

Texas Roadhouse, Inc.  
Form 10-Q  
May 03, 2012  
Table of Contents

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended March 27, 2012**

**OR**

**o                    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 000-50972**

**Texas Roadhouse, Inc.**

(Exact name of registrant specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-1083890**  
(IRS Employer  
Identification Number)

**6040 Dutchmans Lane, Suite 200**

Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

Louisville, Kentucky 40205

(Address of principal executive offices) (Zip Code)

(502) 426-9984

(Registrant's telephone number, including area code)

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 .

The number of shares of common stock outstanding were 69,957,305 on April 25, 2012.

Table of Contents

**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

<u>Item 1</u>	<u>Financial Statements</u>	<u>Texas Roadhouse, Inc. and Subsidiaries</u>	3
	<u>Condensed Consolidated Balance Sheets</u>	<u>March 27, 2012 and December 27, 2011</u>	3
	<u>Condensed Consolidated Statements of Income and Comprehensive Income</u>	<u>For the 13 Weeks Ended March 27, 2012 and March 29, 2011</u>	4
	<u>Condensed Consolidated Statements of Stockholders' Equity</u>	<u>For the 13 Weeks Ended March 27, 2012</u>	5
	<u>Condensed Consolidated Statements of Cash Flows</u>	<u>For the 13 Weeks Ended March 27, 2012 and March 29, 2011</u>	6
	<u>Notes to Condensed Consolidated Financial Statements</u>		7
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>		15
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>		26
<u>Item 4</u>	<u>Controls and Procedures</u>		27

**PART II. OTHER INFORMATION**

<u>Item 1</u>	<u>Legal Proceedings</u>		28
<u>Item 1A</u>	<u>Risk Factors</u>		28
<u>Item 2</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>		29
<u>Item 3</u>	<u>Defaults Upon Senior Securities</u>		29
<u>Item 4</u>	<u>Mine Safety Disclosures</u>		29
<u>Item 5</u>	<u>Other Information</u>		29
<u>Item 6</u>	<u>Exhibits</u>		29
	<u>Signatures</u>		30

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1 FINANCIAL STATEMENTS****Texas Roadhouse, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets****(in thousands, except share and per share data)**

	(unaudited)	
	March 27, 2012	December 27, 2011
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 77,322	\$ 73,731
Receivables, net of allowance for doubtful accounts of \$28 at March 27, 2012 and \$39 at December 27, 2011	12,793	16,526
Inventories, net	9,822	10,730
Prepaid income taxes		575
Prepaid expenses	7,636	7,045
Deferred tax assets	5,246	3,367
Total current assets	112,819	111,974
Property and equipment, net	507,873	497,217
Goodwill	110,946	110,946
Intangible assets, net	8,773	9,042
Other assets	12,329	11,491
Total assets	\$ 752,740	\$ 740,670
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Current maturities of long-term debt and obligations under capital leases	\$ 312	\$ 304
Accounts payable	32,758	32,744
Deferred revenue gift cards	25,216	44,058
Accrued wages	26,788	23,701
Income tax payable	9,967	
Accrued taxes and licenses	12,221	12,381
Dividends payable	6,270	5,535
Other accrued liabilities	24,113	17,649
Total current liabilities	137,645	136,372
Long-term debt and obligations under capital leases, excluding current maturities	51,520	61,601
Stock option and other deposits	4,567	4,546
Deferred rent	18,014	17,133
Deferred tax liabilities	7,695	8,715
Fair value of derivative financial instruments	4,325	4,247
Other liabilities	13,358	12,234
Total liabilities	237,124	244,848
Texas Roadhouse, Inc. and subsidiaries stockholders equity:		
Preferred stock (\$0.001 par value, 1,000,000 shares authorized; no shares issued or outstanding)		

## Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

Common stock, (\$0.001 par value, 100,000,000 shares authorized, 69,877,507 and 69,186,967 shares issued and outstanding at March 27, 2012 and December 27, 2011, respectively)

	70	69
Additional paid in capital	212,124	206,019
Retained earnings	301,024	288,425
Accumulated other comprehensive loss	(2,650)	(2,609)
Total Texas Roadhouse, Inc. and subsidiaries stockholders' equity	510,568	491,904
Noncontrolling interests	5,048	3,918
Total equity	515,616	495,822
Total liabilities and equity	\$ 752,740	\$ 740,670

See accompanying notes to condensed consolidated financial statements.

