

CHEESECAKE FACTORY INC
Form 10-Q
August 05, 2011
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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 June 28, 2011

or

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

Commission File Number: 0-20574

THE CHEESECAKE FACTORY INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction)

51-0340466
(I.R.S. Employer)

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of incorporation or organization)

Identification No.)

26901 Malibu Hills Road
Calabasas Hills, California
(Address of principal executive offices)

91301
(Zip Code)

(818) 871-3000

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(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

As of July 29, 2011, 56,728,881 shares of the registrant's Common Stock, \$.01 par value, were outstanding.

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THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(In thousands, except share data)****(Unaudited)**

	June 28, 2011	December 28, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 58,933	\$ 81,619
Accounts receivable	5,801	16,184
Income tax receivable	1,748	3,840
Other receivables	19,973	27,296
Inventories	32,248	23,036
Prepaid expenses	25,224	28,345
Deferred income taxes	12,371	14,642
Total current assets	156,298	194,962
Property and equipment, net	750,634	755,468
Other assets:		
Trademarks	4,650	4,498
Prepaid rent	50,074	50,391
Other	34,066	31,988
Total other assets	88,790	86,877
Total assets	\$ 995,722	\$ 1,037,307
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 38,702	\$ 32,651
Other accrued expenses	152,989	170,054
Total current liabilities	191,691	202,705
Deferred income taxes	96,873	95,828
Deferred rent	68,215	67,258
Deemed landlord financing liability	52,645	51,954
Other noncurrent liabilities	29,636	27,225
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value, 5,000,000 shares authorized; none issued	—	—
Junior participating cumulative preferred stock, \$.01 par value, 150,000 shares authorized; none issued	—	—
Common stock, \$.01 par value, 250,000,000 shares authorized; 85,453,475 and 84,912,101 issued at June 28, 2011 and December 28, 2010, respectively	855	849
Additional paid-in capital	442,672	428,527
Retained earnings	766,461	721,257

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Treasury stock, 28,435,567 and 25,204,104 shares at cost at June 28, 2011 and December 28, 2010, respectively		(653,326)		(558,296)
Total stockholders' equity		556,662		592,337
Total liabilities and stockholders' equity	\$	995,722	\$	1,037,307

See the accompanying notes to the consolidated financial statements.

Table of Contents**THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data)****(Unaudited)**

	Thirteen Weeks Ended June 28, 2011	Thirteen Weeks Ended June 29, 2010	Twenty-Six Weeks Ended June 28, 2011	Twenty-Six Weeks Ended June 29, 2010
Revenues	\$ 430,746	\$ 418,909	\$ 849,511	\$ 824,342
Costs and expenses:				
Cost of sales	109,924	102,752	214,588	201,355
Labor expenses	139,469	136,038	276,967	271,207
Other operating costs and expenses	103,392	100,391	206,666	199,702
General and administrative expenses	24,208	23,766	48,473	47,190
Depreciation and amortization expenses	17,483	18,026	34,936	36,181
Preopening costs	1,108	641	2,868	2,735
Total costs and expenses	395,584	381,614	784,498	758,370
Income from operations	35,162	37,295	65,013	65,972
Interest expense	(1,128)	(10,547)	(2,485)	(13,556)
Interest income	40	17	79	168
Other (expense)/income, net	(6)	191	(90)	537
Income before income taxes	34,068	26,956	62,517	53,121
Income tax provision	9,320	7,727	17,313	15,226
Net income	\$ 24,748	\$ 19,229	\$ 45,204	\$ 37,895
Net income per share:				
Basic	\$ 0.44	\$ 0.32	\$ 0.79	\$ 0.64
Diluted	\$ 0.42	\$ 0.32	\$ 0.76	\$ 0.62
Weighted average shares outstanding:				
Basic	56,554	59,238	57,517	59,261
Diluted	58,595	60,863	59,543	60,706

See the accompanying notes to the consolidated financial statements.

