CHEESECAKE FACTORY INC
Form 10-Q
May 08, 2015
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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 March 31, 2015

or

o **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	**51-0340466**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer 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 x No o

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 x No o

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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of April 29, 2015, 48,763,285 shares of the registrant s Common Stock, $.01 par value per share, were outstanding.

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THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES

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PART I. **FINANCIAL INFORMATION**

Item 1. **Financial Statements**

THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(Unaudited)

	March 31, 2015	December 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 39,478	$ 58,018
Accounts receivable	12,643	15,170
Income tax receivable	12,783	17,383
Other receivables	29,692	62,327
Inventories	32,525	33,255
Prepaid expenses	46,579	38,233
Deferred income taxes	15,076	15,076
Total current assets	188,776	239,462
Property and equipment, net	828,966	828,305
Other assets:		
Intangible assets, net	21,215	20,781
Prepaid rent	47,067	46,212
Other	42,702	41,692
Total other assets	110,984	108,685
Total assets	$ 1,128,726	$ 1,176,452
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 54,152	$ 57,325
Other accrued expenses	243,623	264,686
Total current liabilities	297,775	322,011
Deferred income taxes	97,724	96,509
Deferred rent	73,451	73,857
Deemed landlord financing liability	76,552	77,165
Long-term debt	25,000	
Other noncurrent liabilities	51,720	50,400
Commitments and contingencies (Note 4)		
Stockholders equity:		
Preferred stock, $.01 par value, 5,000,000 shares authorized; none issued		
Common stock, $.01 par value, 250,000,000 shares authorized; 92,128,129 and 91,790,499 issued at March 31, 2015 and December 30, 2014, respectively	921	918
Additional paid-in capital	664,236	654,033
Retained earnings	1,080,388	1,060,211

Treasury stock, 43,577,235 and 41,919,312 shares at cost at March 31, 2015 and December 30, 2014, respectively		(1,239,041)		(1,158,652)
Total stockholders equity		506,504		556,510
Total liabilities and stockholders equity	$	1,128,726	$	1,176,452

See the accompanying notes to the consolidated financial statements.

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THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

	Thirteen Weeks Ended March 31, 2015	Thirteen Weeks Ended April 1, 2014
Revenues	$ 517,973	$ 481,431
Costs and expenses:		
Cost of sales	126,612	119,362
Labor expenses	171,169	159,450
Other operating costs and expenses	123,435	115,633
General and administrative expenses	33,075	31,242
Depreciation and amortization expenses	21,177	20,251
Impairment of assets and lease terminations		186
Preopening costs	1,451	2,234
Total costs and expenses	476,919	448,358
Income from operations	41,054	33,073
Interest and other expense, net	(1,895)	(1,391)
Income before income taxes	39,159	31,682
Income tax provision	10,736	9,164
Net income	$ 28,423	$ 22,518
Net income per share:		
Basic	$ 0.58	$ 0.44
Diluted	$ 0.56	$ 0.43
Weighted average shares outstanding:		
Basic	49,225	50,745
Diluted	51,102	52,844
Cash dividends declared per common share	$ 0.165	$ 0.14

See the accompanying notes to the consolidated financial statements.

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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 30, 2014	91,790	$ 918	$ 654,033	$ 1,060,211	$ (1,158,652)	$ 556,510
Net income				28,423		28,423
Cash dividends declared				(8,246)		(8,246)
Tax impact of stock options exercised, net of cancellations			4,340			4,340
Stock-based compensation			4,798			4,798
Common stock issued under stock-based compensation plans	338	3	5,666			5,669
Treasury stock purchases					(80,389)	(80,389)
Payment for future treasury stock purchases under accelerated stock repurchase agreement			(4,601)			(4,601)
Balance, March 31, 2015	92,128	$ 921	$ 664,236	$ 1,080,388	$ (1,239,041)	$ 506,504

See the accompanying notes to the consolidated financial statements.

