

Texas Roadhouse, Inc.  
Form 10-Q  
November 01, 2013  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 24, 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 000-50972

**Texas Roadhouse, Inc.**

(Exact name of registrant specified in its charter)

Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

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

**20-1083890**  
(IRS Employer  
Identification Number)

**6040 Dutchmans Lane, Suite 200**

**Louisville, Kentucky 40205**

(Address of principal executive offices) (Zip Code)

**(502) 426-9984**

(Registrant's telephone number, including area code)

Indicate by check mark whether 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 Regulations S-T 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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 .

The number of shares of common stock outstanding were 70,536,937 on October 23, 2013.

Table of Contents

**TABLE OF CONTENTS**

PART I. FINANCIAL INFORMATION

<u>Item 1 Financial Statements Texas Roadhouse, Inc. and Subsidiaries</u>	3
<u>Condensed Consolidated Balance Sheets September 24, 2013 and December 25, 2012</u>	3
<u>Condensed Consolidated Statements of Income and Comprehensive Income For the 13 and 39 Weeks Ended September 24, 2013 and September 25, 2012</u>	4
<u>Condensed Consolidated Statement of Stockholders Equity For the 39 Weeks Ended September 24, 2013</u>	5
<u>Condensed Consolidated Statements of Cash Flows For the 39 Weeks Ended September 24, 2013 and September 25, 2012</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	26
<u>Item 4 Controls and Procedures</u>	27

PART II. OTHER INFORMATION

<u>Item 1 Legal Proceedings</u>	28
<u>Item 1A Risk Factors</u>	28
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	29
<u>Item 3 Defaults Upon Senior Securities</u>	29
<u>Item 4 Mine Safety Disclosures</u>	29
<u>Item 5 Other Information</u>	29
<u>Item 6 Exhibits</u>	29
<u>Signatures</u>	30

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1 FINANCIAL STATEMENTS****Texas Roadhouse, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets****(in thousands, except share and per share data)****(unaudited)**

	September 24, 2013	December 25, 2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 87,344	\$ 81,746
Receivables, net of allowance for doubtful accounts of \$3 at September 24, 2013 and \$22 at December 25, 2012	11,518	16,416
Inventories, net	10,962	10,909
Prepaid income taxes	1,535	3,374
Prepaid expenses	6,608	7,191
Deferred tax assets	4,399	2,836
Total current assets	122,366	122,472
Property and equipment, net of accumulated depreciation of \$296,530 at September 24, 2013 and \$269,052 at December 25, 2012	565,433	531,654
Goodwill	113,454	113,435
Intangible assets, net	7,877	9,264
Other assets	17,938	14,429
Total assets	\$ 827,068	\$ 791,254
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Current maturities of long-term debt and obligations under capital leases	\$ 248	\$ 338
Accounts payable	33,027	32,374
Deferred revenue gift cards	25,424	53,041
Accrued wages	26,349	25,030
Accrued taxes and licenses	15,103	13,253
Dividends payable	8,458	13,135
Other accrued liabilities	22,716	21,491
Total current liabilities	131,325	158,662
Long-term debt and obligations under capital leases, excluding current maturities	51,056	51,264
Stock option and other deposits	4,741	4,718
Deferred rent	22,768	20,168
Deferred tax liabilities	6,419	6,102
Fair value of derivative financial instruments	2,980	4,016
Other liabilities	17,045	15,587
Total liabilities	236,334	260,517
Texas Roadhouse, Inc. and subsidiaries stockholders equity:		

Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

Preferred stock (\$0.001 par value, 1,000,000 shares authorized; no shares issued or outstanding)

Common stock, (\$0.001 par value, 100,000,000 shares authorized, 70,511,311 and 68,977,045 shares issued and outstanding at September 24, 2013 and December 25, 2012, respectively)

	71	69
Additional paid in capital	221,121	199,967
Retained earnings	365,551	327,509
Accumulated other comprehensive loss	(1,827)	(2,461)
Total Texas Roadhouse, Inc. and subsidiaries stockholders' equity	584,916	525,084
Noncontrolling interests	5,818	5,653
Total equity	590,734	530,737
Total liabilities and equity	\$ 827,068	\$ 791,254

See accompanying notes to condensed consolidated financial statements.

Table of Contents**Texas Roadhouse, Inc. and Subsidiaries****Condensed Consolidated Statements of Income and Comprehensive Income****(in thousands, except per share data)****(unaudited)**

	13 Weeks Ended		39 Weeks Ended	
	September 24, 2013	September 25, 2012	September 24, 2013	September 25, 2012
<b>Revenue:</b>				
Restaurant sales	\$ 331,746	\$ 306,025	\$ 1,037,239	\$ 945,583
Franchise royalties and fees	3,024	2,631	9,326	8,217
<b>Total revenue</b>	<b>334,770</b>	<b>308,656</b>	<b>1,046,565</b>	<b>953,800</b>
<b>Costs and expenses:</b>				
Restaurant operating costs (excluding depreciation and amortization shown separately below):				
Cost of sales	116,570	102,930	361,334	319,445
Labor	99,003	91,507	302,387	278,089
Rent	7,181	6,489	21,390	19,120
Other operating	51,949	50,183	162,716	151,967
Pre-opening	4,746	2,458	11,810	8,823
Depreciation and amortization	12,462	11,828	36,864	34,721
Impairment and closure	103	24	187	63
General and administrative	17,060	15,503	56,216	53,189
<b>Total costs and expenses</b>	<b>309,074</b>	<b>280,922</b>	<b>952,904</b>	<b>865,417</b>
<b>Income from operations</b>	<b>25,696</b>	<b>27,734</b>	<b>93,661</b>	<b>88,383</b>
Interest expense, net	525	603	1,687	1,776
Equity income from investments in unconsolidated affiliates	(173)	(141)	(571)	(303)
<b>Income before taxes</b>	<b>25,344</b>	<b>27,272</b>	<b>92,545</b>	<b>86,910</b>
Provision for income taxes	7,500	8,778	26,617	27,815
<b>Net income including noncontrolling interests</b>	<b>\$ 17,844</b>	<b>\$ 18,494</b>	<b>\$ 65,928</b>	<b>\$ 59,095</b>
Less: Net income attributable to noncontrolling interests	674	427	2,624	1,849
<b>Net income attributable to Texas Roadhouse, Inc. and subsidiaries</b>	<b>\$ 17,170</b>	<b>\$ 18,067</b>	<b>\$ 63,304</b>	<b>\$ 57,246</b>
<b>Other comprehensive income (loss), net of tax:</b>				
Unrealized gain (loss) on derivatives, net of tax of (\$61), (\$17), (\$401) and \$59, respectively	97	28	634	(78)
<b>Total comprehensive income</b>	<b>\$ 17,267</b>	<b>\$ 18,095</b>	<b>\$ 63,938</b>	<b>\$ 57,168</b>

Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

Net income per common share attributable to Texas Roadhouse, Inc. and subsidiaries:					
Basic	\$	0.24	\$	0.26	\$ 0.91 \$ 0.82
Diluted	\$	0.24	\$	0.25	\$ 0.89 \$ 0.80
Weighted-average shares outstanding:					
Basic		70,361		70,482	69,914 70,004
Diluted		71,620		71,928	71,175 71,480
Cash dividends declared per share	\$	0.12	\$	0.09	\$ 0.36 \$ 0.27

See accompanying notes to condensed consolidated financial statements.

Table of Contents**Texas Roadhouse, Inc. and Subsidiaries****Condensed Consolidated Statement of Stockholders Equity****(in thousands, except share data)****(unaudited)**

	Shares	Par Value	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Texas Roadhouse, Inc. and Subsidiaries	Noncontrolling Interests	Total
Balance, December 25, 2012	68,977,045	\$ 69	\$ 199,967	\$ 327,509	\$ (2,461)	\$ 525,084	\$ 5,653	\$ 530,737
Net income				63,304		63,304	2,624	65,928
Unrealized gain on derivatives, net of tax of \$401					634	634		634
Distributions to noncontrolling interests							(2,459)	(2,459)
Minority interest liquidation adjustments			36			36		36
Dividends declared and paid (\$0.36 per share)				(16,804)		(16,804)		(16,804)
Dividends declared (\$0.12 per share)				(8,458)		(8,458)		(8,458)
Shares issued under stock option plan including tax effects	976,659	1	16,013			16,014		16,014
Settlement of restricted stock units	832,467	1	(1)					
Indirect repurchase of shares for minimum tax withholdings	(274,860)		(5,477)			(5,477)		(5,477)
Share-based compensation			10,583			10,583		10,583
Balance, September 24, 2013	70,511,311	\$ 71	\$ 221,121	\$ 365,551	\$ (1,827)	\$ 584,916	\$ 5,818	\$ 590,734

See accompanying notes to condensed consolidated financial statements.



Table of Contents

## Texas Roadhouse, Inc. and Subsidiaries

## Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	39 Weeks Ended	
	September 24, 2013	September 25, 2012
<b>Cash flows from operating activities:</b>		
Net income including noncontrolling interests	\$ 65,928	\$ 59,095
Depreciation and amortization	36,864	34,721
Deferred income taxes	(1,739)	(6,389)
Loss on disposition of assets	2,641	2,712
Impairment and closure costs	84	
Equity income from investments in unconsolidated affiliates	(571)	(303)
Distributions of income received from investments in unconsolidated affiliates	343	336
Provision for doubtful accounts	85	14
Share-based compensation expense	10,583	9,754
Changes in operating working capital:		
Receivables	4,813	1,558
Inventories	(53)	1,209
Prepaid expenses	583	2,013
Other assets	(3,201)	(1,866)
Accounts payable	653	(5,099)
Deferred revenue - gift cards	(27,670)	(25,724)
Accrued wages	1,319	769
Excess tax benefits from share-based compensation	(3,013)	(3,159)
Prepaid income taxes and income taxes payable	4,943	9,194
Accrued taxes and licenses	1,850	1,126
Other accrued liabilities	1,225	6,906
Deferred rent	2,536	2,247
Other liabilities	1,458	1,880
Net cash provided by operating activities	\$ 99,661	\$ 90,994
<b>Cash flows from investing activities:</b>		
Capital expenditures - property and equipment	(71,888)	(63,146)
Proceeds from sale of property and equipment, including insurance proceeds, and other	(39)	255
Net cash used in investing activities	\$ (71,927)	\$ (62,891)
<b>Cash flows from financing activities:</b>		
Repayments of revolving credit facility		(10,000)
Proceeds from noncontrolling interest contributions and other		1,285
Distributions to noncontrolling interests	(2,459)	(2,183)
Excess tax benefits from share-based compensation	3,013	3,159
Repayment of stock option and other deposits	23	38
Indirect repurchase of shares for minimum tax withholdings	(5,477)	(2,991)
Principal payments on long-term debt and capital lease obligations	(298)	(224)
Proceeds from exercise of stock options	13,001	10,265

Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

Dividends paid to stockholders		(29,939)		(18,134)
Net cash used in financing activities	\$	(22,136)	\$	(18,785)
Net increase in cash and cash equivalents		5,598		9,318
Cash and cash equivalents beginning of period		81,746		78,777
Cash and cash equivalents end of period	\$	87,344	\$	88,095
Supplemental disclosures of cash flow information:				
Interest, net of amounts capitalized	\$	1,803	\$	1,874
Income taxes, net of refunds	\$	23,410	\$	25,003

See accompanying notes to condensed consolidated financial statements.

