

CHIPOTLE MEXICAN GRILL INC  
Form 10-Q  
October 21, 2014

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2014**

**or**

☐ **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: 1-32731**

**CHIPOTLE MEXICAN GRILL, INC.**

**(Exact name of registrant as specified in its charter)**

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

**84-1219301**  
**(IRS Employer**  
**Identification No.)**

**1401 Wynkoop St., Suite 500 Denver, CO**  
**(Address of Principal Executive Offices)**

**80202**  
**(Zip Code)**

**Registrant's telephone number, including area code: (303) 595-4000**

Indicate by check mark whether the 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 Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).    ☒ Yes    ☐ No

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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 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 ☐ (Do not check if a smaller reporting company)

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

As of October 15, 2014 there were 31,012,663 shares of the registrant's common stock, par value of \$0.01 per share outstanding.

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**PART I****ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA****Chipotle Mexican Grill, Inc.****Condensed Consolidated Balance Sheet****(in thousands, except per share data)**

	<b>September 30 2014 (unaudited)</b>	<b>December 31 2013</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 442,618	\$ 323,203
Accounts receivable, net of allowance for doubtful accounts of \$1,180 and \$1,190 as of September 30, 2014 and December 31, 2013, respectively	18,949	24,016
Inventory	15,885	13,044
Current deferred tax asset	15,795	13,212
Prepaid expenses and other current assets	33,632	34,204
Income tax receivable		3,657
Investments	346,991	254,971
Total current assets	873,870	666,307
Leasehold improvements, property and equipment, net	1,052,684	963,238
Long term investments	440,949	313,863
Other assets	47,611	43,933
Goodwill	21,939	21,939
Total assets	\$ 2,437,053	\$ 2,009,280
<b>Liabilities and shareholders equity</b>		
Current liabilities:		
Accounts payable	\$ 88,398	\$ 59,022
Accrued payroll and benefits	78,159	67,195
Accrued liabilities	73,781	73,011
Income tax payable	24,648	
Total current liabilities	264,986	199,228
Deferred rent	211,918	192,739
Deferred income tax liability	38,978	55,434
Other liabilities	27,407	23,591
Total liabilities	543,289	470,992
Shareholders equity:		

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Preferred stock, \$0.01 par value, 600,000 shares authorized, no shares issued as of September 30, 2014 and December 31, 2013, respectively

Common stock \$0.01 par value, 230,000 shares authorized, and 35,345 and 35,245 shares issued as of September 30, 2014 and December 31, 2013, respectively	353	352
Additional paid-in capital	1,015,621	919,840
Treasury stock, at cost, 4,328 and 4,212 common shares at September 30, 2014 and December 31, 2013, respectively	(723,826)	(660,421)
Accumulated other comprehensive income	579	1,620
Retained earnings	1,601,037	1,276,897
 Total shareholders' equity	 1,893,764	 1,538,288
Total liabilities and shareholders' equity	\$ 2,437,053	\$ 2,009,280

*See accompanying notes to condensed consolidated financial statements.*

## Chipotle Mexican Grill, Inc.

## Condensed Consolidated Statement of Income and Comprehensive Income

(unaudited)

(in thousands, except per share data)

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Revenue	\$ 1,084,222	\$ 826,907	\$ 3,038,458	\$ 2,370,444
Restaurant operating costs (exclusive of depreciation and amortization shown separately below):				
Food, beverage and packaging	372,063	277,503	1,047,003	787,602
Labor	230,360	188,709	667,097	545,982
Occupancy	58,838	50,128	169,938	146,312
Other operating costs	110,957	89,060	321,512	252,012
General and administrative expenses	71,172	52,726	212,968	147,889
Depreciation and amortization	27,961	24,618	80,724	71,151
Pre-opening costs	3,829	4,604	11,521	10,736
Loss on disposal of assets	1,606	2,405	4,767	5,144
Total operating expenses	876,786	689,753	2,515,530	1,966,828
Income from operations	207,436	137,154	522,928	403,616
Interest and other income (expense), net	785	765	2,618	1,361
Income before income taxes	208,221	137,919	525,546	404,977
Provision for income taxes	(77,420)	(54,540)	(201,406)	(157,161)
Net income	\$ 130,801	\$ 83,379	\$ 324,140	\$ 247,816
Earnings per share:				
Basic	\$ 4.22	\$ 2.70	\$ 10.44	\$ 8.01
Diluted	\$ 4.15	\$ 2.66	\$ 10.29	\$ 7.93
Weighted average common shares outstanding:				
Basic	31,020	30,897	31,043	30,937
Diluted	31,547	31,296	31,502	31,234
Comprehensive income	\$ 129,412	\$ 84,890	\$ 323,099	\$ 248,190

See accompanying notes to condensed consolidated financial statements.





