

BRINKER INTERNATIONAL INC
 Form 10-Q
 May 05, 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 March 26, 2014
 Commission File Number 1-10275

BRINKER INTERNATIONAL, INC.
 (Exact name of registrant as specified in its charter)

DELAWARE	75-1914582
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6820 LBJ FREEWAY, DALLAS, TEXAS	75240
(Address of principal executive offices)	(Zip Code)
(972) 980-9917	
(Registrant's telephone number, including area code)	

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

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 definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
(Do not check if a 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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at April 28, 2014
Common Stock, \$0.10 par value	64,951,528 shares

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

BRINKER INTERNATIONAL, INC.

Consolidated Balance Sheets

(In thousands, except share and per share amounts)

(Unaudited)

	March 26, 2014	June 26, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	\$64,609	\$59,367
Accounts receivable	43,476	44,082
Inventories	24,346	24,628
Prepaid expenses and other	62,725	65,584
Income taxes receivable	0	4,930
Total current assets	195,156	198,591
Property and Equipment, at Cost:		
Land	148,801	147,581
Buildings and leasehold improvements	1,470,583	1,435,426
Furniture and equipment	585,250	580,115
Construction-in-progress	24,039	20,588
	2,228,673	2,183,710
Less accumulated depreciation and amortization	(1,191,264	) (1,147,895
Net property and equipment	1,037,409	1,035,815
Other Assets:		
Goodwill	133,163	142,103
Deferred income taxes	25,258	24,064
Other	59,092	52,030
Total other assets	217,513	218,197
Total assets	\$1,450,078	\$1,452,603
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current installments of long-term debt	\$27,810	\$27,596
Accounts payable	93,309	93,326
Accrued liabilities	283,830	268,444
Income taxes payable	10,796	0
Deferred income taxes	549	845
Total current liabilities	416,294	390,211
Long-term debt, less current installments	817,259	780,121
Other liabilities	128,419	132,914
Commitments and Contingencies (Note 9)		
Shareholders' Equity:		
Common stock—250,000,000 authorized shares; \$0.10 par value; 176,246,649 shares issued and 65,302,505 shares outstanding at March 26, 2014, and 176,246,649 shares issued and 67,444,099 shares outstanding at June 26, 2013	17,625	17,625
Additional paid-in capital	480,040	477,420
Accumulated other comprehensive income (loss)	(1,862) 0
Retained earnings	2,293,639	2,217,623
	2,789,442	2,712,668

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Less treasury stock, at cost (110,944,144 shares at March 26, 2014 and 108,802,550 shares at June 26, 2013)	(2,701,336)	(2,563,311)
Total shareholders' equity	88,106		149,357	
Total liabilities and shareholders' equity	\$1,450,078		\$1,452,603	
See accompanying notes to consolidated financial statements.				

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BRINKER INTERNATIONAL, INC.

Consolidated Statements of Comprehensive Income

(In thousands, except per share amounts)

(Unaudited)

	Thirteen Week Periods Ended		Thirty-Nine Week Periods Ended	
	March 26, 2014	March 27, 2013	March 26, 2014	March 27, 2013
Revenues:				
Company sales	\$739,200	\$724,693	\$2,088,087	\$2,057,490
Franchise and other revenues	19,208	18,066	58,640	58,540
Total revenues	758,408	742,759	2,146,727	2,116,030
Operating costs and expenses:				
Company restaurants (excluding depreciation and amortization)				
Cost of sales	195,439	198,316	561,276	567,602
Restaurant labor	233,890	231,822	672,525	667,865
Restaurant expenses	171,574	164,537	508,405	489,781
Company restaurant expenses	600,903	594,675	1,742,206	1,725,248
Depreciation and amortization	34,218	33,222	100,912	98,830
General and administrative	34,009	33,986	98,792	102,289
Other gains and charges	2,088	1,550	4,315	2,227
Total operating costs and expenses	671,218	663,433	1,946,225	1,928,594
Operating income	87,190	79,326	200,502	187,436
Interest expense	7,068	7,085	21,128	21,040
Other, net	(693	) (573	) (1,736	) (2,096
Income before provision for income taxes	80,815	72,814	181,110	168,492
Provision for income taxes	24,552	20,863	55,891	51,500
Net income	\$56,263	\$51,951	\$125,219	\$116,992
Basic net income per share	\$0.85	\$0.73	\$1.88	\$1.61
Diluted net income per share	\$0.82	\$0.71	\$1.83	\$1.56
Basic weighted average shares outstanding	66,479	71,067	66,661	72,511
Diluted weighted average shares outstanding	68,342	73,341	68,591	74,873
Other comprehensive income (loss):				
Foreign currency translation adjustment	\$(1,108	) \$0	\$(1,862	) \$0
Other comprehensive loss	(1,108	) 0	(1,862	) 0
Comprehensive income	\$55,155	\$51,951	\$123,357	\$116,992
Dividends per share	\$0.24	\$0.20	\$0.72	\$0.60

See accompanying notes to consolidated financial statements.

