common stock, as reported by the NYSE, and dividends declared per common share.

			Dividends Declared
2007:	**High**	**Low**	**Per Share**
First quarter (January 1, 2007 March 25, 2007)	$ 32.38	$ 28.00	$ -
Second quarter (March 26, 2007 June 17, 2007)	33.66	18.82	13.50
Third quarter (June 18, 2007 September 9, 2007)	21.21	15.80	-
Fourth quarter (September 10, 2007 December 30, 2007)	17.56	12.75	-
2008:			
First quarter (December 31, 2007 March 23, 2008)	$ 14.51	$ 11.59	$ -
Second quarter (March 24, 2008 June 15, 2008)	14.92	12.59	-
Third quarter (June 16, 2008 September 7, 2008)	13.98	10.23	-
Fourth quarter (September 8, 2008 December 28, 2008)	13.50	2.83	-

On February 14, 2007, our board of directors discontinued our regular quarterly dividend. On April 17, 2007, our board of directors declared a $13.50 per share special cash dividend on its outstanding common stock totaling $846.4 million, which was paid on May 4, 2007 to stockholders of record at the close of business on April 27, 2007.

Our board of directors assessment of any future dividends will be made based on our projected future cash flows, our debt and other payment obligations, the benefits of retaining and reinvesting future cash flows and other factors our board of directors may deem relevant. Whether any future dividends are paid, and the actual amount of any dividends, will depend upon future earnings, results of operations, capital requirements, our financial condition and 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 17, 2009, there were 483 registered holders of record of Domino s Pizza, Inc. s common stock.

In connection with the 2007 Recapitalization, our board of directors approved an open market share repurchase program for up to $200.0 million of the Company s common stock, which will be funded by future free cash flow.

The following table summarizes our repurchase activity during the fourth quarter ended December 28, 2008:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program

Period #1 (September 8, 2008 to October 5, 2008)	136,600	$	13.49	136,600	$	102,684,742
Period #2 (October 6, 2008 to November 2, 2008)	-		-	-		102,684,742
Period #3 (November 3, 2008 to November 30, 2008)	-		-	-		102,684,742
Period #4 (December 1, 2008 to December 28, 2008)	-		-	-		102,684,742
Total	136,600	$	13.49	136,600	$	102,684,742

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The comparative stock performance line graph below compares the cumulative shareholder return on the common stock of Domino s Pizza, Inc. for the period of time from the commencement of trading on the NYSE following our initial public offering, July 13, 2004, through December 31, 2008, with cumulative total return on (i) the Total Return Index for the New York Stock Exchange (the NYSE Composite Index), (ii) the Standard & Poors 500 Index, and (iii) the Peer Group Index. The companies which comprise the Peer Group Index reflect the Company s scope of operations and the competitive market in the restaurant industry. The Peer Group Index is comprised of the following six companies: McDonald s Corporation; YUM! Brands, Inc.; Papa Johns, Inc.; Wendy s/Arby s Group, Inc.; Jack in the Box Inc.; and CKE Restaurants, Inc. This Index has been weighted by market capitalization of each component company. In addition, the Papa Johns, Inc., Jack in the Box Inc. and YUM! Brands, Inc. stock price during the timeframe of the performance graph has been retroactively adjusted for the stock splits that occurred. Wendy s/Arby s Group, Inc. stock price has been retroactively adjusted for the merger that occurred in 2008. 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 Standard & Poors 500 Index and the Peer Group Index on July 13, 2004. Prior to July 13, 2004, the Company s common stock was not registered under the Exchange Act.

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Item 6. Selected Financial Data.

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

	Fiscal year ended				
(dollars in millions, except per share data)	**January 2, 2005 (4)**	**January 1, 2006**	**December 31, 2006**	**December 30, 2007 (5)**	**December 28, 2008**
Income statement data:					
Revenues:					
Domestic Company-owned stores	$ 382.5	$ 401.0	$ 393.4	$ 394.6	$ 357.7
Domestic franchise	155.0	161.9	157.7	158.1	153.9
Domestic stores	537.5	562.9	551.1	552.6	511.6
Domestic supply chain	792.0	819.1	762.8	783.3	771.1
International	117.0	129.6	123.4	126.9	142.4
Total revenues	1,446.5	1,511.6	1,437.3	1,462.9	1,425.1
Cost of sales	1,092.8	1,126.3	1,052.8	1,084.0	1,061.9
Operating margin	353.7	385.3	384.5	378.9	363.3
General and administrative expense	182.3	186.2	170.3	184.9	168.2
Income from operations	171.4	199.1	214.2	193.9	195.0
Interest income	0.6	0.8	1.2	5.3	2.7
Interest expense	(61.1)	(48.8)	(55.0)	(130.4)	(114.9)
Other (1)	(10.8)	22.1	-	(13.3)	-
Income before provision for income taxes	100.1	173.3	160.4	55.6	82.9
Provision for income taxes	37.8	65.0	54.2	17.7	28.9
Net income	$ 62.3	$ 108.3	$ 106.2	$ 37.9	$ 54.0
Earnings per share:					
Class L basic	$ 5.57	N/A	N/A	N/A	N/A
Class L diluted	5.57	N/A	N/A	N/A	N/A
Common stock basic	$ 0.85	$ 1.62	$ 1.68	$ 0.61	$ 0.93
Common stock diluted	0.81	1.58	1.65	0.59	0.93
Dividends declared per share	$ 0.065	$ 0.40	$ 0.48	$ 13.50	$ -
Balance sheet data (at end of period):					
Cash and cash equivalents	$ 40.4	$ 66.9	$ 38.2	$ 11.3	$ 45.4
Restricted cash	-	-	-	81.0	78.9
Working capital (2)	(0.2)	4.0	11.1	(29.6)	25.8
Total assets	447.3	461.1	380.2	473.2	463.8
Total long-term debt, less current portion	755.4	702.4	740.1	1,704.8	1,704.4
Total debt	780.7	737.7	741.6	1,720.1	1,704.8
Total stockholders deficit	(549.9)	(511.0)	(564.9)	(1,450.1)	(1,424.6)

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	Fiscal year ended				
(dollars in millions)	January 2, 2005 (4)	January 1, 2006	December 31, 2006	December 30, 2007 (5)	December 28, 2008
Other financial data:					
Depreciation and amortization	$ 31.7	$ 32.4	$ 32.3	$ 31.2	$ 28.4
Capital expenditures	39.8	28.7	20.2	42.4	19.4
Same store sales growth (3):					
Domestic Company-owned stores	0.1%	7.1%	(2.2)%	1.0%	(2.2)%
Domestic franchise stores	2.1%	4.6%	(4.4)%	(2.1)%	(5.2)%
Domestic stores	1.8%	4.9%	(4.1)%	(1.7)%	(4.9)%
International stores	5.9%	6.1%	4.0%	6.7%	6.2%
Store counts (at end of period):					
Domestic Company-owned stores	580	581	571	571	489
Domestic franchise stores	4,428	4,511	4,572	4,584	4,558
Domestic stores	5,008	5,092	5,143	5,155	5,047
International stores	2,749	2,987	3,223	3,469	3,726
Total stores	7,757	8,079	8,366	8,624	8,773

(1) Included in Other for fiscal 2004 are costs incurred in connection with debt retirements, including $9.0 million incurred in connection with the redemption of $109.1 million of senior subordinated notes as part of our 2004 IPO. Other for fiscal 2005 is comprised of a gain recognized on the sale of an equity investment. The fiscal 2007 other amount represents the premium paid to bond holders in the tender offer for the Domino s, Inc. senior subordinated notes due 2011.

(2) The 2007 and 2008 working capital amounts exclude approximately $81.0 million and $78.9 million of restricted cash, respectively.