## Chipotle Mexican Grill, Inc.

## Condensed Consolidated Statement of Cash Flows

(unaudited)

(in thousands)

	Nine months ended September 30	
	2014	2013
<b>Operating activities</b>		
Net income	\$ 324,140	\$ 247,816
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	80,724	71,151
Deferred income tax (benefit) provision	(19,045)	6,585
Loss on disposal of assets	4,767	5,144
Bad debt allowance	(10)	24
Stock-based compensation expense	82,156	50,622
Excess tax benefit on stock-based compensation	(12,971)	(17,694)
Other	9	403
Changes in operating assets and liabilities:		
Accounts receivable	5,250	2,200
Inventory	(2,851)	(1,415)
Prepaid expenses and other current assets	547	(7,304)
Other assets	(3,723)	(3,428)
Accounts payable	14,706	3,389
Accrued liabilities	11,462	(19,966)
Income tax payable/receivable	41,274	28,531
Deferred rent	19,380	18,939
Other long-term liabilities	3,941	3,718
Net cash provided by operating activities	549,756	388,715
<b>Investing activities</b>		
Purchases of leasehold improvements, property and equipment	(160,400)	(136,665)
Purchases of investments	(390,632)	(293,929)
Maturities of investments	171,250	106,750
Net cash used in investing activities	(379,782)	(323,844)
<b>Financing activities</b>		
Acquisition of treasury stock	(63,405)	(97,655)
Excess tax benefit on stock-based compensation	12,971	17,694
Other financing proceeds (payments)	(69)	185
Net cash used in financing activities	(50,503)	(79,776)
Effect of exchange rate changes on cash and cash equivalents	(56)	428

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Net change in cash and cash equivalents	119,415	(14,477)
Cash and cash equivalents at beginning of period	323,203	322,553
Cash and cash equivalents at end of period	\$ 442,618	\$ 308,076

**Supplemental disclosures of cash flow information**

Increase in purchases of leasehold improvements, property and equipment accrued in accounts payable	\$ 13,804	\$ 8,181
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*See accompanying notes to condensed consolidated financial statements.*

**Chipotle Mexican Grill, Inc.**

**Notes to Condensed Consolidated Financial Statements**

**(unaudited)**

**(dollar and share amounts in thousands, unless otherwise specified)**

**1. Basis of Presentation**

Chipotle Mexican Grill, Inc. together with its subsidiaries, (the Company), a Delaware corporation, develops and operates fast-casual, fresh Mexican food restaurants. As of September 30, 2014, the Company operated 1,698 Chipotle restaurants throughout the United States. The Company also had seven Chipotle restaurants in Canada, six in England, three in France, and one in Germany. Further, the Company operated eight ShopHouse Southeast Asian Kitchen restaurants, serving fast-casual, Asian inspired cuisine, as well as is an investor in a consolidated entity that owned and operated one Pizzeria Locale, a fast casual pizza concept. The Company transitioned the management of its operations from nine to eight regions during the third quarter of 2014 and has aggregated its operations to one reportable segment.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments consisting of normal recurring adjustments necessary for a fair presentation of its financial position and results of operations. Interim results of operations are not necessarily indicative of the results that may be achieved for the full year. The financial statements and related notes do not include all information and footnotes required by U.S. generally accepted accounting principles for annual reports. This quarterly report should be read in conjunction with the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2013.

The Company has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through the day the financial statements are issued.

**2. Recently Issued Accounting Standards**

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, Revenue from Contracts with Customers. The pronouncement was issued to clarify the principles for recognizing revenue and to develop a common revenue standard and disclosure requirements for U.S. GAAP and IFRS. The pronouncement is effective for reporting periods beginning after December 15, 2016. The adoption of ASU 2014-09 is not expected to have a significant impact on the Company's consolidated financial position or results of operations.

**3. Fair Value of Financial Instruments**

The carrying value of the Company's cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of their short-term nature. Investments, all of which are classified as held-to-maturity, are carried at amortized cost, which approximates fair value. Investments consist of U.S. treasury notes and CDARS, certificates of deposit placed through an account registry service, with maturities up to approximately two years. Fair market value of U.S. treasury notes is measured using level 1 inputs (quoted prices for identical assets in active markets) and fair market value of CDARS is measured based on level 2 inputs (quoted prices for identical assets in markets that are not active).

