SCANSOURCE INC
Form SC TO-I/A
November 13, 2007

As filed with the Securities and Exchange Commission on November 13, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1 to

SCHEDULE TO

(Rule 13e-4)

Tender Offer Statement Under Section 14(d)(1) or 13(e)(1)

of the Securities Exchange Act of 1934

Scan*Source*, Inc.

(Name of Subject Company (Issuer) and Filing Person (Offeror))

OPTIONS TO PURCHASE COMMON STOCK

no par value

(Title of Class of Securities)

806037107

(CUSIP Number of Class of Securities of Underlying Common Stock)

John J. Ellsworth *Copies to:*

Secretary and General Counsel	**Gary C. Ivey, Esq.**
SCAN*SOURCE*, INC.	**Alston & Bird LLP**
6 Logue Court	**101 S. Tryon Street, Suite 4000**
Greenville, South Carolina 29615	**Charlotte, North Carolina 28280-4000**
(864) 288-2432	**(704) 444-1090**

(Name, address and telephone number of person authorized to receive notices and

communications on behalf of filing person)

CALCULATION OF FILING FEE

Transaction Valuation*	**Amount of Filing Fee****
$4,619,335.00	$142.00

* Calculated solely for purposes of determining the filing fee. This amount assumes that options to purchase 338,338 shares of common stock of Scan*Source*, Inc. having a book value of $4,619,335.00 as of November 6, 2007 will be amended pursuant to this offer. The aggregate value of such options was calculated based on the Black-Scholes option pricing model.

** The amount of the filing fee, calculated in accordance with Rule 0-11(b) of the Securities Exchange Act of 1934, as amended, equals $30.70 per $1,000,000 of the aggregate amount of transaction value. The transaction valuation set forth above was calculated for the sole purpose of determining the filing fee, and should not be used for any other purpose.

x **Check the box** if **any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.**

Amount Previously Paid: $142.00.

Form or Registration No.: 005-53597.

Filing Party: Scan*Source*, Inc.

Date Filed: November 7, 2007.

¨ **Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.**

Check the appropriate boxes below to designate any transactions to which the statement relates:

¨ Third-party tender offer subject to Rule 14d-1.

x Issuer tender offer subject to Rule 13e-4.

¨ Going-private transaction subject to Rule 13e-3.

¨ Amendment to Schedule 13D under Rule 13d-2.

Check the following box if the filing is a final amendment reporting the results of the tender offer: ¨

This Amendment No. 1 to the Schedule TO amends and supplements the Tender Offer Statement on Schedule TO filed with the Securities and Exchange Commission on November 7, 2007, by Scan*Source*, Inc. (the Company) relating to its offer to amend certain outstanding options to purchase common stock of the Company granted under the Company s 1997 Stock Incentive Plan, as amended, or the Amended and Restated 2002 Long-Term Incentive Plan, as amended, upon the terms and conditions set forth in the Offer to Amend Eligible Options, dated November 7, 2007, which was filed as Exhibit 99(a)(1)(A) to this Schedule TO. This Amendment No. 1 is filed solely to file Exhibit 99(a)(1)(J) and Exhibit 99(a)(1)(K).

ITEM 12. EXHIBITS.

Item 12 of this Schedule TO is hereby amended and supplemented to include the following exhibits:

