

Texas Roadhouse, Inc.  
Form 10-Q  
May 08, 2009  
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 31, 2009**

**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)

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

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

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

**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 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 Class A and Class B common stock outstanding were 64,572,396 and 5,265,376, respectively, on May 1, 2009.

Table of Contents

**TABLE OF CONTENTS**

PART I. FINANCIAL INFORMATION

<u>Item 1 Financial Statements Texas Roadhouse, Inc. and Subsidiaries</u>	3
<u>Condensed Consolidated Balance Sheets March 31, 2009 and December 30, 2008</u>	3
<u>Condensed Consolidated Statements of Income For the 13 Weeks Ended March 31, 2009 and March 25, 2008</u>	4
<u>Condensed Consolidated Statements of Stockholders Equity and Comprehensive Income For the 13 Weeks Ended March 31, 2009</u>	5
<u>Condensed Consolidated Statements of Cash Flows For the 13 Weeks Ended March 31, 2009 and March 25, 2008</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	24
<u>Item 4 Controls and Procedures</u>	24

PART II. OTHER INFORMATION

<u>Item 1 Legal Proceedings</u>	25
<u>Item 1A Risk Factors</u>	25
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	25
<u>Item 3 Defaults Upon Senior Securities</u>	25
<u>Item 4 Submission of Matters to a Vote of Security Holders</u>	25
<u>Item 5 Other Information</u>	25
<u>Item 6 Exhibits</u>	25
<u>Signatures</u>	26

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 31, 2009	December 30, 2008
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 7,753	\$ 5,258
Receivables, net of allowance for doubtful accounts of \$650 at March 31, 2009 and \$524 at December 30, 2008	8,600	9,922
Inventories, net	7,745	8,140
Prepaid income taxes		3,429
Prepaid expenses	6,093	6,097
Deferred tax assets	1,889	1,962
Total current assets	32,080	34,808
Property and equipment, net	459,080	456,132
Goodwill	114,813	114,807
Intangible asset, net	12,524	12,807
Other assets	4,376	4,109
Total assets	\$ 622,873	\$ 622,663
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Current maturities of long-term debt and obligations under capital leases	\$ 232	\$ 228
Accounts payable	25,672	32,175
Deferred revenue gift cards/certificates	18,607	32,265
Accrued wages	19,147	15,500
Income tax payable	1,003	
Accrued taxes and licenses	9,540	8,544
Other accrued liabilities	11,162	10,931
Total current liabilities	85,363	99,643
Long-term debt and obligations under capital leases, excluding current maturities	129,367	132,482
Stock option and other deposits	3,631	3,784
Deferred rent	10,434	9,920
Deferred tax liabilities	8,009	6,205
Fair value of derivative financial instruments	2,286	2,704
Other liabilities	4,980	5,128
Total liabilities	244,070	259,866
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, Class A, (\$0.001 par value, 100,000,000 shares authorized, 64,287,499 and 64,070,620 shares issued and outstanding at March 31, 2009 and December 30, 2008, respectively)	64	64
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	221,876	220,385
Retained earnings	155,574	141,240
Accumulated other comprehensive loss	(1,404)	(1,704)
Total Texas Roadhouse, Inc. and subsidiaries stockholders' equity	376,115	359,990
Noncontrolling interests	2,688	2,807
Total equity	378,803	362,797
Total liabilities and equity	\$ 622,873	\$ 622,663

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	
	March 31, 2009	March 25, 2008
<b>Revenue:</b>		
Restaurant sales	\$ 244,090	\$ 208,601
Franchise royalties and fees	1,983	2,612
<b>Total revenue</b>	<b>246,073</b>	<b>211,213</b>
<b>Costs and expenses:</b>		
<b>Restaurant operating costs:</b>		
Cost of sales	83,041	73,586
Labor	71,499	58,442
Rent	4,912	3,289
Other operating	40,860	33,250
Pre-opening	2,284	2,826
Depreciation and amortization	10,471	8,546
Impairment and closure	(86)	703
General and administrative	10,809	9,871
<b>Total costs and expenses</b>	<b>223,790</b>	<b>190,513</b>
<b>Income from operations</b>	<b>22,283</b>	<b>20,700</b>
Interest expense, net	857	642
Equity income from investments in unconsolidated affiliates	(85)	(69)
<b>Income before taxes</b>	<b>21,511</b>	<b>20,127</b>
Provision for income taxes	6,715	6,953
<b>Net income including noncontrolling interests</b>	<b>\$ 14,796</b>	<b>\$ 13,174</b>
Less: Net income attributable to noncontrolling interests	462	261
<b>Net income attributable to Texas Roadhouse, Inc. and subsidiaries</b>	<b>\$ 14,334</b>	<b>\$ 12,913</b>
<b>Net income per common share attributable to Texas Roadhouse, Inc. and subsidiaries:</b>		
Basic	\$ 0.21	\$ 0.17
Diluted	\$ 0.20	\$ 0.17
<b>Weighted-average shares outstanding:</b>		
Basic	69,426	74,744
Diluted	70,506	76,443

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

See accompanying notes to condensed consolidated financial statements.