Table of Contents**THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY****(In thousands)****(Unaudited)**

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance, December 28, 2010	84,912	\$ 849	\$ 428,527	\$ 721,257	\$ (558,296)	\$ 592,337
Net income				45,204		45,204
Issuance of common stock from stock options exercised	365	4	7,471			7,475
Tax impact of stock options exercised, net of cancellations			600			600
Stock-based compensation			6,074			6,074
Issuance of restricted stock, net of forfeitures	176	2				2
Purchase of treasury stock					(95,030)	(95,030)
Balance, June 28, 2011	85,453	\$ 855	\$ 442,672	\$ 766,461	\$ (653,326)	\$ 556,662

See the accompanying notes to the consolidated financial statements.

Table of Contents**THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	Twenty-Six Weeks Ended June 28, 2011	Twenty-Six Weeks Ended June 29, 2010
Cash flows from operating activities:		
Net income	\$ 45,204	\$ 37,895
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	34,936	36,181
Realized loss on derivative financial instruments		7,376
Deferred income taxes	3,316	351
Stock-based compensation	5,946	6,582
Tax impact of stock options exercised, net of cancellations	600	(53)
Excess tax benefit related to stock options exercised	(497)	(1,772)
Other	412	(656)
Changes in assets and liabilities:		
Accounts receivable	10,383	5,083
Other receivables	7,323	12,467
Inventories	(9,212)	(4,586)
Prepaid expenses	3,121	2,014
Other assets	(2,122)	940
Accounts payable	6,051	(2,298)
Income taxes payable	2,091	(8,950)
Termination of derivative financial instruments		(7,376)
Other accrued expenses	(13,796)	(7,051)
Cash provided by operating activities	93,756	76,147
Cash flows from investing activities:		
Additions to property and equipment	(30,176)	(17,865)
Cash used in investing activities	(30,176)	(17,865)
Cash flows from financing activities:		
Deemed landlord financing proceeds	1,612	1,635
Deemed landlord financing payments	(820)	(752)
Proceeds from exercise of employee stock options	7,475	11,587
Excess tax benefit related to stock options exercised	497	1,772
Repayment of credit facility		(30,000)
Purchase of treasury stock	(95,030)	(29,946)
Cash used in financing activities	(86,266)	(45,704)
Net change in cash and cash equivalents	(22,686)	12,578
Cash and cash equivalents at beginning of period	81,619	73,715
Cash and cash equivalents at end of period	\$ 58,933	\$ 86,293
Supplemental disclosures:		
Interest paid	\$ 2,065	\$ 14,281
Income taxes paid	\$ 11,248	\$ 18,318

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See the accompanying notes to the consolidated financial statements.

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THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation and Significant Accounting Policies

The accompanying consolidated financial statements include the accounts of The Cheesecake Factory Incorporated (referred to herein as the Company, we, us and our) and its wholly owned subsidiaries prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The financial statements presented herein have not been audited by an independent registered public accounting firm, but include all material adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for the fair statement of the financial condition, results of operations and cash flows for the period. However, these results are not necessarily indicative of results for any other interim period or for the full fiscal year. The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions for the reporting periods covered by the financial statements. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent liabilities. Actual results could differ from these estimates.

Certain information and footnote disclosures normally included in financial statements in accordance with GAAP have been omitted pursuant to the rules of the Securities and Exchange Commission (SEC). The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 28, 2010 filed with the SEC on February 23, 2011.

Certain reclassifications have been made to prior year amounts to conform to current year presentation.

Impairment of Long-Lived Assets

We assess potential impairment of our long-lived assets whenever events or changes in circumstances indicate that the carrying value of the assets or asset group may not be recoverable. Factors considered include, but are not limited to, significant underperformance relative to historical or projected future operating results; significant changes in the manner of use of the acquired assets or the strategy for the overall business; and significant negative industry or economic trends. We regularly review restaurants that are cash flow negative for the previous four quarters to determine if impairment testing is warranted. We are currently monitoring a small number of locations, and impairment charges could be triggered in the future if individual restaurant performance does not improve.