Exhibit Number	Description
99(a)(1)(A)*	Offer to Amend Eligible Options, dated November 7, 2007.
99(a)(1)(B)**	Email Communications to Certain Optionees regarding Option Repricing Meetings, dated November 6, 2007 (previously filed with the Company s Schedule TO-C filed with the SEC on November 6, 2007).
99(a)(1)(C)*	Form of Email Announcing Commencement of the Tender Offer.
99(a)(1)(D)*	Form of Election Form (filed as Attachment B to Exhibit 99(a)(1)(A)).
99(a)(1)(E)*	Withdrawal Form (filed as Attachment C to Exhibit 99(a)(1)(A)).
99(a)(1)(F)*	Form of Acknowledgement of Receipt of Election Form/Withdrawal Form (filed as Attachment D to Exhibit 99(a)(1)(A)).
99(a)(1)(G)*	Form of Amendment to Stock Option Agreement and Promise to Make Cash Payment (filed as Attachment E to Exhibit 99(a)(1)(A)).
99(a)(1)(H)*	Scan*Source* Presentation to Eligible Optionees dated November 7, 2007.
99(a)(1)(I)*	Form of Email to Certain Offerees Transmitting Corrected Election Form.
99(a)(1)(J)	Form of Email Transmitting Frequently Asked Questions Regarding the Tender Offer.
99(a)(1)(K)	Form of Reminder Email to Eligible Optionees Who Have Not Elected.
99(b)	Credit Agreement dated as of September 28, 2007, among Scan*Source*, Inc., the Subsidiary Borrowers party thereto, the Lenders party thereto and, J.P.Morgan Chase Bank, N.A. as Administrative Agent, Swingline Lender and Issuing Bank, Wachovia Bank, N.A. as Syndication Agent, and Regions Bank and Wells Fargo Bank, N.A. as Co-Documentation Agents, J.P. Morgan Securities Inc., as Sole Bookrunner and Sole Lead Arranger (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed with the SEC on October 1, 2007).
99(c)	Not applicable.
99(d)(1)	The Scan*Source*, Inc. 1997 Stock Incentive Plan (incorporated by reference from Exhibit 10.13 of the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 1999).
99(d)(2)	The Scan*Source*, Inc. Amended and Restated 2002 Long-Term Incentive Plan (as contemplated to be amended) (incorporated by reference from Annex A of the Company s Definitive Proxy Statement filed with the SEC on October 23, 2007).
99(d)(3)	Form of Incentive Stock Option Agreement under 1997 Plan (filed with Exhibit 99 (d)(1)).
99(d)(4)	Form of Non-Qualified Stock Option Agreement under 1997 Plan (filed with Exhibit 99 (d)(1)).
99(d)(5)	Form of Incentive Stock Option Agreement under 2002 Plan (incorporated by reference to Exhibit 99.1 to the Company s Current Report on Form 8-K filed with the SEC on January 11, 2005).
99(e)	Not applicable.
99(f)	Not applicable.
99(g)	Not applicable.
99(h)	Not applicable.

* Previously filed with the Schedule TO-I filed with the Securities and Exchange Commission on November 7, 2007 and incorporated herein by reference.

** Previously filed with the Schedule TO-C filed with the Securities and Exchange Commission on November 6, 2007 and incorporated herein by reference.

SIGNATURES

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: November 13, 2007

SCAN*SOURCE*, INC.

By: /s/ Richard P. Cleys
Richard P. Cleys
Vice President and Chief
Financial Officer

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"2"> 7.6 1.0%

Income before provision

for income taxes

41.1 10.7% 34.3 9.5% 84.8 11.0% 73.9 9.9%

Provision for income taxes

15.8 4.1% 11.7 3.3% 32.5 4.2% 26.7 3.6%

Net income

$25.2 6.6% $22.6 6.2% $52.4 6.8% $47.1 6.3%

During the second quarter of 2011, we continued the domestic sales momentum from fiscal 2010 and the first quarter of 2011. Our domestic same store sales rose 4.8% in the second quarter of 2011, versus positive 8.8% same store sales growth in the second quarter of 2010, which demonstrates that our products and promotions continue to resonate with consumers. Further, during the second quarter of 2011, our international division continued to post strong same store sales growth and positive store count growth. Same store sales in our international division grew 7.4% during the second quarter of 2011, marking the 70th consecutive quarter of positive same stores sales growth. We continue to believe that our product platforms and investments made in the Company, including marketing and technology initiatives, have positioned us well for the future.

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Global retail sales, which are total retail sales at Company-owned and franchise stores worldwide, increased 14.5% in the second quarter of 2011, and 11.3% in the first two quarters of 2011. These increases were driven primarily by both domestic and international same store sales growth, as well as an increase in our worldwide franchise store counts during the trailing four quarters, and, to a lesser extent, the positive impact of foreign currency exchange rates. Domestic same store sales growth reflected the continued success of our new products and promotions and the new customer base established during 2010. International same store sales growth reflected continued strong performance in the markets where we compete.

Revenues increased $22.5 million, up 6.2% in the second quarter of 2011, and $30.6 million, up 4.1% in the first two quarters of 2011. These increases were driven by higher international revenues attributable to same store sales and store count growth and higher domestic supply chain revenues resulting from higher cheese and other commodity prices. Additionally, domestic revenues were higher due to an increase in domestic same store sales and fees paid by franchisees related to the in-sourcing of certain services, such as online ordering and a call center. We also incurred a corresponding increase in general and administrative expenses for these services paid by franchisees. We also experienced the positive impact of changes in foreign currency exchange rates on international revenues. These increases were offset in part by lower Company-owned store revenues resulting from the sale of 26 Company-owned stores to a franchisee during the first quarter of 2011. These changes in revenues are described in more detail below.

