

DENNYS CORP
Form 10-Q
October 30, 2018

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 26, 2018

OR

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

For the transition period from _____ to _____

Commission File Number 0-18051

DENNY'S CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 13-3487402

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization Identification No.)

203 East Main Street

Spartanburg, South Carolina 29319-0001

(Address of principal executive offices)

(Zip Code)

(864) 597-8000

(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

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

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

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

As of October 24, 2018, 62,587,274 shares of the registrant's common stock, par value \$0.01 per share, were outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 26, 2018	December 27, 2017
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,871	\$ 4,983
Investments	1,709	—
Receivables, net	17,186	21,384
Inventories	3,051	3,134
Assets held for sale	193	—
Prepaid and other current assets	10,495	11,788
Total current assets	34,505	41,289
Property, net of accumulated depreciation of \$248,062 and \$243,325, respectively	143,459	139,856
Goodwill	39,843	38,269
Intangible assets, net	59,907	57,109
Deferred financing costs, net	2,487	2,942
Deferred income taxes	15,595	16,945
Other noncurrent assets	32,962	27,372
Total assets	\$ 328,758	\$ 323,782
Liabilities		
Current liabilities:		
Current maturities of capital lease obligations	\$ 3,282	\$ 3,168
Accounts payable	20,327	32,487
Other current liabilities	53,911	59,246
Total current liabilities	77,520	94,901
Long-term liabilities:		
Long-term debt, less current maturities	278,000	259,000
Capital lease obligations, less current maturities	27,305	27,054
Liability for insurance claims, less current portion	12,025	12,236
Other noncurrent liabilities	43,888	27,951
Total long-term liabilities	361,218	326,241
Total liabilities	438,738	421,142
Commitments and contingencies		
Shareholders' equity (deficit)		
Common stock \$0.01 par value; shares authorized - 135,000; September 27, 2018: 108,493 shares issued and 62,905 shares outstanding; December 27, 2017: 107,740 shares issued and 64,589 shares outstanding	\$ 1,085	\$ 1,077
Paid-in capital	597,344	594,166
Deficit	(317,917)	(334,661)

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Accumulated other comprehensive income (loss), net of tax	2,541	(2,316)
Shareholders' equity before treasury stock	283,053	258,266	
Treasury stock, at cost, 45,588 and 43,151 shares, respectively	(393,033) (355,626)
Total shareholders' deficit	(109,980) (97,360)
Total liabilities and shareholders' deficit	\$ 328,758	\$ 323,782	

See accompanying notes

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

	Quarter Ended		Three Quarters Ended	
	September 26, 2018	September 27, 2017	September 26, 2018	September 27, 2017
	(In thousands, except per share amounts)			
Revenue:				
Company restaurant sales	\$103,609	\$ 97,915	\$307,543	\$ 290,049
Franchise and license revenue	54,414	34,469	163,087	103,621
Total operating revenue	158,023	132,384	470,630	393,670
Costs of company restaurant sales:				
Product costs	25,303	24,896	75,292	72,798
Payroll and benefits	41,041	37,332	123,332	113,221
Occupancy	6,083	5,054	17,165	15,291
Other operating expenses	15,419	14,040	45,490	39,544
Total costs of company restaurant sales	87,846	81,322	261,279	240,854
Costs of franchise and license revenue	28,174	9,493	85,779	29,483
General and administrative expenses	15,981	16,446	48,138	50,536
Depreciation and amortization	6,760	5,958	19,965	17,493
Operating (gains), losses and other charges, net	793	630	1,615	3,459
Total operating costs and expenses, net	139,554	113,849	416,776	341,825
Operating income	18,469	18,535	53,854	51,845
Interest expense, net	5,314	4,067	15,324	11,348
Other nonoperating income, net	(460)	(286)	(877)	(1,053)
Net income before income taxes	13,615	14,754	39,407	41,550
Provision for income taxes	2,810	5,429	7,217	15,103
Net income	\$10,805	\$ 9,325	\$32,190	\$ 26,447
Basic net income per share	\$0.17	\$ 0.14	\$0.50	\$ 0.38
Diluted net income per share	\$0.16	\$ 0.13	\$0.49	\$ 0.37
Basic weighted average shares outstanding	63,246	66,873	63,774	69,095
Diluted weighted average shares outstanding	65,522	69,210	66,122	71,377

See accompanying notes

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

	Quarter Ended		Three Quarters Ended	
	September 2018	September 2017	September 2018	September 2017
	(In thousands)			
Net income	\$10,805	\$ 9,325	\$32,190	\$ 26,447
Other comprehensive income, net of tax:				
Minimum pension liability adjustment, net of tax of \$7, \$9, \$20 and \$27, respectively	21	14	64	42
Recognition of unrealized gain (loss) on hedge transactions, net of tax of \$1,583, \$133, \$1,673 and \$(1,249), respectively	4,537	209	4,793	(1,958)
Other comprehensive income (loss)	4,558	223	4,857	(1,916)
Total comprehensive income	\$15,363	\$ 9,548	\$37,047	\$ 24,531

See accompanying notes

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

	Common Stock		Treasury Stock		Paid-in Capital	Deficit	Accumulated Other Comprehensive Income (Loss), Net	Total Shareholders' Deficit
	Shares	Amount	Shares	Amount				
	(In thousands)							
Balance, December 27, 2017	107,740	\$ 1,077	(43,151)	\$(355,626)	\$594,166	\$(334,661)	\$ (2,316)	\$(97,360)
Cumulative effect adjustment	—	—	—	—	—	(15,446)	—	(15,446)
Net income	—	—	—	—	—	32,190	—	32,190
Other comprehensive income	—	—	—	—	—	—	4,857	4,857
Share-based compensation on equity classified awards, net	—	—	—	—	2,128	—	—	2,128
Purchase of treasury stock	—	—	(2,437)	\$(37,407)	—	—	—	\$(37,407)
Issuance of common stock for share-based compensation	447	5	—	—	(5)	—	—	—
Exercise of common stock options	306	3	—	—	1,055	—	—	1,058
Balance, September 26, 2018	108,493	\$ 1,085	(45,588)	\$(393,033)	\$597,344	\$(317,917)	\$ 2,541	\$(109,980)

See accompanying notes

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

	Three Quarters Ended	
	September 26, 2018	September 27, 2017
	(In thousands)	
Cash flows from operating activities:		
Net income	\$32,190	\$ 26,447
Adjustments to reconcile net income to cash flows provided by operating activities:		
Depreciation and amortization	19,965	