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THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Thirteen Weeks Ended March 31, 2015	Thirteen Weeks Ended April 1, 2014
Cash flows from operating activities:		
Net income	$ 28,423	$ 22,518
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization expenses	21,177	20,251
Deferred income taxes	1,215	811
Impairment of assets and lease terminations		186
Stock-based compensation	4,731	3,839
Tax impact of stock options exercised, net of cancellations	4,340	3,942
Excess tax benefit related to stock options exercised	(4,317)	(3,851)
Other	814	400
Changes in assets and liabilities:		
Accounts receivable	2,527	(1,591)
Other receivables	32,635	26,733
Inventories	730	823
Prepaid expenses	(8,346)	(299)
Other assets	(1,847)	(824)
Accounts payable	(1,334)	13,764
Income taxes receivable/payable	4,600	3,436
Other accrued expenses	(20,000)	(13,022)
Cash provided by operating activities	65,348	77,116
Cash flows from investing activities:		
Additions to property and equipment	(24,151)	(30,100)
Additions to intangible assets	(547)	(339)
Cash used in investing activities	(24,698)	(30,439)
Cash flows from financing activities:		
Deemed landlord financing payments	(743)	(614)
Borrowings on credit facility	25,000	25,000
Proceeds from exercise of stock options	5,669	5,899
Excess tax benefit related to stock options exercised	4,317	3,851
Cash dividends paid	(8,443)	(7,214)
Treasury stock purchases	(80,389)	(98,981)
Payment for future treasury stock purchases under accelerated stock repurchase agreement	(4,601)	(4,904)
Cash used in financing activities	(59,190)	(76,963)
Net change in cash and cash equivalents	(18,540)	(30,286)
Cash and cash equivalents at beginning of period	58,018	61,751
Cash and cash equivalents at end of period	$ 39,478	$ 31,465
Supplemental disclosures:		
Interest paid	$ 1,455	$ 1,234
Income taxes paid	$ 543	$ 688

Construction payable	$	8,285	$	1,096

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 and its wholly owned subsidiaries (referred to herein collectively as the Company, we, us and our) 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 unaudited financial statements presented herein 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. Certain information and footnote disclosures normally included in financial statements prepared 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 30, 2014 filed with the SEC on February 27, 2015.

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.

We utilize a 52/53-week fiscal year ending on the Tuesday closest to December 31 for financial reporting purposes. Fiscal year 2015 consists of 52 weeks and will end on December 29, 2015. Fiscal 2014, which ended on December 30, 2014, was also a 52-week year.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued accounting guidance that provides a comprehensive new revenue recognition model. This will supersede most of the existing revenue recognition requirements and will require entities to recognize revenue at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. This guidance is effective for us beginning in the first quarter of fiscal 2017 and is not expected to have a material impact on our financial statements. Early adoption is not permitted. In April 2015, the FASB proposed a deferral of the effective date of the new revenue standard by one year, subject to the Board s due process requirement.

In April 2015, the FASB issued updated guidance intended to simplify, and provide consistency to, the presentation of debt issuance costs. The new standard requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on its condensed

consolidated financial statements.

In February 2015, the FASB issued updated guidance which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. The Company expects the adoption of this guidance to have no impact on its condensed consolidated financial statements.

In June 2014, the FASB issued updated guidance intended to eliminate the diversity in practice regarding share-based payment awards that include terms which provide for a performance target that affects vesting being achieved after the requisite service period. The new standard requires that a performance target which affects vesting and could be achieved after the requisite service period be treated as a performance condition that affects vesting and should not be reflected in estimating the grant-date fair value. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. The Company expects the adoption of this guidance to have no impact on its condensed consolidated financial statements.

2. Inventories

Inventories consisted of (in thousands):

	March 31, 2015	December 30, 2014
Restaurant food and supplies	$ 14,213	$ 14,936
Bakery finished goods and work in progress	12,803	13,236
Bakery raw materials and supplies	5,509	5,083
Total	$ 32,525	$ 33,255

3. Long-Term Debt

On October 16, 2013, we entered into a new loan agreement (Facility) which amended and restated in its entirety our prior loan agreement dated December 3, 2010. This Facility, which matures on October 16, 2018, provides us with revolving loan commitments totaling $200 million, of which $50 million may be used for issuances of letters of credit. Availability under the Facility is reduced by outstanding letters of credit, which are used to support our self-insurance programs. The Facility contains a commitment increase feature that could provide for an additional $100 million in available credit upon our request and subject to the lenders electing to increase their commitments or by means of the addition of new lenders. Our obligations under the Facility are unsecured. Certain of our material subsidiaries have guaranteed our obligations under the Facility. At March 31, 2015, we had net availability for borrowings of $153.8 million, based on an outstanding debt balance of $25.0 million and $21.2 million in standby letters of credit.