Recent Accounting Pronouncements

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In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-05, Presentation of Comprehensive Income, which eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. Companies can elect to present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive statements. There are no changes to the accounting for items within comprehensive income. This standard impacts presentation only and is effective for fiscal years beginning after December 15, 2011.

In October 2009, the FASB issued guidance on revenue arrangements with multiple deliverables effective for us in fiscal 2011, although early adoption was permitted. The guidance revises the criteria for measuring and allocating consideration to each component of a multiple element arrangement. The guidance requires companies to allocate revenue using the relative selling price of each deliverable, which must be estimated if the company does not have either a history of selling the deliverable on a stand alone basis or third-party evidence of selling price. For us, this guidance only impacts the pattern of revenue recognition for our marketing programs that include multiple elements. This accounting change did not impact our financial statements in the second quarter of fiscal 2011. As the timing and content of upcoming promotions is not determinable at this time, we are unable to estimate the impact of this guidance on our future financial statements.

2. Inventories

Inventories consisted of (in thousands):

	June 28, 2011		December 28, 2010
Restaurant food and supplies	\$ 11,775	\$	13,051
Bakery finished goods and work in progress	15,939		4,923
Bakery raw materials and supplies	4,534		5,062
Total	\$ 32,248	\$	23,036

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3. Long-Term Debt

In December 2010, we entered into a five-year credit agreement (Facility) that provides us with revolving loan commitments that total \$200 million, including letter of credit subfacility commitments that total \$35 million. The Facility contains a commitment increase feature that could provide for an additional \$50 million in available credit upon our request and the satisfaction of certain conditions. We had no outstanding borrowings under the Facility at June 28, 2011 or December 28, 2010.

Borrowings under the Facility bear interest at a floating rate based on LIBOR, plus a spread ranging from 1.75% to 2.25%, depending on our ratio of debt plus eight times rent (Adjusted Debt) to trailing 12-month earnings before interest, taxes, depreciation, amortization, rent and noncash stock option expense (EBITDAR), as defined in the agreement. In addition, we pay a commitment fee ranging from 0.3% to 0.4%, also depending on our ratio of Adjusted Debt to EBITDAR, calculated on the average unused portion of the Facility.

We are obligated to maintain certain financial covenants, which include a maximum Adjusted Debt to trailing 12-month EBITDAR ratio (Adjusted Debt Ratio) of 4.0, as well as a trailing 12-month minimum EBITDAR to interest and rental expense ratio (EBITDAR Ratio) of 1.9. At June 28, 2011, our Adjusted Debt and EBITDAR Ratios were both 2.8. Therefore we were in compliance with the financial covenants in effect under the Facility at that date.

Availability under the Facility is reduced by outstanding standby letters of credit, which are used to support our self-insurance programs. At June 28, 2011, we had net availability for borrowings of \$181 million, based upon a zero outstanding debt balance and \$19 million in standby letters of credit. In addition, our Facility limits cash distributions with respect to our equity interests, such as cash dividends and share repurchases, based on a defined leverage ratio.