(3) Same store sales growth is calculated including only sales from stores that also had sales in the comparable period of the prior year, but excluding sales from certain seasonal locations such as stadiums and concert arenas. International same store sales growth is calculated similarly to domestic same store sales growth. Changes in international same store sales are reported on a constant dollar basis which reflects changes in international local currency sales. The 53rd week in fiscal 2004 had no positive or negative impact on reported same store sales growth amounts.

(4) In connection with our IPO completed on July 16, 2004, Domino s Pizza, Inc. issued and sold 9,375,000 shares resulting in net proceeds to us of approximately $119.6 million. These net proceeds were used to redeem, at a premium plus accrued interest, approximately $109.1 million aggregate principal amount of Domino s, Inc. 8 1/4% senior subordinated notes. Immediately following the closing of the IPO, we had 68,653,626 shares of common stock outstanding. Additionally, in connection with the IPO, we used general funds to, among other things, distribute $16.9 million to our founder and former majority shareholder and his spouse for full payment of contingent notes then outstanding and pay $10.0 million to an affiliate of our principal stockholder, in connection with the termination of its management agreement with us, which was recorded in general and administrative expense. Additionally, the 2004 fiscal year includes 53 weeks, while the 2005, 2006, 2007 and 2008 fiscal years each include 52 weeks.

(5) In connection with our recapitalization in 2007, Domino s Pizza, Inc. borrowed $780.0 million under a bridge term loan facility. We used the proceeds from the borrowings under the bridge term loan facility to purchase 2,242 shares of common stock for approximately $0.1 million, repay $463.0 million principal amount of then outstanding borrowings under the 2003 term loans plus accrued interest and related fees and retire at a $13.3 million premium $273.6 million in aggregate principal amount of Domino s, Inc. 8 1/4 % senior subordinated notes due 2011, representing substantially all of the outstanding senior subordinated notes plus accrued interest and related fees. We paid $22.3 million in fees in connection with obtaining the bridge loan facility and wrote off $9.5 million of deferred financing fees and bond discount as part of the 2003 term loan and senior subordinated notes repayments. Additionally, in connection with the recapitalization, we borrowed $1.7 billion of fixed rate notes and used the proceeds from the borrowings to repay in full the bridge term loan facility, capitalize certain new subsidiaries, pay $38.1 million of deferred financing fees, pay a special cash dividend on our outstanding common stock

totaling $846.4 million and make a corresponding anti-dilution equivalent payment of $50.6 million on certain stock options. Total cash paid for common stock dividends and related anti-dilution payments totaled $897.0 million, of which $141.0 million was recorded as a reduction of additional paid-in capital and $756.0 million was recorded as an increase in retained deficit. In connection with the repayment of the bridge term loan facility, we wrote off $21.9 million of unamortized deferred financing fees. Additionally, we expensed $2.9 million of related general and administrative expenses, comprised of $1.6 million of legal, professional and other fees and expenses and $1.3 million of non-cash compensation expenses, of which $0.4 million related to the acceleration of vesting of certain stock options. Total recapitalization related expenses were $48.6 million (pre-tax).

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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. Fiscal 2006, fiscal 2007 and fiscal 2008 each consisted of 52 weeks.

Description of the Business

We are the number one pizza delivery company in the United States with a 17.5% share of the pizza delivery market based on reported consumer spending. We also have a leading international presence. We operate through a network of 489 Company-owned stores, all of which are in the United States, and 8,284 franchise stores located in all 50 states and in more than 60 countries. In addition, we operate 17 regional dough manufacturing and supply chain centers in the contiguous United States as well as six dough manufacturing and supply chain centers outside the contiguous United States.

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

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

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

Business Performance

During 2008, we faced significant challenges in our domestic business, particularly rising commodity costs, a continued trend of negative domestic same store sales growth and a slowdown in our store growth as we experienced net negative domestic store growth. These factors combined with the current economic environment have negatively impacted our operating results as well as those of our franchisees. As a result, it was an important year for us to refine our strategies and plans for the coming years, which include improving our franchise base, improving performance of our Company-owned stores and strengthening our menu. We plan to continue exiting underperforming franchisees from the system which will allow us to strengthen our overall system of stores; however this will continue to negatively impact our domestic store growth in 2009. Our marketing strategies will focus on driving sustained traffic growth, including launching permanent new product platforms. In 2008, we introduced our new Domino s Oven Baked Sandwiches, which not only drove traffic growth, but also expanded our lunch business. In addition to the aforementioned efforts, other initiatives such as increases in media spending and investments in training and retention of team members are important strategies that will contribute to the growth and success of our business.

In 2008, global retail sales, which are total retail sales at Company-owned and franchise stores worldwide, increased 1.4% as compared to 2007. This increase in global retail sales was driven by strong international same store sales growth as well as growth in worldwide store counts, offset in part by a decrease in domestic same store sales and negative foreign currency translation impacts on our international sales. In 2007, global retail sales increased 6.6% as compared to 2006. This increase in global retail sales was driven by strong international same store sales growth as well as growth in worldwide store counts, offset in part by a decrease in domestic franchise same store sales.

Revenues increased $25.6 million or 1.8% in 2007 and decreased $37.8 million or 2.6% in 2008. The increase in revenues in 2007 was largely due to higher domestic supply chain revenues, due primarily to higher food prices, including cheese. The decline in 2008 was due primarily to lower Company-owned store and domestic franchise revenues, driven primarily by Company-owned store divestitures, lower same store sales and lower volumes in our domestic supply chain operations. Worldwide store counts have increased from 8,079 at the beginning of 2006 to 8,773 at the end of 2008. This growth in store counts can be attributed to the growing global acceptance of our brand and our pizza delivery concept as well as the economics inherent in our system which attracts new franchisees and encourages existing franchisees to grow their business. Domestic same store sales decreased 4.1%, 1.7% and 4.9% in 2006, 2007 and 2008, respectively. International same store sales increased 4.0%, 6.7% and 6.2% during the same periods. The Company s domestic same store sales results in 2006, 2007 and 2008 reflected the underperformance of our product and promotional offerings during those years, continued challenges in our domestic business and a weak consumer environment. Internationally, same stores sales growth continues to result from the growing acceptance of delivered pizza around the globe and the successful execution of the concept.

Income from operations decreased 9.5%, from $214.2 million in 2006 to $193.9 million in 2007 and increased 0.6% in 2008 to $195.0 million. The decline in income from operations in 2007 was primarily the result of lower profits from the domestic stores and domestic supply chain operations, as well as certain recapitalization-related expenses. The growth in income from operations in 2008 was primarily the result of $14.2 million of gains on the sale of Company-owned stores to franchisees and continued strong performance in our international business. Additionally, the comparison benefits from lower income from operations in 2007, when we incurred higher expenses associated with the Company s recapitalization and a $5.0 million reserve recorded in 2007 related to certain legal matters in California. These increases in 2008 were offset in part by lower margins in our Company-owned store and domestic supply chain businesses, as well as a decrease in domestic franchise same store sales.

Net income declined 64.3% from $106.2 million in 2006 to $37.9 million in 2007 and increased 42.5% to $54.0 million in 2008. The increase in net income in 2008 was primarily due to the comparison to lower net income amounts in the 2007, when we incurred higher expenses associated with the Company s recapitalization and the aforementioned increase in income from operations. These recapitalization expenses in 2007 included the write-off of deferred financing fees and bond discount related to the extinguishment of debt and a $13.3 million premium paid to repurchase and retire then-outstanding notes. These increases were offset in part by higher ongoing interest expense associated with increased debt under our new capital structure and higher interest income earned in 2007 on funds received in connection with the Company s recapitalization.

We are highly leveraged primarily as a result of our recapitalization in 2007. As of December 28, 2008, consolidated long-term debt was $1.7 billion. Since 1998, a large portion of our cash flows provided from operations has been used to make principal and interest payments on our indebtedness as well as distributions to shareholders in the form of dividends and stock repurchases. Our securitized debt requires no scheduled principal payments until anticipated maturity in 2012. Overall, we believe that our ability to consistently produce significant free cash flows allows us the flexibility not only to service our significant debt but also to invest in our growing business as well as return cash to our shareholders.