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In the first quarter of fiscal 2015, we borrowed $25 million under this Facility to fund a portion of the accelerated stock repurchase (ASR) program we entered into on February 27, 2015. We expect to repay this balance during fiscal 2015. We also borrowed $25 million under this Facility in the first quarter of fiscal 2014, which we repaid in the fourth quarter of fiscal 2014, to fund a portion of the ASR program we entered into in February 2014. See Note 5 for further discussion of our accelerated stock repurchase programs.

We are subject to certain financial covenants under the Facility requiring us to maintain (i) a maximum Net Adjusted Leverage Ratio of 4.0, calculated as debt plus eight times rent minus unrestricted cash and cash equivalents in excess of $25 million divided by EBITDAR (trailing 12-month earnings before interest, taxes, depreciation, amortization, noncash stock option expense, rent and permitted acquisition costs) and (ii) a trailing 12-month minimum EBITDAR to interest and rental expense ratio (EBITDAR Ratio) of 1.9. Our Net Adjusted Leverage and EBITDAR Ratios were 2.7 and 2.9, respectively, at March 31, 2015, and we were in compliance with the financial covenants in effect at that date. The Facility also limits cash distributions with respect to our equity interests, such as cash dividends and share repurchases, based on the Net Adjusted Leverage Ratio.

Borrowings under the Facility bear interest, at our option, at a rate equal to either (i) the Adjusted LIBO Rate plus a margin ranging from 1.00% to 1.75% based on our Net Adjusted Leverage Ratio or (ii) the highest of (a) the rate of interest publicly announced by JPMorgan Chase Bank as its prime rate in effect, (b) the Federal Funds Effective Rate from time to time plus 0.5% or (c) the one-month Adjusted LIBO Rate plus 1.0%, plus a margin ranging from 0.00% to 0.75% based on our Net Adjusted Leverage Ratio. Under the Facility, we paid certain customary loan origination fees and will pay a fee on the unused portion of the Facility ranging from 0.15% to 0.30% also based on our Net Adjusted Leverage Ratio.

4. Commitments and Contingencies

On April 11, 2013, a restaurant hourly employee filed a class action lawsuit in the California Superior Court, Placer County, alleging that the Company violated the California Labor Code and California Business and Professions Code, by requiring employees to purchase uniforms for work (Sikora v. The Cheesecake Factory Restaurants, Inc., et al; Case No SCV0032820). A similar lawsuit covering a different time period was also filed in Placer County (Reed v. The Cheesecake Factory Restaurants, Inc. et al; Case No. SCV27073). By stipulation the parties agreed to transfer the Reed and Sikora cases to Los Angeles County. Both cases (Case Nos. SCV0032820 and SCV27073) were subsequently coordinated together in Los Angeles County by order of the Judicial Council. On November 15, 2013, the Company filed a motion in Case No. SCV0032820 to enforce a prior judgment precluding certain claims and to preclude the prosecution of certain claims under the California Private Attorney General Act and California Business and Professions Code Section 17200. On March 11, 2015, the Court granted the Company s motion. The parties are scheduled to participate in voluntary mediation in June 2015. We intend to vigorously defend this action. Based on the current status of this matter, we have not reserved for any potential future payments.

On November 26, 2014, a former restaurant hourly employee filed a class action lawsuit in the San Diego County Superior Court alleging that the Company violated the California Labor Code and California Business and Professions Code, by failing to pay overtime, to permit required rest breaks and to provide accurate wage statements, among other claims. (Masters v. The Cheesecake Factory Restaurants, Inc., et al; Case No 37-2014-00040278). By stipulation, the parties agreed to transfer Case No. 37-2014-00040278 to the Orange County Superior Court. On March 2, 2015, Case No. 37-2014-00040278 was officially transferred and assigned a new Case No. 30-2015-00775529 in the Orange County Superior Court. The lawsuit seeks unspecified amounts of fees, penalties and other monetary payments on behalf of the plaintiff and other purported class members. We intend to vigorously defend this action. Based on the current status of this matter, we have not reserved for any potential future payments.