Income from operations increased $7.5 million, up 13.7% in the second quarter of 2011, and $15.1 million, up 13.4% in the first two quarters of 2011. These increases were driven primarily by higher royalty revenues from both domestic and international franchise stores and to a lesser extent, the positive impact of changes in foreign currency exchange rates. The increase in the second quarter of 2011 was negatively impacted by an increase in general and administrative expenses. The first two quarters of 2011 also benefited from decreases in general and administrative expenses, including lower variable performance-based bonuses and $1.8 million of pre-tax gains recorded on the sale of certain Company-owned operations.

Net income increased $2.6 million, up 11.6% in the second quarter of 2011, and $5.3 million, up 11.1% in the first two quarters of 2011. These increases were due primarily to the aforementioned increase in income from operations and lower interest expense. These increases were offset in part by gains recorded on the extinguishment of debt and a lower effective tax rate in the second quarter and first two quarters of 2010.

Revenues

	Second Quarter of 2011		Second Quarter of 2010		First Two Quarters of 2011		First Two Quarters of 2010	
Domestic Company-owned stores	$ 78.9	20.5%	$ 79.1	21.8%	$ 161.6	20.9%	$ 167.3	22.5%
Domestic franchise	43.3	11.3%	38.8	10.7%	87.4	11.3%	80.8	10.9%
Domestic supply chain	215.5	56.0%	205.4	56.7%	432.1	55.8%	418.0	56.2%
International	47.2	12.2%	39.1	10.8%	93.0	12.0%	77.5	10.4%
Total revenues	$ 384.9	100.0%	$ 362.4	100.0%	$ 774.1	100.0%	$ 743.5	100.0%

Revenues primarily consist of retail sales from our Company-owned stores, royalties from our domestic and international franchise stores and sales of food, equipment and supplies from our supply chain centers to substantially all of our domestic franchise stores and certain international franchise stores. Company-owned store and franchise store revenues may vary significantly from period to period due to changes in store count mix, while supply chain revenues may vary significantly as a result of fluctuations in commodity prices, primarily cheese and meats.

Domestic Stores Revenues

	Second Quarter of 2011		Second Quarter of 2010		First Two Quarters of 2011		First Two Quarters of 2010	
Domestic Company-owned stores	$ 78.9	64.5%	$ 79.1	67.1%	$ 161.6	64.9%	$ 167.3	67.4%
Domestic franchise	43.3	35.5%	38.8	32.9%	87.4	35.1%	80.8	32.6%
Domestic stores	$ 122.3	100.0%	$ 117.9	100.0%	$ 249.0	100.0%	$ 248.1	100.0%

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Domestic stores revenues increased $4.4 million, up 3.7% in the second quarter of 2011, and $0.9 million, up 0.4% in the first two quarters of 2011. These increases were due primarily to higher domestic Company-owned and franchise same store sales and fees paid by franchisees for certain services, such as online ordering and a call center. These increases were offset in part by lower Company-owned store revenues resulting from the sale of 26 Company-owned stores to a franchisee during the first quarter of 2011. These changes in domestic stores revenues are more fully described below.

Domestic Company-Owned Stores Revenues

Revenues from domestic Company-owned store operations decreased $0.2 million, down 0.2% in the second quarter of 2011, and $5.7 million, down 3.4% in the first two quarters of 2011. These decreases were due primarily to a fewer number of Company-owned stores open during 2011, resulting primarily from the sale of 26 Company-owned stores to a franchisee during the first quarter of 2011. These decreases were partially offset by higher same store sales during the second quarter and first two quarters of 2011. Domestic Company-owned same store sales increased 5.3% in the second quarter of 2011, and 1.3% in the first two quarters of 2011. This compared to an increase of 8.3% in the second quarter of 2010, and 11.5% in the first two quarters of 2010. There were 427 Company-owned stores in operation at the end of the second quarter of 2011, versus 455 at the end of the second quarter of 2010.

Domestic Franchise Revenues

Revenues from domestic franchise operations increased $4.5 million, up 11.6% in the second quarter of 2011, and $6.6 million, up 8.2% in the first two quarters of 2011. These increases were due primarily to higher same store sales and an increase in the average number of domestic franchise stores open during 2011. Domestic franchise revenues in 2011 also benefited from fees paid by franchisees related to the in-sourcing of certain services, such as online ordering and a call center. We also incurred a corresponding increase in general and administrative expenses for in-sourcing these initiatives. Domestic franchise same store sales increased 4.8% in the second quarter of 2011, and 1.6% in the first two quarters of 2011. This compared to an increase of 8.8% in the second quarter of 2010, and 11.6% in the first two quarters of 2010. There were 4,467 domestic franchise stores in operation at the end of the second quarter of 2011, versus 4,454 at the end of the second quarter of 2010.