Critical accounting policies and estimates

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

Revenue recognition. We earn revenues through our network of domestic Company-owned and franchise stores, dough manufacturing and supply chain centers and international operations. Retail sales from Company-owned stores and royalty revenues resulting from the retail sales from franchise stores are recognized as revenues when the items are delivered to or carried out by customers. 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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Allowance for uncollectible receivables. We closely monitor our accounts and notes receivable balances and provide allowances for uncollectible amounts as a result of our reviews. These estimates are based on, among other factors, historical collection experience and a review of our receivables by aging category. Additionally, we may also provide allowances for uncollectible receivables based on specific customer collection issues that we have identified. While write-offs of bad debts have historically been within our expectations and the provisions established, management cannot guarantee that future write-offs will not exceed historical rates. Specifically, if the financial condition of our franchisees were to deteriorate resulting in an impairment of their ability to make payments, additional allowances may be required.

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 based on various analyses including the projection of undiscounted cash flows, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. For Company-owned stores, we perform related impairment tests on an operating market basis, which the Company has determined to be the lowest level for which identifiable cash flows are largely independent of other cash flows. If the carrying amount of a long-lived asset exceeds the amount of the expected future undiscounted cash flows of that asset or the estimated fair value of the asset, an impairment loss is recognized and the asset is written down to its estimated fair value. At December 28, 2008, we determined that our long-lived assets were not impaired. If our future operating performance were to deteriorate, we may be required to recognize an impairment charge.

We evaluate goodwill annually for impairment by comparing the fair value of the reporting unit to its carrying value. A significant portion of our goodwill relates to acquisitions of domestic franchise stores and is included in our domestic stores segment, specifically, the Company-owned stores reporting unit. At December 28, 2008, the fair value of our business operations with associated goodwill exceeded their recorded carrying value, including the related goodwill. However, if the future performance of our domestic Company-owned stores or domestic supply chain operations were to deteriorate, we may be required to recognize a goodwill impairment charge.

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. 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. At December 30, 2007 and December 28, 2008, we had approximately $8.2 million and $2.9 million, respectively, accrued for legal matters.

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. 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 which could result in an increase or decrease in the related expense in future periods. At December 30, 2007 and December 28, 2008, we had approximately $29.6 million and $30.4 million, respectively, accrued for insurance matters.

Income taxes. Our net deferred tax assets assume that we will generate sufficient taxable income in specific tax jurisdictions, based on estimates and assumptions. The amounts relating to taxes recorded on the balance sheet, including tax reserves, also consider the ultimate resolution of revenue agent reviews based on estimates and assumptions. If these estimates and assumptions change in the future, we may be required to adjust our valuation allowance or other tax reserves resulting in additional income tax expense or benefit in future periods.

Same Store Sales Growth

	2006	2007	2008
Domestic Company-owned stores	(2.2)%	1.0%	(2.2)%
Domestic franchise stores	(4.4)%	(2.1)%	(5.2)%
Domestic stores	(4.1)%	(1.7)%	(4.9)%
International stores	4.0%	6.7%	6.2%

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Store Growth Activity

	Domestic Company-owned Stores	Domestic Franchise	Domestic Stores	International Stores	Total
Store count at January 1, 2006	581	4,511	5,092	2,987	8,079
Openings	7	119	126	276	402
Closings	(3)	(72)	(75)	(40)	(115)
Transfers	(14)	14	-	-	-
Store count at December 31, 2006	571	4,572	5,143	3,223	8,366
Openings	13	125	138	289	427
Closings	(7)	(119)	(126)	(43)	(169)
Transfers	(6)	6	-	-	-
Store count at December 30, 2007	571	4,584	5,155	3,469	8,624
Openings	3	120	123	314	437
Closings	(3)	(228)	(231)	(57)	(288)
Transfers	(82)	82	-	-	-
Store count at December 28, 2008	489	4,558	5,047	3,726	8,773

Income Statement Data

(dollars in millions)	2006		2007		2008	
Domestic Company-owned stores	$ 393.4		$ 394.6		$ 357.7	
Domestic franchise	157.7		158.1		153.9	
Domestic supply chain	762.8		783.3		771.1	
International	123.4		126.9		142.4	
Total revenues	1,437.3	100.0%	1,462.9	100.0%	1,425.1	100.0%
Domestic Company-owned stores	312.1		317.7		298.9	
Domestic supply chain	681.7		710.9		699.7	
International	59.0		55.4		63.3	
Cost of sales	1,052.8	73.2%	1,084.0	74.1%	1,061.9	74.5%
Operating margin	384.5	26.8%	378.9	25.9%	363.3	25.5%
General and administrative	170.3	11.9%	184.9	12.6%	168.2	11.8%
Income from operations	214.2	14.9%	193.9	13.3%	195.0	13.7%
Interest expense, net	(53.8)	(3.7)%	(125.1)	(8.6)%	(112.2)	(7.9)%
Other	-	-	(13.3)	(0.9)%	-	-
Income before provision for income taxes	160.4	11.2%	55.6	3.8%	82.9	5.8%
Provision for income taxes	54.2	3.8%	17.7	1.2%	28.9	2.0%
Net income	$ 106.2	7.4%	$ 37.9	2.6%	$ 54.0	3.8%

2008 compared to 2007

(tabular amounts in millions, except percentages)

Revenues. Revenues include retail sales by Company-owned stores, royalties from domestic and international franchise stores and sales of food, equipment and supplies by our supply chain centers to certain domestic and international franchise stores.

Consolidated revenues decreased $37.8 million or 2.6% in 2008. This decrease in revenues was due primarily to lower Company-owned store and domestic franchise revenues, driven primarily by Company-owned store divestitures, lower same store sales and lower volumes in our domestic supply chain operations offset in part by higher international revenues. These decreases in revenues are more fully described below.

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

	2007		2008	
Domestic Company-owned stores	$ 394.6	71.4%	$ 357.7	69.9%
Domestic franchise	158.1	28.6%	153.9	30.1%
Total domestic stores revenues	$ 552.6	100.0%	$ 511.6	100.0%

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Domestic stores revenues decreased $41.0 million or 7.4% in 2008. This decrease was due primarily to lower domestic franchise and Company-owned same store sales and a decrease in the average number of domestic stores open during 2008. These results are more fully described below.

Domestic Company-owned stores. Revenues from domestic Company-owned store operations decreased $36.9 million or 9.3% in 2008. This decrease was due primarily to store divestitures, primarily to existing franchisees, during 2008 and lower same store sales. Domestic Company-owned same store sales decreased 2.2% in 2008 compared to 2007. There were 571 and 489 domestic Company-owned stores in operation as of December 30, 2007 and December 28, 2008, respectively.

Domestic franchise. Revenues from domestic franchise operations decreased $4.2 million or 2.7% in 2008. This decrease was due primarily to lower same store sales and a decrease in the average number of domestic franchise stores open during 2008. There were 4,584 and 4,558 domestic franchise stores in operation as of December 30, 2007 and December 28, 2008, respectively. Domestic franchise same store sales decreased 5.2% in 2008 compared to 2007.

Domestic supply chain. Revenues from domestic supply chain operations decreased $12.2 million or 1.6% in 2008. This decrease was due primarily to lower volumes, related to decreases in domestic same store sales and were offset in part by an increase in overall food prices, including cheese prices. Cheese prices positively impacted revenues by approximately $11.1 million in 2008.

International. International revenues are primarily comprised of royalties from our international franchise stores and sales of food and supplies by our international supply chain centers to certain franchise stores, as summarized in the following table.

