

questions

1. What is the current operating position of California Pizza Kitchen? What decisions does Susan Collins face?

California Pizza Kitchen was established in 1985, by Larry Flax and Rick Rosenfeld, with the concept of “designer pizza at off the rack prices”. This is a restaurant service company with the main focus on finest pizza segment. Besides California Pizza Kitchen is a casual dining restaurant chain that concentrates in innovative pizzas. Other than pizza California Pizza Kitchen also provides various soups, salads, pasta, sandwiches, and desserts at higher quality for lower prices. A rapid growth occurred in this industry. As in 2007, they developed retail in 213 locations, in USA and worldwide, 41% in California. Analysts have estimated up to 500 locations for the development of retail of CPKs. Main three sources of income in CPK is Company owned restaurants (currently 170), Franchising and partnership with Kraft food to sell CPK branded frozen pizza in grocery stores.

CPK has a conservative financial policy; it shows a strong balance sheet with a strong staying power, because it has not put any debt on balance sheet. Furthermore it shows a high growth in 2007, revenue has increased up to 18% and in corresponding restaurant sales grew only by 5%. So this is an indicator to show CPK is performing really well against its competitors. When analyzing furthermore CPK's stock has been low 10% to \$22.10 in June making their P/E equal to 31.9 time current earnings. So when compared to BJ's Restaurants, CPK's biggest competitor with a P/E of 48.9, CPK appears undervalued.

With all the challenges facing by California Pizza Company as in increasing commodity prices, higher labor costs, Softening demand due to high gas prices, Activist shareholders, in other words uncertainty in the industry and general poor performance among competitors, despite all CPK has showed a good operating performance.

What decisions does Susan Collins should make?

The analysis of CPK's position shows that currently no financial leverage, current stock price \$22.10, Earning per share is 0.71 and company borrowing capacity is \$75MM.