Domestic Supply Chain Revenues

Revenues from domestic supply chain operations increased $10.1 million, up 4.9% in the second quarter of 2011, and $14.1 million, up 3.4% in the first two quarters of 2011. These increases were due primarily to an increase in overall commodity prices, including cheese. The published cheese block price-per-pound averaged $1.68 in both the second quarter and first two quarters of 2011. This was up from $1.40 and $1.42 in the comparable periods in 2010. Had the 2011 average cheese prices been in effect during 2010, domestic supply chain revenues for the second quarter of 2010 would have been approximately $5.1 million higher than the reported 2010 amounts, and domestic supply chain revenues for the first two quarters of 2010 would have been approximately $10.0 million higher than the reported 2010 amounts.

International Revenues

	Second Quarter of 2011		Second Quarter of 2010		First Two Quarters of 2011		First Two Quarters of 2010	
International royalty and other	$ 24.9	52.8%	$ 19.9	51.0%	$ 48.6	52.3%	$ 39.8	51.3%
International supply chain	22.3	47.2%	19.2	49.0%	44.4	47.7%	37.7	48.7%
International	$ 47.2	100.0%	$ 39.1	100.0%	$ 93.0	100.0%	$ 77.5	100.0%

International revenues primarily consist of royalties from our international franchise stores and international supply chain sales. Revenues from international operations increased $8.1 million, up 20.8% in the second quarter of 2011, and $15.5 million, up 20.0% in the first two quarters of 2011. These changes in international revenues are more fully described below.

International Royalty and Other Revenues

Revenues from international royalties and other revenues increased $5.0 million, up 25.0% in the second quarter of 2011, and $8.8 million, up 22.3% in the first two quarters of 2011. These increases were primarily due to higher same store sales and an increase in the average number of international stores open during 2011, as well as the positive impact of changes in foreign currency exchange rates of approximately $1.9 million in the second quarter of 2011 and approximately $2.7 million in the first two quarters of 2011. On a constant dollar basis (which excludes the impact of foreign currency exchange rates), same store sales increased 7.4% in the second quarter of 2011, and 7.9% in the first two quarters of 2011. This compared to an increase of 6.2% in the second quarter of 2010, and 5.3% in the first two quarters of 2010. On a historical dollar basis (which includes the impact of foreign currency exchange rates), same store sales increased 17.7% in the second quarter of 2011, and 15.3% in the first two quarters of 2011. This compared to an increase of 10.4% in the second quarter of 2010, and 13.7% in the first two quarters of 2010. The variance in our same store sales on a constant dollar basis versus a historical dollar basis in 2011 was caused by the weakening of the U.S. dollar compared to the currencies in the international markets in which we compete. There were 4,542 international stores in operation at the end of the second quarter of 2011, compared to 4,188 at the end of the second quarter of 2010.

International Supply Chain Revenues

Revenues from international supply chain operations increased $3.1 million, up 16.3% in the second quarter of 2011, and $6.7 million, up 17.6% in the first two quarters of 2011. These increases were due primarily to higher volumes and the positive impact of changes in foreign currency exchange rates of approximately $1.1 million in the second quarter of 2011, and approximately $2.2 million in the first two quarters of 2011.

Cost of Sales / Operating Margin

	Second Quarter of 2011		Second Quarter of 2010		First Two Quarters of 2011		First Two Quarters of 2010	
Consolidated revenues	$ 384.9	100.0%	$ 362.4	100.0%	$ 774.1	100.0%	$ 743.5	100.0%
Consolidated cost of sales	274.2	71.2%	262.1	72.3%	551.8	71.3%	535.2	72.0%
Consolidated operating margin	$ 110.7	28.8%	$ 100.3	27.7%	$ 222.3	28.7%	$ 208.3	28.0%

Consolidated cost of sales consists primarily of domestic 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, increased $10.4 million, up 10.3% in the second quarter of 2011, and $14.0 million, up 6.7% in the first two quarters of 2011. These increases in the consolidated operating margins were due primarily to higher domestic and international franchise revenues. The second quarter of 2011 also benefited from higher domestic Company-owned stores and domestic supply chain margins as described in more detail below. Franchise revenues do not have a cost of sales component and, as such, changes in franchise revenues have a disproportionate effect on the consolidated operating margin.