Table of Contents

**Texas Roadhouse, Inc. and Subsidiaries**

**Condensed Consolidated Statements of Stockholders Equity and Comprehensive Income**

(in thousands, except share data)

(unaudited)

	Class A		Class B		Paid in	Retained	Accumulated Other Comprehensive	Noncontrolling	Total
	Shares	Par Value	Shares	Par Value	Capital	Earnings	Income (Loss)	Interests	
Balance, December 30, 2008	64,070,620	\$ 64	5,265,376	\$ 5	\$ 220,385	\$ 141,240	\$ (1,704)	\$ 2,807	\$ 362,797
Comprehensive income:									
Unrealized gain on derivatives, net of tax							300		300
Net income						14,334		462	14,796
Total comprehensive income									15,096
Distributions to noncontrolling interests								(581)	(581)
Shares issued under stock option plan including tax effects	35,442				164				164
Settlement of restricted stock units, net of tax	181,437				(634)				(634)
Share-based compensation					1,961				1,961
Balance, March 31, 2009	64,287,499	\$ 64	5,265,376	\$ 5	\$ 221,876	\$ 155,574	\$ (1,404)	\$ 2,688	\$ 378,803

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 31, 2009</b>	<b>March 25, 2008</b>
<b>Cash flows from operating activities:</b>		
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	\$ 14,334	\$ 12,913
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,471	8,546
Deferred income taxes	1,759	(1,747)
Loss on disposition of assets	211	253
Impairment and closure	(88)	611
Noncontrolling interests	462	261
Equity income from investments in unconsolidated affiliates	(85)	(69)
Distributions received from investments in unconsolidated affiliates	91	65
Provision for doubtful accounts	126	
Share-based compensation expense	1,961	1,700
Changes in operating working capital:		
Receivables	1,196	8,014
Inventories	395	218
Prepaid expenses and other current assets	4	(576)
Other assets	(255)	(140)
Accounts payable	(6,503)	(1,129)
Deferred revenue gift cards/certificates	(13,658)	(13,598)
Accrued wages	3,647	1,000
Excess tax benefits from share-based compensation	(32)	(73)
Prepaid income taxes and income taxes payable	4,464	8,118
Accrued taxes and licenses	977	1,354
Other accrued liabilities	231	(767)
Deferred rent	514	519
Other liabilities	(44)	611
Net cash provided by operating activities	\$ 20,178	\$ 26,084
<b>Cash flows from investing activities:</b>		
Capital expenditures property and equipment	(13,430)	(24,384)
Acquisitions of franchise restaurants, net of cash acquired	13	157
Proceeds from sale of property and equipment, including insurance proceeds	67	(5)
Net cash used in investing activities	\$ (13,350)	\$ (24,232)
<b>Cash flows from financing activities:</b>		
(Repayments of) proceeds from revolving credit facility, net	(3,000)	9,000
Proceeds from noncontrolling interests contributions and other		445
Investments in unconsolidated affiliates	(18)	
Distributions to noncontrolling interest holders	(581)	(258)
Excess tax benefits from share-based compensation	32	73

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

Repurchase shares of common stock			(4,905)
Repayments of stock option and other deposits	(543)		(66)
Proceeds from stock option and other deposits	390		405
Settlement of restricted stock units, net of tax	(634)		
Principal payments on long-term debt and capital lease obligations	(111)		(73)
Proceeds from exercise of stock options	132		136
Net cash (used in)/provided by financing activities	\$	(4,333)	\$ 4,757
Net increase in cash and cash equivalents		2,495	6,609
Cash and cash equivalents beginning of period		5,258	11,564
Cash and cash equivalents end of period	\$	7,753	\$ 18,173
Supplemental disclosures of cash flow information:			
Interest, net of amounts capitalized	\$	1,009	\$ 873
Income taxes	\$	492	\$ 582