4. Commitments and Contingencies

The Internal Revenue Service (IRS) audited our tax returns for fiscal years 2003 through 2006 with respect to the deductibility, under the provisions of Internal Revenue Code Section 162(m), of certain compensation in excess of \$1 million per year paid to three current executive officers and one former executive officer resulting from their respective exercises of stock options later determined to be misdated (the 162(m) Dispute). In May 2008, the IRS issued a Notice of Proposed Adjustment to us disallowing the deduction of approximately \$5.1 million of compensation expense with respect to the exercise of stock options by such executive officers. We believe that such stock option compensation qualifies as performance-based compensation that is not subject to the limitations on deductibility under Internal Revenue Code Section 162(m). We received a Statutory Notice of Deficiency from the IRS for fiscal 2005 only and petitioned for redetermination of this notice with the United States Tax Court. In May 2010, we conducted a settlement conference with the IRS Office of Appeals resulting in an agreement to resolve the 162(m) Dispute as to tax year 2005 only. That agreement was approved by the United States Tax Court in August 2010 (Docket No. 23591-09). This court order resolved the 162(m) Dispute as to tax year 2005, and, because the 162(m) Dispute as to tax year 2006 consisted solely of a reduction to tax credits carried over from tax year 2005 resulting from the IRS Notice of Deficiency, such court order also resolved the 162(m) Dispute as to tax year 2006. In October 2010, we filed a complaint (The Cheesecake Factory v. United States of America, Case No. CV108157), in the United States District Court for the refund of income taxes with respect to tax years 2003 and 2004, including interest and penalties. In March 2011, the Court ordered that Case No. CV108157 be dismissed, without prejudice and extended the statute of limitations for filing our claim for refund with respect to the remaining 162(m) Dispute to December 31, 2011. While we believe that all stock option compensation in the as yet unresolved years of the 162(m) Dispute qualifies as performance-based compensation under Internal Revenue Code Section 162(m) and is not subject to the limitations on deductibility, we have reserved \$1.4 million for estimated taxes, interest and penalties due through June 28, 2011.

On August 10, 2010, the Equal Employment Opportunity Commission (EEOC) for the Cleveland Field Office issued a determination letter in EEOC Charge 532-2009-1050 in favor of the Charging Party and a class of 15 unidentified employees, alleging that we subjected them to a hostile work environment based on national origin and/or race in violation of Title VII of the Civil Rights Act of 1964 (Title VII). The EEOC is seeking payment of alleged actual damages incurred by the claimants as well as compensatory and/or punitive monetary costs and remedial actions. On January 18, 2011, the EEOC issued a Notice of Intent to Rescind Determination and refer Charge No. 532-2009-1050 for further investigation. We are cooperating with the EEOC in connection with this investigation. Based upon the current status of this matter, we have not reserved for any potential future payments.

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On July 2, 2008, the Equal Employment Opportunity Commission (EEOC) for the Cleveland Field Office issued determination letters in Charges 532-2006-01040, -01030, -01042 in favor of three former employees alleging that we engaged in a pattern and practice of sex discrimination, and in the case of one claimant, racial discrimination, in violation of Title VII of the Civil Rights Act of 1964 (Title VII). The determination alleges that our actions resulted in females as a class being denied entry and progression into upper ranks of management at our restaurants. We deny these allegations. The EEOC sought payment of alleged actual damages incurred by the claimants as well as compensatory and/or punitive monetary costs and remedial actions. The parties failed to reach a conciliated settlement in 2008. On July 30, 2008, the EEOC Cleveland District Office also filed a Commissioner's Charge 532-2008-01856 alleging we violated Title VII for failing or refusing to select females for management positions in our restaurants because of their sex. This Charge arose out of the facts alleged in EEOC Charges 532-2006-01040, -01030, -01042. On February 3, 2011, the EEOC completed its investigation and administratively closed Charge No. 532-2008-01856 without further action. On July 12, 2011, the EEOC issued a Notice of Right to Sue letter on Charges 532-2006-0140, -01030 and -01042, after failing to reach a resolution during conciliation. Based upon the current status of Charges 532-2006-0140, -01030 and -01042, we have not reserved for any potential future payments.

