CHIPOTLE MEXICAN GRILL INC
Form 10-Q
October 18, 2013
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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 September 30, 2013

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	**84-1219301**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
1401 Wynkoop St., Suite 500 Denver, CO	**80202**
(Address of Principal Executive Offices)	**(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. x 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). x 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	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 x No

As of October 14, 2013 there were 30,944,400 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)

	September 30 2013 (unaudited)	December 31 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 308,076	$ 322,553
Accounts receivable, net of allowance for doubtful accounts of $1,200 and $1,187 as of September 30, 2013 and December 31, 2012, respectively	14,575	16,800
Inventory	12,509	11,096
Current deferred tax asset	9,829	8,862
Prepaid expenses and other current assets	34,696	27,378
Income tax receivable		9,612
Investments	224,097	150,306
Total current assets	603,782	546,607
Leasehold improvements, property and equipment, net	936,023	866,703
Long term investments	303,700	190,868
Other assets	45,988	42,550
Goodwill	21,939	21,939
Total assets	$ 1,911,432	$ 1,668,667
Liabilities and shareholders equity		
Current liabilities:		
Accounts payable	$ 70,267	$ 58,700
Accrued payroll and benefits	60,406	71,731
Accrued liabilities	47,800	56,421
Income tax payable	1,225	
Total current liabilities	179,698	186,852
Deferred rent	185,980	167,057
Deferred income tax liability	56,522	48,947
Other liabilities	23,490	19,885
Total liabilities	445,690	422,741

Shareholders equity:		
Preferred stock, $0.01 par value, 600,000 shares authorized, no shares issued as of September 30, 2013 and December 31, 2012, respectively		
Common stock $0.01 par value, 230,000 shares authorized, and 35,066 and 34,912 shares issued as of September 30, 2013 and December 31, 2012, respectively	351	349
Additional paid-in capital	885,891	816,612
Treasury stock, at cost, 4,131 and 3,819 common shares at September 30, 2013 and December 31, 2012, respectively	(619,173)	(521,518)
Accumulated other comprehensive income	1,398	1,024
Retained earnings	1,197,275	949,459
Total shareholders equity	1,465,742	1,245,926
Total liabilities and shareholders equity	$ 1,911,432	$ 1,668,667

See accompanying notes to condensed consolidated financial statements.

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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	
	2013	**2012**	**2013**	**2012**
Revenue	$ 826,907	$ 700,528	$ 2,370,444	$ 2,032,063
Restaurant operating costs (exclusive of depreciation and amortization shown separately below):				
Food, beverage and packaging	277,503	228,566	787,602	656,673
Labor	188,709	162,655	545,982	474,535
Occupancy	50,128	43,777	146,312	126,044
Other operating costs	89,060	73,728	252,012	206,260
General and administrative expenses	52,726	48,606	147,889	140,235
Depreciation and amortization	24,618	21,362	71,151	61,989
Pre-opening costs	4,604	2,772	10,736	8,526
Loss on disposal of assets	2,405	1,399	5,144	4,124
Total operating expenses	689,753	582,865	1,966,828	1,678,386
Income from operations	137,154	117,663	403,616	353,677
Interest and other income, net	765	547	1,361	1,358
Income before income taxes	137,919	118,210	404,977	355,035
Provision for income taxes	(54,540)	(45,910)	(157,161)	(138,388)
Net income	$ 83,379	$ 72,300	$ 247,816	$ 216,647
Earnings per share:				
Basic	$ 2.70	$ 2.28	$ 8.01	$ 6.86
Diluted	$ 2.66	$ 2.27	$ 7.93	$ 6.80
Weighted average common shares outstanding:				
Basic	30,897	31,643	30,937	31,583
Diluted	31,296	31,846	31,234	31,881
Comprehensive income	$ 84,890	$ 73,260	$ 248,190	$ 217,232

See accompanying notes to condensed consolidated financial statements.

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Chipotle Mexican Grill, Inc.

Condensed Consolidated Statement of Cash Flows

(unaudited)

(in thousands)

	Nine months ended September 30 2013	2012
Operating activities		
Net income	$ 247,816	$ 216,647
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	71,151	61,989
Deferred income tax provision (benefit)	6,585	(5,792)
Loss on disposal of assets	5,144	4,124
Bad debt allowance	24	906
Stock-based compensation expense	50,622	52,252
Excess tax benefit on stock-based compensation	(17,694)	(74,576)
Other	403	367
Changes in operating assets and liabilities:		
Accounts receivable	2,200	(7,059)
Inventory	(1,415)	(1,047)
Prepaid expenses and other current assets	(7,304)	(3,243)
Other assets	(3,428)	(10,867)
Accounts payable	3,389	8,368
Accrued liabilities	(19,966)	(12,626)
Income tax payable/receivable	28,531	44,137
Deferred rent	18,939	16,834
Other long-term liabilities	3,718	3,523
Net cash provided by operating activities	388,715	293,937
Investing activities		
Purchases of leasehold improvements, property and equipment	(136,665)	(137,505)
Purchases of investments	(293,929)	(128,870)
Maturities of investments	106,750	
Net cash used in investing activities	(323,844)	(266,375)
Financing activities		
Acquisition of treasury stock	(97,655)	(82,561)
Proceeds from employee stock plan transactions	291	249
Excess tax benefit on stock-based compensation	17,694	74,576
Other financing payments	(106)	(99)