Table of Contents

**Texas Roadhouse, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**(Tabular dollar amounts in thousands, except per share data)**

**(unaudited)**

**(1) Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements include the accounts of Texas Roadhouse, Inc. ( TRI ), our wholly-owned subsidiaries and subsidiaries in which we own more than 50 percent interest (collectively the Company, we, our and/or us ) as of September 24, 2013 and December 25, 2012 and for the 13 and 39 weeks ended September 24, 2013 and September 25, 2012. Our wholly-owned subsidiaries include: Texas Roadhouse Holdings LLC ( Holdings ), Texas Roadhouse Development Corporation ( TRDC ) and Texas Roadhouse Management Corporation ( Management Corp. ). We and our subsidiaries operate restaurants primarily under the Texas Roadhouse name. Holdings also provides supervisory and administrative services for certain other franchise Texas Roadhouse restaurants. TRDC sells franchise rights and collects the franchise royalties and fees. Management Corp. provides management services to the Company and certain other franchise Texas Roadhouse restaurants. All significant balances and transactions between the consolidated entities have been eliminated.

As of September 24, 2013 and September 25, 2012, we owned 5.0% to 10.0% equity interests in 23 and 22 franchise restaurants, respectively. The unconsolidated restaurants are accounted for using the equity method. While we exercise significant control over these franchise restaurants, we do not consolidate their financial position, results of operations or cash flows as it is immaterial to our consolidated financial position, results of operations and cash flows. Our investments in these unconsolidated affiliates are included in Other assets in our unaudited condensed consolidated balance sheets, and we record our percentage share of net income earned by these unconsolidated affiliates in our unaudited condensed consolidated statements of income and comprehensive income under Equity income from investments in unconsolidated affiliates.

We have made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reporting of revenue and expenses during the periods to prepare these unaudited condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles ( GAAP ). Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, goodwill, obligations related to insurance reserves, income taxes and share-based compensation expense. Actual results could differ from those estimates.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our financial position, results of operations and cash flows for the periods presented. The financial statements have been prepared in accordance with GAAP, except that certain information and footnotes have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission ( SEC ). Operating results for the 13 and 39 weeks ended September 24, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. The unaudited condensed 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 year ended December 25, 2012.

## Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

Certain prior year amounts have been reclassified in our unaudited condensed consolidated financial statements to conform with current year presentation.

Our significant interim accounting policies include the recognition of income taxes using an estimated annual effective tax rate.

### (2) **Share-based Compensation**

On May 16, 2013, the Company's stockholders approved the Texas Roadhouse, Inc. 2013 Long-Term Incentive Plan (the Plan). The Plan provides for the granting of incentive and non-qualified stock options to purchase shares of common stock, stock appreciation rights, and full value awards, including restricted stock, restricted stock units (RSUs), deferred stock units, performance stock and performance stock units. As a result of the approval of the Plan, no future awards will be made under the Texas Roadhouse, Inc. 2004 Equity Incentive Plan.

Beginning in 2008, we changed the method by which we provide share-based compensation to our employees by eliminating stock option grants and, instead, granting RSUs as a form of share-based compensation. An RSU is the conditional right to receive one share of common stock upon satisfaction of the vesting requirement.

## Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

### Table of Contents

The following table summarizes the share-based compensation recorded in the accompanying unaudited condensed consolidated statements of income and comprehensive income:

	13 Weeks Ended		39 Weeks Ended	
	September 24, 2013	September 25, 2012	September 24, 2013	September 25, 2012
Labor expense	\$ 1,356	\$ 1,196	\$ 4,027	\$ 3,326
General and administrative expense	2,256	2,233	6,556	6,428
Total share-based compensation expense	\$ 3,612	\$ 3,429	\$ 10,583	\$ 9,754

Share-based compensation activity by type of grant as of September 24, 2013 and changes during the 39 weeks then ended are presented below.

### *Summary Details for Equity Incentive Plan Share Options*

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 25, 2012	2,258,921	\$ 13.24		
Granted				
Forfeited	(25,719)	12.55		
Exercised	(976,659)	13.31		
Outstanding at September 24, 2013	1,256,543	\$ 13.20	2.33	\$ 15,781
Exercisable at September 24, 2013	1,256,543	\$ 13.20	2.33	\$ 15,781

The total intrinsic value of options exercised during the 13 weeks ended September 24, 2013 and September 25, 2012 was \$1.7 million and \$1.6 million, respectively. During the 39 weeks ended September 24, 2013 and September 25, 2012, the total intrinsic value of options exercised was \$8.0 million and \$8.2 million, respectively. No stock options vested during the 13 or 39 week periods ended September 24, 2013. The total grant date fair value of stock options vested for the 13 week period ended September 25, 2012 was immaterial. The total grant date fair value of stock options vested for the 39 week period ended September 25, 2012 was \$0.1 million.

### *Summary Details for RSUs*

	Shares	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 25, 2012	1,803,514	\$ 15.73		
Granted	418,870	22.53		
Forfeited	(35,096)	17.17		

## Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

Vested	(832,467)		15.92			
Outstanding at September 24, 2013	1,354,821	\$	17.68	8.65	\$	34,900

As of September 24, 2013, with respect to unvested RSUs, there was \$13.4 million of unrecognized compensation cost that is expected to be recognized over a weighted-average period of 1.3 years. The vesting terms of the RSUs range from 1.0 to 5.0 years. The total intrinsic value of RSUs vested for the 13 weeks ended September 24, 2013 and September 25, 2012 was \$3.7 million and \$1.8 million, respectively. For the 39 weeks ended September 24, 2013 and September 25, 2012, the total intrinsic value of RSUs vested was \$16.9 million and \$7.2 million, respectively.

Table of Contents**(3) Long-term Debt and Obligations Under Capital Leases**

Long-term debt and obligations under capital leases consisted of the following:

	<b>September 24, 2013</b>	<b>December 25, 2012</b>
Installment loans, due 2013 - 2020	1,304	\$ 1,473
Obligations under capital leases		129
Revolving credit facility	50,000	50,000
	51,304	51,602
Less current maturities	248	338
	\$ 51,056	\$ 51,264

The weighted-average interest rate for installment loans outstanding at September 24, 2013 and December 25, 2012 was 10.55% and 10.56%, respectively. The debt is secured by certain land and buildings and is subject to certain prepayment penalties.

On August 12, 2011, we entered into a \$200.0 million five-year revolving credit facility with a syndicate of commercial lenders led by JPMorgan Chase Bank, N.A., PNC Bank, N.A., and Wells Fargo, N.A. This facility replaced our previous five-year revolving credit facility. The revolving credit facility expires on August 12, 2016. The terms of the revolving credit facility require us to pay interest on outstanding borrowings at London Interbank Offered Rate ( LIBOR ) plus a margin of 0.875% to 1.875%, depending on our leverage ratio, or the Alternate Base Rate, which is the higher of the issuing bank's prime lending rate, the Federal Funds rate plus 0.50% or the Adjusted Eurodollar Rate for a one month interest period on such day plus 1.0%. We are also required to pay a commitment fee of 0.150% to 0.350% per year on any unused portion of the revolving credit facility, depending on our leverage ratio. The weighted-average interest rate for the revolving credit facility at both September 24, 2013 and December 25, 2012 was 3.96%, including the impact of interest rate swaps as discussed in note 5. At September 24, 2013, we had \$50.0 million outstanding under the revolving credit facility and \$145.3 million of availability, net of \$4.7 million of outstanding letters of credit.

The lenders' obligation to extend credit under the revolving credit facility depends on us maintaining certain financial covenants, including a minimum consolidated fixed charge coverage ratio of 2.00 to 1.00 and a maximum consolidated leverage ratio of 3.00 to 1.00. The revolving credit facility permits us to incur additional secured or unsecured indebtedness outside the facility, except for the incurrence of secured indebtedness that in the aggregate exceeds 20% of our consolidated tangible net worth or circumstances where the incurrence of secured or unsecured indebtedness would prevent us from complying with our financial covenants. We were in compliance with all covenants as of September 24, 2013.

On November 1, 2013, we amended our existing revolving credit facility which extended the expiration date to November 1, 2018. There were no material changes to the terms of the revolving credit facility.

**(4) Income taxes**

## Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

A reconciliation of the statutory federal income tax rate to our effective tax rate for the 13 and 39 weeks ended September 24, 2013 and September 25, 2012 is as follows:

	13 Weeks Ended		39 Weeks Ended	
	September 24, 2013	September 25, 2012	September 24, 2013	September 25, 2012
Tax at statutory federal rate	35.0%	35.0%	35.0%	35.0%
State and local tax, net of federal benefit	3.7	3.8	3.7	3.8
FICA tip tax credit	(7.5)	(6.4)	(6.3)	(5.8)
Work opportunity tax credit	(1.1)	(0.9)	(2.2)	(0.8)
Incentive stock options	(1.2)	(0.2)	(0.8)	(0.3)
Nondeductible officer compensation	0.5	1.4	0.4	1.1
Other	1.0		(0.2)	(0.3)
<b>Total</b>	<b>30.4%</b>	<b>32.7%</b>	<b>29.6%</b>	<b>32.7%</b>

We deduct net income attributable to noncontrolling interests from income before taxes as shown in our unaudited condensed consolidated statements of income and comprehensive income to determine the effective tax rates shown in the table above.



Table of Contents

**(5) Derivative and Hedging Activities**

We enter into derivative instruments for risk management purposes only, including derivatives designated as hedging instruments under Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 815, *Derivatives and Hedging* ( ASC 815 ). We use interest rate-related derivative instruments to manage our exposure to fluctuations of interest rates. By using these instruments, we expose ourselves, from time to time, to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk for us. We attempt to minimize the credit risk by entering into transactions with high-quality counterparties whose credit rating is evaluated on a quarterly basis. Our counterparty in the interest rate swaps is JPMorgan Chase Bank, N.A. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. We minimize market risk by establishing and monitoring parameters that limit the types and degree of market risk that may be taken.