Table of Contents**Texas Roadhouse, Inc. and Subsidiaries****Condensed Consolidated Statements of Income and Comprehensive Income****(in thousands, except per share data)****(unaudited)**

	13 Weeks Ended	
	March 27, 2012	March 29, 2011
<b>Revenue:</b>		
Restaurant sales	\$ 322,012	\$ 281,320
Franchise royalties and fees	2,857	2,465
<b>Total revenue</b>	<b>324,869</b>	<b>283,785</b>
<b>Costs and expenses:</b>		
<b>Restaurant operating costs:</b>		
Cost of sales	109,655	93,541
Labor	93,347	82,720
Rent	6,252	5,657
Other operating	51,229	45,281
Pre-opening	3,585	1,890
Depreciation and amortization	11,347	10,600
Impairment and closures	19	26
General and administrative	20,033	13,861
<b>Total costs and expenses</b>	<b>295,467</b>	<b>253,576</b>
<b>Income from operations</b>	<b>29,402</b>	<b>30,209</b>
Interest expense, net	605	565
Equity income from investments in unconsolidated affiliates	(41)	(103)
<b>Income before taxes</b>	<b>28,838</b>	<b>29,747</b>
Provision for income taxes	9,085	9,272
<b>Net income including noncontrolling interests</b>	<b>\$ 19,753</b>	<b>\$ 20,475</b>
Less: Net income attributable to noncontrolling interests	884	682
<b>Net income attributable to Texas Roadhouse, Inc. and subsidiaries</b>	<b>\$ 18,869</b>	<b>\$ 19,793</b>
<b>Other comprehensive (loss) income, net of tax:</b>		
Unrealized (loss) gain on derivatives, net of tax of \$0.1 million	(41)	108
<b>Total comprehensive income</b>	<b>\$ 18,828</b>	<b>\$ 19,901</b>
<b>Net income per common share attributable to Texas Roadhouse, Inc. and subsidiaries:</b>		
Basic	\$ 0.27	\$ 0.27
Diluted	\$ 0.27	\$ 0.27
<b>Weighted-average shares outstanding:</b>		

Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

Basic	69,405	72,052
Diluted	70,830	73,727
Cash dividends declared per share	\$ 0.09	\$ 0.08

See accompanying notes to condensed consolidated financial statements.

Table of Contents**Texas Roadhouse, Inc. and Subsidiaries****Condensed Consolidated Statements of Stockholders Equity****(in thousands, except share data)****(unaudited)**

	Shares	Par Value	Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Texas Roadhouse, Inc. and Subsidiaries	Noncontrolling Interests	Total
Balance, December 27, 2011	69,186,967	\$ 69	\$ 206,019	\$ 288,425	\$ (2,609)	\$ 491,904	\$ 3,918	\$ 495,822
Net income				18,869		18,869	884	19,753
Unrealized loss on derivatives, net of tax of \$0.1 million					(41)	(41)		(41)
Distributions to noncontrolling interests							(763)	(763)
Minority interest contribution							1,009	1,009
Minority interest liquidation adjustments			(357)			(357)		(357)
Dividends declared (\$0.09 per share)				(6,270)		(6,270)		(6,270)
Shares issued under stock option plan including tax effects	479,591	1	4,897			4,898		4,898
Settlement of restricted stock units	304,839							
Indirect repurchase of shares for minimum tax withholdings	(93,890)		(1,488)			(1,488)		(1,488)
Share-based compensation			3,053			3,053		3,053
Balance, March 27, 2012	69,877,507	\$ 70	\$ 212,124	\$ 301,024	\$ (2,650)	\$ 510,568	\$ 5,048	\$ 515,616

See accompanying notes to condensed consolidated financial statements.

Table of Contents**Texas Roadhouse, Inc. and Subsidiaries****Condensed Consolidated Statements of Cash Flows****(in thousands)****(unaudited)**

	<b>13 Weeks Ended</b>	
	<b>March 27, 2012</b>	<b>March 29, 2011</b>
<b>Cash flows from operating activities:</b>		
Net income including noncontrolling interests	\$ 19,753	\$ 20,475
Depreciation and amortization	11,347	10,600
Deferred income taxes	(2,861)	(313)
Loss on disposition of assets	1,007	539
Equity income from investments in unconsolidated affiliates	(41)	(103)
Distributions received from investments in unconsolidated affiliates	103	80
Provision for doubtful accounts	11	(31)
Share-based compensation expense	3,053	2,960
Changes in operating working capital:		
Receivables	3,722	442
Inventories	908	638
Prepaid expenses and other current assets	(591)	307
Other assets	(760)	(1,309)
Accounts payable	14	1,593
Deferred revenue gift cards	(18,842)	(16,836)
Accrued wages	3,087	2,061
Excess tax benefits from share-based compensation	(295)	(236)
Prepaid income taxes and income taxes payable	10,837	9,518
Accrued taxes and licenses	(160)	(170)
Other accrued liabilities	6,463	940
Deferred rent	881	593
Other liabilities	1,124	388
Net cash provided by operating activities	\$ 38,760	\$ 32,136
<b>Cash flows from investing activities:</b>		
Capital expenditures property and equipment	(22,839)	(12,458)
Proceeds from sale of property and equipment, including insurance proceeds	98	49
Net cash used in investing activities	\$ (22,741)	\$ (12,409)
<b>Cash flows from financing activities:</b>		
Repayments of revolving credit facility, net	(10,000)	
Proceeds from minority interest contributions and other	512	
Distributions to noncontrolling interest holders	(763)	(611)
Excess tax benefits from share-based compensation	295	236
Proceeds from stock option and other deposits	21	315
Repurchase shares of common stock		(25,269)
Indirect repurchase of shares for minimum tax withholdings	(1,488)	(1,539)
Principal payments on long-term debt and capital lease obligations	(73)	(67)
Proceeds from exercise of stock options	4,603	2,413
Dividends paid to stockholders	(5,535)	

Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

Net cash used in financing activities	\$	(12,428)	\$	(24,522)
Net increase (decrease) in cash and cash equivalents		3,591		(4,795)
Cash and cash equivalents beginning of period		73,731		82,215
Cash and cash equivalents end of period	\$	77,322	\$	77,420
Supplemental disclosures of cash flow information:				
Interest, net of amounts capitalized	\$	656	\$	426
Income taxes, net of refunds	\$	1,110	\$	66

See accompanying notes to condensed consolidated financial statements.

Table of Contents

**Texas Roadhouse, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**(Tabular dollar amounts in thousands, except per share data)**

**(unaudited)**

**1) Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements include the accounts of Texas Roadhouse, Inc. (the Company, we and/or our), our wholly-owned subsidiaries and subsidiaries in which we own more than 50 percent interest, as of and for the 13 weeks ended March 27, 2012 and March 29, 2011. Our wholly-owned subsidiaries include: Texas Roadhouse Holdings LLC (Holdings), Texas Roadhouse Development Corporation (TRDC), Texas Roadhouse Management Corp. (Management Corp.) and Aspen Creek, LLC (Aspen Creek). We and our subsidiaries operate restaurants under the names Texas Roadhouse and Aspen Creek. Holdings also provides supervisory and administrative services for certain other franchise and license restaurants. TRDC sells franchise rights and collects the franchise royalties and fees. Management Corp. provides management services to the Company, Holdings, Aspen Creek and certain other license and franchise restaurants. All material balances and transactions between the consolidated entities have been eliminated.

As of March 27, 2012 and March 29, 2011, we owned 5.0% to 10.0% equity interest in 22 and 21 franchise restaurants, respectively. While we exercise significant control over these franchise restaurants, we do not consolidate their financial position, results of operations or cash flows as it is immaterial to our consolidated financial position, results of operations and/or cash flows. Our investment in these unconsolidated affiliates is included in Other assets in our condensed consolidated balance sheets and we record our percentage share of net income earned by these unconsolidated affiliates in our condensed consolidated statements of income and comprehensive income under Equity income from investments in unconsolidated affiliates.

We have made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reporting of revenue and expenses during the period to prepare these condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP). Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, goodwill, obligations related to insurance reserves, income taxes and share-based compensation expense. Actual results could differ from those estimates.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our financial position, results of operations and cash flows for the periods presented. The financial statements have been prepared in accordance with GAAP, except that certain information and footnotes have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission (SEC). Operating results for the 13 weeks ended March 27, 2012 are not necessarily indicative of the results that may be expected for the year ending December 25, 2012. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 27, 2011.

Our significant interim accounting policies include the recognition of income taxes using an estimated annual effective tax rate.

**(2) Share-based Compensation**

We may grant incentive and non-qualified stock options to purchase shares of common stock, stock bonus awards (restricted stock unit awards ( RSUs )) and restricted stock awards under the Texas Roadhouse, Inc. 2004 Equity Incentive Plan (the Plan ). Beginning in 2008, we changed the method by which we provide share-based compensation to our employees by eliminating stock option grants and, instead, granting RSUs as a form of share-based compensation. An RSU is the conditional right to receive one share of common stock upon satisfaction of the vesting requirement.

The following table summarizes the share-based compensation recorded in the accompanying condensed consolidated statements of income and comprehensive income:

	<b>13 Weeks Ended</b>	
	<b>March 27, 2012</b>	<b>March 29, 2011</b>
Labor expense	\$ 1,006	\$ 938
General and administrative expense	2,047	2,022
Total share-based compensation expense	\$ 3,053	\$ 2,960

Table of Contents

A summary of share-based compensation activity by type of grant as of March 27, 2012 and changes during the period then ended is presented below.

*Summary Details for Plan Share Options*

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 27, 2011	3,486,642	\$ 12.02		
Granted				
Forfeited	(37,023)	15.62		
Exercised	(479,591)	9.60		
Outstanding at March 27, 2012	2,970,028	\$ 12.36		