On January 14, 2015, a former restaurant hourly employee filed a class action lawsuit in the San Diego County Superior Court alleging that the Company violated the California Labor Code and California Business and Professions Code, by failing to permit required meal and rest breaks, and to provide accurate wage statements, among other claims. (Garcia v. The Cheesecake Factory Incorporated, et al; Case No 37-2015-00001408). On February 19, 2015, the Company filed an ex parte application to stay the litigation pending a hearing on the Company s motion to compel arbitration. The Court granted the Company s application, stayed the litigation, and set a hearing on the motion to compel arbitration in July 2015. The lawsuit seeks unspecified amounts of fees, penalties and other monetary payments on behalf of the plaintiff and other purported class members. We intend to vigorously defend this action. Based on the current status of this matter, we have not reserved for any potential future payments.

Within the ordinary course of our business, we are subject to private lawsuits, government audits, administrative proceedings and other claims. These matters typically involve claims from customers, staff members and others related to operational and employment issues common to the foodservice industry. A number of these claims may exist at any given time, and some of the claims may be pled as class actions. From time to time, we are also involved in lawsuits with respect to infringements of, or challenges to, our registered trademarks and other intellectual property, both domestically and abroad. We could be affected by adverse publicity and litigation costs resulting from such allegations, regardless of whether they are valid or whether we are legally determined to be liable. At this time, we believe that the final disposition of any pending lawsuits, audits, proceedings and claims will not have a material adverse effect individually or in the aggregate on our financial position, results of operations or liquidity. It is possible, however, that our future results of operations for a particular quarter or fiscal year could be impacted by changes in circumstances relating to lawsuits, audits, proceedings or claims.

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5. Stockholders Equity

On February 9, 2015, our Board of Directors approved a cash dividend of $0.165 per share which was paid on March 10, 2015 to the stockholders of record on February 25, 2015. Future decisions to pay, increase or decrease dividends are at the discretion of the Board and will be dependent on our operating performance, financial condition, capital expenditure requirements and other such factors that the Board considers relevant.

In July 2013, our Board increased the authorization to repurchase our common stock by 7.5 million shares to 48.5 million shares. Under this and all previous authorizations, we have cumulatively repurchased 43.6 million shares at a total cost of $1,239.1 million through March 31, 2015, including 1.7 million shares of our common stock at a cost of $80.4 million during the first quarter of fiscal 2015. The shares repurchased in the first quarter of fiscal 2015 include 1.5 million shares acquired through our ASR program. Repurchased common stock is reflected as a reduction of stockholders equity.

Our share repurchase authorization does not have an expiration date, does not require us to purchase a specific number of shares and may be modified, suspended or terminated at any time. Shares may be repurchased in the open market or through privately negotiated transactions at times and prices considered appropriate by us. Purchases in the open market are made in compliance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended (the Act). We make the determination to repurchase shares based on several factors, including an evaluation of current and future capital needs associated with new restaurant development, current and forecasted cash flows, including dividend payments, a review of our capital structure and cost of capital, our share price and current market conditions. The timing and number of shares repurchased are also subject to legal constraints and financial covenants under our Facility that limit share repurchases based on a defined ratio. See Note 3 for further discussion of our long-term debt. Our objectives with regards to share repurchases are to offset the dilution to our shares outstanding that results from equity compensation grants and to supplement our earnings per share growth.

In October 2013, our Board approved the adoption of a prearranged share repurchase plan under Rule 10b5-1 (10b5-1 Plan) of the Act, effective from January 2, 2014 through July 1, 2014. On July 21, 2014, our Board approved the adoption of a new 10b5-1 Plan, effective from September 5, 2014 through December 31, 2014. These 10b5-1 Plans terminated on July 1, 2014 and December 31, 2014, respectively, in accordance with their terms. On October 20, 2014, our Board approved the adoption of another 10b5-1 Plan, which is effective from January 2, 2015 through June 30, 2015.

On February 27, 2014, we entered into a collared ASR agreement with a financial institution to repurchase $75 million of our common stock. The minimum number of shares to be repurchased, 1.4 million, was delivered in March 2014. Upon settlement of the ASR program, we received an additional 0.2 million shares on July 21, 2014.

On February 27, 2015, we entered into an ASR program with a financial institution to repurchase $75 million of our common stock. The number of common shares to be repurchased under the ASR program generally will be based on the volume weighted average share price of our common stock. The program is subject to collar provisions that establish minimum and maximum number of shares based on the volume weighted average share price over an initial hedge period. The minimum number of shares to be repurchased, 1.5 million, was delivered during March 2015. The maximum number of shares that can be received under the program is 1.7 million and will be determined based on the market price of our common stock from March 10, 2015 through the term of the program. We will receive additional shares, if any, no later than July 30, 2015.