	2007		**2008**	
International royalty and other	$ 66.3	52.2%	$ 73.1	51.3%
International supply chain	60.6	47.8%	69.3	48.7%
Total international revenues	$ 126.9	100.0%	$ 142.4	100.0%

Revenues from international operations increased $15.5 million or 12.2% in 2008, comprised of a $6.8 million increase in royalty and other revenues and an $8.7 million increase in supply chain revenues. These increases were due primarily to higher same store sales and an increase in the average number of international stores open during 2008, offset in part by a $1.9 million negative impact of foreign currency translation losses as a result of the strengthening of the U.S. dollar compared to the currencies in the markets in which we compete. On a constant dollar basis, same store sales increased 6.2% in 2008 compared to 2007. On a historical dollar basis, same store sales increased 4.2% in 2008 compared to 2007, reflecting a generally stronger U.S. dollar in those markets in which we compete. There were 3,469 and 3,726 international stores in operation as of December 30, 2007 and December 28, 2008, respectively.

Cost of sales / Operating margin. Consolidated cost of sales is comprised primarily of Company-owned store and domestic supply chain costs incurred to generate related revenues. Components of consolidated cost of sales primarily include food, labor and occupancy costs.

The consolidated operating margin, which we define as revenues less cost of sales, decreased $15.6 million or 4.1% in 2008, as summarized in the following table.

	2007		**2008**	
Consolidated revenues	$ 1,462.9	100.0%	$ 1,425.1	100.0%
Consolidated cost of sales	1,084.0	74.1%	1,061.9	74.5%
Consolidated operating margin	$ 378.9	25.9%	$ 363.3	25.5%

The $15.6 million decrease in consolidated operating margin was due primarily to lower margins at our Company-owned stores and lower domestic franchise royalty revenues, offset in part by higher margins in our international business.

As a percentage of total revenues, our consolidated operating margin decreased primarily as a result of a market increase in overall food prices, including cheese, which negatively impacted our domestic Company-owned store and domestic supply chain operating margins as a percentage of revenues. Additionally, the Company-owned store operating margin was impacted by higher labor costs, while lower domestic franchise same store sales generated lower domestic supply chain volumes. Changes in the operating margin at our domestic Company-owned store operations and our domestic supply chain operations are more fully described below.

Domestic Company-owned stores. The domestic Company-owned store operating margin decreased $18.1 million or 23.4% in 2008, as summarized in the following table.

	2007		2008	
Revenues	$ 394.6	100.0%	$ 357.7	100.0%
Cost of sales	317.7	80.5%	298.9	83.5%
Store operating margin	$ 76.9	19.5%	$ 58.8	16.5%

The $18.1 million decrease in the domestic Company-owned store operating margin was due primarily to higher overall food costs, lower same store sales, higher labor and related costs and the impact of store divestitures.

As a percentage of store revenues, food costs increased 1.5 percentage points to 27.6% in 2008, due primarily to higher overall food prices, including cheese. The cheese block price per pound averaged $1.89 in 2008 compared to $1.72 in 2007.

As a percentage of store revenues, labor and related costs increased 0.5 percentage points to 32.0% in 2008, due primarily to higher average wage rates.

As a percentage of store revenues, occupancy costs, which include rent, telephone, utilities and depreciation, increased 0.2 percentage points to 12.1% in 2008 resulting from higher average rent and utility costs.

As a percentage of store revenues, insurance costs increased 0.2 percentage points to 3.3% in 2008.

Domestic supply chain. The domestic supply chain operating margin decreased $1.0 million or 1.4% in 2008, as summarized in the following table.

	2007		2008	
Revenues	$ 783.3	100.0%	$ 771.1	100.0%
Cost of sales	710.9	90.8%	699.7	90.7%
Domestic supply chain operating margin	$ 72.4	9.2%	$ 71.4	9.3%

The $1.0 million decrease in the domestic supply chain operating margin was due primarily to lower volumes and higher food and fuel costs, offset in part by lower variable labor costs.

As a percentage of domestic supply chain revenues, the domestic supply chain operating margin increased primarily as a result of efficiencies gained at the supply chain centers through reduced delivery frequency and cost reductions. These increases were offset by higher food prices, primarily cheese and to a lesser extent meats and boxes, and lower volumes as a result of lower domestic same store sales. Increases in certain food prices, including cheese, have a negative effect on the domestic supply chain operating margin due to the fixed dollar margin earned by domestic supply chain on certain food items, including cheese. Had the 2008 cheese prices been in effect during 2007, the domestic supply chain operating margin as a percentage of domestic supply chain revenues would have been approximately 9.1% for 2007, resulting in a domestic supply chain operating margin increase of 0.2 percentage points in 2008.

General and administrative expenses. General and administrative expenses decreased $16.7 million or 9.0% in 2008. As a percentage of total revenues, general and administrative expenses decreased 0.8 percentage points to 11.8% in 2008. These decreases were due primarily to $14.2 million of gains recorded in 2008 related to the sale of certain Company-owned stores. Additionally, general and administrative expenses in 2008 were positively impacted by lower advertising and labor expenses, the impact of a $5.0 million reserve recorded in 2007 related to certain legal matters in California as well as general and administrative expenses recorded in connection with the Company s recapitalization in 2007. These decreases were offset in part by approximately $1.4 million of separation and other costs recorded related primarily to the Company s previously announced and executed restructuring action, a $5.3 million increase in bad debt expense and a $1.8 million gain recorded in 2007 on the sale of a corporate aircraft.

Interest income. Interest income decreased $2.6 million to $2.7 million in 2008. This decrease was primarily due to $1.5 million of tax-exempt interest income that was earned in 2007 on funds received in connection with the Company s 2007 recapitalization.

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Interest expense. Interest expense decreased $15.5 million to $114.9 million in 2008. This decrease in interest expense was due primarily to expenses incurred in connection with the Company s 2007 recapitalization, including a $21.9 million write-off of deferred financing fees related to the Company s recapitalization, a $9.5 million write-off of deferred financing fees and bond discount related to the extinguishment of debt and $2.5 million of additional interest expense, net incurred in connection with the settlement of interest rate derivatives. These decreases were offset in part by a $1.3 million write-off of deferred financing fees in connection with a reduction in the available borrowings under the Company s variable funding notes and higher average outstanding debt balances in 2008.

Our average outstanding borrowings increased $0.3 billion to approximately $1.7 billion in 2008. Our cash borrowing rate was 6.1% in 2008 and 2007.

Other. The other amount of $13.3 million in 2007 represents the premium paid to repurchase and retire the senior subordinated notes that were tendered in the debt tender offer in connection with the Company s 2007 recapitalization.

Provision for income taxes. Provision for income taxes increased $11.2 million to $28.9 million in 2008, due primarily to an increase in pre-tax income. The Company s effective income tax rate increased 3.1 percentage points to 34.9% of pre-tax income in 2008, due primarily to the positive impact of reserve adjustments related to the settlement of certain state income tax matters that were significantly higher in 2007 compared to 2008.

2007 compared to 2006

(tabular amounts in millions, except percentages)

Revenues. Consolidated revenues increased $25.6 million or 1.8% in 2007. This increase in revenues was due primarily to higher domestic supply chain revenues related to higher food prices, primarily cheese, as well as higher international revenues. These increases in revenues are more fully described below.

Domestic stores. Domestic stores revenues are summarized in the following table.

	2006		2007	
Domestic Company-owned stores	$ 393.4	71.4%	$ 394.6	71.4%
Domestic franchise	157.7	28.6%	158.1	28.6%
Total domestic stores revenues	$ 551.1	100.0%	$ 552.6	100.0%

Domestic stores revenues increased $1.5 million or 0.3% in 2007. This increase was due primarily to higher domestic Company-owned same store sales and an increase in the average number of domestic stores open during 2007, offset in part by lower domestic franchise same store sales. These results are more fully described below.