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), its wholly-owned subsidiaries and subsidiaries in which it owns more than 50 percent interest, as of and for the 13 weeks ended March 31, 2009 and March 25, 2008. Texas Roadhouse, Inc.'s wholly-owned subsidiaries include: Texas Roadhouse Holdings LLC (Holdings), Texas Roadhouse Development Corporation (TRDC) and Texas Roadhouse Management Corp. (Management Corp). The Company and its 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. All material balances and transactions between the consolidated entities have been eliminated. In accordance with the Company's adoption of Statement of Financial Accounting Standard No. 160, *Noncontrolling Interests in Consolidated Statements, an amendment of ARB No. 51* (SFAS 160), noncontrolling interests (previously shown as minority interest in consolidated subsidiaries) are reported below net income under the heading Net income attributable to the noncontrolling interests in the condensed consolidated statements of income and shown as a component of equity in the condensed consolidated balance sheets. See note 5 for further discussion.

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 weeks ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 29, 2009. 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 30, 2008.

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

**(2) Share-based Compensation**

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

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, 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	
	March 31, 2009	March 25, 2008
Labor expense	\$ 727	\$ 550
General and administrative expense	1,234	1,150
Total share-based compensation expense	\$ 1,961	\$ 1,700

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

### Table of Contents

A summary of share-based compensation activity by type of grant as of March 31, 2009 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 30, 2008	6,276,323	\$ 10.14		
Granted				
Forfeited	(14,761)	14.21		
Exercised	(35,442)	3.72		
Outstanding at March 31, 2009	6,226,120	\$ 10.16	5.75	\$ 11,148
Exercisable at March 31, 2009	5,638,270	\$ 9.77	5.55	\$ 11,144

No stock options were granted during the 13 weeks ended March 31, 2009.

The total intrinsic value of options exercised during the 13 weeks ended March 31, 2009 and March 25, 2008 was \$0.2 million and \$0.6 million, respectively. As of March 31, 2009, with respect to unvested stock options, there was \$0.7 million of unrecognized compensation cost that is expected to be recognized over a weighted-average period of 0.5 year. The total grant date fair value of stock options vested for both 13 week periods ended March 31, 2009 and March 25, 2008 was \$0.6 million and \$2.3 million, respectively.

#### *Summary Details for RSUs*

	Shares	Weighted-Average Grant Date Fair Value
Outstanding at December 30, 2008	1,253,530	\$ 9.63
Granted	160,835	7.96
Forfeited	(12,614)	8.91
Vested	(258,471)	10.05
Outstanding at March 31, 2009	1,143,280	\$ 9.31

As of March 31, 2009, with respect to unvested RSUs, there was \$8.1 million of unrecognized compensation cost that is expected to be recognized over a weighted-average period of 1.8 years. The vesting terms of the RSUs range from approximately 1.0 to 5.0 years. The total grant date fair value of RSUs vested for the 13 week period ended March 31, 2009 was \$2.6 million.

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

In the fourth quarter of 2006, the Company awarded 36,000 restricted shares, at a weighted-average price of \$14.55 per share, to two corporate office employees under the terms of the Plan. The restricted shares vest after three years. At March 31, 2009, the unrecognized compensation expense related to the restricted stock grants totaled approximately \$0.1 million and will be recognized over the remaining vesting period.

### (3) Long-term Debt and Obligations Under Capital Leases

Long-term debt and obligations under capital leases consisted of the following:

	March 31, 2009		December 30, 2008	
Installment loans, due 2009 2020	\$	2,149	\$	2,194
Obligations under capital leases		450		516
Revolver		127,000		130,000
		129,599		132,710
Less current maturities		232		228
	\$	129,367	\$	132,482

The weighted-average interest rate for installment loans outstanding at March 31, 2009 and December 30, 2008 was 10.57% and 10.55%, respectively. The debt is secured by certain land, buildings and equipment.

Table of Contents

The Company has a \$250.0 million five-year revolving credit facility with a syndicate of commercial lenders led by Bank of America, N.A., Banc of America Securities LLC and National City Bank which, in December 2008, was acquired by PNC Bank. The facility expires on May 31, 2012. The terms of the facility require the Company to pay interest on outstanding borrowings at LIBOR plus a margin of 0.50% to 0.875%, depending on its leverage ratio, or the Base Rate, which is the higher of the issuing bank's prime lending rate or the Federal Funds rate plus 0.50%. The Company is also required to pay a commitment fee of 0.10% to 0.175% per year on any unused portion of the facility, depending on its leverage ratio. The weighted-average interest rate for the revolver at March 31, 2009 and December 30, 2008 was 2.28% and 2.73%, respectively. At March 31, 2009, the Company had \$127.0 million outstanding under the credit facility and \$119.0 million of availability, net of \$4.0 million of outstanding letters of credit.