As a percentage of revenues, the consolidated operating margin increased 1.1 percentage points in the second quarter of 2011 and 0.7 percentage points in the first two quarters of 2011. These increases were due primarily to a change in our mix of revenues offset in part by an increase in overall commodity prices, including cheese.

As indicated above, the consolidated operating margin as a percentage of revenues was negatively impacted by higher cheese costs. Cheese price changes are a pass-through in domestic supply chain revenues and cost of sales and, as such, have no impact on the related operating margin as measured in dollars. However, cheese price changes do impact operating margin when measured as a percentage of revenues. For example, if the 2011 average cheese prices had been in effect during 2010, the impact on supply chain margins would have caused the consolidated operating margin for the second quarter of 2010 to be approximately 27.3% of total revenues versus the reported 27.7% and approximately 27.6% of total revenues for the first two quarters of 2010 versus the reported 28.0%. However, the dollar margins for those same periods would have been unaffected.

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Domestic Company-Owned Stores Operating Margin

Domestic Company-Owned Stores	Second Quarter of 2011		Second Quarter of 2010		First Two Quarters of 2011		First Two Quarters of 2010	
Revenues	$ 78.9	100.0%	$ 79.1	100.0%	$ 161.6	100.0%	$ 167.3	100.0%
Cost of sales	62.3	78.9%	62.9	79.5%	127.9	79.1%	132.2	79.0%
Store operating margin	$ 16.6	21.1%	$ 16.2	20.5%	$ 33.8	20.9%	$ 35.1	21.0%

The domestic Company-owned store operating margin increased $0.4 million, up 2.7% in the second quarter of 2011, and decreased $1.3 million, down 3.8% in the first two quarters of 2011. The margin increase in the second quarter of 2011 was due primarily to lower labor expenses and higher same store sales, offset in part by an increase in overall commodity prices, including cheese. The margin decrease in the first two quarters of 2011 was due primarily to an increase in overall commodity prices, including cheese, offset in part by lower labor expenses and slightly higher same store sales. The sale of 26 Company-owned stores to a franchisee in the first quarter of 2011 did not have a material impact on the domestic Company-owned stores operating margin. As a percentage of store revenues, the store operating margin increased 0.6 percentage points in the second quarter of 2011, and decreased 0.1 percentage points in the first two quarters of 2011, as discussed in more detail below.

As a percentage of store revenues, labor and related costs decreased 1.6 percentage points to 29.1% in the second quarter of 2011, and 1.3 percentage points to 29.5% in the first two quarters of 2011. These decreases were due primarily to labor efficiencies and lower average labor rates.

As a percentage of store revenues, occupancy costs (which include rent, telephone, utilities and depreciation), decreased 0.5 percentage points to 10.0% in the second quarter of 2011, and 0.1 percentage points to 10.1% in the first two quarters of 2011.

As a percentage of store revenues, food costs increased 1.1 percentage points to 28.2% in both the second quarter and first two quarters of 2011. These increases were due primarily to higher cheese and meat prices during the second quarter and first two quarters of 2011. The cheese block price per pound averaged $1.68 in both the second quarter and first two quarters of 2011. This compared to $1.40 in the second quarter of 2010 and $1.42 in the first two quarters of 2010.

As a percentage of store revenues, insurance costs were flat at 3.3% in the second quarter of 2011, and increased 0.3 percentage points to 3.4% in the first two quarters of 2011.

Domestic Supply Chain Operating Margin

Domestic Supply Chain	Second Quarter of 2011		Second Quarter of 2010		First Two Quarters of 2011		First Two Quarters of 2010	
Revenues	$ 215.5	100.0%	$ 205.4	100.0%	$ 432.1	100.0%	$ 418.0	100.0%
Cost of sales	192.1	89.2%	182.2	88.7%	384.5	89.0%	369.6	88.4%
Supply Chain operating margin	$ 23.4	10.8%	$ 23.2	11.3%	$ 47.6	11.0%	$ 48.4	11.6%

The domestic supply chain operating margin increased $0.2 million, up 0.6% in the second quarter of 2011. As previously mentioned, domestic supply chain revenues increased $10.1 million in the second quarter of 2011 due primarily to an increase in overall commodity prices, including cheese. However, dollar margins were only up slightly in the second quarter of 2011 due to the fixed dollar margin earned on certain food items. Volumes were also slightly up during the second quarter of 2011. The domestic supply chain operating margin decreased $0.8 million, down 1.7% in the first two quarters of 2011. This decrease during the first two quarters of 2011 was due primarily to lower volumes and higher fuel costs.