Domestic Company-owned stores. Revenues from domestic Company-owned store operations increased $1.2 million or 0.3% in 2007. This increase was due primarily to higher same store sales. Domestic Company-owned same store sales increased 1.0% in 2007 compared to 2006. There were 571 domestic Company-owned stores in operation as of December 31, 2006 and December 30, 2007.

Domestic franchise. Revenues from domestic franchise operations increased $0.4 million or 0.2% in 2007. This increase was due primarily to a slightly higher average royalty rate and an increase in the average number of domestic franchise stores open during 2007, offset in part by lower same store sales. There were 4,572 and 4,584 domestic franchise stores in operation as of December 31, 2006 and December 30, 2007, respectively. Domestic franchise same store sales decreased 2.1% in 2007 compared to 2006.

Domestic supply chain. Revenues from domestic supply chain operations increased $20.5 million or 2.7% in 2007. This increase was due primarily to increases in cheese prices, offset in part by lower volumes related to decreases in domestic franchise same store sales. Cheese prices positively impacted revenues by approximately $51.8 million in 2007.

International. International revenues are primarily comprised of royalties from our international franchise stores and sales of food and supplies by our international supply chain centers to certain franchise stores, as summarized in the following table.

	2006		2007	
International royalty and other	$ 60.5	49.0%	$ 66.3	52.2%
International supply chain	62.9	51.0%	60.6	47.8%
Total international revenues	$ 123.4	100.0%	$ 126.9	100.0%

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Revenues from international operations increased $3.5 million or 2.8% in 2007, comprised of a $5.8 million increase in royalty and other revenues and a $2.3 million decrease in supply chain revenues. The increase in royalty and other revenues was due primarily to increases in same store sales and the average number of international stores open during 2007, offset in part by the sale of Company-owned operations in France and the Netherlands in 2006. On a constant dollar basis, same store sales increased 6.7% in 2007 compared to 2006. On a historical dollar basis, same store sales increased 12.3% in 2007 compared to 2006, reflecting a generally weaker U.S. dollar in those markets in which we compete. There were 3,223 and 3,469 international stores in operation as of December 31, 2006 and December 30, 2007, respectively.

Cost of sales / Operating margin. The consolidated operating margin decreased $5.6 million or 1.5% in 2007, as summarized in the following table.

	2006		2007	
Consolidated revenues	$ 1,437.3	100.0%	$ 1,462.9	100.0%
Consolidated cost of sales	1,052.8	73.2%	1,084.0	74.1%
Consolidated operating margin	$ 384.5	26.8%	$ 378.9	25.9%

The $5.6 million decrease in consolidated operating margin was due primarily to lower margins at our Company-owned stores and domestic supply chain operations, offset in part by higher margins in our international business.

As a percentage of total revenues, our consolidated operating margin decreased primarily as a result of a market increase in overall food prices, primarily cheese, which negatively impacted our domestic supply chain operating margins as a percentage of revenues. Additionally, the Company-owned store operating margin was impacted by higher labor, while lower domestic franchise same store sales generated lower domestic supply chain volumes. These decreases were offset in part by improvements in the operating margins in our international operations. Changes in the operating margin at our domestic Company-owned store operations and our domestic supply chain operations are more fully described below.

Domestic Company-owned stores. The domestic Company-owned store operating margin decreased $4.4 million or 5.4% in 2007, as summarized in the following table.

	2006		2007	
Revenues	$ 393.4	100.0%	$ 394.6	100.0%
Cost of sales	312.1	79.3%	317.7	80.5%
Store operating margin	$ 81.3	20.7%	$ 76.9	19.5%

The $4.4 million decrease in the domestic Company-owned store operating margin was due primarily to higher labor and ordering costs offset, in part, by higher same store sales.

As a percentage of store revenues, food costs decreased 0.1 percentage points to 26.1% in 2007, due primarily to increased pricing and the positive impact of derivative contracts offset in part by a market increase in food prices, primarily cheese. The cheese block price per pound averaged $1.72 in 2007 compared to $1.24 in 2006.

As a percentage of store revenues, labor costs increased 0.7 percentage points to 30.8% in 2007, due primarily to higher average wage rates during 2007.

Domestic supply chain. The domestic supply chain operating margin decreased $8.7 million or 10.7% in 2007, as summarized in the following table.

	2006		2007	
Revenues	$ 762.8	100.0%	$ 783.3	100.0%
Cost of sales	681.7	89.4%	710.9	90.8%
Domestic supply chain operating margin	$ 81.1	10.6%	$ 72.4	9.2%

The $8.7 million decrease in the domestic supply chain operating margin was due primarily to lower volumes, offset in part by lower labor costs.

As a percentage of domestic supply chain revenues, the domestic supply chain operating margin decreased primarily as a result of higher food prices, primarily cheese and to a lesser extent wheat, and lower volumes as a result of lower domestic franchise same store sales. These decreases were offset in part by lower variable labor costs. Increases in certain food prices, including cheese, have a negative effect on the domestic supply chain operating margin due to the fixed dollar margin earned by domestic supply chain on certain food items, including cheese. Had the 2007 cheese prices been in effect during 2006, the domestic supply chain operating margin as a percentage of domestic supply chain revenues would have been approximately 10.0% for 2006, resulting in a domestic supply chain operating margin decrease of 0.8 percentage points in 2007.

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General and administrative expenses. General and administrative expenses increased $14.6 million or 8.6% in 2007. As a percentage of total revenues, general and administrative expenses increased 0.7 percentage points to 12.6% in 2007. These increases were due primarily to a $5.0 million reserve recorded in 2007 related to certain legal matters in California and general and administrative expenses recorded in connection with the Company s recapitalization.

Interest income. Interest income increased $4.1 million to $5.3 million in 2007. This increase was due to carrying higher average cash balances as a result of the Company s recapitalization.

Interest expense. Interest expense increased $75.4 million to $130.4 million in 2007. This increase in interest expense was due primarily to higher average outstanding debt balances in 2007 offset in part by lower average borrowing rates, both the result of the Company s recapitalization. Interest expense was also negatively impacted by a $21.9 million write-off of deferred financing fees related to the Company s recapitalization, a $9.5 million write-off of deferred financing fees and bond discount related to the extinguishment of debt and $2.5 million of additional interest expense, net incurred in connection with the settlement of interest rate derivatives.

Our average outstanding borrowings increased $671.7 million to approximately $1.4 billion in 2007. Our cash borrowing rate decreased 0.3 percentage points to 6.1% in 2007 compared to 2006.

Other. The other amount of $13.3 million in 2007 represents the premium paid to repurchase and retire the senior subordinated notes that were tendered in the debt tender offer in connection with the Company s recapitalization.

Provision for income taxes. Provision for income taxes decreased $36.5 million to $17.7 million in 2007, due primarily to a decrease in pre-tax income. The Company s effective income tax rate decreased 2.0 percentage points to 31.8% of pre-tax income in 2007, due primarily to reserve adjustments related to the settlement of state income tax matters.

Summary of Recapitalization Expenses. The following table presents total recapitalization-related expenses incurred during fiscal 2007. These expenses, presented pre-tax and in addition to additional ongoing interest expense resulting from higher borrowings, affect comparability between the periods presented for 2007 and 2006.

(in millions)	**Fiscal 2007**
2007 recapitalization-related expenses:	
General and administrative expenses (1)	$ 2.9
Additional interest income on recapitalization funds (2)	(1.5)
Additional interest expense (3)	33.9
Premium on bond extinguishment (4)	13.3
Total of 2007 recapitalization-related expenses	$ 48.6

(1) Primarily includes stock compensation expenses, payroll taxes related to the payments made to certain stock option holders and legal and professional fees incurred in connection with the recapitalization, including the tender offers for Domino s Pizza, Inc. common stock and Domino s, Inc. senior subordinated notes due 2011.

(2) Includes tax-exempt interest income that was earned on funds received in connection with the recapitalization prior to disbursement of the funds.