The lenders' obligation to extend credit under the facility depends on the Company maintaining certain financial covenants, including a minimum consolidated fixed charge coverage ratio of 2.00 to 1.00 and a maximum consolidated leverage ratio of 3.00 to 1.00. The credit facility permits the Company to incur additional secured or unsecured indebtedness outside the facility, except for the incurrence of secured indebtedness that in the aggregate exceeds 20% of the Company's consolidated tangible net worth or circumstances where the incurrence of secured or unsecured indebtedness would prevent the Company from complying with its financial covenants. The Company was in compliance with all covenants as of March 31, 2009.

**(4) Derivative and Hedging Activities**

The Company enters into derivative instruments for risk management purposes only, including derivatives designated as hedging instruments under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). The Company uses interest rate-related derivative instruments to manage its exposure to fluctuations of interest rates. By using these instruments, the Company exposes itself, from time to time, to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk for the Company. The Company minimizes the credit risk by entering into transactions with high-quality counterparties whose credit rating is evaluated on a quarterly basis. The Company's counterparty in the interest rate swaps is J.P. Morgan Chase, N.A. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates, commodity prices, or the market price of the Company's common stock. The Company minimizes market risk by establishing and monitoring parameters that limit the types and degree of market risk that may be taken.

*Interest Rate Swaps*

On October 22, 2008, the Company entered into an interest rate swap, starting on November 7, 2008, with a notional amount of \$25.0 million to hedge a portion of the cash flows of its variable rate credit facility. The Company has designated the interest rate swap as a cash flow hedge of its exposure to variability in future cash flows attributable to interest payments on a \$25.0 million tranche of floating rate debt borrowed under its revolving credit facility. Under the terms of the swap, the Company pays a fixed rate of 3.83% on the \$25.0 million notional amount and receives payments from the counterparty based on the 1-month LIBOR rate for a term ending on November 7, 2015, effectively resulting in a fixed rate LIBOR component of the \$25.0 million notional amount.

On January 7, 2009, the Company entered into an interest rate swap, starting on February 7, 2009, with a notional amount of \$25.0 million to hedge a portion of the cash flows of its variable rate credit facility. The Company has designated the interest rate swap as a cash flow hedge of its exposure to variability in future cash flows attributable to interest payments on a \$25.0 million tranche of floating rate debt borrowed under its revolving credit facility. Under the terms of the swap, the Company pays a fixed rate of 2.34% on the \$25.0 million notional amount and

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

receives payments from the counterparty based on the 1-month LIBOR rate for a term ending on January 7, 2016, effectively resulting in a fixed rate LIBOR component of the \$25.0 million notional amount.

The Company entered into the above interest rate swaps with the objective of eliminating the variability of its interest expense that arises because of changes in the variable interest rate for the designated interest payments. Changes in the fair value of the interest rate swap will be reported as a component of accumulated other comprehensive income. The Company will reclassify any gain or loss from accumulated other comprehensive income, net of tax, on the Company's consolidated balance sheet to interest expense on the Company's consolidated statement of income when the interest rate swap expires or at the time the Company chooses to terminate the swap. See note 10 for fair value discussion of these interest rate swaps.



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

Table of Contents

The following table summarizes the fair value and presentation in the condensed consolidated balance sheets for derivatives designated as hedging instruments under SFAS 133:

	Balance Sheet Location	Derivative Assets		Derivative Liabilities	
		March 31, 2009	December 30, 2008	March 31, 2009	December 30, 2008
Derivative Contracts Designated as Hedging Instruments under SFAS 133	(1)				
Interest rate swaps		\$	\$	\$ 2,286	\$ 2,704
Total Derivative Contracts		\$	\$	\$ 2,286	\$ 2,704

(1) Derivative liabilities are included in fair value of derivative financial instruments on the condensed consolidated balance sheets.

The following table summarizes the effect of derivative instruments on the condensed consolidated statements of income for the thirteen weeks ended March 31, 2009 and March 25, 2008:

	Amount of Loss Recognized in AOCI (effective portion)		Location of Loss Reclassified from AOCI Income	Amount of Loss Reclassified from AOCI to Income (effective portion)		Location of Loss Recognized in Income (ineffective portion)	Amount of Loss Recognized in Income (ineffective portion)	
	2009	2008		2009	2008		2009	2008
Interest rate swaps	\$							