

Texas Roadhouse, Inc.
Form 10-K
February 27, 2015

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 30, 2014

OR

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

For the transition period from _____ **to** _____

Texas Roadhouse, Inc.

(Exact name of registrant specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

000-50972
(Commission File Number)

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Common Stock, par value \$0.001 per share

Name of Each Exchange on Which Registered

Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No .

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 Regulation 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K. .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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 aggregate market value of the voting stock held by non-affiliates of the registrant as of the last day of the second fiscal quarter ended July 1, 2014 was \$1,605,959,498 based on the closing stock price of \$26.00. Shares of voting stock held by each officer and director have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. The market value calculation was determined using the closing stock price of our common stock on the Nasdaq Global Select Market.

The number of shares of common stock outstanding were 69,844,329 on February 18, 2015.

Portions of the registrant's definitive Proxy Statement for the registrant's 2015 Annual Meeting of Stockholders, which is expected to be filed pursuant to Regulation 14A within 120 days of the registrant's fiscal year ended December 30, 2014, are incorporated by reference into Part III of the Form 10-K. With the exception of the portions of the Proxy Statement expressly incorporated by reference, such document shall not be deemed filed with this Form 10-K.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains statements about future events and expectations that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are based on our beliefs, assumptions and expectations of our future financial and operating performance and growth plans, taking into account the information currently available to us. These statements are not statements of historical fact. Forward-looking statements involve risks and uncertainties that may cause our actual results to differ materially from the expectations of future results we express or imply in any forward-looking statements. In addition to the other factors discussed under "Risk Factors" elsewhere in this report, factors that could contribute to these differences include, but are not limited to:

our ability to raise capital in the future;

our ability to successfully execute our growth strategy;

our ability to successfully open new restaurants, acquire franchise restaurants or execute other strategic transactions;

our ability to increase and/or maintain sales and profits at our existing restaurants;

our ability to integrate the franchise or other restaurants which we acquire or develop;

the continued service of key management personnel;

health concerns about our food products;

our ability to attract, motivate and retain qualified employees;

the impact of federal, state or local government laws and regulations relating to our employees or production and the sale of food and alcoholic beverages;

the impact of litigation, including negative publicity;

the cost of our principal food products;

labor shortages or increased labor costs, such as health care, market wage levels and workers' compensation insurance costs;

inflationary increases in the costs of construction and/or real estate;

changes in consumer preferences and demographic trends;

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the impact of initiatives by competitors and increased competition generally;

our ability to successfully expand into new domestic and international markets;

risks associated with partnering in markets with franchisees or other investment partners with whom we have no prior history and whose interests may not align with ours;

risks associated with developing new restaurant concepts and our ability to open new concepts;

security breaches of confidential customer information in connection with our electronic processing of credit and debit card transactions or the failure of our information technology systems;

the rate of growth of general and administrative expenses associated with building a strengthened corporate infrastructure to support our growth initiatives;

negative publicity regarding food safety, health concerns and other food or beverage related matters, including the integrity of our or our suppliers' food processing;

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our franchisees' adherence to our practices, policies and procedures;

potential fluctuation in our quarterly operating results due to seasonality and other factors;

supply and delivery shortages or interruptions;

our ability to adequately protect our intellectual property;

volatility of actuarially determined insurance losses and loss estimates;

adoption of new, or changes in existing, accounting policies and practices;

adverse weather conditions which impact guest traffic at our restaurants; and

unfavorable general economic conditions in the markets in which we operate that adversely affect consumer spending.

The words "believe," "may," "should," "anticipate," "estimate," "expect," "intend," "objective," "seek," "plan," "strive," "goal," "projects," "forecasts," "will" or similar words or, in each case, their negative or other variations or comparable terminology, identify forward-looking statements. We qualify any forward-looking statements entirely by these cautionary factors.

Other risks, uncertainties and factors, including those discussed under "Risk Factors," could cause our actual results to differ materially from those projected in any forward-looking statements we make.

We assume no obligation to publicly update or revise these forward-looking statements for any reason, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

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PART I

ITEM 1 BUSINESS

Texas Roadhouse, Inc. (the "Company") was incorporated under the laws of the state of Delaware in 2004. The principal executive office is located in Louisville, Kentucky.