*Interest Rate Swaps*

On October 22, 2008, we entered into an interest rate swap, starting on November 7, 2008, with a notional amount of \$25.0 million to hedge a portion of the cash flows of our variable rate borrowings. We have designated the interest rate swap as a cash flow hedge of our exposure to variability in future cash flows attributable to interest payments on a \$25.0 million tranche of floating rate debt borrowed under our revolving credit facility. Under the terms of the swap, we pay a fixed rate of 3.83% on the \$25.0 million notional amount and receive payments from the counterparty based on the 1-month LIBOR rate for a term ending on November 7, 2015, effectively resulting in a fixed rate on the \$25.0 million notional amount.

On January 7, 2009, we entered into an interest rate swap, starting on February 7, 2009, with a notional amount of \$25.0 million to hedge a portion of the cash flows of our variable rate borrowings. We have designated the interest rate swap as a cash flow hedge of our exposure to variability in future cash flows attributable to interest payments on a \$25.0 million tranche of floating rate debt borrowed under our revolving credit facility. Under the terms of the swap, we pay a fixed rate of 2.34% on the \$25.0 million notional amount and receive payments from the counterparty based on the 1-month LIBOR rate for a term ending on January 7, 2016, effectively resulting in a fixed rate on the \$25.0 million notional amount.

We entered into the above interest rate swaps with the objective of eliminating the variability of our interest cost that arises because of changes in the variable interest rate for the designated interest payments. Changes in the fair value of the interest rate swaps will be reported as a component of accumulated other comprehensive income or loss ( AOCI ). Additionally, amounts related to the yield adjustment of the hedged interest payments are subsequently reclassified into interest expense in the same period which the related interest affects earnings. We will reclassify any gain or loss from accumulated other comprehensive income or loss, net of tax, in our unaudited condensed consolidated balance sheet to interest expense in our unaudited condensed consolidated statement of income and comprehensive income when the interest rate swap expires or at the time we choose to terminate the swap. See note 11 for fair value discussion of these interest rate swaps.

The following table summarizes the fair value and presentation in the unaudited condensed consolidated balance sheets for derivatives designated as hedging instruments under FASB ASC 815:

Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

	Balance Sheet Location	Derivative Assets		Derivative Liabilities	
		September 24, 2013	December 25, 2012	September 24, 2013	December 25, 2012
Derivative Contracts Designated as Hedging Instruments under ASC 815	(1)				
Interest rate swaps		\$	\$	\$ 2,980	\$ 4,016
Total Derivative Contracts		\$	\$	\$ 2,980	\$ 4,016

(1) Derivative assets and liabilities are included in fair value of derivative financial instruments in the unaudited condensed consolidated balance sheets.

Table of Contents

The following table summarizes the effect of our interest rate swaps in the unaudited condensed consolidated statements of income and comprehensive income for the 13 and 39 weeks ended September 24, 2013 and September 25, 2012:

	13 Weeks Ended		39 Weeks Ended	
	September 24, 2013	September 25, 2012	September 24, 2013	September 25, 2012
Gain (loss) recognized in AOCI, net of tax (effective portion)	\$ 97	\$ 28	\$ 634	\$ (78)
Loss reclassified from AOCI to income (effective portion)	\$ 378	\$ 363	\$ 1,106	\$ 1,082

The loss reclassified from AOCI to income was recognized in interest expense on our unaudited condensed consolidated statements of income and comprehensive income. For each of the 13 and 39 weeks ended September 24, 2013 and September 25, 2012, we did not recognize any gain or loss due to hedge ineffectiveness related to the derivative instruments in the unaudited condensed consolidated statements of income and comprehensive income.

**(6) Recent Accounting Pronouncements*****Comprehensive Income***

*(Accounting Standards Update 2013-02, ASU 2013-2 )*

In February 2013, the FASB issued ASU 2013-2, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, that requires an organization to present the effects on the line items of net income of significant amounts reclassified out of AOCI, but only if the item reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. ASU 2013-02 was effective for fiscal years beginning after December 15, 2012 (our 2013 fiscal year). The adoption of this new guidance had no impact on our consolidated financial position, results of operations or cash flows.

**(7) Commitments and Contingencies**

The estimated cost of completing capital project commitments at September 24, 2013 and December 25, 2012 was approximately \$63.8 million and \$73.2 million, respectively.

We entered into real estate lease agreements for franchise restaurants located in Everett, MA, Longmont, CO, Montgomeryville, PA, Fargo, ND and Logan, UT before granting franchise rights for those restaurants. We have subsequently assigned the leases to the franchisees, but remain contingently liable if a franchisee defaults under the terms of a lease. We are contingently liable for the initial term of the lease and any renewal periods. The Longmont lease was assigned in October 2003 and the initial term expires in May 2014. The Everett lease was assigned in

## Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

September 2002 and the initial term expires in February 2018. The Montgomeryville lease was assigned in October 2004 and the initial term expires in June 2021. The Fargo lease was assigned in February 2006 and the initial term expires in July 2016. The Logan lease was assigned in January 2009 and the initial term expires in August 2019. All of the leases have three five-year renewals. As the fair value of the guarantees is not considered significant, no liability has been recorded. As discussed in note 9, the Everett, MA, Longmont, CO, and Fargo, ND restaurants are owned, in whole or part, by certain of our officers, directors or 5% shareholders.

During the 39 weeks ended September 24, 2013, we bought most of our beef from four suppliers. Although there are a limited number of beef suppliers, we believe that other suppliers could provide a similar product on comparable terms. A change in suppliers, however, could cause supply shortages and a possible loss of sales, which would affect operating results adversely. We have no material minimum purchase commitments with our vendors that extend beyond a year.

On September 30, 2011, the U.S. Equal Employment Opportunity Commission ( EEOC ) filed a lawsuit styled Equal Employment Opportunity Commission v. Texas Roadhouse, Inc., Texas Roadhouse Holdings LLC, Texas Roadhouse Management Corp. in the United States District Court, District of Massachusetts ( Court ), Civil Action Number 1:11-cv-11732. The complaint alleges that applicants over the age of 40 were denied employment in our restaurants in bartender, host, server and server assistant positions due to their age. The EEOC is seeking injunctive relief, remedial actions, payment of damages to the applicants and costs. We have filed an answer to the complaint, and the case is in discovery. We deny liability; however, in view of the inherent uncertainties of litigation, the outcome of this case cannot be predicted at this time. We cannot estimate the possible amount or range of loss, if any, associated with this matter.

We are involved in various other claims and legal actions arising in the normal course of business. In the opinion of management, the ultimate disposition of these matters will not have a material effect on our consolidated financial position, results of operations or cash flows.

Table of Contents

**(8) Acquisitions**

On December 25, 2012, we acquired two franchise restaurants in Illinois. Pursuant to the terms of the acquisition agreement, we paid a purchase price of \$4.2 million. This acquisition is consistent with our long-term strategy to increase net income and earnings per share.

This transaction was accounted for using the purchase method as defined in ASC 805, *Business Combinations* ( ASC 805 ). Based on a purchase price of \$4.2 million, \$2.8 million of goodwill was generated by the acquisition, which is not amortizable for book purposes, but is deductible for tax purposes.

The purchase price has been allocated as follows:

Current assets	\$	64
Property and equipment, net		304
Goodwill		2,759
Intangible asset		1,342
Current liabilities		(195)
Other liabilities		(64)
Purchase Price	\$	4,210

As a result of this acquisition, we recorded an intangible asset associated with reacquired franchise rights of \$1.3 million in accordance with ASC 805. ASC 805 requires that a business combination between two parties that have a preexisting relationship be evaluated to determine if a settlement of a preexisting relationship exists. ASC 805 also requires that certain reacquired rights (including the rights to the acquirer's trade name under a franchise agreement) be recognized as intangible assets apart from goodwill.

The fair value of \$1.3 million assigned to the intangible asset acquired was determined primarily using valuation methods that discount expected future cash flows to present value using estimates and assumptions determined by management. The intangible asset has a weighted-average life of approximately 2.6 years based on the remaining term of the franchise agreements. We recorded amortization expense relating to the intangible asset of approximately \$0.4 million for the 39 weeks ended September 24, 2013. We expect the annual expense for the next four years to be \$0.6 million for 2013, \$0.5 million for 2014, \$0.2 million for 2015 and \$0.1 million for 2016.

Pro forma results of operations have not been presented because the effect of the acquisition was not material to our financial position, results of operations or cash flows.

**(9) Related Party Transactions**

## Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

The Longview, Texas restaurant, which was acquired by us in connection with the completion of our initial public offering, leases the land and restaurant building from an entity controlled by Steven L. Ortiz, our Chief Operating Officer. The lease term is 15 years and will terminate in November 2014. The lease can be renewed for two additional terms of five years each. Rent is approximately \$19,000 per month. The lease can be terminated if the tenant fails to pay the rent on a timely basis, fails to maintain the insurance specified in the lease, fails to maintain the building or property or becomes insolvent. Total rent payments were approximately \$0.1 million for each of the 13 weeks ended September 24, 2013 and September 25, 2012. For each of the 39 week periods ended September 24, 2013 and September 25, 2012, rent payments were approximately \$0.2 million.

The Bossier City, Louisiana restaurant, of which Mr. Ortiz beneficially owns 66.0% and we own 5.0%, leases the land and restaurant building from an entity owned by Mr. Ortiz. The lease term is 15 years and will terminate on March 31, 2020. Rent is approximately \$16,600 per month and escalates 10% each five year period during the term. The next rent escalation is in the second quarter of 2015. The lease can be terminated if the tenant fails to pay rent on a timely basis, fails to maintain insurance, abandons the property or becomes insolvent. Total rent payments were approximately \$0.1 million for each of the 13 weeks ended September 24, 2013 and September 25, 2012. For each of the 39 week periods ended September 24, 2013 and September 25, 2012, rent payments were approximately \$0.1 million.

We have 15 franchise restaurants owned, in whole or part, by certain of our officers, directors or 5% shareholders as of September 24, 2013 and September 25, 2012. These entities paid us fees of approximately \$0.6 million for both of the 13 weeks ended September 24, 2013 and September 25, 2012. For the 39 week periods ended September 24, 2013 and September 25, 2012, these entities paid us fees of approximately \$1.8 and \$1.7 million, respectively. As disclosed in note 7, we are contingently liable on leases which are related to three of these restaurants.