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BRINKER INTERNATIONAL, INC.
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Thirty-Nine Week Periods Ended	
	March 26, 2014	March 27, 2013
Cash Flows from Operating Activities:		
Net income	\$125,219	\$116,992
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	100,912	98,830
Stock-based compensation	12,990	12,909
Deferred income taxes	(1,490)	(9,867)
Restructure charges and other impairments	3,836	3,792
Net loss on disposal of assets	3,208	1,115
(Gain) loss on equity investments	(353)	752
Other	355	205
Changes in assets and liabilities:		
Accounts receivable	2,820	5,543
Inventories	212	760
Prepaid expenses and other	4,115	1,586
Other assets	(1,694)	(2,367)
Accounts payable	4,168	(15,644)
Accrued liabilities	11,699	(4,617)
Current income taxes	14,043	12,893
Other liabilities	(2,940)	(246)
Net cash provided by operating activities	277,100	222,636
Cash Flows from Investing Activities:		
Payments for property and equipment	(113,980)	(98,690)
Proceeds from sale of assets	833	6,535
Net cash used in investing activities	(113,147)	(92,155)
Cash Flows from Financing Activities:		
Purchases of treasury stock	(191,811)	(191,799)
Borrowings on revolving credit facility	98,000	110,000
Payments on revolving credit facility	(40,000)	0
Payments of dividends	(47,556)	(42,161)
Excess tax benefits from stock-based compensation	17,972	7,811
Payments on long-term debt	(19,890)	(19,785)
Proceeds from issuances of treasury stock	24,574	32,042
Net cash used in financing activities	(158,711)	(103,892)
Net change in cash and cash equivalents	5,242	26,589
Cash and cash equivalents at beginning of period	59,367	59,103
Cash and cash equivalents at end of period	\$64,609	\$85,692

See accompanying notes to consolidated financial statements.

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BRINKER INTERNATIONAL, INC.

Notes to Consolidated Financial Statements
(Unaudited)

1. BASIS OF PRESENTATION

References to “Brinker,” “the Company,” “we,” “us” and “our” in this Form 10-Q are references to Brinker International, Inc. and its subsidiaries and any predecessor companies of Brinker International, Inc.

Our consolidated financial statements as of March 26, 2014 and June 26, 2013 and for the thirteen week and thirty-nine week periods ended March 26, 2014 and March 27, 2013 have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). We are principally engaged in the ownership, operation, development, and franchising of the Chili’s Grill & Bar (“Chili’s”) and Maggiano’s Little Italy (“Maggiano’s”) restaurant brands. At March 26, 2014, we owned, operated or franchised 1,608 restaurants in the United States and 31 countries and two territories outside of the United States.

Beginning in the third quarter of fiscal 2014, other comprehensive income is presented on the newly titled consolidated statements of comprehensive income. The foreign currency translation adjustment included in comprehensive income represents the unrealized impact of translating the financial statements of the Canadian entity from Canadian dollars, the functional currency, to U.S. dollars. This amount is not included in net income and would only be realized upon disposition of the business. The accumulated other comprehensive income (loss) is presented on the consolidated balance sheets. Additionally, certain prior year balances in the consolidated balance sheets have been reclassified to conform with fiscal 2014 presentation. These reclassifications have no effect on our net income as previously reported and an immaterial impact on our prior year consolidated balance sheets.

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and costs and expenses during the reporting period. Actual results could differ from those estimates.

The information furnished herein reflects all adjustments (consisting only of normal recurring accruals and adjustments) which are, in our opinion, necessary to fairly state the interim operating results for the respective periods. However, these operating results are not necessarily indicative of the results expected for the full fiscal year. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to SEC rules and regulations. The notes to the consolidated financial statements (unaudited) should be read in conjunction with the notes to the consolidated financial statements contained in the June 26, 2013 Form 10-K. We believe the disclosures are sufficient for interim financial reporting purposes.

2. ACQUISITION OF CHILI'S RESTAURANTS

On June 1, 2013, we completed the acquisition of 11 Chili's restaurants in Alberta, Canada from an existing franchisee for \$24.6 million in cash. The results of operations of the Canadian restaurants are included in our consolidated financial statements from the date of acquisition. The assets and liabilities of the Canadian restaurants were recorded at their respective fair values as of the date of acquisition. During the first quarter of fiscal 2014, we completed the valuation of the reacquired franchise rights and recorded the asset at an estimated fair value of \$8.9 million in other assets on the consolidated balance sheet, with a corresponding decrease to goodwill.

The excess of the purchase price over the aggregate fair value of net assets acquired was allocated to goodwill. We expect the majority of the goodwill balance to be deductible for tax purposes. The portion of the purchase price attributable to goodwill represents benefits expected as a result of the acquisition, including sales and unit growth opportunities. We do not expect any further material adjustments to the purchase price allocation. Pro-forma financial information of the combined entities for periods prior to the acquisition is not presented due to the immaterial impact of the financial results of the Canadian restaurants on our consolidated financial statements.

3. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For the calculation of diluted earnings per share, the basic weighted average number of shares is increased by the dilutive effect of stock options and restricted share awards determined using the treasury stock method. We had approximately 119,000 stock options and restricted share awards outstanding

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at March 26, 2014 and 470,000 stock options and restricted share awards outstanding at March 27, 2013 that were not included in the dilutive earnings per share calculation because the effect would have been anti-dilutive.

4. LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

	March 26, 2014	June 26, 2013
3.88% notes	\$299,729	