General Development of Business

Texas Roadhouse, Inc. is a growing, moderately priced, full-service restaurant company. Our founder, chairman and chief executive officer ("CEO"), 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 451 restaurants in 49 states and four foreign 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 December 30, 2014, we owned and operated 372 restaurants and franchised an additional 79 restaurants. Of the 372 restaurants we owned and operated at the end of 2014, we operated 368 as Texas Roadhouse restaurants and three operated as Bubba's 33 restaurants. While the majority of our restaurant growth in 2015 will be Texas Roadhouse restaurants, we currently expect to open as many as five Bubba's 33 restaurants in 2015.

Financial Information about Operating Segments

We consider our restaurant and franchising operations as similar and have aggregated them into a single reportable segment. The majority of the restaurants operate in the U.S. within the casual dining segment of the restaurant industry, providing similar products to similar customers, and possessing similar pricing structures, resulting in similar long-term expected financial performance characteristics. Each of our 372 company-owned restaurants is considered an operating segment.

Narrative Description of Business

Texas Roadhouse is a full-service, casual dining restaurant concept. We offer an assortment of specially seasoned and aged steaks hand-cut daily on the premises and cooked to order over open gas-fired grills. In addition to steaks, we also offer our guests a selection of ribs, fish, seafood, chicken, pork chops, pulled pork and vegetable plates, and an assortment of hamburgers, salads and sandwiches. The majority of our entrées include two made-from-scratch side items, and we offer all our guests a free unlimited supply of roasted in-shell peanuts and made-from-scratch yeast rolls.

The operating strategy that underlies the growth of our concepts is built on the following key components:

Offering high quality, freshly prepared food. We place a great deal of emphasis on providing our guests with high quality, freshly prepared food. We hand-cut all but one of our assortment of steaks and make our sides from scratch. As part of our process, we have developed proprietary recipes to provide consistency in quality and taste throughout all restaurants. We expect a management level employee to inspect every entrée before it leaves the kitchen to confirm it matches the guest's order and meets our standards for quality, appearance and presentation. In addition, we employ a team of product coaches whose function is to provide continual, hands-on training and education to our kitchen staff for the purpose of promoting uniform adherence to recipes, food preparation procedures, food safety standards, food appearance, freshness and portion size.

Offering performance-based manager compensation. We offer a performance-based compensation program to our individual restaurant managers and multi-restaurant supervisors, who are called "managing partners" and "market partners," respectively. Each of these partners earns a base

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salary plus a performance bonus, which represents a percentage of each of their respective restaurant's pre-tax net income. By providing our partners with a significant stake in the success of our restaurants, we believe that we are able to attract and retain talented, experienced and highly motivated managing and market partners.

Focusing on dinner. In a high percentage of our restaurants, we limit our operating hours to dinner only during the weekdays with approximately one half of our restaurants offering lunch on Friday. By focusing on dinner, our restaurant teams have to prepare for and manage only one shift per day during the week. We believe this allows our restaurant teams to offer higher quality, more consistent food and service to our guests. In addition, we believe the dinner focus provides a better "quality-of-life" for our management teams and, therefore, is a key ingredient in attracting and retaining talented and experienced management personnel. We also focus on keeping our table-to-server ratios low to allow our servers to truly focus on their guests and serve their needs in a personal, individualized manner.

Offering attractive price points. We offer our food and beverages at moderate price points that we believe are as low as or lower than those offered by many of our competitors. Within each menu category, we offer a choice of several price points with the goal of fulfilling each guest's budget and value expectations. For example, our steak entrées, which include the choice of two side items, generally range from \$9.99 for our 6-ounce sirloin to \$24.99 for our 23-ounce Porterhouse T-Bone. The per guest average check for the Texas Roadhouse restaurants we owned and operated in 2014 was \$16.02. Per guest average check represents restaurant sales divided by the number of guests served. We consider each sale of an entrée to be a single guest served. Our per guest average check is higher as a result of our weekday dinner only focus.

Creating a fun and comfortable atmosphere. We believe the atmosphere we establish in our restaurants is a key component for fostering repeat business. Our Texas Roadhouse restaurants feature a rustic southwestern lodge décor accentuated with hand-painted murals, neon signs, and southwestern prints, rugs and artifacts. Additionally, we offer jukeboxes, which continuously play upbeat country hits.

