DENNYS CORP
Form 10-Q
July 28, 2014

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

FORM 10-Q

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

For the Quarterly Period Ended June 25, 2014

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 incorporation or organization	(I.R.S. Employer Identification No.)

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

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

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

Yes þ No ¨

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

Yes þ No ¨

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

Large accelerated filer	¨	Accelerated filer	þ	Non-accelerated filer (Do not check if a smaller reporting company)	¨	Smaller reporting company	¨

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

Yes ¨ No þ

As of July 24, 2014, 84,937,765 shares of the registrant's common stock, par value $.01 per share, were outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 25, 2014	December 25, 2013
	(In thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$1,221	$2,943
Receivables	13,998	17,321
Inventories	2,772	2,881
Current deferred tax asset	22,385	23,264
Prepaid and other current assets	5,068	7,417
Total current assets	45,444	53,826
Property, net of accumulated depreciation of $252,475 and $255,966, respectively	108,280	105,620
Goodwill	31,451	31,451
Intangible assets, net	47,093	47,925
Deferred financing costs, net	1,855	2,097
Noncurrent deferred tax asset	24,071	28,290
Other noncurrent assets	26,000	26,568
Total assets	$284,194	$295,777
Liabilities		
Current liabilities:		
Current maturities of long-term debt	$3,375	$3,000
Current maturities of capital lease obligations	4,047	4,150
Accounts payable	14,332	14,237
Other current liabilities	45,179	52,698
Total current liabilities	66,933	74,085
Long-term liabilities:		
Long-term debt, less current maturities	157,875	150,000
Capital lease obligations, less current maturities	14,556	15,923
Liability for insurance claims, less current portion	18,000	18,249
Other noncurrent liabilities and deferred credits	26,844	29,089
Total long-term liabilities	217,275	213,261
Total liabilities	284,208	287,346
Commitments and contingencies		
Shareholders' equity		
Common stock $0.01 par value; shares authorized - 135,000; June 25, 2014: 105,229 shares issued and 85,803 shares outstanding; December 25, 2013: 105,014 shares issued and 89,232 shares outstanding	$1,053	$1,050
Paid-in capital	568,939	567,505

Deficit	(456,242)	(470,946)
Accumulated other comprehensive loss, net of tax	(17,438)	(16,842)
Shareholders’ equity before treasury stock	96,312	80,767
Treasury stock, at cost, 19,426 and 15,782 shares, respectively	(96,326)	(72,336)
Total shareholders' equity (deficit)	(14)	8,431
Total liabilities and shareholders' equity	$284,194	$295,777

See accompanying notes

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

	Quarter Ended		Two Quarters Ended	
	June 25, 2014	June 26, 2013	June 25, 2014	June 26, 2013
	(In thousands, except per share amounts)			
Revenue:				
Company restaurant sales	$81,138	$82,841	$160,442	$163,871
Franchise and license revenue	33,476	33,730	66,092	67,190
Total operating revenue	114,614	116,571	226,534	231,061
Costs of company restaurant sales:				
Product costs	21,327	21,402	41,910	42,548
Payroll and benefits	31,978	33,220	65,077	64,766
Occupancy	4,899	5,513	10,027	10,741
Other operating expenses	11,443	11,316	22,808	22,516
Total costs of company restaurant sales	69,647	71,451	139,822	140,571
Costs of franchise and license revenue	10,633	11,585	21,330	22,987
General and administrative expenses	14,068	14,085	28,184	29,244
Depreciation and amortization	5,281	5,352	10,519	10,576
Operating (gains), losses and other charges, net	40	1,484	462	1,618
Total operating costs and expenses, net	99,669	103,957	200,317	204,996
Operating income	14,945	12,614	26,217	26,065
Interest expense, net	2,274	2,548	4,596	5,348
Other nonoperating (income) expense, net	(332)	1,331	(432)	1,332
Net income before income taxes	13,003	8,735	22,053	19,385
Provision for income taxes	4,730	2,537	7,349	6,106
Net income	$8,273	$6,198	$14,704	$13,279
Basic net income per share	$0.10	$0.07	$0.17	$0.14
Diluted net income per share	$0.09	$0.07	$0.16	$0.14
Basic weighted average shares outstanding	86,781	91,659	87,792	92,004
Diluted weighted average shares outstanding	88,384	93,665	89,630	94,081