As a percentage of supply chain revenues, the supply chain operating margin decreased 0.5 percentage points in the second quarter of 2011, and 0.6 percentage points in the first two quarters of 2011. These decreases were due primarily to higher commodity prices, including cheese and meats, as well as higher fuel costs. Increases in certain food prices 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. Had the 2011 cheese prices been in effect during 2010, the domestic supply chain operating margin as a percentage of domestic supply chain revenues would have been approximately 11.0% for the second quarter of 2010 and approximately 11.3% for the first two quarters of 2010. This was versus the reported 11.3% in the second quarter of 2010 and 11.6% in the first two quarters of 2010.

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General and Administrative Expenses

General and administrative expenses increased $2.8 million, up 6.2% in the second quarter of 2011, and decreased $1.1 million, down 1.1% in the first two quarters of 2011. The increase during the second quarter of 2011 was due primarily to higher expenses incurred related to the in-sourcing of certain services, such as online ordering and a call center. We also incurred a corresponding increase in domestic franchise revenues for these services paid by franchisees. The decrease during the first two quarters of 2011 was due primarily to a $2.3 million decrease in variable performance-based bonuses versus the first two quarters of 2010. Additionally, general and administrative expenses for the first two quarters of 2011 benefited from the positive impact of approximately $1.1 million of a pre-tax gain recorded on the sale of 26 Company-owned stores to a franchisee and approximately $0.7 million of a pre-tax gain recorded in connection with the previous sale of Company-owned operations in the Netherlands as a portion of a contingent gain was finalized, both of which were recorded in the first quarter of 2011. These decreases were partially offset by higher expenses incurred related to the in-sourcing of the aforementioned services.

Interest Expense

Interest expense decreased $0.7 million to $21.0 million in the second quarter of 2011, and $3.4 million to $42.5 million in the first two quarters of 2011. The interest expense comparison benefited from the write-off of deferred financing fees in connection with debt repurchases in 2010 of approximately $0.5 million in the second quarter of 2010 and approximately $1.1 million in the first two quarters of 2010. Additionally, interest expense decreased in the second quarter and first two quarters of 2011 due to lower debt balances attributable to our debt repurchases in 2010.

Our cash borrowing rate was 5.9% in each period presented in 2011 and 2010. The Company s average outstanding debt balance, excluding capital lease obligations, was approximately $1.4 billion in the second quarter and first two quarters of 2011 versus approximately $1.5 billion in the second quarter and first two quarters of 2010. The lower average debt balance was due primarily to debt repurchases in 2010.

Other

The Other amount of $1.5 million in the second quarter of 2010 and $7.6 million in the first two quarters of 2010 represent the gains recognized on the repurchase and retirement of principal on the Class A-2 Notes and Class M-1 Notes of $20.4 million in the second quarter of 2010 and $80.4 million in the first two quarters of 2010.

Provision for Income Taxes

Provision for income taxes increased $4.1 million to $15.8 million in the second quarter of 2011, and increased $5.8 million to $32.5 million in the first two quarters of 2011. These increases were due primarily to higher pre-tax income. The effective tax rate was 38.5% in the second quarter of 2011, and 38.3% in the first two quarters of 2011. This compared to 34.1% in the second quarter of 2010 and 36.2% in the first two quarters of 2010. The effective rates for the second quarter and first two quarters of 2010 were positively impacted by reserve adjustments related to a state income tax matter.

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Liquidity and Capital Resources

As of June 19, 2011, we had working capital of $88.1 million, excluding restricted cash and cash equivalents of $79.8 million, and including total unrestricted cash and cash equivalents of $78.6 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 30 to 40 inventory turns per year. In addition, our sales are not typically seasonal, which further limits our working capital requirements. These factors, coupled with the use of our ongoing cash flows from operations to service our debt obligations, invest in our business and repurchase our fixed rate notes and our common stock, reduce our working capital amounts. As of June 19, 2011, the Company had approximately $37.2 million of restricted cash held in trust or as collateral for outstanding letters of credit (primarily relating to our insurance programs and supply chain center leases), $29.7 million of restricted cash held for future interest payments, $6.6 million of restricted cash held in interest reserves, $6.0 million of restricted cash held for capitalization of certain subsidiaries and $0.3 million of other restricted cash, for a total of $79.8 million of restricted cash and cash equivalents.