Net cash used in financing activities	(79,776)	(7,835)
Effect of exchange rate changes on cash and cash equivalents	428	179
Net change in cash and cash equivalents	(14,477)	19,906
Cash and cash equivalents at beginning of period	322,553	401,243
Cash and cash equivalents at end of period	$ 308,076	$ 421,149
Supplemental disclosures of cash flow information		
Increase in purchases of leasehold improvements, property and equipment accrued in accounts payable	$ 8,181	$ 10,331

See accompanying notes to condensed consolidated financial statements.

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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. (the Company), a Delaware corporation, develops and operates fast-casual, fresh Mexican food restaurants throughout the United States. The Company also has six restaurants in Canada, six in England, one in France, and one in Germany. As of September 30, 2013, the Company operated 1,539 restaurants, including three ShopHouse Southeast Asian Kitchen restaurants. The Company manages its operations based on seven regions 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, 2012.

Certain amounts in prior periods have been reclassified to conform to the current year presentation. During the first quarter of 2013, the Company reclassified amounts related to lease financing liabilities from deemed landlord financing to other liabilities, and from current portion of deemed landlord financing to accrued liabilities. Such reclassifications did not have a material effect on the Company s consolidated financial position or results of operations.

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. Adoption of New Accounting Principles

Effective January 1, 2013, the Company adopted Accounting Standards Update (ASU) No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The adoption of ASU 2013-02 concerns presentation and disclosure only and did not have an 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 $12,771 and $10,037 as of September 30, 2013 and December 31, 2012, 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 of the deferred plan liability. 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. The Company recorded $242 and $151 of unrealized gains on investments held in the rabbi trust during the three and nine months ended September 30, 2012, respectively.

4. Income Taxes

In January 2013, the United States Congress authorized, and the President signed into law, certain federal tax credits that were reflected in the Company s U.S. tax return for 2012. However, since the law was enacted in 2013, the financial statement benefit of such credits totaling $3,275 was reflected in the provision for income taxes in the consolidated statement of income and comprehensive income during the first quarter of 2013.

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5. 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 $700,000. Under the remaining repurchase authorizations, shares may be purchased from time to time in open market transactions, subject to market conditions.

On November 20, 2012 the Company entered into a privately negotiated accelerated share repurchase transaction (ASR) to repurchase $25,000 of its common stock. The Company advanced $25,000 on November 20, 2012 and received 65 shares, which represented 70% of the total number of shares to be repurchased calculated using the closing price on November 20, 2012. The agreement was settled in February 2013, and the Company received an additional 22 shares, resulting in a weighted-average price per share of $287.20 for the ASR.

During the nine months ended September 30, 2013 shares of common stock repurchased under authorized programs, including the ASR, was 311 for a total cost of $97,202. The cumulative shares repurchased under authorized programs as of September 30, 2013 are 4,034 for a total cost of $597,305. As of September 30, 2013, $102,986 was available to repurchase shares under the current repurchase authorization. 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.

6. Stock-based Compensation

During the first quarter of 2013, the Company granted stock only stock appreciation rights (SOSARs) on 662 shares of its common stock to eligible employees, of which 191 include performance conditions. The grant date fair value of the SOSARs was $82.03 per share with an exercise price of $318.45 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.

Total stock-based compensation expense 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, and was $15,039 and $53,844 ($9,171 and $32,834 net of tax) for the three and nine months ended September 30, 2012. A portion of stock-based compensation totaling $278 and $843 for the three and nine months ended September 30, 2013, and $464 and $1,592 for the three and nine months ended September 30, 2012, was recognized as capitalized development and is included in leasehold improvements, property and equipment in the consolidated balance sheet. During the nine months ended September 30, 2013, 245 options or SOSARs were exercised, 55 SOSARs were forfeited, and 6 non-vested stock awards vested.

7. 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 stock options, SOSARs and non-vested stock awards (collectively stock awards). For the three and nine months ended September 30, 2013, 7 and 523 stock awards were excluded from the calculation of diluted EPS, and for the three and nine months ended September 30, 2012, 413 and 345 stock awards, were excluded from the calculation of diluted EPS because they were anti-dilutive. In addition, 287 and 411 stock awards for the three and nine months ended September 30, 2013 and 492 and 467 stock awards for the three and nine months ended September 30, 2012 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	
	2013	2012	2013	2012
Net income	$ 83,379	$ 72,300	$ 247,816	$ 216,647
Shares:				
Weighted average number of common shares outstanding	30,897	31,643	30,937	31,583
Dilutive stock awards	399	203	297	298
Diluted weighted average number of common shares outstanding	31,296	31,846	31,234	31,881