The Company also maintains a rabbi trust to fund obligations under a deferred compensation plan. Amounts in the rabbi trust are invested in mutual funds, which are designated as trading securities and carried at fair value, and are included in other assets in the consolidated balance sheet. Fair market value of mutual funds is measured using level 1 inputs (quoted prices for identical assets in active markets). The fair value of the investments in the rabbi trust was \$15,644 and \$13,397 as of September 30, 2014 and December 31, 2013, respectively. The Company records trading gains and losses in general and administrative expenses in the consolidated statement of income, along with the offsetting amount related to the increase or decrease in deferred compensation to reflect its exposure to liabilities for payment under the deferred plan. The Company recorded \$360 in unrealized losses on investments held in the rabbi trust during the three months ended September 30, 2014, and \$76 of unrealized gains on investments held in the rabbi trust during the nine months ended September 30, 2014. The Company recorded \$289 and \$427 of unrealized gains on investments held in the rabbi trust during the three and nine months ended September 30, 2013, respectively.

#### **4. Shareholders Equity**

The Company has announced authorizations by its Board of Directors of repurchases of shares of common stock, which in the aggregate authorized expenditures of up to \$800,000. Under the remaining repurchase authorization, shares may be purchased from time to time in open market transactions, subject to market conditions.

During the nine months ended September 30, 2014, the Company repurchased 116 shares of common stock under authorized programs, for a total cost of \$63,405. The cumulative shares repurchased under authorized programs as of September 30, 2014 are 4,175 for a total cost of \$673,495. As of September 30, 2014, \$126,800 was available to repurchase shares under the current repurchase authorizations. The shares are being held in treasury stock until such time as they are reissued or retired at the discretion of the Board of Directors.

## 5. Stock-based Compensation

During the nine months ended September 30 2014, the Company granted stock only stock appreciation rights ( SOSARs ) on 763 shares of its common stock to eligible employees, of which 220 include performance conditions. The weighted average grant date fair value of the SOSARs was \$136.12 per share with a weighted average exercise price of \$545.45 per share based on the closing price of common stock on the date of grant. The SOSARs (other than those subject to performance conditions) vest in two equal installments on the second and third anniversary of the grant date. During the nine months ended September 30, 2014, 229 SOSARs were exercised, 37 SOSARs were forfeited, and 2 non-vested stock awards vested.

Total stock-based compensation expense was \$21,024 and \$83,021 (\$12,944 and \$51,116 net of tax) for the three and nine months ended September 30, 2014, respectively, and was \$16,567 and \$51,465 (\$10,069 and \$31,280 net of tax) for the three and nine months ended September 30, 2013, respectively. During the second quarter of 2014, the Company increased its estimate of the number non-vested stock awards subject to performance conditions that it expects will vest, which resulted in a cumulative adjustment to expense of \$1,616 (\$995 net of tax and \$0.03 to basic and diluted earnings per share). A portion of stock-based compensation totaling \$269 and \$865 for the three and nine months ended September 30, 2014, respectively, and \$278 and \$843 for the three and nine months ended September 30, 2013, respectively, was recognized as capitalized development and is included in leasehold improvements, property and equipment in the consolidated balance sheet.

## 6. Earnings Per Share

Basic earnings per share is calculated by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during each period. Diluted earnings per share ( diluted EPS ) is calculated using income available to common shareholders divided by diluted weighted-average shares of common stock outstanding during each period. Potentially dilutive securities include common shares related to SOSARs and non-vested stock awards (collectively stock awards ). For the three and nine months ended September 30, 2014, 32 and 298 stock awards, respectively, were excluded from the calculation of diluted EPS and for the three and nine months ended September 30, 2013, 7 and 523 stock awards, respectively, were excluded from the calculation of diluted EPS because they were anti-dilutive. In addition, 382 and 386 stock awards for the three and nine months ended September 30, 2014, respectively, and 287 and 411 stock awards for the three and nine months ended September 30, 2013, respectively, were excluded from the calculation of diluted EPS because they were subject to performance conditions.

The following table sets forth the computations of basic and diluted earnings per share:

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Net income	\$ 130,801	\$ 83,379	\$ 324,140	\$ 247,816
Shares:				
Weighted average number of common shares outstanding	31,020	30,897	31,043	30,937
Dilutive stock awards	527	399	459	297
Diluted weighted average number of common shares outstanding	31,547	31,296	31,502	31,234
Basic earnings per share	\$ 4.22	\$ 2.70	\$ 10.44	\$ 8.01