As of June 19, 2011, we had approximately $1.45 billion of long-term debt, of which $0.8 million was classified as a current liability. Our primary source of liquidity is cash flows from operations as we are fully drawn on the $60.0 million variable funding notes facility. Our securitized debt requires interest-only payments until April 2012. This interest-only period can be extended for two one-year periods if the Company meets certain requirements in each of April 2012 and April 2013. Based on our financial results for the second quarter and first two quarters of 2011, the Company currently exceeds the required threshold for extension that would be evaluated in each of April 2012 and April 2013. Subsequent to the second quarter of 2011, the Company announced plans to refinance its current outstanding fixed rate notes and variable funding note facility with new securitized financing. The Company anticipates issuing up to $1.525 billion of fixed rate notes under the new financing and entering into a new $100.0 million variable funding note facility. The Company expects the new securitized financing to close during the third quarter of 2011, subject to market and other conditions. The net proceeds of the new securitized financing will be used to repay the outstanding fixed rate notes and variable funding note facility in full and for general corporate purposes.

During the second quarter of 2011, the Company used cash of approximately $41.4 million for the repurchase and retirement of common stock under its open market share repurchase program. During the first two quarters of 2011, the Company used cash of approximately $47.3 million for the repurchase and retirement of common stock. In July 2011, the Company s Board of Directors approved an increase to the Company s open market share repurchase program resulting in a total remaining authorized amount for additional share repurchases of $200.0 million. The Company expects to continue to use available unrestricted cash and cash equivalents and ongoing excess cash flow generation to, among other things, repurchase shares under the current authorized program.

During the second quarter and first two quarters of 2011, the Company experienced an increase in both domestic and international same store sales versus the comparable periods in the prior year. Additionally, our international business continued to grow stores in the second quarter and first two quarters of 2011. These factors have contributed to the Company s continued ability to generate positive operating cash flows. We expect to use our unrestricted cash and cash equivalents and ongoing cash flows from operations to fund working capital requirements, invest in our core business and reduce our long-term debt and repurchase our common stock. We have historically funded our working capital requirements, capital expenditures, debt repayments and repurchases of common stock 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 and its expected ongoing cash flows from operations will be sufficient to fund operations for the foreseeable future. We did not have any material commitments for capital expenditures as of June 19, 2011.

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Cash provided by operating activities was $44.4 million in the first two quarters of 2011 and $49.6 million in the first two quarters of 2010. The $5.2 million decrease was due primarily to a $20.6 million net change in operating assets and liabilities, due primarily to the timing of payments of current operating liabilities. Cash provided by operating activities benefited by a $15.4 million increase in net income, excluding non-cash adjustments versus the prior year period, resulting primarily from our improved operating performance.

Cash provided by investing activities was $0.8 million in the first two quarters of 2011 and $2.6 million in the first two quarters of 2010. The $1.8 million decrease was due primarily to a $7.7 million change in restricted cash and cash equivalents resulting from the timing of interest and other payments relating to our financing. This decrease was offset in part by a $2.7 million decrease in capital expenditures during the first two quarters of 2011, and a $1.9 million increase in proceeds from the sale of assets, primarily as a result of the sale of 26 Company-owned stores in the first quarter of 2011.

Cash used in financing activities was $14.4 million in the first two quarters of 2011 and $65.6 million in the first two quarters of 2010. The $51.2 million decrease was due primarily to a $72.6 million decrease in repayments of long-term debt and capital lease obligations, a $20.5 million increase in the proceeds from exercise of stock options and an $11.0 million increase in tax benefits from stock option exercises and restricted stock, offset in part by a $47.3 million increase in purchases of common stock.

Based upon the current level of operations and anticipated growth, we believe that the cash generated from operations and our current unrestricted cash and cash equivalents 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 under Risk Factors in our filings with the Securities and Exchange Commission. 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.

New Accounting Pronouncements

In June 2011, the FASB amended the guidance for the presentation of comprehensive income. The amended guidance eliminates certain options for presenting comprehensive income but does not change which components of comprehensive income are recognized in net income or other comprehensive income. The amended guidance is intended to enhance comparability between entities that report under generally accepted accounting principles and those that report under international financial reporting standards. This guidance will be effective for the Company s fiscal year ending December 30, 2012. The Company has determined that this new guidance will not have a material impact on its consolidated financial statements.