See accompanying notes

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

	Quarter Ended		Two Quarters Ended	
	June 25, 2014	June 26, 2013	June 25, 2014	June 26, 2013
	(In thousands)			
Net income	$8,273	$6,198	$14,704	$13,279
Other comprehensive income (loss), net of tax:				
Minimum pension liability adjustment, net of tax expense of $91, $160, $181 and $325	140	247	281	501
Recognition of unrealized gain (loss) on hedge transaction, net of tax expense (benefit) of $(339), $1,522, $(563) and $1,522	(528)	2,348	(877)	2,348
Other comprehensive income (loss)	(388)	2,595	(596)	2,849
Total comprehensive income	$7,885	$8,793	$14,108	$16,128

See accompanying notes

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

	Common Stock		Treasury Stock					
	Shares	Amount	Shares	Amount	Paid-in Capital	(Deficit)	Accumulated Other Comprehensive Loss, Net	Total Shareholders' (Deficit) / Equity
	(In thousands)							
Balance, December 25, 2013	105,014	$1,050	(15,782)	$(72,336)	$567,505	$(470,946)	$ (16,842)	$ 8,431
Net income	—	—	—	—	—	14,704	—	14,704
Other comprehensive loss	—	—	—	—	—	—	(596)	(596)
Share-based compensation on equity classified awards	—	—	—	—	1,186	—	—	1,186
Purchase of treasury stock	—	—	(3,644)	(23,990)	—	—	—	(23,990)
Issuance of common stock for share-based compensation	151	2	—	—	(2)	—	—	—
Exercise of common stock options	64	1	—	—	204	—	—	205
Tax benefit from share-based compensation	—	—	—	—	46	—	—	46
Balance, June 25, 2014	105,229	$1,053	(19,426)	$(96,326)	$568,939	$(456,242)	$ (17,438)	$ (14)

See accompanying notes

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

	Two Quarters Ended	
	June 25, 2014	June 26, 2013
	(In thousands)	
Cash flows from operating activities:		
Net income	$14,704	$13,279
Adjustments to reconcile net income to cash flows provided by operating activities:		
Depreciation and amortization	10,519	10,576
Operating (gains), losses and other charges, net	462	1,618
Amortization of deferred financing costs	242	256
(Gain) loss on early extinguishment of debt	(1)	1,687
(Gain) loss on change in the fair value of interest rate caps	11	(36)
Deferred income tax expense	5,480	4,876
Share-based compensation	2,344	2,381
Changes in assets and liabilities:		
Decrease (increase) in assets:		
Receivables	2,996	1,986
Inventories	109	52
Other current assets	2,349	3,718
Other assets	(1,383)	(1,105)
Increase (decrease) in liabilities:		
Accounts payable	2,578	(2,734)
Accrued salaries and vacations	(3,274)	(4,783)
Accrued taxes	58	360
Other accrued liabilities	(6,414)	(3,930)
Other noncurrent liabilities and deferred credits	(848)	(3,879)
Net cash flows provided by operating activities	29,932	24,322
Cash flows from investing activities:		
Capital expenditures	(13,526)	(5,387)
Acquisition of restaurant and real estate	—	(3,157)
Proceeds from disposition of property	4	22
Collections on notes receivable	1,210	2,407
Issuance of notes receivable	(651)	(757)
Net cash flows used in investing activities	(12,963)	(6,872)
Cash flows from financing activities:		
Net revolver borrowings under new credit agreement	9,750	97,500
Term loan borrowings under new credit agreement	—	60,000
Long-term debt payments	(3,549)	(172,936)
Proceeds from exercise of stock options	205	1,225
Tax withholding on share-based payments	(419)	(464)
Tax benefit (expense) for share-based compensation	46	(172)
Debt transaction costs	—	(366)
Deferred financing costs	—	(1,314)
Purchase of treasury stock	(23,815)	(10,751)
Net bank overdrafts	(909)	(1,726)
Net cash flows used in financing activities	(18,691)	(29,004)

Decrease in cash and cash equivalents	(1,722)	(11,554)
Cash and cash equivalents at beginning of period	2,943	13,565
Cash and cash equivalents at end of period	$1,221	$2,011

See accompanying notes

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

Note 1. Introduction and Basis of Presentation

Denny’s Corporation, or Denny’s, is one of America’s largest full-service restaurant chains based on number of restaurants. The following table shows the unit activity for the quarter and two quarters ended June 25, 2014 and June 26, 2013, respectively:

	Quarter Ended		Two Quarters Ended	
	June 25, 2014	June 26, 2013	June 25, 2014	June 26, 2013
Company restaurants, beginning of period	161	164	163	164
Units opened	—	—	—	—
Units acquired from franchisees	—	1	—	1
Units closed	(1)	—	(3)	—
End of period	160	165	160	165
Franchised and licensed restaurants, beginning of period	1,535	1,525	1,537	1,524
Units opened	3	11	7	18
Units acquired by Company	—	(1)	—	(1)
Units closed	(5)	(10)	(11)	(16)
End of period	1,533	1,525	1,533	1,525
Total restaurants, end of period	1,693	1,690	1,693	1,690

Our unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Therefore, certain information and notes normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. In our opinion, all adjustments considered necessary for a fair presentation of the interim periods presented have been included. Such adjustments are of a normal and recurring nature. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions; however, we believe that our estimates, including those for the above-described items, are reasonable.

These interim condensed consolidated financial statements should be read in conjunction with our consolidated financial statements and notes thereto for the year ended December 25, 2013 and the related Management’s Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K for the fiscal year ended December 25, 2013. The results of operations for the interim periods presented are not necessarily indicative of the results for the entire fiscal year ending December 31, 2014.

Note 2. Summary of Significant Accounting Policies

Accounting Standards to be Adopted

Discontinued Operations

ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity"

In April 2014, the FASB issued ASU 2014-08, which raises the threshold for a disposal to qualify as a discontinued operation and modifies the related disclosure requirements. Under the new guidance, only disposals resulting in a strategic shift that will have a major effect on an entity's operations and financial results will be reported as discontinued operations. ASU 2014-08 also removes the requirement that an entity not have any significant continuing involvement in the operations of the component after disposal to qualify for reporting of the disposal as a discontinued operation. The guidance is effective for annual and interim periods beginning after December 15, 2014 (our fiscal 2015), with early adoption permitted for any disposal transaction not previously reported. We do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

Revenue Recognition

ASU 2014-09, "Revenue from Contracts with Customers"

In May 2014, the FASB issued ASU 2014-09, which clarifies the principles used to recognize revenue for all entities. The new guidance requires companies to recognize revenue when it transfers goods or service to a customer in an amount that reflects the consideration to which a company expects to be entitled. ASU 2014-09 is effective for annual and interim periods beginning after December 15, 2016. The guidance allows for either a "full retrospective" adoption or a "modified retrospective" adoption, however early adoption is not permitted. We are currently evaluating the impact the adoption of this guidance will have on our consolidated financial statements.

We reviewed all other newly issued accounting pronouncements and concluded that they are either not applicable to our business or are not expected to have a material effect on the financial statements as a result of future adoption.

Note 3. Receivables

Receivables were comprised of the following:

	June 25, 2014	December 25, 2013
	(In thousands)	
Current assets:		
Receivables:		
Trade accounts receivable from franchisees	$9,563	$10,072
Notes receivable from franchisees	1,472	1,800
Vendor receivables	1,155	2,516
Credit card receivables	894	2,162
Other	1,149	1,002
Allowance for doubtful accounts	(235)	(231)
Total current receivables, net	$13,998	$17,321
Noncurrent assets (included as a component of other noncurrent assets):		
Notes receivable from franchisees	$535	$766

Note 4. Goodwill and Other Intangible Assets

Goodwill had a carrying amount of $31.5 million as of June 25, 2014 and December 25, 2013.

Other intangible assets were comprised of the following:

	June 25, 2014		December 25, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Intangible assets with indefinite lives:				
Trade names	$44,056	$—	$44,055	$—
Liquor licenses	126	—	126	—
Intangible assets with definite lives:				
Franchise and license agreements	22,613	21,027	31,248	29,007

Reacquired franchise rights	1,857	532	1,857	354
Intangible assets	$68,652	$21,559	$77,286	$29,361

The $8.6 million decrease in franchise and license agreements primarily resulted from the removal of fully amortized agreements.

