

Texas Roadhouse, Inc.
Form 10-Q
October 31, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 23, 2008

OR

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**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)

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6040 Dutchmans Lane, Suite 200

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 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 Class A and Class B common stock outstanding were 64,834,808 and 5,265,376, respectively, on October 24, 2008.

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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)	
	September 23, 2008	December 25, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,719	\$ 11,564
Receivables, net of allowance for doubtful accounts of \$208 at September 23, 2008 and \$8 at December 25, 2007	10,999	18,303
Inventories, net	7,737	7,277
Prepaid expenses	2,068	3,646
Deferred tax assets	907	841
Total current assets	35,430	41,631
Property and equipment, net	440,865	390,378
Goodwill	115,742	101,856
Intangible asset, net	12,765	8,414
Other assets	4,075	3,750
Total assets	\$ 608,877	\$ 546,029
Liabilities and Stockholders Equity		
Current liabilities:		
Current maturities of long-term debt and obligations under capital leases	\$ 232	\$ 302
Accounts payable	22,989	23,716
Deferred revenue gift cards/certificates	13,692	32,088
Accrued wages	15,759	14,561
Income tax payable	479	721
Accrued taxes and licenses	10,299	6,439
Other accrued liabilities	12,257	10,432
Total current liabilities	75,707	88,259
Long-term debt and obligations under capital leases, excluding current maturities	151,537	66,482
Stock option and other deposits	5,133	4,916
Deferred rent	9,179	7,472
Deferred tax liabilities	2,058	4,900
Other liabilities	5,177	4,235
Total liabilities	248,791	176,264
Minority interest in consolidated subsidiaries	2,743	2,384
Stockholders equity:		
Preferred stock (\$0.001 par value, 1,000,000 shares authorized; no shares issued or outstanding)		
	65	70

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Common stock, Class A, (\$0.001 par value, 100,000,000 shares authorized,
64,872,166 and 69,582,602 shares issued and outstanding at
September 23, 2008 and December 25, 2007, respectively)

Common stock, Class B, (\$0.001 par value, 8,000,000 shares authorized, 5,265,376 shares issued and outstanding)	5	5
Additional paid in capital	222,172	264,234
Retained earnings	135,101	103,072
Total stockholders' equity	357,343	367,381
Total liabilities and stockholders' equity	\$ 608,877	\$ 546,029

See accompanying notes to condensed consolidated financial statements.

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

	13 Weeks Ended		39 Weeks Ended	
	September 23, 2008	September 25, 2007	September 23, 2008	September 25, 2007
Revenue:				
Restaurant sales	\$ 215,739	\$ 186,879	\$ 639,127	\$ 540,452
Franchise royalties and fees	1,996	2,575	7,132	8,325
Total revenue	217,735	189,454	646,259	548,777
Costs and expenses:				
Restaurant operating costs:				
Cost of sales	76,845	65,850	225,205	189,197
Labor	63,750	53,702	183,996	152,281
Rent	4,248	2,913	11,138	8,544
Other operating	36,772	29,600	105,368	86,267
Pre-opening	2,935	2,616	8,973	9,301
Depreciation and amortization	9,444	8,028	27,056	21,903
Impairment and closure	43		777	
General and administrative	10,277	9,552	32,585	29,489
Total costs and expenses	204,314	172,261	595,098	496,982
Income from operations	13,421	17,193	51,161	51,795
Interest expense, net	974	830	2,336	1,427
Minority interest	(58)	98	482	617
Equity income from investments in unconsolidated affiliates	(45)	(66)	(184)	(256)
Income before taxes	12,550	16,331	48,527	50,007
Provision for income taxes	3,906	5,779	16,498	17,902
Net income	\$ 8,644	\$ 10,552	\$ 32,029	\$ 32,105
Net income per common share:				
Basic	\$ 0.12	\$ 0.14	\$ 0.43	\$ 0.43
Diluted	\$ 0.12	\$ 0.14	\$ 0.43	\$ 0.42
Weighted-average shares outstanding:				
Basic	71,947	74,729	73,649	74,556
Diluted	73,303	76,794	75,242	76,846