Table of Contents**(10) Earnings Per Share**

The share and net income per share data for all periods presented are based on the historical weighted-average shares outstanding. The diluted earnings per share calculations show the effect of the weighted-average stock options and RSUs outstanding from our equity incentive plan as discussed in note 2.

The following table summarizes the options and nonvested stock that were outstanding but not included in the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect:

	13 Weeks Ended		39 Weeks Ended	
	September 24, 2013	September 25, 2012	September 24, 2013	September 25, 2012
Options		289,210		293,561
Nonvested stock			29,155	4,901
Total		289,210	29,155	298,462

The following table sets forth the calculation of weighted-average shares outstanding (in thousands) as presented in the accompanying unaudited condensed consolidated statements of income and comprehensive income:

	13 Weeks Ended		39 Weeks Ended	
	September 24, 2013	September 25, 2012	September 24, 2013	September 25, 2012
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	\$ 17,170	\$ 18,067	\$ 63,304	\$ 57,246
Basic EPS:				
Weighted-average common shares outstanding	70,361	70,482	69,914	70,004
Basic EPS	\$ 0.24	\$ 0.26	\$ 0.91	\$ 0.82
Diluted EPS:				
Weighted-average common shares outstanding	70,361	70,482	69,914	70,004
Dilutive effect of stock options and nonvested stock	1,259	1,446	1,261	1,476
Shares diluted	71,620	71,928	71,175	71,480
Diluted EPS	\$ 0.24	\$ 0.25	\$ 0.89	\$ 0.80

**(11) Fair Value Measurements**

ASC 820, *Fair Value Measurements and Disclosures* ( ASC 820 ), establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 establishes a three-level hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs in measuring fair value. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date.

- Level 1 Inputs based on quoted prices in active markets for identical assets.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the assets, either directly or indirectly.
- Level 3 Inputs that are unobservable for the asset.

There were no transfers among levels within the fair value hierarchy during the 13 and 39 weeks ended September 24, 2013.



Table of Contents

The following table presents the fair values for our financial assets and liabilities measured on a recurring basis:

	Level	Fair Value Measurements	
		September 24, 2013	December 25, 2012
Interest rate swaps	2	\$ (2,980)	\$ (4,016)
Deferred compensation plan - assets	1	11,174	9,145
Deferred compensation plan - liabilities	1	(11,156)	(9,160)

The fair values of our interest rate swaps were determined based on industry-standard valuation models. Such models project future cash flows and discount the future amounts to present value using market-based observable inputs, including interest rate curves. See note 5 for discussion of our interest rate swaps.

The Second Amended and Restated Deferred Compensation Plan of Texas Roadhouse Management Corp., as amended, (the Deferred Compensation Plan ) is a nonqualified deferred compensation plan which allows highly compensated employees to defer receipt of a portion of their compensation and contribute such amounts to one or more investment funds held in a rabbi trust. We report the accounts of the rabbi trust in our unaudited condensed consolidated financial statements. These investments are considered trading securities and are reported at fair value based on third-party broker statements. The realized and unrealized holding gains and losses related to these investments, as well as the offsetting compensation expense, are recorded in general and administrative expense in the unaudited condensed consolidated statements of income and comprehensive income.

At September 24, 2013 and December 25, 2012, the fair values of cash and cash equivalents, accounts receivable and accounts payable approximated their carrying values based on the short-term nature of these instruments. The fair value of our revolving credit facility at September 24, 2013 and December 25, 2012 approximated its carrying value since it is a variable rate credit facility (Level 2). The fair value of our installment loans is estimated based on the current rates offered to us for instruments of similar terms and maturities. The carrying amounts and related estimated fair values for our installment loans are as follows:

	September 24, 2013		December 25, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Installment loans				
Level 2	\$ 1,304	\$ 1,524	\$ 1,473	\$ 1,752

**(12) Stock Repurchase Program**

On February 16, 2012, our Board of Directors approved a stock repurchase program which authorized us to repurchase up to \$100.0 million of our common stock. This stock repurchase program has no expiration date. All repurchases to date under our stock repurchase program have been made through open market transactions. The timing and the amount of any repurchases will be determined by management under parameters established by our Board of Directors, based on its evaluation of our stock price, market conditions and other corporate considerations.

Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

We did not repurchase any shares of our common stock during the 13 and 39 week periods ended September 24, 2013 or September 25, 2012.

Table of Contents

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**CAUTIONARY STATEMENT**

*This report contains forward-looking statements based on our current expectations, estimates and projections about our industry, management's beliefs, and certain assumptions made by us. Words such as anticipates, expects, intends, plans, believes, seeks, estimates, may, will and variations of these words or similar expressions are intended to identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. Such statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors. The section entitled Risk Factors in our Annual Report on Form 10-K for the year ended December 25, 2012, and in our other Securities and Exchange Commission (SEC) filings, discusses some of the important risk factors that may affect our business, results of operations, or financial condition. You should carefully consider those risks, in addition to the other information in this report, and in our other filings with the SEC, before deciding to invest in our company or to maintain or increase your investment. We undertake no obligation to revise or update publicly any forward-looking statements for any reason. The information contained in this Form 10-Q is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the SEC that discuss our business in greater detail and advise interested parties of certain risks, uncertainties and other factors that may affect our business, results of operations or financial condition.*

**OVERVIEW**

Texas Roadhouse is a growing, moderately priced, full-service restaurant chain. Our founder, chairman and chief executive officer, W. Kent Taylor, started the business in 1993 with the opening of the first Texas Roadhouse in Clarksville, Indiana. Since then, we have grown to 409 restaurants in 48 states and three international locations in two countries. Our mission statement is Legendary Food, Legendary Service®. Our operating strategy is designed to position each of our restaurants as the local hometown destination for a broad segment of consumers seeking high quality, affordable meals served with friendly, attentive service. As of September 24, 2013, our 409 restaurants included:

- 334 company restaurants, of which 319 were wholly-owned and 15 were majority-owned. The results of operations of company restaurants are included in our unaudited condensed consolidated statements of income and comprehensive income. The portion of income attributable to minority interests in company restaurants that are not wholly-owned is reflected in the line item entitled Net income attributable to noncontrolling interests in our unaudited condensed consolidated statements of income and comprehensive income.

- 75 franchise restaurants, including three international restaurants. We have a 5.0% to 10.0% ownership interest in 23 franchise restaurants in the United States. The income derived from our minority interests in these franchise restaurants is reported in the line item entitled Equity income from investments in unconsolidated affiliates in our unaudited condensed consolidated statements of income and comprehensive income. Additionally, we provide various management services to these franchise restaurants, as well as seven additional franchise restaurants in which we have no ownership interest.

## Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

We have contractual arrangements which grant us the right to acquire at pre-determined valuation formulas the remaining equity interests in 13 of the 15 majority-owned company restaurants and 68 of the 72 domestic franchise restaurants.

### **Presentation of Financial and Operating Data**

Throughout this report, the 13 weeks ended September 24, 2013 and September 25, 2012 are referred to as Q3 2013 and Q3 2012, respectively. The 39 weeks ended September 24, 2013 and September 25, 2012 are referred to as 2013 YTD and 2012 YTD, respectively. Fiscal year 2013 will be 53 weeks in length and, as such, the fourth quarter of fiscal 2013 will be 14 weeks in length. Fiscal year 2012 was 52 weeks in length, while the quarters for the year were 13 weeks in length.

### **Long-term Strategies to Grow Earnings Per Share and Create Shareholder Value**

Our long-term strategies with respect to increasing net income and earnings per share, along with creating shareholder value, include the following:

*Expanding Our Restaurant Base.* We will continue to evaluate opportunities to develop Texas Roadhouse restaurants in existing and new domestic and international markets. Domestically, we will remain focused primarily on mid-sized markets where we believe a significant demand for our restaurants exists because of population size, income levels, the presence of shopping and entertainment centers and a significant employment base. Our ability to expand our restaurant base is influenced by many factors beyond our control and therefore we may not be able to achieve our anticipated growth.

Table of Contents

Our average capital investment for Texas Roadhouse restaurants opened during 2012, including pre-opening expenses, was \$3.9 million. This average includes 10 times the annual base rent amount for restaurants where we do not own the land. We anticipate that our 2013 development costs will be higher than our 2012 costs. We continue to focus on driving sales and managing restaurant development costs in order to further increase our restaurant development in the future.

We may, at our discretion, add franchise restaurants, domestically and/or internationally, primarily with franchisees who have demonstrated prior success with the Texas Roadhouse or other restaurant concepts and in markets in which the franchisee demonstrates superior knowledge of the demographics and restaurant operating conditions. In conjunction with this strategy, we signed our first international franchise agreement in April 2010 for the development of Texas Roadhouse restaurants in eight countries in the Middle East over 10 years, three of which were open at September 24, 2013. Additionally, in 2010, we entered into a joint venture agreement with a casual dining restaurant operator in China for the minority ownership in four non-Texas Roadhouse restaurants, all of which are open. We may also look to acquire domestic franchise restaurants under terms favorable to us and our shareholders. Additionally, from time to time, we may evaluate potential mergers, acquisitions, joint ventures or other strategic initiatives to acquire or develop additional concepts. Of the 334 restaurants we owned and operated at September 24, 2013, we owned and operated 331 as Texas Roadhouse restaurants. We opened 14 company restaurants 2013 YTD and plan to open 14 additional company restaurants through the remainder of 2013. During 2013 YTD, our franchise partners have opened three Texas Roadhouse restaurants, and we anticipate they will open two additional international Texas Roadhouse restaurants through the remainder of 2013.

*Maintaining and/or Improving Restaurant Level Profitability.* We plan to maintain, or possibly increase, restaurant level profitability through a combination of increased comparable restaurant sales and operating cost management. In general, we continue to balance the impact of inflationary pressures with our value positioning as we remain focused on the long-term success of Texas Roadhouse. This may create a challenge in terms of maintaining and/or increasing restaurant margin, as a percentage of restaurant sales, in any given year, depending on the level of inflation we experience. However, in addition to restaurant margin, as a percentage of restaurant sales, we also focus on restaurant margin dollar growth per store week as a measure of restaurant level profitability. In terms of driving higher guest traffic counts, we remain focused on encouraging repeat visits by our guests through our continued commitment to operational standards relating to our quality of food and service. In order to attract new guests and increase the frequency of visits of our existing guests, we also continue to drive various localized marketing programs, to focus on speed of service and to increase throughput by adding seats in certain restaurants.