Note 5. Operating (Gains), Losses and Other Charges, Net

Operating (gains), losses and other charges, net are comprised of the following:

	Quarter Ended		Two Quarters Ended	
	June 25, 2014	June 26, 2013	June 25, 2014	June 26, 2013
	(In thousands)			
(Gains) losses on sales of assets and other, net	$(33)	$(33)	$(41)	$(15)
Restructuring charges and exit costs	45	660	475	776
Impairment charges	28	857	28	857
Operating (gains), losses and other charges, net	$40	$1,484	$462	$1,618

Restructuring Charges and Exit Costs

Restructuring charges and exit costs were comprised of the following:

	Quarter Ended		Two Quarters Ended	
	June 25, 2014	June 26, 2013	June 25, 2014	June 26, 2013
	(In thousands)			
Exit costs	$35	$181	$89	$237
Severance and other restructuring charges	10	479	386	539
Total restructuring charges and exit costs	$45	$660	$475	$776

The components of the change in accrued exit cost liabilities are as follows:

	(In thousands)
Balance, December 25, 2013	$3,149
Exit costs (1)	89
Payments, net of sublease receipts	(574)
Reclassification of certain lease assets and liabilities, net	(10)
Interest accretion	99
Balance, June 25, 2014	2,753
Less current portion included in other current liabilities	1,082
Long-term portion included in other noncurrent liabilities	$1,671

(1) Included as a component of operating (gains), losses and other charges, net.

Estimated net cash payments related to exit cost liabilities are as follows:

	(In thousands)
Remainder of 2014	$873
2015	583
2016	295
2017	296
2018	299
Thereafter	986
Total	3,332
Less imputed interest	579
Present value of exit cost liabilities	$2,753

As of both June 25, 2014 and December 25, 2013, we had accrued severance and other restructuring charges of $0.1 million. The balance as of June 25, 2014 is expected to be paid during the next 12 months.

Note 6. Fair Value of Financial Instruments

Fair Value of Assets and Liabilities Measured on a Recurring and Nonrecurring Basis

Financial assets and liabilities measured at fair value on a recurring basis are summarized below:

	Total	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique
	(In thousands)				
Fair value measurements as of June 25, 2014:					
Deferred compensation plan investments (1)	$8,883	$ 8,883	$—	$—	market approach
Interest rate swaps (2)	$1,592	—	1,592	—	income approach
Interest rate caps (2)	$0	$ —	$0	$—	income approach
Total	$10,475	$ 8,883	$1,592	$—	
Fair value measurements as of December 25, 2013:					
Deferred compensation plan investments (1)	$8,168	$ 8,168	$—	$—	market approach
Interest rate swaps (2)	$3,032	$ —	$3,032	$—	income approach
Interest rate caps (2)	$11	$ —	$11	$—	income approach
Total	$11,211	$ 8,168	$3,043	$—	

(1)

The fair values of our deferred compensation plan investments are based on the closing market prices of the participants' elected investments.

(2) The fair values of our interest rate swaps and interest rate caps are based upon Level 2 inputs, which include valuation models as reported by our counterparties. The key inputs for the valuation models are quoted market prices, interest rates and forward yield curves. See Note 7 for details on the interest rate swaps and interest rate caps.

Those assets and liabilities measured at fair value on a nonrecurring basis are summarized below:

	Total	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique
	(In thousands)				
Fair value measurements as of December 25, 2013:					
Assets held and used (1)	$1,198	$ —	$—	$1,198	income approach
Total	$1,198	$ —	$—	$1,198	

(1) As of December 25, 2013, impaired assets related to an underperforming restaurant were written down to their fair value. Impairment charges of $4.8 million were recognized as a component of operating (gains), losses and other charges, net in our Condensed Consolidated Statements of Income during the quarter ended December 25, 2013. To determine fair value, we used the income approach, which assumes that the future cash flows reflect current market expectations. These fair value measurements require significant judgment using Level 3 inputs, such as discounted cash flows from operations, which are not observable from the market, directly or indirectly.

Note 7. Long-Term Debt

Denny's Corporation and certain of its subsidiaries have a credit facility comprised of a senior secured term loan in an original principal amount of $60 million and a $190 million senior secured revolver (with a $30 million letter of credit sublimit). As of June 25, 2014, we had outstanding term loan borrowings under the credit facility of $56.3 million and outstanding letters of credit under the senior secured revolver of $23.7 million. There were $105.0 million of revolving loans outstanding at June 25, 2014. These balances resulted in availability of $61.3 million under the revolving facility. The weighted-average interest rate under the term loan and on outstanding revolver loans was 2.16% and 2.17% as of June 25, 2014 and December 25, 2013, respectively.