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)**

	39 Weeks Ended	
	September 23, 2008	September 25, 2007
Cash flows from operating activities:		
Net income	\$ 32,029	\$ 32,105
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,056	21,903
Deferred income taxes	(2,908)	(1,386)
Loss on disposition of assets	827	140
Impairment and closure	611	
Minority interest	482	617
Equity income from investments in unconsolidated affiliates	(184)	(256)
Distributions received from investments in unconsolidated affiliates	302	303
Provision for doubtful accounts	200	(16)
Share-based compensation expense	5,578	3,871
Changes in operating working capital:		
Receivables	7,104	891
Inventories	(112)	(147)
Prepaid expenses	1,614	1,338
Other assets	(443)	(237)
Accounts payable	(2,621)	(526)
Deferred revenue gift cards/certificates	(19,040)	(14,954)
Accrued wages	621	1,103
Excess tax benefits from share-based compensation	(2,930)	(1,661)
Prepaid income taxes and income taxes payable	2,688	233
Accrued taxes and licenses	3,716	1,702
Other accrued liabilities	1,622	319
Deferred rent	1,707	1,037
Other liabilities	331	1,691
Net cash provided by operating activities	\$ 58,250	\$ 48,070
Cash flows from investing activities:		
Capital expenditures property and equipment	(75,413)	(76,673)
Acquisitions of franchise restaurants, net of cash acquired	(18,405)	(32,976)
Proceeds from sale of property and equipment, including insurance proceeds	289	433
Net cash used in investing activities	\$ (93,529)	\$ (109,216)
Cash flows from financing activities:		
Net proceeds from revolving credit facility	86,000	41,000
Proceeds from minority interest contributions and other	878	982
Distributions to minority interest holders	(957)	(850)
Excess tax benefits from share-based compensation	2,930	1,661
Repurchase shares of common stock	(52,578)	

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Proceeds from stock option and other deposits		321		783
Principal payments on long-term debt and capital lease obligations		(1,015)		(2,159)
Payments for debt issuance costs				(459)
Proceeds from exercise of stock options		1,855		1,740
Net cash provided by financing activities	\$	37,434	\$	42,698
Net increase/(decrease) in cash		2,155		(18,448)
Cash and cash equivalents beginning of period		11,564		33,784
Cash and cash equivalents end of period	\$	13,719	\$	15,336
Supplemental disclosures of cash flow information:				
Interest, net of amounts capitalized	\$	2,540	\$	1,562
Income taxes	\$	16,753	\$	19,055

See accompanying notes to condensed consolidated financial statements.

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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) and its wholly-owned subsidiaries, Texas Roadhouse Holdings LLC (Holdings), Texas Roadhouse Development Corporation (TRDC) and Texas Roadhouse Management Corp. (Management Corp.), as of and for the 13 and 39 weeks ended September 23, 2008 and September 25, 2007. The Company and its wholly-owned subsidiaries operate Texas Roadhouse restaurants. 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 and certain other license and franchise restaurants.

Management of the Company has 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 financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position, results of operations and cash flows of the Company 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 and 39 weeks ended September 23, 2008 are not necessarily indicative of the results that may be expected for the year ending December 30, 2008. The financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 25, 2007.

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

(2) Share-based Compensation

The Company may grant incentive and non-qualified stock options to purchase shares of Class A 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, the Company changed the method by which it provides share-based compensation to its employees by eliminating stock option grants and,

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instead, granting RSUs as a form of share-based compensation. An RSU is the conditional right to receive one share of Class A 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:

	13 Weeks Ended		39 Weeks Ended	
	September 23, 2008	September 25, 2007	September 23, 2008	September 25, 2007
Labor expense	\$ 702	\$ 583	\$ 1,870	\$ 1,608
General and administrative expense	1,294	851	3,708	2,263
Total share-based compensation expense	\$ 1,996	\$ 1,434	\$ 5,578	\$ 3,871

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A summary of share-based compensation activity by type of grant as of September 23, 2008 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 25, 2007	7,356,978	\$ 9.11		
Granted				
Forfeited	(84,617)	12.40		
Exercised	(994,471)	1.95		
Outstanding at September 23, 2008	6,277,890	\$ 10.20	6.27	\$ 9,353
Exercisable at September 23, 2008	5,302,100	\$ 9.59	5.92	\$ 9,326

No stock options were granted during the 39 weeks ended September 23, 2008. The weighted-average grant date fair value of options granted during the 13 and 39 weeks ended September 25, 2007 were \$3.92 and \$4.77, respectively, using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	13 Weeks Ended September 25, 2007	39 Weeks Ended September 25, 2007
Risk-free interest rate	4.52%	4.56%
Expected term (years)	3.0	5.0
Expected volatility	35.9%	35.6%
Expected dividend yield	0.0%	0.0%

The total intrinsic value of options exercised during the 13 weeks ended September 23, 2008 and September 25, 2007 was \$7.0 million and \$0.5 million, respectively. The total intrinsic value of options exercised during the 39 weeks ended September 23, 2008 and September 25, 2007 was \$8.1 million and \$5.5 million, respectively. As of September 23, 2008, with respect to unvested stock options, there was \$1.9 million of unrecognized compensation cost that is expected to be recognized over a weighted-average period of 1.0 year. The total grant date fair value of stock options vested for both 13 week periods ended September 23, 2008 and September 25, 2007 was \$1.6 million and \$0.7 million, respectively, and for the 39 week periods ended September 23, 2008 and September 25, 2007 was \$5.0 million and \$3.1 million, respectively.

Summary Details for RSUs

Shares	Weighted-Average Grant Date Fair Value
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