*Leveraging Our Scalable Infrastructure.* To support our growth, we continue to make investments in our infrastructure. Over the past several years, we have made significant investments in our infrastructure, including information systems, real estate, human resources, legal, marketing and operations. Our long-term goal is for general and administrative costs to increase at a slower growth rate than our revenue. Whether we are able to leverage our infrastructure will depend, in part, on our new restaurant openings and our comparable restaurant sales growth rate going forward.

*Returning Capital to Shareholders.* We continue to pay dividends and evaluate opportunities to return capital to our shareholders through repurchases of common stock. In 2011, our Board of Directors declared our first quarterly dividend of \$0.08 per share of common stock, and we have consistently grown our per share dividend each year since that time. Most recently, on August 27, 2013, our Board of Directors authorized the payment of a quarterly cash dividend of \$0.12 per share of common stock which was paid on September 27, 2013. The declaration and payment of cash dividends on our common stock is at the discretion of our Board of Directors, and any future decision to declare a dividend will be based on a number of factors, including, but not limited to, earnings, financial condition, applicable covenants under our revolving credit facility and other contractual restrictions, or other factors deemed relevant.

On February 16, 2012, our Board of Directors approved a stock repurchase program which authorized us to repurchase up to \$100.0 million of our common stock. The stock repurchase program has no expiration date. All repurchases to date under our stock repurchase program have been made through open market transactions. As of September 24, 2013, \$70.6 million remains authorized for repurchase. Since 2008, we have paid

## Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

\$145.5 million to repurchase 12.3 million shares of our common stock at an average price per share of \$11.86 through our authorized stock repurchase programs.

### **Key Measures We Use to Evaluate Our Company**

Key measures we use to evaluate and assess our business include the following:

*Number of Restaurant Openings.* Number of restaurant openings reflects the number of restaurants opened during a particular fiscal period. For company restaurant openings we incur pre-opening costs, which are defined below, before the restaurant opens. Typically new restaurants open with an initial start-up period of higher than normalized sales volumes, which decrease to a steady level approximately three to six months after opening. However, although sales volumes are generally higher, so are initial costs,

resulting in restaurant operating margins that are generally lower during the start-up period of operation and increase to a steady level approximately three to six months after opening.

Table of Contents

*Comparable Restaurant Sales Growth.* Comparable restaurant sales growth reflects the change in year-over-year sales for the company restaurants in the comparable restaurant base. We define the comparable restaurant base to include those restaurants open for a full 18 months before the beginning of the current interim period excluding restaurants closed during the period. Comparable restaurant sales growth can be impacted by changes in guest traffic counts or by changes in the per person average check amount. Menu price changes and the mix of menu items sold can affect the per person average check amount.

*Average Unit Volume.* Average unit volume represents the average quarterly or annual restaurant sales for company Texas Roadhouse restaurants open for a full six months before the beginning of the period measured. Average unit volume excludes any sales at restaurants closed during the period. Growth in average unit volumes in excess of comparable restaurant sales growth is generally an indication that newer restaurants are operating with sales levels in excess of the company average. Conversely, growth in average unit volumes less than growth in comparable restaurant sales growth is generally an indication that newer restaurants are operating with sales levels lower than the company average.

*Store Weeks.* Store weeks represent the number of weeks that our company restaurants were open during the reporting period.

*Restaurant Margin.* Restaurant margin represents restaurant sales less cost of sales, labor, rent and other operating costs. Depreciation and amortization expense, substantially all of which relates to restaurant-level assets, is excluded from restaurant operating costs and is shown separately as it represents a non-cash charge for the investment in our restaurants. Restaurant margin is widely regarded as a useful metric by which to evaluate restaurant-level operating efficiency and performance. Restaurant margin is not a measurement determined in accordance with generally accepted accounting principles ( GAAP ) and should not be considered in isolation, or as an alternative, to income from operations or other similarly titled measures of other companies. Restaurant margin, as a percentage of restaurant sales, may fluctuate based on inflationary pressures, commodity costs and wage rates. We also focus on restaurant margin dollar growth per store week as a measure of restaurant-level profitability as it provides additional insight on operating performance.

**Other Key Definitions**

*Managing Partners and Market Partners.* Managing partners are single unit operators who have primary responsibility for the day-to-day operations of the entire restaurant and are responsible for maintaining the standards of quality and performance we establish. Market partners, generally, have supervisory responsibilities for up to 10 to 15 restaurants. In addition to supervising the operations of our restaurants, they are also responsible for the hiring and development of each restaurant's management team and assist in the new restaurant site selection process.

*Restaurant Sales.* Restaurant sales include gross food and beverage sales, net of promotions and discounts, for all company restaurants. Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from restaurant sales in the unaudited condensed consolidated statements of income and comprehensive income.

*Franchise Royalties and Fees.* Domestic franchisees typically pay a \$40,000 initial franchise fee for each new restaurant. In addition, at each renewal period, we receive a fee equal to the greater of 30% of the then-current initial franchise fee or \$10,000 to \$15,000. Franchise royalties consist of royalties in an amount up to 4.0% of gross sales, as defined in our franchise agreements, paid to us by our domestic franchisees.

*Restaurant Cost of Sales.* Restaurant cost of sales consists of food and beverage costs.

*Restaurant Labor Expenses.* Restaurant labor expenses include all direct and indirect labor costs incurred in operations except for profit sharing incentive compensation expenses earned by our restaurant managing partners. These profit sharing expenses are reflected in restaurant other operating expenses. Restaurant labor expenses also include share-based compensation expense related to restaurant-level employees.

*Restaurant Rent Expense.* Restaurant rent expense includes all rent, except pre-opening rent, associated with the leasing of real estate and includes base, percentage and straight-line rent expense.

*Restaurant Other Operating Expenses.* Restaurant other operating expenses consist of all other restaurant-level operating costs, the major components of which are utilities, supplies, advertising, repair and maintenance, property taxes, credit card and gift card fees, gift card breakage and general liability insurance. Profit sharing allocations to managing partners and market partners are also included in restaurant other operating expenses.

*Pre-opening Expenses.* Pre-opening expenses, which are charged to operations as incurred, consist of expenses incurred before the opening of a new restaurant and are comprised principally of opening team and training compensation and benefits, travel expenses, rent, food, beverage and other initial supplies and expenses.



Table of Contents

*Depreciation and Amortization Expense.* Depreciation and amortization expense ( D&A ) includes the depreciation of fixed assets and amortization of intangibles with definite lives, substantially all of which relates to restaurant-level assets.

*Impairment and closure costs.* Impairment and closure costs include any impairment of long-lived assets, including goodwill, associated with restaurants where the carrying amount of the asset is not recoverable and exceeds the fair value of the asset and expenses associated with the closure of a restaurant. Closure costs also include any gains or losses associated with the sale of a closed restaurant and/or assets held for sale as well as lease costs associated with closed restaurants.

*General and Administrative Expenses.* General and administrative expenses ( G&A ) are comprised of expenses associated with corporate and administrative functions that support development and restaurant operations and provide an infrastructure to support future growth. Supervision and accounting fees received from certain franchise restaurants are offset against G&A. G&A also includes share-based compensation expense related to executive officers, support center employees and area managers, including market partners.

*Interest Expense, Net.* Interest expense includes the cost of our debt obligations including the amortization of loan fees, reduced by interest income and capitalized interest. Interest income includes earnings on cash and cash equivalents.

*Equity Income from Unconsolidated Affiliates.* As of September 24, 2013 and September 25, 2012, we owned a 5.0% to 10.0% equity interest in 23 and 22 franchise restaurants, respectively. Additionally, as of September 24, 2013, we owned a 40% equity interest in four non-Texas Roadhouse restaurants as part of a joint venture agreement with a casual dining restaurant operator in China. Equity income from unconsolidated affiliates represents our percentage share of net income earned by these unconsolidated affiliates.

*Net Income Attributable to Noncontrolling Interests.* Net income attributable to noncontrolling interests represents the portion of income attributable to the other owners of the majority-owned or controlled restaurants. Our consolidated subsidiaries at September 24, 2013 included 15 majority-owned restaurants, all of which were open. Our consolidated subsidiaries at September 25, 2012 included 15 majority-owned restaurants, 14 of which were open.

Table of Contents

**Results of Operations**

(\$ in thousands)	13 Weeks Ended				39 Weeks Ended			
	September 24, 2013		September 25, 2012		September 24, 2013		September 25, 2012	
	\$	%	\$	%	\$	%	\$	%
<b>Revenue:</b>								
Restaurant sales	331,746	99.1	306,025	99.1	1,037,239	99.1	945,583	99.1
Franchise royalties and fees	3,024	0.9	2,631	0.9	9,326	0.9	8,217	0.9
<b>Total revenue</b>	<b>334,770</b>	<b>100.0</b>	<b>308,656</b>	<b>100.0</b>	<b>1,046,565</b>	<b>100.0</b>	<b>953,800</b>	<b>100.0</b>
<b>Costs and expenses:</b>								
<i>(As a percentage of restaurant sales)</i>								
Restaurant operating costs (excluding depreciation and amortization shown separately below):								
Cost of sales	116,570	35.1	102,930	33.6	361,334	34.8	319,445	33.8
Labor	99,003	29.8	91,507	29.9	302,387	29.2	278,089	29.4
Rent	7,181	2.2	6,489	2.1	21,390	2.1	19,120	2.0
Other operating	51,949	15.7	50,183	16.4	162,716	15.7	151,967	16.1
<i>(As a percentage of total revenue)</i>								
Pre-opening	4,746	1.4	2,458	0.8	11,810	1.1	8,823	0.9
Depreciation and amortization	12,462	3.7	11,828	3.8	36,864	3.5	34,721	3.6
Impairment and closure	103	NM	24	NM	187	NM	63	NM
General and administrative	17,060	5.1	15,503	5.0	56,216	5.4	53,189	5.6
<b>Total costs and expenses</b>	<b>309,074</b>	<b>92.3</b>	<b>280,922</b>	<b>91.0</b>	<b>952,904</b>	<b>91.1</b>	<b>865,417</b>	<b>90.7</b>
Income from operations	25,696	7.7	27,734	9.0	93,661	9.0	88,383	9.3
Interest expense, net	525	0.2	603	0.2	1,687	0.2	1,776	0.2
Equity income from investments in unconsolidated affiliates	(173)	NM	(141)	NM	(571)	NM	(303)	NM
Income before taxes	25,344	7.6	27,272	8.8	92,545	8.8	86,910	9.1
Provision for income taxes	7,500	2.2	8,778	2.8	26,617	2.5	27,815	2.9
Net income including noncontrolling interests	17,844	5.3	18,494	6.0	65,928	6.3	59,095	6.2
Less: Net income attributable to noncontrolling interests	674	0.2	427	0.1	2,624	0.3	1,849	0.2
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	17,170	5.1	18,067	5.9	63,304	6.0	57,246	6.0

**Other Key Restaurant Measures**

	13 Weeks Ended				39 Weeks Ended			
	September 24, 2013		September 25, 2012		September 24, 2013		September 25, 2012	
	\$	%	\$	%	\$	%	\$	%
	57,043	17.2	54,916	17.9	189,410	18.3	176,962	18.7

Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

Restaurant margin (\$ in thousands)

Restaurant margin \$/store week	13,284	13,590	14,935	14,928
---------------------------------	--------	--------	--------	--------

NM Not meaningful

Table of Contents**Reconciliation of GAAP and Non-GAAP Information****(in thousands, except per share data)**

In addition to the results provided in accordance with GAAP throughout this document, we have provided non-GAAP measurements which present operating results on a basis before the impact of a settlement of a legal matter. This item is described in further detail throughout this document.