(3) Includes the write-off of deferred financing fees and bond discount related to extinguished debt as well as net expense incurred in connection with the settlement of interest rate derivatives.

(4) Represents the premium paid to bond holders in the tender offer for the Domino s, Inc. senior subordinated notes due 2011 which is recorded as other expense in the Company s consolidated statement of income.

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Liquidity and capital resources

As of December 28, 2008, we had working capital of $25.8 million, excluding restricted cash and cash equivalents of $78.9 million and including total unrestricted cash and cash equivalents of $45.4 million. 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 40 to 50 inventory turns per year. In addition, our sales are not typically seasonal, which further limits our working capital requirements. These factors, coupled with significant and ongoing cash flows from operations, which are primarily used to service our debt obligations, invest in our business and repurchase common stock, reduce our working capital amounts. As of December 28, 2008, the Company had approximately $42.0 million of cash held for future interest payments, $26.4 million cash held in interest reserves, $10.0 million cash held for capitalization of certain subsidiaries and $0.5 million of other restricted cash, for a total of $78.9 million of restricted cash.

As of December 28, 2008, we had $1.7 billion of long-term debt, of which $0.3 million was classified as a current liability. Our primary sources of liquidity are cash flows from operations and availability of borrowings under our variable funding notes. The variable funding notes originally allowed for the issuance of up to $150.0 million of financing and certain other credit instruments, including letters of credit in support of various obligations of the Company. During the fourth quarter of 2008, one of the Company s variable funding notes providers (the Primary VFN Provider) declared bankruptcy. As a result of the Primary VFN Provider s bankruptcy, the Company s ability to draw upon the variable funding notes was reduced. Under the existing terms of the variable funding notes, the Primary VFN Provider s share was $90.0 million. As a result of the Primary VFN Provider s non-performance under the existing agreement, the Company s availability under the variable funding notes was reduced to $60.0 million, of which $37.0 million is currently committed under letters of credit. These letters of credit primarily relate to our insurance programs and supply chain center leases. The maximum amount of borrowings available to the Company under the variable funding notes is approximately $23.0 million. As a result of the reduction in the variable funding notes, we wrote-off approximately $1.3 million of deferred financing fees to interest expense during the fourth quarter of 2008. We have historically funded our working capital requirements, capital expenditures, debt repayments and share repurchases primarily from our cash flows from operations and, when necessary, our available borrowings under the variable funding notes. Management believes its current unrestricted cash and cash equivalents balance, its expected ongoing cash flow from operations as well as the estimated $23.0 million available under the variable funding notes is sufficient to fund operations for the foreseeable future. We did not have any material commitments for capital expenditures as of December 28, 2008.

Cash provided by operating activities was $75.3 million, $84.2 million and $133.0 million in 2008, 2007 and 2006, respectively. The $48.8 million decrease in 2007 versus 2006 was due primarily to a $31.0 million decrease in net income before the impact of non-cash adjustments, due primarily to lower operating performance in our domestic operations and higher interest expense. This was offset in part by a $17.8 million net change in operating assets and liabilities, due primarily to the timing of payment of current operating liabilities. The $8.9 million decrease in 2008 versus 2007 was due primarily to a $13.6 million decrease in net income before the impact of non-cash adjustments, due primarily to lower operating performance in our domestic operations. This was offset in part by a $4.7 million net change in operating assets and liabilities.

Cash provided by investing activities was $12.1 million in 2008 and cash used in investing activities was $109.5 million and $5.9 million in 2007 and 2006, respectively. The $103.6 million net change in 2007 versus 2006 was due primarily to a $81.0 million increase in restricted cash related to our 2007 recapitalization, a $22.2 million increase in capital expenditures due primarily to the purchase of an aircraft and a $1.0 million decrease in proceeds from the sale of property, plant and equipment, which was due primarily to the sale of the France and Netherlands operations in 2006, offset in part by proceeds from the sale of a corporate aircraft in 2007. The $121.6 million net change in 2008 versus 2007 was due primarily to an $83.0 million change in restricted cash related to our 2007 recapitalization, a $15.5 million increase in proceeds from the sale of property, plant and equipment primarily as a result of the sale of 82 Company-owned stores and a $23.0 million decrease in capital expenditures, due primarily to the purchase of a corporate aircraft in 2007.

Cash used in financing activities was $53.5 million, $1.6 million and $155.8 million in 2008, 2007 and 2006, respectively. The $154.2 million net change in 2007 versus 2006 was due primarily to $2.4 billion increase in proceeds from issuance of long-term debt, a $90.5 million decrease in repurchases of common stock and a $17.0 million increase in tax benefit from stock options, offset in part by a $1.5 billion increase in repayments of long-term debt and capital lease obligations, a $867.1 million increase in common stock dividends and equivalents and a $60.1 million increase in cash paid for financing costs. The $51.9 million net change in 2008 versus 2007 was due primarily to a $2.5 billion decrease in proceeds from issuance of long-term debt and a $11.6 million decrease in purchases of common stock, offset in part by a $1.5 billion decrease in repayments of long-term debt and capital lease obligations, an $897.0 million decrease in common stock dividends and equivalents and a $60.1 million decrease in cash paid for financing costs.

On February 7, 2007, the Company announced a recapitalization plan comprised of (i) a stock tender offer for up to 13,850,000 shares of the Company s common stock, (ii) an offer to purchase all of the outstanding Domino s, Inc. 8 1/4% senior subordinated notes due 2011 pursuant to a debt tender offer, (iii) the repayment of all outstanding borrowings under its senior credit facility and (iv) a planned special cash dividend to stockholders and related anti-dilution payments and adjustments to certain option holders, in each case financed as described below.

On March 8, 2007, the Company entered into a $1.35 billion bridge credit facility agreement, consisting of (i) up to $1.25 billion in bridge term loans and (ii) up to $100 million under a revolving credit facility. Also on March 8, 2007, the Company borrowed $500 million under the bridge term loan facility, which it used to repay all outstanding borrowings under its senior credit agreement, as well as to pay related fees and expenses. Upon repayment of all such outstanding borrowings, the senior credit facility was terminated. On March 9, 2007, the Company borrowed an additional $280 million under the bridge term loan facility, which it used to repurchase and retire at a premium $273.6 million in aggregate principal amount of Domino s, Inc. 8 1/4% senior subordinated notes due 2011, representing substantially all of the outstanding senior subordinated notes, as well as to pay related fees and expenses. Borrowings under the bridge term loan facility were subject to floating interest rates, as described in the applicable agreements.

On March 9, 2007, the Company announced the acceptance for purchase of 2,242 shares of its common stock under its stock tender offer at a purchase price of $30.00 per share, for a total purchase price of approximately $67,000.

On April 16, 2007, a wholly-owned subsidiary of Domino s Pizza LLC and three of its wholly-owned subsidiaries completed an asset-backed securitization (ABS) by co-issuing a $1.85 billion facility in a private transaction consisting of $1.6 billion of 5.261% Fixed Rate Series 2007-1 Senior Notes, Class A-2 (Class A-2 Notes), $100.0 million of 7.629% Fixed Rate Series 2007-1 Subordinated Notes, Class M-1 (Class M-1 Notes and collectively with Class A-2 Notes, the Fixed Rate Notes) and $150.0 million of Variable Rate Series 2007-1 Senior Variable Funding Notes, Class A-1 (the Variable Funding Notes). Gross proceeds from the issuance of the Fixed Rate Notes were $1.7 billion. The Variable Funding Notes were undrawn upon at issuance. The Company used a portion of the Fixed Rate Note proceeds to (i) repay in full all outstanding bridge term loans and terminate the bridge facility credit agreement, (ii) capitalize certain new subsidiaries, and (iii) pay $38.1 million of ABS debt financing fees. The Company concurrently wrote-off the unamortized deferred financing fees related to the previously outstanding bridge facility credit agreement of approximately $21.9 million.

