

	Actual	20% D/C	30% D/C	40% D/C
Interest Expense	0	3,893,000	5,839,500	7,786,000
EBIT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625

Possible Solutions

1. No repurchase of shares (business as usual and do not take on any debt).
2. 10% debt-to-capital ratio: \$12,088,000 of debt financing allowing for a 1,822,126 share repurchase.
3. 20% debt-to-capital ratio: \$24,176,000 of debt financing allowing for a 3,644,251 share repurchase.
4. 30% debt-to-capital ratio: \$36,264,000 of debt financing allowing for a 5,466,377 share repurchase.

What CPK Actually Did

Based on the 2007 and 2008 financial statements, CPK's financial performance for the second quarter of 2007 was as follows:

Revenue: \$100.0 million
EBITDA: \$10.0 million
EBIT: \$8.0 million
EBT: \$7.0 million
Net Income: \$5.0 million
EPS: \$0.50

	Actual	20% D/C	30% D/C	40% D/C
Interest Expense	0	3,893,000	5,839,500	7,786,000
EBIT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625

California Pizza Kitchen



By: Marshall LaCroix, Ryan Buehler,
Hanna Boyd, Erin Maloney



TheCasesolutions.com

Effect of Leverage on Share Price				
	Actual	20% D/C	30% D/C	40% D/C
Interest Expense	0	3,893,000	5,839,500	7,786,000
EBIT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625

Effect of Leverage on Cost of Equity				
	Actual	20% D/C	30% D/C	40% D/C
Cost of Debt	0.05	0.05	0.05	0.05
Cost of Equity	0.12	0.12	0.12	0.12
WACC	0.08	0.08	0.08	0.08
EBIT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625

Cost of Equity = Risk-Free Rate + Beta Coefficient * (Expected Market Return - Risk-Free Rate)

	Actual	20% D/C	30% D/C	40% D/C
Interest Expense	0	3,893,000	5,839,500	7,786,000
EBIT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625
EBT	452,075	904,475	1,356,550	1,808,625

Effect of Leverage

- ROE
- Cost of Equity
- Share Price
- WACC



Restaurant Industry

- Challenges in Restaurant Industry:
- Increasing commodity prices
 - High labor costs
 - Deteriorating housing wealth
 - Intense interest in the industry by activist shareholders



A "Safe Haven" in Casual Dining



- July 2007:
- Quarterly profit of over \$6M
 - Revenue growth of 16%
 - Royalties:
 - 37% - Kraft partnership
 - 31% - Interfranchises
 - \$85M in capital expenditure to fund growth
 - Share = \$22.10, declined 10%

Should the company take on debt to repurchase shares, and if so how much?

Benefits of Repurchasing Shares

- signal to the market of positive future expectations
- expected higher value in the future
- cost of debt that would be needed for repurchase is low

California Pizza Kitchen



By: Marshall LaCroix, Ryan Buehler,
Hanna Boyd, Erin Maloney



TheCasesolutions.com

Background

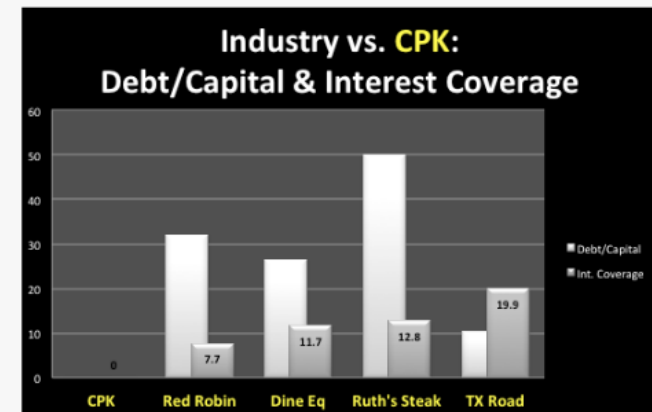
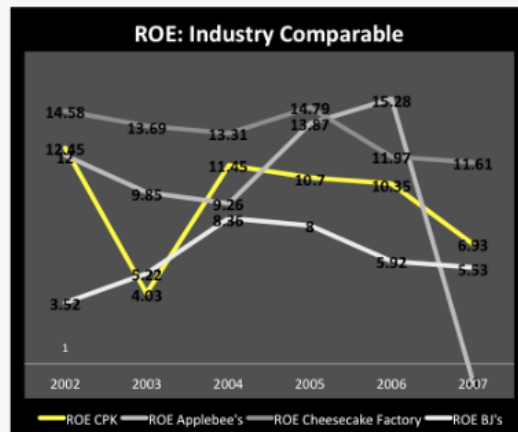
- CPK opened in 1985 in Beverly Hills, CA
- Company revenue generated by:
 - Company-owned restaurants
 - Royalties
 - franchised restaurants
 - partnerships with Kraft
- 2007 - 213 locations in 28 states & 15 international franchises



Restaurant Industry

Challenges in Restaurant Industry:

- Increasing commodity prices
- High gas prices
- Higher labor costs
- Deteriorating housing wealth
- Intense interest in the industry by activist shareholders



ROE: Industry Comparable