On January 9, 2007, two former hourly restaurant employees in the State of California filed a lawsuit in the Los Angeles County Superior Court against us alleging violations of California's wage and hour laws with respect to alleged failure to pay proper wages, improper payroll deductions, and violations of the California meal and break period laws, among other claims (Guardado v. The Cheesecake Factory Restaurants, Inc. et al; Case No. BC360426). This case was previously stayed by the parties through December 2008, pending the California Supreme Court's decision to review Brinker Restaurant Corp. v. Superior Court of San Diego County (No. S166350, 2008). On July 6, 2010, the Court denied the plaintiffs motion for class certification. A notice of appeal was subsequently filed by the plaintiffs on August 3, 2010. On June 20, 2011, the parties reached a negotiated settlement agreement in Case No. BC360426. The settlement in Case No. BC360426 is subject to preliminary and final approval by the Court. Based on the current status of Case No. BC360426, we have reserved an immaterial amount for potential future payments.

On May 10, 2010, three hourly restaurant employees in the State of California filed a class action lawsuit in the California Superior Court, Placer County, against us alleging violations of the California Labor Code by requiring employees to purchase uniforms and other work tools to perform their jobs, among other claims (Reed v. The Cheesecake Factory Restaurants, Inc. et al; Case No. S CV 27073). In October 2010, we gave notice to the respective courts in Case No. S CV 27073 and Case No. BC360426 (see below) that such cases may be related. On July 28, 2010, a lawsuit was filed against us in the Santa Clara County Superior Court (Rusteen v. The Cheesecake Factory Restaurants, Inc. et al; Case No. 1-10-CV-178233) claiming similar and additional allegations to those asserted in Case No. BC360426 including, among other things, violations of California's wage and hour laws with respect to alleged failure to pay the plaintiff overtime, reporting time pay and minimum wages, allow proper meal breaks or rest periods, and provide adequate pay statements. In October 2010, we gave notice to the respective courts in Case No. 1-10-CV-178233 and Case No. BC360426 that such cases may be related. The plaintiff in Case No. 1-10-CV-178233 seeks unspecified amounts of penalties and other monetary payments on behalf of himself and other purported class members. On April 6, 2011, a Class Action Complaint in Intervention was filed by a former staff member from our Irvine, California restaurant seeking to join Case No. S CV 27073. The plaintiffs also seek attorneys' fees. We intend to vigorously defend against these actions. Based on the current status of this matter, we have not reserved for potential future payments.

We are also subject to other private lawsuits, administrative proceedings and claims that arise in the ordinary course of our business. These claims typically involve claims from guests, staff members and others related to operational issues common to the foodservice industry. A number of these claims may exist at any given time and some of the employee claims may be plead as class actions. We could be affected by adverse publicity and litigation costs resulting from such allegations, regardless of whether these allegations are valid or whether we are determined to be liable. From time to time, we are also involved in lawsuits with respect to infringements of, or challenges to, our registered trademarks. At this time, we believe that the final disposition of these lawsuits, proceedings and claims will not have a material adverse effect on our financial position, results of operations or liquidity.

Table of Contents**5. Stock-Based Compensation**

The following table presents information related to stock-based compensation (in thousands):

	Thirteen Weeks Ended June 28, 2011	Thirteen Weeks Ended June 29, 2010	Twenty-Six Weeks Ended June 28, 2011	Twenty-Six Weeks Ended June 29, 2010
Stock-based compensation expense	\$ 2,965	\$ 2,939	\$ 5,946	\$ 6,582
Income tax benefit	1,134	1,115	2,274	2,497
Capitalized stock-based compensation (1)	57	78	130	132

(1) It is our policy to capitalize the portion of stock-based compensation costs for our internal development and construction, legal, and facilities departments that relates to capitalizable activities such as the design and construction of new restaurants, remodeling existing locations, lease, intellectual property and liquor license acquisition activities and equipment installation. Capitalized stock-based compensation is included in property and equipment, net and other assets on the consolidated balance sheets.

In April 2011, our Board of Directors approved an amendment to our 2010 Stock Incentive Plan to increase the number of shares of common stock authorized for issuance under the plan to 4,800,000 shares from 3,800,000 shares. This amendment was approved by our shareholders at our Annual Meeting held on June 1, 2011.