The revolving credit facility includes an accordion feature that would allow us to increase the size of the revolver to $240 million. A commitment fee of 0.35% is paid on the unused portion of the revolving credit facility. Borrowings under the credit facility bear a tiered interest rate based on the Company's consolidated leverage ratio and was initially set at LIBOR plus 200 basis points. The maturity date for the credit facility is April 24, 2018.

The credit facility is guaranteed by the Company and its material subsidiaries and is secured by substantially all of the assets of the Company and its subsidiaries, including the stock of the Company's subsidiaries. It includes negative covenants that are usual for facilities and transactions of this type. The credit facility also includes certain financial covenants with respect to a maximum consolidated leverage ratio, a minimum consolidated fixed charge coverage ratio and maximum capital expenditures.
The term loan under the credit facility requires amortization of the original term loan balance of 5% per year in the first two years (April 2013 through April 2015), 7.5% in the subsequent two years (April 2015 through April 2017) and 10% in the fifth year (April 2017 through April 2018) with the balance due at maturity. We are required to make certain mandatory prepayments under certain circumstances and have the option to make certain prepayments under the credit facility. The credit facility includes events of default (and related remedies, including acceleration and increased interest rates following an event of default) that are usual for facilities and transactions of this type.
During the two quarters ended June 25, 2014, we paid $1.5 million on the term loan under the credit facility.

Interest Rate Hedges

We have entered into interest rate hedges that cap the LIBOR rate on borrowings under our credit facility. The 200 basis point LIBOR cap applied to $125 million of borrowings from April 14, 2013 through April 13, 2014 and applies to $150 million of borrowings from April 14, 2014 through March 31, 2015.

We also have entered into interest rate swaps to hedge a portion of the cash flows of our floating rate debt from March 31, 2015 through March 29, 2018. We designated the interest rate swaps as cash flow hedges of our exposure to variability in future cash flows attributable to payments of LIBOR due on a related $150 million notional debt obligation from March 31, 2015 through March 31, 2017 and a related $140 million notional debt obligation from April 1, 2017 through March 29, 2018. Under the terms of the swaps, we will pay an average fixed rate of 3.12% on the notional amounts and receive payments from a counterparty based on the 30-day LIBOR rate. As of June 25, 2014, the fair value of the interest rate swaps was $1.6 million, which is recorded as a component of other noncurrent assets on our Condensed Consolidated Balance Sheets. See Note 13 for the amounts recorded in accumulated other comprehensive loss related to the interest rate swaps.

We believe that our estimated cash flows from operations for 2014, combined with our capacity for additional borrowings under our credit facility, will enable us to meet our anticipated cash requirements and fund capital expenditures over the next twelve months.

Note 8. Defined Benefit Plans

The components of net periodic benefit cost were as follows:

	Quarter Ended		Two Quarters Ended	
	June 25, 2014	June 26, 2013	June 25, 2014	June 26, 2013
	(In thousands)			
Pension Plan:				
Service cost	$95	$100	$190	$200
Interest cost	771	734	1,550	1,488
Expected return on plan assets	(988)	(1,120)	(1,977)	(2,244)
Amortization of net loss	231	408	462	827
Net periodic benefit cost	$109	$122	$225	$271
Other Defined Benefit Plans:				
Interest cost	$31	$28	$62	$56
Amortization of net loss	16	18	31	36
Settlement loss recognized	25	—	25	—
Net periodic benefit cost	$72	$46	$118	$92

We made contributions of $1.3 million and $2.8 million to our qualified pension plan during the two quarters ended June 25, 2014 and June 26, 2013, respectively. We made contributions of $0.2 million and $0.1 million to our other defined benefit plans during the two quarters ended June 25, 2014 and June 26, 2013, respectively. We expect to contribute an additional $1.3 million to our qualified pension plan and an additional $0.2 million to our other defined benefit plans over the remainder of fiscal 2014.

Additional minimum pension liability of $18.4 million and $18.7 million is reported as a component of accumulated other comprehensive loss in the Condensed Consolidated Statement of Shareholders' Equity as of June 25, 2014 and December 25, 2013, respectively.