6. Stock-Based Compensation

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

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	Thirteen Weeks Ended March 31, 2015	Thirteen Weeks Ended April 1, 2014
Labor expenses	$ 1,546	$ 1,340
Other operating costs and expenses	73	47
General and administrative expenses	3,112	2,452
Total stock-based compensation	4,731	3,839
Income tax benefit	1,810	1,469
Total stock-based compensation, net of taxes	$ 2,921	$ 2,370
Capitalized stock-based compensation (1)	$ 67	$ 48

(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.

Stock Options

The weighted average fair value at the grant date for options issued during the first quarter of fiscal 2015 and 2014 was $14.17 and $15.48 per option, respectively. The fair value of options was estimated utilizing the Black-Scholes valuation model with the following weighted average assumptions for the first quarter of fiscal 2015 and 2014, respectively: (a) an expected option term of 6.6 and 6.5 years, (b) expected stock price volatility of 31.3% and 32.9%, (c) a risk-free interest rate of 1.9% and 2.2%, and (d) a dividend yield on our stock of 1.4% and 1.2%.

Stock option activity during the thirteen weeks ended March 31, 2015 was as follows:

	Shares (In thousands)	Weighted Average Exercise Price (Per share)	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value(1) (In thousands)
Outstanding at December 30, 2014	4,023	$ 26.34	3.7	$ 97,406
Granted	312	48.01		
Exercised	(280)	20.25		
Forfeited or cancelled	(12)	24.87		
Outstanding at March 31, 2015	4,043	$ 28.43	3.9	$ 84,484
Exercisable at March 31, 2015	2,434	$ 24.64	2.9	$ 60,095

(1) Aggregate intrinsic value is calculated as the difference between our closing stock price at fiscal period end and the exercise price, multiplied by the number of in-the-money options and represents the pretax amount that would have been received by the option holders,

had they all exercised their options on the fiscal period end date.

The total intrinsic value of options exercised during the thirteen weeks ended March 31, 2015 and April 1, 2014 was $8.5 million and $8.9 million, respectively. As of March 31, 2015, the total unrecognized stock-based compensation expense related to unvested stock options was $14.2 million, which we expect to recognize over a weighted average period of approximately 2.5 years.

Restricted Shares and Restricted Share Units

Restricted share and restricted share unit activity during the thirteen weeks ended March 31, 2015 was as follows:

	Shares (In thousands)		Weighted Average Fair Value (Per share)
Outstanding at December 30, 2014	1,820	$	37.12
Granted	297		48.48
Vested	(213)		26.89
Forfeited	(39)		35.40
Outstanding at March 31, 2015	1,865	$	40.14

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Fair value of our restricted shares and restricted share units is based on our closing stock price on the date of grant. The weighted average fair value at the grant date for restricted shares and restricted share units issued during the first quarters of fiscal 2015 and fiscal 2014 was $48.48 and $48.11, respectively. The fair value of shares that vested during the thirteen weeks ended March 31, 2015 and April 1, 2014 was $5.7 million and $3.7 million, respectively. As of March 31, 2015, total unrecognized stock-based compensation expense related to unvested restricted shares and restricted share units was $46.3 million, which we expect to recognize over a weighted average period of approximately 3.3 years.

7. Net Income Per Share

At March 31, 2015 and April 1, 2014, 1.9 million and 1.8 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 outstanding equity awards, calculated using the treasury stock method. Assumed proceeds from the in-the-money options include the windfall tax benefits, net of shortfalls, calculated under the as-if method as prescribed by FASB Accounting Standards Codification (ASC) 718, Compensation Stock Option Compensation.

	Thirteen Weeks Ended March 31, 2015	Thirteen Weeks Ended April 1, 2014
	(In thousands, except per share data)	
Net income	$ 28,423	$ 22,518
Basic weighted average shares outstanding	49,225	50,745
Dilutive effect of equity awards	1,877	2,099
Diluted weighted average shares outstanding	51,102	52,844
Basic net income per share	$ 0.58	$ 0.44
Diluted net income per share	$ 0.56	