Stock Options

The weighted average fair value at the grant date for options issued during the second quarter of fiscal 2011 and 2010 was \$12.11 and \$11.14 per option, respectively. The fair value of options at the grant date was estimated utilizing the Black-Scholes valuation model with the following weighted average assumptions for the second quarter of fiscal 2011 and 2010, respectively: (a) no dividend yield on our stock, (b) expected stock price volatility of 39.0% and 40.0%, (c) a risk-free interest rate of 2.0% and 2.5%, and (d) an expected option term of 6.0 and 5.8 years.

Stock option activity during the twenty-six weeks ended June 28, 2011 was as follows:

	Shares (In thousands)	Weighted Average Exercise Price (Per share)	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at December 28, 2010	9,159	\$ 22.63	5.4	\$ 79,835

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Granted	660	\$	30.81		
Exercised	(365)	\$	20.44		
Cancelled	(211)	\$	19.73		
Outstanding at June 28, 2011	9,243	\$	23.35	5.1	\$ 80,979
Exercisable at June 28, 2011	4,527	\$	27.01	3.8	\$ 24,592

The total intrinsic value of options exercised during the thirteen and twenty-six weeks ended June 28, 2011 was \$2.3 million and \$3.7 million, respectively. The total intrinsic value of options exercised during the thirteen and twenty-six weeks ended June 29, 2010 was \$1.8 million and \$3.9 million, respectively. As of June 28, 2011, the total unrecognized stock-based compensation expense related to nonvested stock options was \$18.6 million, which we expect to recognize over a weighted average period of approximately 2.6 years.

Restricted Shares

Restricted share activity during the twenty-six weeks ended June 28, 2011 was as follows:

	Shares (In thousands)	Weighted Average Fair Value (Per share)
Outstanding at December 28, 2010	537	\$ 14.72
Granted	192	30.96
Vested	(36)	26.03
Forfeited	(16)	13.58
Outstanding at June 28, 2011	677	\$ 18.73

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Fair value of our restricted shares is based on our closing stock price on the date of grant. The weighted average fair value at the grant date for restricted shares issued during the second quarter of fiscal 2011 and 2010 was \$29.86 and \$22.94, respectively. The fair value of shares that vested during the thirteen weeks and twenty-six weeks ended June 28, 2011 was \$0.8 million and \$0.9 million, respectively. The fair value of shares that vested during the thirteen weeks and twenty-six weeks ended June 29, 2010 was \$0.3 million and \$3.7 million, respectively. As of June 28, 2011, total unrecognized stock-based compensation expense related to nonvested restricted shares was \$7.9 million, which we expect to recognize over a weighted average period of approximately 3.3 years.

6. Net Income Per Share

At June 28, 2011 and June 29, 2010, 0.7 million and 0.6 million shares, respectively, of restricted stock issued to employees were unvested, and therefore excluded from the calculation of basic earnings per share for the fiscal quarters ended on those dates. Diluted net income per share includes the dilutive effect of both outstanding stock options and restricted shares, calculated using the treasury stock method. Assumed proceeds from in-the-money options include windfall tax benefits, net of shortfalls, calculated under the as-if method as prescribed by Financial Accounting Standards Codification 718, Compensation Stock Option Compensation.

	Thirteen Weeks Ended June 28, 2011	Thirteen Weeks Ended June 29, 2010	Twenty-Six Weeks Ended June 28, 2011	Twenty-Six Weeks Ended June 29, 2010
	(In thousands, except per share data)			
Net income	\$ 24,748	\$ 19,229	\$ 45,204	\$ 37,895
Basic weighted average shares outstanding	56,554	59,238	57,517	59,261
Dilutive effect of stock options and restricted shares	2,041	1,625	2,026	1,445
Diluted weighted average shares outstanding	58,595	60,863	59,543	60,706
Basic net income per share	\$ 0.44	\$ 0.32	\$ 0.79	\$ 0.64
Diluted net income per share	\$ 0.42	\$ 0.32	\$ 0.76	\$ 0.62

Shares of common stock equivalents of 2.4 million and 2.6 million for the thirteen and twenty-six weeks ended June 28, 2011 and 3.8 million and 5.2 million for the thirteen and twenty-six weeks ended June 29, 2010, respectively, were not included in the diluted calculation due to their anti-dilutive effect.