Note 9. Share-Based Compensation

Total share-based compensation cost included as a component of net income was as follows:

	Quarter Ended		Two Quarters Ended	
	June 25, 2014	June 26, 2013	June 25, 2014	June 26, 2013
	(In thousands)			
Stock options	$—	$133	$52	$297
Performance share awards	984	811	1,912	1,642
Restricted stock units	196	262	380	442
Total share-based compensation	$1,180	$1,206	$2,344	$2,381

Stock Options

As of June 25, 2014, there was no unrecognized compensation cost related to unvested stock option awards outstanding.

Performance Share Awards

In February 2014, we granted approximately 0.2 million performance shares and related performance-based target cash awards of $2.2 million to certain employees. In April 2014, we granted less than 0.1 million performance shares and related performance-based target cash awards of $0.3 million to additional employees under the same award plan. As these awards contain a market condition, a Monte Carlo valuation was used to determine the performance shares' grant date fair values of $7.65 per share (February 2014) and $6.80 per share (April 2014) and the payout probabilities of the target cash awards. The awards granted to our named executive officers also contain a performance condition based on certain operating measures for the fiscal year ended December 31, 2014. The performance period is the three year fiscal period beginning December 26, 2013 and ending December 28, 2016. The performance shares and cash awards will vest and be earned (from 0% to 200% of the target award for each such increment) at the end of the performance period based on the total shareholder return of our stock compared to the total shareholder returns of a group of peer companies.

During the two quarters ended June 25, 2014, we made payments of $1.1 million in cash and issued 0.1 million shares of common stock related to performance share awards.

As of June 25, 2014, we had approximately $5.8 million of unrecognized compensation cost related to all unvested performance share awards outstanding, which is expected to be recognized over a weighted average of 1.9 years.

Restricted Stock Units for Board Members

During the two quarters ended June 25, 2014, we granted 0.1 million restricted stock units (which are equity classified) with a weighted average grant date fair value of $6.56 per unit to non-employee members of our Board of Directors. A director may elect to convert these awards into shares of common stock either on a specific date in the future (while still serving as a member of our Board of Directors) or upon termination as a member of our Board of Directors. During the two quarters ended June 25, 2014, less than 0.1 million restricted stock units were converted into shares of common stock. As of June 25, 2014, we had approximately $0.6 million of unrecognized compensation cost related to all unvested restricted stock unit awards outstanding, which is expected to be recognized over a weighted average of 0.8 years.

Note 10. Income Taxes

The provision for income taxes was $7.3 million and $6.1 million for the two quarters ended June 25, 2014 and June 26, 2013, respectively. For the 2014 period, the difference in the overall effective rate from the U.S. Statutory rate was primarily due to two discrete tax items. State job tax credits of $0.5 million were claimed during the 2014 period resulting from the prior year's hiring activity. In addition, share-based compensation adjustments resulted in an out-of-period tax benefit of $0.5 million. We do not believe the out-of-period adjustment was material to any prior or current year financial statements or on earnings trends. For the 2013 period, the difference in the overall effective rate from the U.S. Statutory rate was due to state and foreign taxes, employment tax credits, and discrete tax items. The passage of the American Tax Payer Relief Act of 2012 resulted in deferred tax benefits of $0.3 million related to work opportunity credits generated in 2012, which were allowed retroactively during 2013. In addition, state jobs tax credits of $0.8 million were claimed during the 2013 period resulting from the prior year's hiring activity.

Note 11. Net Income Per Share

The amounts used for the basic and diluted net income per share calculation are summarized below:

	Quarter Ended		Two Quarters Ended	
	June 25, 2014	June 26, 2013	June 25, 2014	June 26, 2013
	(In thousands, except for per share amounts)			
Net income	$8,273	$6,198	$14,704	$13,279
Weighted average shares outstanding - basic	86,781	91,659	87,792	92,004
Effect of dilutive share-based compensation awards	1,603	2,006	1,838	2,077
Weighted average shares outstanding - diluted	88,384	93,665	89,630	94,081
Basic net income per share	$0.10	$0.07	$0.17	$0.14
Diluted net income per share	$0.09	$0.07	$0.16	$0.14
Anti-dilutive share-based compensation awards	606	331	606	331

Note 12. Supplemental Cash Flow Information

	Two Quarters Ended	
	June 25, 2014	June 26, 2013
	(In thousands)	
Income taxes paid, net	$1,640	$1,335
Interest paid	$4,103	$5,010
Noncash investing and financing activities:		
Issuance of common stock, pursuant to share-based compensation plans	$1,030	$1,590
Execution of capital leases	$757	$2,865
Treasury stock payable	$395	$1,144