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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Forward-Looking Statements

This filing contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. You can identify forward-looking statements because they contain words such as believes, expects, may, will, should, seeks, approximately, intends, plans, estimates, or anticipates or similar expressions that concern o or intentions. Forward-looking statements relating to our anticipated refinancing transaction, anticipated profitability, estimates in same store sales growth, the growth of our international business, ability to service our indebtedness, our intentions with respect to the extensions of the interest-only period on our fixed rate notes, our operating performance, the anticipated success of our reformulated pizza product, trends in our business and other descriptions of future events reflect management s expectations based upon currently available information and data. However, actual results are subject to future risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. The risks and uncertainties that could cause actual results to differ materially include: the level of and our ability to refinance our long-term and other indebtedness; the uncertainties relating to litigation; consumer preferences, spending patterns and demographic trends; the effectiveness of our advertising, operations and promotional initiatives; the strength of our brand in the markets in which we compete; our ability to retain key personnel; new product and concept developments by us, such as our reformulated pizza, and other food-industry competitors; the ongoing level of profitability of our franchisees; our and our franchisees ability to open new restaurants and keep existing restaurants in operation; changes in food prices, particularly cheese, labor, utilities, insurance, employee benefits and other operating costs; the impact that widespread illness or general health concerns may have on our business and the economy of the countries where we operate; severe weather conditions and natural disasters; changes in our effective tax rate; changes in government legislation and regulations; adequacy of our insurance coverage; costs related to future financings; our ability and that of our franchisees to successfully operate in the current credit environment; changes in the level of consumer spending given the general economic conditions including interest rates, energy prices and weak consumer confidence; availability of borrowings under our variable funding notes and our letters of credit; and changes in accounting policies. Important factors that could cause actual results to differ materially from our expectations are more fully described in our other filings with the Securities and Exchange Commission, including under the section headed Risk Factors in our annual report on Form 10-K. Except as required by applicable securities law, we do not undertake to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market Risk

The Company is exposed to market risk from interest rate changes on our variable rate debt, which consists of variable funding note borrowings that are outstanding from time to time. Management actively monitors this exposure when present. As of June 19, 2011, we had $60.0 million of outstanding variable funding note borrowings. Our outstanding fixed rate notes, which comprise substantially all of our outstanding borrowings, contain fixed interest rates until April 2012. We do not engage in speculative transactions nor do we hold or issue financial instruments for trading purposes.

The Company is exposed to market risk 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 where we use forward pricing agreements with our suppliers, we use these agreements to cover our physical commodity needs; the agreements are not net-settled and are accounted for as normal purchases.

Item 4. Controls and Procedures.

Management, with the participation of the Company s President and Chief Executive Officer, J. Patrick Doyle, and Executive Vice President and Chief Financial Officer, Michael T. Lawton, performed an evaluation of the effectiveness of the Company s disclosure controls and procedures (as that term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, Mr. Doyle and Mr. Lawton concluded that the Company s disclosure controls and procedures were effective.

During the quarterly period ended June 19, 2011, there were no changes in the Company s internal controls over financial reporting that have materially affected or are reasonably likely to materially affect the Company s internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. 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.

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 and adversely affect our financial position, results of operations or cash flows.

Item 1A. Risk Factors.

There have been no material changes in the risk factors previously disclosed in the Company s Form 10-K for the fiscal year ended January 2, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

c. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Program (2)	(d) Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
Period #4 (March 28, 2011 to April 24, 2011)		$		$ 91,476,513
Period #5 (April 25, 2011 to May 22, 2011)	1,143,571	23.27	1,143,571	64,861,071
Period #6 (May 23, 2011 to June 19, 2011)	607,467	24.53	604,314	50,037,056
Total	1,751,038	$ 23.71	1,747,885	$ 50,037,056

(1) Includes 3,153 shares purchased as part of the Company s employee stock purchase discount plan. During the second quarter, the shares were purchased at an average price of $24.76. All of the remaining shares presented were purchased pursuant to the publicly announced program.

(2) Shares were purchased as part of the publicly announced $200.0 million share repurchase program, which was approved by the Company s Board of Directors on April 17, 2007.

In July 2011, the Company s Board of Directors approved an increase to the Company s open market share repurchase program resulting in a total remaining authorized amount for additional share repurchases of $200.0 million.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. (Removed and Reserved).

Item 5. Other Information.

None.

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Item 6. Exhibits.

Exhibit Number	Description
31.1	Certification by J. Patrick Doyle pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, relating to Domino s Pizza, Inc.
31.2	Certification by Michael T. Lawton pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, relating to Domino s Pizza, Inc.
32.1	Certification by J. Patrick Doyle pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, relating to Domino s Pizza, Inc.
32.2	Certification by Michael T. Lawton pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, relating to Domino s Pizza, Inc.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.

* In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be furnished and not filed .

SIGNATURES

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

DOMINO S PIZZA, INC.
(Registrant)

Date July 26, 2011

/s/ Michael T. Lawton
Michael T. Lawton
Chief Financial Officer

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