Additionally, during the second quarter of 2007, the Company settled its then outstanding five-year forward starting interest rate swap agreement with a total notional amount of $1.25 billion. This interest rate swap agreement was settled in cash for $11.5 million, in accordance with its terms, concurrent with the issuance of the securitized debt. In connection with this settlement, the other comprehensive income amount was adjusted for the after-tax net settlement amount of $7.1 million which is being amortized into interest expense over the five year term of the securitized debt.

The Senior Notes will accrue interest at a fixed rate of 5.261% per year and the Subordinated Notes will accrue interest at a fixed rate of 7.629%. Accrued interest is due and payable quarterly, commencing on October 25, 2007. The Fixed Rate Notes require no annual principal payments and the anticipated repayment date is April 25, 2012, with legal final maturity on April 27, 2037. The Fixed Rate Notes are subject to certain financial covenants, including a debt service coverage calculation, as defined in the related agreements.

Additionally, the Board of Directors approved an open market share repurchase program for up to $200.0 million of the Company s common stock, which will be funded by future free cash flows and borrowings available under the Variable Funding Notes. The Company used approximately $42.9 million in 2008 for share repurchases under this program and has $102.7 million left under the $200.0 million authorization.

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Based upon the current level of operations and anticipated growth, we believe that the cash generated from operations and amounts available under the Variable Funding Notes will be adequate to meet our anticipated debt service requirements, capital expenditures and working capital needs for the foreseeable future. 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, however, that our business will generate sufficient cash flows from operations or that future borrowings will be available under the 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 Fixed Rate Notes and to service, extend or refinance the 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

We believe that our results of operations are not materially impacted by moderate changes in the inflation rate. Inflation and changing prices did not have a material impact on our operations in 2006, 2007 or 2008. 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.

New accounting pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, (SFAS 157). SFAS 157 defines fair value and provides guidance for measuring fair value and expands disclosures about fair value measurements. This statement does not require any new fair value measurements, but rather applies to all other accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company adopted the provisions of SFAS 157 during fiscal 2008 and the applicable disclosures are included in Item 8 of this Form 10-K.

In February 2008, the FASB issued a final Staff Position to allow a one-year deferral of adoption of SFAS 157 for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The Company has elected this one-year deferral and thus will not apply the provisions of SFAS 157 to nonfinancial assets and nonfinancial liabilities that are recognized at fair value in the financial statements on a nonrecurring basis until our fiscal year beginning December 29, 2008. We generally apply fair value techniques on a nonrecurring basis associated with (1) valuing potential impairment loss related to goodwill and indefinite-lived intangible assets accounted for pursuant to SFAS No. 142, and (2) valuing potential impairment loss related to long-lived assets accounted for pursuant to SFAS No. 144. The Company is in the process of evaluating the impact of applying SFAS 157 to nonfinancial assets and liabilities measured on a nonrecurring basis. The FASB also amended SFAS 157 to exclude FASB Statement No. 13 and its related interpretive accounting pronouncements that address leasing transactions.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Liabilities, (SFAS 159). This statement permits entities to choose to measure many financial instruments and certain other items at fair value. If the fair value option is elected, unrealized gains and losses will be recognized in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. On December 31, 2007, the Company adopted the provisions of SFAS 159 and did not elect the fair value option to measure certain financial instruments.

Other accounting standards that have been issued by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our consolidated financial statements upon adoption.

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Contractual obligations

The following is a summary of our significant contractual obligations at December 28, 2008.

(dollars in millions)	2009	2010	2011	2012	2013	Thereafter	Total
Long-term debt (1):							
Principal (2)	$ -	$ -	$ -	$ 1,700.0	$ -	$ -	$ 1,700.0
Interest (3)	103.0	103.0	103.0	32.6	-	-	341.6
Capital lease	0.7	0.7	0.7	0.7	0.7	3.4	7.1
Operating leases (4)	38.4	33.3	27.6	20.6	16.2	17.2	153.4

(1) The maturity date of the long-term debt noted within the table above reflects the Company s anticipated repayment date of April 25, 2012, rather than the legal maturity date of April 27, 2037. In the event that the Fixed Rate Notes are not repaid in full by the anticipated repayment date and certain covenants are met, the Company has the option to extend the maturities of the Fixed Rate Notes for two one-year terms at interest rates that may be higher than the current stated rates, depending on the then current LIBOR rates and the Company s performance against certain covenants. During the extension periods, partial principal repayments may be due depending on performance against certain covenants. Following the extension periods, or if the Company does not qualify for the extensions in 2012 and 2013, all cash generated by the Company less a specific amount allocated to the Company as a servicing fee must be used to pay down outstanding principal and interest rates may be higher than previous extension periods.

(2) The long-term debt contractual obligations included above differ from the long-term debt amounts reported in our consolidated financial statements as the above amounts do not include the effect of unamortized debt discounts of approximately $40,000 at December 28, 2008. Additionally, the principal portion of the capital lease obligation amounts above, which totaled $4.8 million at December 28, 2008, are classified as debt in our consolidated financial statements.

(3) The interest rate on our variable funding notes is based on a commercial paper rate plus 0.5%. The interest rate on Class A-2 notes is fixed at 5.261% per year. The interest rate on our Class M-1 notes is fixed at 7.269%. If the securitized debt is extended or refinanced, interest rates may be equal to or higher than the current stated rates.

(4) We lease certain retail store and supply chain center locations, supply chain vehicles, various equipment and our World Resource Center, which is our corporate headquarters, under leases with expiration dates through 2019.

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 28, 2008 were $37.0 million and relate to our insurance programs and supply chain center leases. The Company has also guaranteed borrowings of franchisees of approximately $2.2 million as of December 28, 2008. Additionally, the Company has guaranteed lease payments related to certain franchisees lease arrangements. The maximum amount of potential future payments under these guarantees is $6.9 million as of December 28, 2008. We believe that none of these arrangements has or is likely to have a material effect on our results of operations, financial condition or liquidity.

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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. Forward-looking statements include information concerning future results of operations, and business strategy. Also, statements that contain words such as anticipate, believe, could, estimate, expect, intend, may, plan, predict, project, w outlook and similar terms and phrases, including references to assumptions, are forward-looking statements. We have based these forward looking statements on our current expectations and projections about future events. 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 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 recapitalization in 2007 and our ability to incur additional indebtedness;
- our future financial performance;
- our future cash needs;
- our ability to maintain good relationships with our franchisees;
- our ability to successfully implement cost-saving strategies;
- increases in our operating costs, including cheese, fuel and other commodity costs and the minimum wage;
- our ability to compete domestically and internationally in our intensely competitive industry;
- 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 pay principal and interest on our substantial debt;
- our ability to find and/or retain suitable real estate for our stores and supply chain centers;
- adverse legislation or regulation;
- adverse legal judgments or settlements;
- our ability to pay dividends;
- changes in consumer taste, demographic trends and traffic patterns;
- the influence of investment funds associated with Bain Capital, LLC, and their ability to, among other things, delay, deter or prevent a change of control or other business combination; and
- adequacy of insurance coverage.

All forward-looking statements should be evaluated with the understanding of their inherent uncertainty. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Annual Report on Form 10-K might not occur.

Forward-looking statements speak only as of the date of this Form 10-K. Except as required under federal securities laws and the rules and regulations of the Securities and Exchange Commission, we do not have any intention to update 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. As a result of these risks and uncertainties, 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.

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

Market risk

Prior to our recapitalization that was completed in 2007, we were exposed to market risk from interest rate changes on our variable rate debt. Management actively monitored this exposure. We do not engage in speculative transactions nor do we hold or issue financial instruments for trading purposes. In connection with the recapitalization in 2007, we issued fixed rate notes and, at December 28, 2008, we are only exposed to interest rate risk on borrowings under our variable funding notes. As of December 28, 2008, we had no outstanding variable funding note borrowings. 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 forward pricing agreements with our suppliers, they always cover our physical commodity needs, are not net-settled and are accounted for as normal purchases.