We used earnings before the impact of the legal settlement as a key performance measure of results of operations for purposes of evaluating performance internally. This non-GAAP measurement is not intended to replace the presentation of our financial results in accordance with GAAP. Rather, we believe that the presentation of results before the impact of the legal settlement provides additional information to facilitate the comparison of past and present operations, excluding items that we do not believe were indicative of our ongoing operations in the 39 weeks ended September 25, 2012.

	39 Weeks Ended	
	September 24, 2013	September 25, 2012
	\$	\$
Net income attributable to Texas Roadhouse, Inc. and subsidiaries, excluding settlement charge	63,304	60,308
Amount reserved for settlement of a legal matter, net of tax (1)		(3,062)
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	63,304	57,246
Weighted average diluted shares outstanding	71,175	71,480
Diluted earnings per share, excluding settlement charge	0.89	0.84
Impact of settlement charge on diluted earnings per share		(0.04)
Diluted earnings per share	0.89	0.80

(1) Amount reserved in the first quarter of 2012 for the settlement of a legal matter was \$5.0 million before the statutory income tax rate. The settlement was included in general administrative costs in our unaudited condensed consolidated statements of income and comprehensive income.

**Restaurant Unit Activity**

	Company	Franchise	Total
Balance at December 25, 2012	320	72	392
Openings Texas Roadhouse	13	3	16
Openings Other	1		1
Acquisitions (Dispositions)			
Closures			

Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

Balance at September 24, 2013	334	75	409
-------------------------------	-----	----	-----

Table of Contents

**Q3 2013 (13 weeks) Compared to Q3 2012 (13 weeks) and 2013 YTD (39 weeks) Compared to 2012 YTD (39 weeks)**

*Restaurant Sales.* Restaurant sales increased by 8.4% in Q3 2013 as compared to Q3 2012 and 9.7% in 2013 YTD compared to 2012 YTD. This increase was primarily attributable to the opening of new restaurants and the acquisition of two franchise restaurants on December 25, 2012 combined with an increase in average unit volumes.

The following table summarizes certain key drivers and/or attributes of restaurant sales at company restaurants for the periods presented.

	Q3 2013	Q3 2012	2013 YTD	2012 YTD
Increase in store weeks	6.3%	10.9%	7.0%	9.6%
Increase in average unit volumes	1.6%	3.3%	2.8%	4.4%
Other (1)	0.5%	0.5%	(0.1)%	0.6%
Total increase in restaurant sales	8.4%	14.7%	9.7%	14.6%
Store weeks	4,294	4,041	12,682	11,854
Comparable restaurant sales growth	2.6%	3.6%	3.7%	4.8%
Texas Roadhouse restaurants only:				
Comparable restaurant sales growth	2.6%	3.6%	3.7%	4.8%
Average unit volume (in thousands)	\$ 999	\$ 984	\$ 3,191	\$ 3,102
Weekly sales by group:				
Comparable restaurants (293 and 271 units, respectively)	\$ 77,662	\$ 75,846		
Average unit volume restaurants (25 and 20 units, respectively)	\$ 67,409	\$ 72,928		
Restaurants less than six months old (13 and 18 units, respectively)	\$ 93,889	\$ 81,117		

(1) Includes the impact of the year-over-year change in sales volume of all non-Texas Roadhouse restaurants, along with Texas Roadhouse restaurants open less than six months before the beginning of the period measured and, if applicable, the impact of restaurants closed during the period.

The increases in store weeks for the periods presented above is attributable to the opening of new restaurants and the acquisition of two franchise restaurants on December 25, 2012, partially offset by the closure of one non-Texas Roadhouse restaurant in the fourth quarter of 2012. Company restaurant count activity is shown in the restaurant unit activity table above.

The increases in average unit volumes for Q3 2013 and 2013 YTD were primarily driven by positive comparable restaurant sales, partially offset by lower year-over-year sales for the newer restaurants included in our average unit volumes but excluded from comparable restaurant sales. Comparable restaurant sales growth of 2.6% in Q3 2013 was due to a combination of an increase in our per person average check of 2.2% and an increase in guest traffic counts of 0.4%. Comparable restaurant sales growth of 3.7% for 2013 YTD was primarily due to an increase in our per person average check of 2.5%, along with an increase in guest traffic counts of 1.2%.

## Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

The increase in average unit volumes for Q3 2012 and 2012 YTD were primarily driven by positive comparable restaurant sales, partially offset by lower year-over-year sales for the newer restaurants included in our average unit volumes but excluded from comparable restaurant sales. Comparable restaurants sales of 3.6% in Q3 2012 and 4.8% in 2012 YTD were primarily due to increases in our per person average check of 2.9% in Q3 2012 and 3.6% in 2012 YTD, along with increases in guest traffic counts of 0.7% in Q3 2012 and 1.2% in 2012 YTD.

The increase in our per person average check for the periods presented was driven by menu price increases taken throughout 2012 and 2011. In 2012, we increased menu prices approximately 2.2% in the first quarter and approximately 2.2% in early December. In 2011, we increased menu prices approximately 2.5% to 3.0% with approximately 1.0% during the first quarter of the year and the remaining during the third and fourth quarters of the year. We currently do not plan to take any additional price increases until December 2013.

In 2013, we plan to open 28 company restaurants, 14 of which opened in 2013 YTD. We have begun construction for all of the remaining planned restaurant openings. Additionally, we currently plan to open 25 to 30 company restaurants in 2014.

*Franchise Royalties and Fees.* Franchise royalties and fees increased by \$0.4 million, or by 14.9%, in Q3 2013 from Q3 2012 and increased by \$1.1 million or by 13.5% in 2013 YTD from 2012 YTD. These increases were primarily attributable to an increase in average unit volumes and the opening of new franchise restaurants, partially offset by the impact of the acquisition of two franchise restaurants on December 25, 2012. Franchise comparable restaurant sales increased 4.0% in Q3 2013 and 4.2% in 2013 YTD. The acquired franchise restaurants generated approximately \$0.1 million and \$0.3 million in franchise royalties in Q3 2012 and 2012 YTD,

Table of Contents

respectively. Franchise restaurant count activity is shown in the restaurant unit activity table above. In 2013, we anticipate our franchise partners will open as many as four Texas Roadhouse restaurants, three of which opened in 2013 YTD. Additionally, we currently anticipate our franchise partners will open as many as five Texas Roadhouse restaurants, primarily internationally, in 2014.

*Restaurant Cost of Sales.* Restaurant cost of sales, as a percentage of restaurant sales, increased to 35.1% in Q3 2013 from 33.6% in Q3 2012 and increased to 34.8% in 2013 YTD from 33.8% in 2012 YTD. These increases were primarily attributable to commodity inflation, partially offset by the impact of menu pricing actions in 2012 and the benefit of operating efficiencies associated with process improvements at the restaurant level combined with the benefit of mix shift. Commodity inflation of approximately 8.1% in Q3 2013 and 7.0% in 2013 YTD was driven by higher food costs, primarily beef.

For the remainder of 2013, we have fixed price contracts for approximately 70% of our overall food costs with the remainder subject to fluctuating market prices. We expect commodity cost inflation of approximately 7.0% for full year 2013. For 2014, we anticipate low single digit commodity cost inflation versus the higher commodity cost inflation of 6% to 7% we have experienced the last several years.

*Restaurant Labor Expenses.* Restaurant labor expenses, as a percentage of restaurant sales, remained relatively flat in Q3 2013 at 29.8% compared to 29.9% in Q3 2012 and decreased to 29.2% in 2013 YTD from 29.4% in 2012 YTD. In Q3 2013, the benefit from an increase in average unit volumes was largely offset by higher average wage rates, while the decrease in 2013 YTD was primarily driven by an increase in average unit volumes, partially offset by higher average wage rates.

We anticipate our labor costs will be pressured throughout the remainder of 2013 by inflation due to state-mandated increases in minimum and tip wage rates that have occurred throughout 2013. For full year 2013, we expect these increases in costs will be offset by menu pricing actions taken in 2012, along with guest traffic growth.

In 2014, we anticipate our labor costs will be pressured by inflation due to increases in minimum and tip wage rates, along with increases in healthcare costs as we expand healthcare benefits to more employees. These increases in costs may or may not be offset by additional menu price adjustments and/or guest traffic growth.

*Restaurant Rent Expense.* Restaurant rent expense, as a percentage of restaurant sales, remained relatively unchanged at 2.2% in Q3 2013 compared to 2.1% in Q3 2012 and 2.1% in 2013 YTD compared to 2.0% in 2012 YTD. The impact of leasing more land and buildings than we have in the past was offset by the benefit from an increase in average unit volumes.

*Restaurant Other Operating Expenses.* Restaurant other operating expenses, as a percentage of restaurant sales, decreased to 15.7% in Q3 2013 compared to 16.4% in Q3 2012 and decreased to 15.7% in 2013 YTD from 16.1% in 2012 YTD. These decreases were primarily attributable to an increase in average unit volumes and lower general liability insurance and supply costs, partially offset by higher gift card fees. In Q3 2013, we recorded a \$1.3 million reduction to general liability insurance costs due to changes in our claims development history included in our quarterly actuarial reserve estimate, while lower supply costs were driven by purchasing initiatives. Gift card fees were higher due to the redemption of gift cards related to our third-party gift card retail program which was expanded in the fourth quarter of 2012.



## Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

*Restaurant Pre-opening Expenses.* Pre-opening expenses increased to \$4.7 million in Q3 2013 from \$2.5 million in Q3 2012 and increased to \$11.8 million in 2013 YTD from \$8.8 million in 2012 YTD. These increases were primarily attributable to an increase in the number of stores in the development pipeline, along with an increase in spending on a per store basis. We expect to open 14 restaurants in the fourth quarter of 2013 compared to seven restaurant openings in the fourth quarter of 2012. Overall, we expect to open 28 company restaurants in 2013 compared to 25 company restaurants in 2012. Pre-opening costs will fluctuate from quarter to quarter based on the number and timing of restaurant openings and the number and timing of restaurant managers hired.