7. Comprehensive Income

Comprehensive income consisted of (in thousands):

Thirteen Weeks Ended	Thirteen Weeks Ended	Twenty-Six Weeks Ended	Twenty-Six Weeks Ended
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	June 28, 2011	June 29, 2010	June 28, 2011	June 29, 2010
Net income	\$ 24,748	\$ 19,229	\$ 45,204	\$ 37,895
Unrealized (gain)/loss on derivative financial instruments		(63)		41
Loss reclassified into income due to cancellation of financial instrument		4,578		4,578
Total	\$ 24,748	\$ 23,744	\$ 45,204	\$ 42,514

8. Segment Information

We operate in two business segments, restaurants and bakery. Restaurants consist of The Cheesecake Factory®, Grand Lux Cafe® and RockSugar Pan Asian Kitchen®. The bakery segment produces baked desserts and other products for our restaurants and for other foodservice operators, retailers and distributors. Bakery sales to our restaurants are recorded at prices similar to third-party national accounts. Unallocated corporate expenses, which include all stock-based compensation, assets and capital expenditures, are presented below as reconciling items to the amounts presented in the consolidated financial statements.

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Segment information is presented below (in thousands):

	Thirteen Weeks Ended June 28, 2011		Thirteen Weeks Ended June 29, 2010		Twenty-Six Weeks Ended June 28, 2011		Twenty-Six Weeks Ended June 29, 2010	
Revenue:								
Restaurants	\$	416,549	\$	404,797	\$	823,452	\$	798,469
Bakery		28,110		27,182		53,947		52,530
Intercompany bakery sales		(13,913)		(13,070)		(27,888)		(26,657)
Total	\$	430,746	\$	418,909	\$	849,511	\$	824,342
Income from operations:								
Restaurants	\$	56,621	\$	58,387	\$	108,518	\$	107,727
Bakery		1,885		2,219		2,885		4,734
Corporate		(23,344)		(23,311)		(46,390)		(46,489)
Total	\$	35,162	\$	37,295	\$	65,013	\$	65,972
Depreciation and amortization:								
Restaurants	\$	15,819	\$	15,971	\$	31,597	\$	32,002
Bakery		640		772		1,291		1,539
Corporate		1,024		1,283		2,048		2,640
Total	\$	17,483	\$	18,026	\$	34,936	\$	36,181
Capital expenditures:								
Restaurants	\$	18,523	\$	10,113	\$	26,947	\$	16,387
Bakery		512		230		633		355
Corporate		636		610		2,596		1,123
Total	\$	19,671	\$	10,953	\$	30,176	\$	17,865

	June 28, 2011		December 28, 2010	
Total assets:				
Restaurants	\$	817,814	\$	882,208
Bakery		56,414		56,796
Corporate		121,494		98,303
Total	\$	995,722	\$	1,037,307

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

Certain information included in this Form 10-Q and other materials filed or to be filed by us with the SEC, as well as information included in oral or written statements made by us or on our behalf, may contain forward-looking statements about our current and expected performance trends, growth plans, business goals and other matters. These statements may be contained in our filings with the SEC, in our press releases, in other written communications, and in oral statements made by or with the approval of one of our authorized officers. Words or phrases such as believe, plan, will likely result, expect, intend, will continue, is anticipated, estimate, project, may, could, would, should, are intended to identify forward-looking statements. These statements, and any other statements that are not historical facts, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as codified in Section 27A of the Securities Act of 1933,

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as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Acts).