Interest rate derivatives

From time to time we have entered into interest rate swaps, collars or similar instruments with the objective of managing volatility relating to our borrowing costs.

On February 12, 2007, the Company entered into a five-year forward-starting interest rate swap agreement with a notional amount of $1.25 billion to hedge the interest rate variability of the coupon payments associated with the issuance of $1.85 billion of securitized debt in connection with the recapitalization. On April 16, 2007, the swap agreement was settled in cash for $11.5 million, in accordance with its terms, concurrent with the issuance of the securitized debt. In connection with this settlement, the other comprehensive income amount was adjusted for the after-tax net settlement amount of $7.1 million which is being amortized into interest expense over the five year term of the securitized debt. At December 28, 2008, the Company does not have any interest rate derivatives outstanding.

Foreign currency exchange rate risk

We have exposure to various foreign currency exchange rate fluctuations for revenues generated by our operations outside the United States, which can adversely impact our net income and cash flows. Approximately 8.6%, 8.7% and 10.0% of our total revenues in 2006, 2007 and 2008, respectively, were derived from sales to customers and royalties from franchisees outside the contiguous United States. This business is conducted in the local currency but royalty payments are remitted to us in U.S. dollars. We do not enter into financial instruments to manage this foreign currency exchange risk.

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.:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Domino s Pizza, Inc. and its subsidiaries at December 28, 2008 and December 30, 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 28, 2008 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 28, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedules, 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 9(A). Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. 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.

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 24, 2009

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DOMINO S PIZZA, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

ASSETS	December 30, 2007	December 28, 2008
CURRENT ASSETS:		
Cash and cash equivalents	$ 11,344	$ 45,372
Restricted cash	80,951	78,871
Accounts receivable, net of reserves of $3,698 in 2007 and $10,949 in 2008	68,446	69,390
Inventories	24,931	24,342
Notes receivable, net of reserves of $538 in 2007 and $151 in 2008	440	630
Prepaid expenses and other	11,098	6,236
Advertising fund assets, restricted	20,683	20,377
Deferred income taxes	8,989	9,033
Total current assets	226,882	254,251
PROPERTY, PLANT AND EQUIPMENT:		
Land and buildings	21,899	22,063
Leasehold and other improvements	86,909	83,362
Equipment	176,667	167,470
Construction in progress	2,361	1,881
	287,836	274,776
Accumulated depreciation and amortization	(164,946)	(166,346)
Property, plant and equipment, net	122,890	108,430
OTHER ASSETS:		
Investments in marketable securities, restricted	1,924	1,258
Notes receivable, less current portion, net of reserves of $878 in 2007 and $1,640 in 2008	740	1,742
Deferred financing costs, net of accumulated amortization of $4,944 in 2007 and $12,624 in 2008	33,139	24,457
Goodwill	20,772	17,675
Capitalized software, net of accumulated amortization of $44,197 in 2007 and $48,723 in 2008	10,130	3,672
Other assets, net of accumulated amortization of $2,732 in 2007 and $3,108 in 2008	10,877	9,260
Deferred income taxes	45,810	43,049
Total other assets	123,392	101,113
Total assets	$ 473,164	$ 463,794

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

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DOMINO S PIZZA, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Continued)

(In thousands, except share and per share amounts)

LIABILITIES AND STOCKHOLDERS DEFICIT	December 30, 2007	December 28, 2008
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 15,312	$ 340
Accounts payable	60,411	56,906
Accrued compensation	13,330	10,383
Accrued interest	18,700	17,834
Accrued income taxes	1,583	1,167
Insurance reserves	9,134	10,056
Advertising fund liabilities	20,683	20,377
Other accrued liabilities	36,355	32,491
Total current liabilities	175,508	149,554
LONG-TERM LIABILITIES:		
Long-term debt, less current portion	1,704,771	1,704,444
Insurance reserves	20,459	20,369
Other accrued liabilities	22,565	14,050
Total long-term liabilities	1,747,795	1,738,863
Total liabilities	1,923,303	1,888,417
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS DEFICIT:		
Common stock, par value $0.01 per share; 170,000,000 shares authorized; 59,665,087 in 2007 and 56,984,155 in 2008 issued and outstanding	597	570
Preferred stock, par value $0.01 per share; 5,000,000 shares authorized, none issued	-	-
Additional paid-in capital	-	1,853
Retained deficit	(1,444,938)	(1,421,705)
Accumulated other comprehensive loss	(5,798)	(5,341)
Total stockholders deficit	(1,450,139)	(1,424,623)
Total liabilities and stockholders deficit	$ 473,164	$ 463,794

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 31, 2006	December 30, 2007	December 28, 2008
REVENUES:			
Domestic Company-owned stores	$ 393,406	$ 394,585	$ 357,703
Domestic franchise	157,741	158,050	153,858
Domestic supply chain	762,782	783,330	771,106
International	123,390	126,905	142,447
Total revenues	1,437,319	1,462,870	1,425,114
COST OF SALES:			
Domestic Company-owned stores	312,130	317,730	298,857
Domestic supply chain	681,700	710,894	699,669
International	58,958	55,392	63,327
Total cost of sales	1,052,788	1,084,016	1,061,853
OPERATING MARGIN	384,531	378,854	363,261
GENERAL AND ADMINISTRATIVE	170,334	184,944	168,231
INCOME FROM OPERATIONS	214,197	193,910	195,030
INTEREST INCOME	1,239	5,317	2,746
INTEREST EXPENSE	(55,011)	(130,374)	(114,906)
OTHER	-	(13,294)	-
INCOME BEFORE PROVISION FOR INCOME TAXES	160,425	55,559	82,870
PROVISION FOR INCOME TAXES	54,198	17,677	28,899
NET INCOME	$ 106,227	$ 37,882	$ 53,971
EARNINGS PER SHARE:			
Common Stock basic	$ 1.68	$ 0.61	$ 0.93
Common Stock diluted	$ 1.65	$ 0.59	$ 0.93

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 31, 2006	December 30, 2007	December 28, 2008
NET INCOME	$ 106,227	$ 37,882	$ 53,971
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX:			
Currency translation adjustment	592	356	(1,005)
Unrealized gains (losses) on derivative instruments	1,869	(13,516)	-
Reclassification adjustment for (gains) losses included in net income	(8,508)	258	2,132
	(6,047)	(12,902)	1,127
TAX ATTRIBUTES OF ITEMS IN OTHER COMPREHENSIVE INCOME (LOSS)	1,559	5,038	(670)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(4,488)	(7,864)	457
COMPREHENSIVE INCOME	$ 101,739	$ 30,018	$ 54,428

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				Accumulated Other Comprehensive Income (Loss)	
	Shares	Amount	Additional Paid-in Capital	Retained Deficit	Currency Translation Adjustment	Fair Value of Derivative Instruments
BALANCE AT JANUARY 1, 2006	67,184,334	$ 672	$ 259,695	$ (777,906)	$ 1,926	$ 4,628
Net income	-	-	-	106,227	-	-
Common stock dividends	-	-	-	(29,841)	-	-
Issuance of common stock	191,170	2	4,639	-	-	-
Purchase of common stock	(5,624,602)	(56)	(144,944)	-	-	-
Exercise of stock options	699,902	7	4,895	-	-	-
Tax benefit related to stock options	-	-	5,075	-	-	-
Non-cash compensation expense	-	-	5,218	-	-	-
Other	-	-	(642)	-	-	-
Currency translation adjustment	-	-	-	-	(1,847)	-
Unrealized gains on derivative instruments, net of tax	-	-	-	-	-	1,159
Reclassification adjustment for gains on derivative instruments included in net income, net of tax	-					