*Depreciation and Amortization Expense.* D&A, as a percentage of total revenue, decreased to 3.7% in Q3 2013 from 3.8% Q3 2012 and decreased to 3.5% in 2013 YTD from 3.6% in 2012 YTD. Along with increases in average unit volumes, these decreases were primarily due to lower depreciation expense, as a percentage of revenue, on older restaurants as depreciation expense on short-lived assets, such as equipment, has ended. These decreases were partially offset by higher depreciation, as a percentage of revenue, at new restaurants.

*General and Administrative Expenses.* G&A, as a percentage of total revenue, increased slightly to 5.1% in Q3 2013 from 5.0% in Q3 2012 while it decreased to 5.4% in 2013 YTD from 5.6% in 2012 YTD. In Q3 2013, the benefit from an increase in average unit volumes was more than offset by higher costs associated with ongoing investments in various initiatives, including international growth and technology. The decrease in 2013 YTD is attributable to lower legal settlement charges and an increase in average unit volumes, partially offset by higher costs related to our annual managing partner conference. In the first quarter of 2012, we recorded a pre-tax charge of \$5.0 million (\$3.1 million after-tax) related to the settlement of a previously disclosed legal matter. In 2013 YTD, we incurred costs of \$3.7 million related to our annual managing partner conference compared to \$1.6 million in 2012 YTD. The conference was held in the second quarter of both 2013 YTD and 2012 YTD.

Based on the location of our annual managing partner conference in the second quarter of 2014, we expect these costs to be lower

Table of Contents

in 2014 compared to 2013.

*Interest Expense, Net.* Interest expense remained relatively flat at \$0.5 million in Q3 2013 compared to \$0.6 million in Q3 2012 and remained relatively flat at \$1.7 million in 2013 YTD compared to \$1.8 million in 2012 YTD.

*Income Tax Expense.* Our effective tax rate decreased to 30.4% in Q3 2013 from 32.7% in Q3 2012 and decreased to 29.6% in 2013 YTD from 32.7% in 2012 YTD. The decrease in Q3 2013 was primarily attributable to higher FICA tip credits, as a percentage of pre-tax income, a decrease in non-deductible officer's compensation and higher deductible incentive stock option activity. The decrease in 2013 YTD was primarily attributable due to the retrospective reinstatement of Work Opportunity Tax Credits ( WOTC ) and a decrease in non-deductible officer's compensation.

We expect the tax rate to be 30.0% to 30.5% for fiscal 2013 compared to 32.8% in fiscal 2012 primarily due to higher federal tax credits, including the retroactive reinstatement of WOTC and the decrease in non-deductible officer's compensation. For 2014, we expect the tax rate to be 30.0% to 31.0%, depending on the expiration of WOTC at the end of 2013.

**Liquidity and Capital Resources**

The following table presents a summary of our net cash provided by (used in) operating, investing and financing activities:

(in 000 s)	39 Weeks Ended	
	September 24, 2013	September 25, 2012
Net cash provided by operating activities	\$ 99,661	\$ 90,994
Net cash used in investing activities	(71,927)	(62,891)
Net cash used in financing activities	(22,136)	(18,785)
Net increase in cash and cash equivalents	\$ 5,598	\$ 9,318

Net cash provided by operating activities was \$99.7 million in 2013 YTD compared to \$91.0 million in 2012 YTD. This increase was primarily due to an increase in net income, partially offset by changes in working capital. The increase in net income was driven by the continued opening of new restaurants, an increase in comparable restaurant sales at existing restaurants, offset by higher food costs, and the benefit from overlapping a \$5.0 million (\$3.1 million after-tax) charge related to the settlement of a previously disclosed legal matter which was accrued in the first quarter of 2012. The change in working capital includes changes to the gift card liability as a result of gift card redemptions.

Our operations have not required significant working capital and, like many restaurant companies, we have been able to operate with negative working capital. Sales are primarily for cash, and restaurant operations do not require significant inventories or receivables. In addition, we receive trade credit for the purchase of food, beverages and supplies, thereby reducing the need for incremental working capital to support growth.

## Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

Net cash used in investing activities was \$71.9 million in 2013 YTD compared to \$62.9 million in 2012 YTD. This increase was primarily due to an increase in the development of new company restaurants with 28 expected restaurant openings in 2013 compared to 25 restaurant openings in 2012. In 2013 YTD and 2012 YTD, we opened 14 company restaurants and 18 company restaurants, respectively.

We require capital principally for the development of new company restaurants and the refurbishment of existing restaurants. We either lease our restaurant site locations under operating leases for periods of five to 30 years (including renewal periods) or purchase the land where it is cost effective. As of September 24, 2013, 123 of the 334 company restaurants have been developed on land which we own.

The following table presents a summary of capital expenditures related to the development of new restaurants and the refurbishment of existing restaurants:

(in 000 s)	2013 YTD		2012 YTD	
New company restaurants	\$	50,725	\$	41,675
Refurbishment of existing restaurants (1)		21,163		21,471
Total capital expenditures	\$	71,888	\$	63,146
Restaurant-related repairs and maintenance expense (2)	\$	11,284	\$	10,338

---

(1) Includes minimal capital expenditures related to support center office.

(2) These amounts were recorded as an expense in the income statement as incurred.

Table of Contents

Our future capital requirements will primarily depend on the number of new restaurants we open, the timing of those openings and the restaurant prototype developed in a given fiscal year. These requirements will include costs directly related to opening new restaurants and may also include costs necessary to ensure that our infrastructure is able to support a larger restaurant base. In fiscal 2013, we expect our capital expenditures to be approximately \$105.0 million, the majority of which will relate to planned restaurant openings, including 28 restaurant openings in 2013. In fiscal 2014, we expect our capital expenditures to be \$100.0 million to \$110.0 million, the majority of which will relate to planned restaurant openings, including 25 to 30 restaurant openings in 2014. These amounts exclude any cash used for franchise acquisitions. We intend to satisfy our capital requirements over the next 12 months with cash on hand, net cash provided by operating activities and, if needed, funds available under our revolving credit facility. For 2013, we anticipate net cash provided by operating activities will exceed capital expenditures, which we currently plan to use to repurchase common stock, pay dividends, as approved by our Board of Directors, and/or repay borrowings under our revolving credit facility.

Net cash used in financing activities was \$22.1 million in 2013 YTD as compared to \$18.8 million in 2012 YTD. This increase was primarily due to an increase in dividends paid to stockholders, partially offset by a decrease in the payments on borrowings under our revolving credit facility. In the first quarter of fiscal 2013, we paid an additional dividend of \$6.9 million and increased our quarterly dividend payment to \$0.12 per share of common stock. We made no payments on borrowings under our revolving credit facility in 2013 YTD compared to \$10.0 million in payments in 2012 YTD.

On February 16, 2012, our Board of Directors approved a stock repurchase program under which we may repurchase up to \$100 million of our common stock. This stock repurchase program has no expiration date. All repurchases to date under our stock repurchase program have been made through open market transactions. The timing and the amount of any repurchases will be determined by management under parameters established by the Board of Directors, based on its evaluation of our stock price, market conditions and other corporate considerations. We did not repurchase any shares of our common stock during 2013 YTD through our stock repurchase program and have \$70.6 million remaining under the program as of September 24, 2013.

We paid cash dividends of \$8.4 million in Q3 2013 related to dividends declared in May 2013. Additionally, on August 27, 2013, our Board of Directors authorized the payment of a cash dividend of \$0.12 per share of common stock. The payment of this dividend totaling \$8.5 million was distributed on September 27, 2013 to shareholders of record at the close of business on September 11, 2013. The declared dividends are included as a liability in our unaudited condensed consolidated balance sheet as of September 24, 2013.

In 2013 YTD, we paid distributions of \$2.5 million to equity holders of 15 of our majority-owned company restaurants. In 2012 YTD, we paid distributions of \$2.2 million to equity holders of 12 of our majority-owned company restaurants.

On August 12, 2011, we entered into a \$200.0 million five-year revolving credit facility with a syndicate of commercial lenders led by JPMorgan Chase Bank, N.A., PNC Bank, N.A., and Wells Fargo, N.A. This facility expires on August 12, 2016. The terms of revolving credit facility require us to pay interest on outstanding borrowings at London Interbank Offering Rate ( LIBOR ) plus a margin of 0.875% to 1.875%, depending on our leverage ratio, or the Alternate Base Rate, which is the higher of the issuing bank's prime lending rate, the Federal Funds rate plus 0.50% or the Adjusted Eurodollar Rate for a one month interest period on such day plus 1.0%. We are also required to pay a commitment fee of 0.150% to 0.350% per year on any unused portion of our revolving credit facility, depending on our leverage ratio. The weighted-average interest rate for our revolving credit facility was 3.96% at September 24, 2013 and December 25, 2012, including the impact of interest rate swaps discussed below. At September 24, 2013, we had \$50.0 million outstanding under the revolving credit facility and \$145.3 million of availability, net of \$4.7 million of outstanding letters of credit.

## Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

The lenders' obligation to extend credit under the revolving credit facility depends on us maintaining certain financial covenants, including a minimum consolidated fixed charge coverage ratio of 2.00 to 1.00 and a maximum consolidated leverage ratio of 3.00 to 1.00. The revolving credit facility permits us to incur additional secured or unsecured indebtedness outside the facility, except for the incurrence of secured indebtedness that in the aggregate exceeds 20% of our consolidated tangible net worth or circumstances where the incurrence of secured or unsecured indebtedness would prevent us from complying with our financial covenants. We were in compliance with all covenants as of September 24, 2013.

On November 1, 2013, we amended our existing revolving credit facility which extended the expiration date to November 1, 2018. There were no material changes to the terms of the revolving credit facility.

At September 24, 2013, in addition to the amounts outstanding on our revolving credit facility, we had various other notes payable totaling \$1.3 million with interest rates ranging from 10.46% to 10.80%. Each of these notes related to the financing of specific restaurants. Our total weighted-average effective interest rate at September 24, 2013 was 4.13%, including the impact of interest rate swaps discussed below.

On October 22, 2008, we entered into an interest rate swap, starting on November 7, 2008, with a notional amount of \$25.0 million to hedge a portion of the cash flows of our variable rate borrowings. We have designated the interest rate swap as a cash flow hedge of our exposure to variability in future cash flows attributable to interest payments on a \$25.0 million tranche of floating rate

Table of Contents

debt borrowed under our revolving credit facility. Under the terms of the swap, we pay a fixed rate of 3.83% on the \$25.0 million notional amount and receive payments from the counterparty based on the 1-month LIBOR rate for a term ending on November 7, 2015, effectively resulting in a fixed rate on the \$25.0 million notional amount. Our counterparty in this interest rate swap is JPMorgan Chase Bank, N.A.

On January 7, 2009, we entered into another interest rate swap, starting on February 7, 2009, with a notional amount of \$25.0 million to hedge a portion of the cash flows of our variable rate borrowings. We have designated the interest rate swap as a cash flow hedge of our exposure to variability in future cash flows attributable to interest payments on a \$25.0 million tranche of floating rate debt borrowed under our revolving credit facility. Under the terms of the swap, we pay a fixed rate of 2.34% on the \$25.0 million notional amount and receive payments from the counterparty based on the 1-month LIBOR rate for a term ending on January 7, 2016, effectively resulting in a fixed rate on the \$25.0 million notional amount. Our counterparty in this interest rate swap is JPMorgan Chase Bank, N.A.

**Contractual Obligations**

The following table summarizes the amount of payments due under specified contractual obligations as of September 24, 2013:

	Total	Payments Due by Period			
		Less than 1 year	1-3 Years (in thousands)	3-5 Years	More than 5 years
Long-term debt obligations	\$ 51,304	\$ 248	\$ 50,469	\$ 327	\$ 260
Interest (1)	7,666	2,106	4,129	1,411	20
Operating lease obligations	221,379	28,428	50,559	44,860	97,532
Capital obligations	63,783	63,783			
Total contractual obligations	\$ 344,132	\$ 94,565	\$ 105,157	\$ 46,598	\$ 97,812

(1) Assumes constant rate until maturity for our fixed and variable rate debt and capital lease obligations. Interest payments on our variable-rate revolving credit facility balance at September 24, 2013 are calculated based on the assumption that debt relating to the interest rate swaps covering notional amounts totaling \$50.0 million remains outstanding until the expiration of the respective swap arrangements. The interest rates used in determining interest payments to be made under the interest rate swap agreements were determined by taking the applicable fixed rate of each swap plus the 0.875 % margin, which was in effect as of September 24, 2013.

We have no material minimum purchase commitments with our vendors that extend beyond a year. See note 7 to the unaudited condensed consolidated financial statements for a discussion of contractual obligations.

**Off-Balance Sheet Arrangements**

Except for operating leases (primarily restaurant leases), we do not have any material off-balance sheet arrangements.

## Guarantees

We entered into real estate lease agreements for franchise restaurants located in Everett, MA, Longmont, CO, Montgomeryville, PA, Fargo, ND and Logan, UT prior to our granting franchise rights for those restaurants. We have subsequently assigned the leases to the franchisees, but we remain contingently liable if a franchisee defaults under the terms of a lease. The Longmont lease expires in May 2014, the Everett lease expires in February 2018, the Montgomeryville lease expires in June 2021, the Fargo lease expires in July 2016 and the Logan lease expires in August 2019. As the fair value of these guarantees is not considered significant, no liability has been recorded.

## Recently Issued Accounting Standards

### *Comprehensive Income*

*(Accounting Standards Update 2013-02, ASU 2013-2 )*

In February 2013, the Financial Accounting Standards Board ( FASB ) issued ASU 2013-2, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, that requires an organization to present the effects on the line items of net income of significant amounts reclassified out of AOCI, but only if the item reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. ASU 2013-02 was effective for fiscal years beginning after December 15, 2012 (our 2013 fiscal year). The adoption of this new guidance had no impact on our consolidated financial position, results of operations or cash flows.

Table of Contents

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risk from changes in interest rates on debt and changes in commodity prices. Our exposure to interest rate fluctuations is limited to our outstanding bank debt and dependent on the interest rate option we choose to utilize under our revolving credit facility. Our options for the rate are LIBOR plus a margin of 0.875% to 1.875%, depending on our leverage ratio, or the Alternate Base Rate, which is the higher of the issuing bank's prime lending rate, the Federal Funds rate plus 0.50% or the Adjusted Eurodollar Rate for a one month interest period on such day plus 1.0%. At September 24, 2013 there was \$50.0 million outstanding under our revolving credit facility which bears interest at approximately 87.5 to 187.5 basis points (depending on our leverage ratios) over LIBOR. As of September 24, 2013, our various other notes payable totaled \$1.3 million and had a weighted average interest rate of 10.55%.

The weighted-average interest rate for our revolving credit facility was 3.96% at September 24, 2013 and December 25, 2012, including the impact of interest rate swaps discussed below. Should interest rates based on the borrowings under our revolving credit facility increase by one percentage point, our estimated annual interest expense would not be impacted as our interest rates are fixed through our interest rate swaps.

On October 22, 2008, we entered into an interest rate swap, starting on November 7, 2008, with a notional amount of \$25.0 million to hedge a portion of the cash flows of our variable rate borrowings. We have designated the interest rate swap as a cash flow hedge of our exposure to variability in future cash flows attributable to interest payments on a \$25.0 million tranche of floating rate debt borrowed under our revolving credit facility. Under the terms of the swap, we pay a fixed rate of 3.83% on the \$25.0 million notional amount and receive payments from the counterparty based on the 1-month LIBOR rate for a term ending on November 7, 2015, effectively resulting in a fixed rate on the \$25.0 million notional amount.

On January 7, 2009, we entered into another interest rate swap, starting February 7, 2009, with a notional amount of \$25.0 million to hedge a portion of the cash flows of our variable rate borrowings. We have designated the interest rate swap as a cash flow hedge of our exposure to variability in future cash flows attributable to interest payments on a \$25.0 million tranche of floating rate debt borrowed under our revolving credit facility. Under the terms of the swap, we pay a fixed rate of 2.34% on the \$25.0 million notional amount and receive payments from the counterparty based on the 1-month LIBOR rate for a term ending on January 7, 2016, effectively resulting in a fixed rate on the \$25.0 million notional amount.

By using derivative instruments to hedge exposures to changes in interest rates, we expose ourselves to credit risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. We attempt to minimize the credit risk by entering into transactions with high-quality counterparties whose credit rating is evaluated on a quarterly basis. Our counterparty in the interest rate swaps is JPMorgan Chase Bank, N.A.

Many of the ingredients used in the products sold in our restaurants are commodities that are subject to unpredictable price volatility. Currently, we do not utilize fixed price contracts for certain commodities such as produce and certain dairy products, therefore, we are subject to prevailing market conditions when purchasing those types of commodities. For other commodities, we employ various purchasing and pricing contract techniques in an effort to minimize volatility, including fixed price contracts for terms of generally one year or less and negotiating prices with vendors with reference to fluctuating market prices. We currently do not use financial instruments to hedge commodity prices, but we will continue to evaluate their effectiveness. Extreme and/or long term increases in commodity prices could adversely affect our future results, especially if we are unable, primarily due to competitive reasons, to increase menu prices. Additionally, if there is a time lag between the increasing commodity prices and our ability to increase menu prices or if we believe the commodity price increase to be short in duration and we choose not to pass on the cost increases, our short-term financial results could be negatively affected.



We are subject to business risk as our beef supply is highly dependent upon four vendors. If these vendors were unable to fulfill their obligations under their contracts with us, we may encounter supply shortages and incur higher costs to secure adequate supplies, any of which would harm our business.

Table of Contents

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of disclosure controls and procedures**

Our management, including the Chief Executive Officer (the CEO) and the Chief Financial Officer (the CFO) has evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to, and as defined in, Exchange Act Rules 13a-15(e) and 15d-15(e) as of the end of the period covered by this report. Based on the evaluation, the CEO and the CFO concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

**Changes in internal control**

During the period covered by this report, there were no changes with respect to our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

Occasionally, we are a defendant in litigation arising in the ordinary course of our business, including slip and fall accidents, employment related claims and claims from guests or employees alleging illness, injury or food quality, health or operational concerns. None of these types of litigation, most of which are covered by insurance, has had a material effect on us and, as of the date of this report, we are not party to any litigation that we believe could have a material adverse effect on our business other than the litigation discussed below.

On September 30, 2011, the U.S. Equal Employment Opportunity Commission ( EEOC ) filed a lawsuit styled Equal Employment Opportunity Commission v. Texas Roadhouse, Inc., Texas Roadhouse Holdings LLC, Texas Roadhouse Management Corp. in the United States District Court, District of Massachusetts ( Court ), Civil Action Number 1:11-cv-11732. The complaint alleges that applicants over the age of 40 were denied employment in our restaurants in bartender, host, server and server assistant positions due to their age. The EEOC is seeking injunctive relief, remedial actions, payment of damages to the applicants and costs. We have filed an answer to the complaint, and the case is in discovery. We deny liability; however, in view of the inherent uncertainties of litigation, the outcome of this case cannot be predicted at this time. We cannot estimate the possible amount or range of loss, if any, associated with this matter.

**ITEM 1A. RISK FACTORS**

Information regarding risk factors appears in our Annual Report on Form 10-K for the year ended December 25, 2012, under the heading Special Note Regarding Forward-looking Statements and in the Form 10-K Part I, Item 1A, Risk Factors. There have been no material changes from the risk factors previously disclosed in our Form 10-K for the year ended December 25, 2012.

Table of Contents**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On February 16, 2012, our Board of Directors approved a stock repurchase program which authorized us to repurchase up to \$100.0 million of our common stock of which \$70.6 million remains outstanding at September 24, 2013. This stock repurchase program has no expiration date. All repurchases to date under our stock repurchase program have been made through open market transactions. The timing and the amount of any repurchases through this program will be determined by management under parameters established by our Board of Directors, based on its evaluation of our stock price, market conditions and other corporate considerations.

The following table includes information regarding purchases of our common stock made by us during the 13 weeks ended September 24, 2013:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs</b>
June 26 to July 23				\$ 70,614,805
July 24 to August 20				\$ 70,614,805
August 21 to September 24				\$ 70,614,805
<b>Total</b>				\$ 70,614,805

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

Edgar Filing: Texas Roadhouse, Inc. - Form 10-Q

<b>Exhibit No.</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TEXAS ROADHOUSE, INC.

Date: November 1, 2013

By: */s/ W. KENT TAYLOR*  
W. Kent Taylor  
Chief Executive Officer  
(principal executive officer)

Date: November 1, 2013

By: */s/ G. PRICE COOPER, IV*  
G. Price Cooper, IV  
Chief Financial Officer  
(principal financial officer)  
(chief accounting officer)