Unit Prototype and Economics

We design our restaurant prototypes to provide a relaxed atmosphere for our guests, while also focusing on restaurant-level returns over time. Our current prototypical Texas Roadhouse restaurants consist of a freestanding building with approximately 6,700 to 7,500 square feet of space constructed on sites of approximately 1.7 to 2.0 acres or retail pad sites, with seating of approximately 57 to 68 tables for a total of 245 to 329 guests, including 15 bar seats, and parking for approximately 160 vehicles either on-site or in combination with some form of off-site cross parking arrangement. Our current prototypes are adaptable to in-line and end-cap locations and/or spaces within an enclosed mall or a shopping center.

As of December 30, 2014, we leased 245 properties and owned 127 properties. Our 2014 average unit volume was \$4.4 million, which represents restaurant sales for all Texas Roadhouse company restaurants open before July 1, 2013. The time required for a new restaurant to reach a steady level of cash flow is approximately three to six months. For 2014, the average capital investment, including

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pre-opening costs, for the 22 Texas Roadhouse company restaurants opened during the year was \$5.1 million, broken down as follows:

	Average Cost	Low	High
Land(1)	\$ 1,115,000	\$ 500,000	\$ 1,650,000
Building(2)	2,040,000	1,415,000	3,885,000
Furniture and Equipment	1,160,000	880,000	1,735,000
Pre-opening costs	732,000	370,000	1,260,000
Other(3)	65,000		450,000
Total	\$ 5,112,000		

-
- (1) Represents the average cost for land acquisitions or 10x's initial base rent in the event the land is leased.
- (2) Includes site work costs.
- (3) Primarily liquor licensing costs, where applicable. This cost varies based on the licensing requirements in each state.

Our 2014 average capital investment of \$5.1 million was higher than our 2013 average of \$4.1 million and our 2012 average of \$3.9 million. The increase in our 2014 average capital investment was primarily due to higher building costs at certain locations, such as Anchorage, Alaska and the New York City, NY vicinity, along with higher pre-opening costs due to unexpected delays in restaurant openings throughout the year. Our capital investment (including cash and non-cash costs) for new restaurants varies significantly depending on a number of factors including, but not limited to: the square footage, layout, scope of any required site work, type of construction labor (union or non-union), local permitting requirements, our ability to negotiate with landlords, cost of liquor and other licenses and hook-up fees and geographical location. We expect our average capital investment for Texas Roadhouse restaurants to be open in 2015 to be approximately \$4.7 million.

Site Selection

We continue to refine our site selection process. In analyzing each prospective site, our real estate team, including our restaurant market partners, devotes significant time and resources to the evaluation of local market demographics, population density, household income levels and site-specific characteristics such as visibility, accessibility, traffic generators, proximity of other retail activities, traffic counts and parking. We work actively with real estate brokers in target markets to select high quality sites and to maintain and regularly update our database of potential sites. We typically require three to six months to locate, approve and control a restaurant site and typically six to 12 additional months to obtain necessary permits. Upon receipt of permits, it requires approximately four to five months to construct, equip and open a restaurant.

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As of December 30, 2014, we had 372 company restaurants and 79 franchise restaurants in 49 states and four foreign countries as shown in the chart below.

	Number of Restaurants		
	Company	Franchise	Total
Alabama	5		5
Alaska	2		2
Arizona	13		13
Arkansas	3		3
California	3	5	8
Colorado	13	1	14
Connecticut	3		3
Delaware	2	2	4
Florida	16	4	20
Georgia	5	7	12
Idaho	5		5
Illinois	15		15
Indiana	15	8	23
Iowa	9		9
Kansas	3	1	4
Kentucky	10	2	12
Louisiana	8	1	9
Maine	3		3
Maryland	4	5	9
Massachusetts	8	1	9
Michigan	8	3	11
Minnesota	4		4
Mississippi	1		1
Missouri	10		10
Montana		1	1
Nebraska	3	1	4
Nevada	1		1
New Hampshire	3		3
New Jersey	5		5
New Mexico	4		4
New York	13		13
North Carolina	17		17
North Dakota	2	1	3
Ohio	25	2	27
Oklahoma	6		6
Oregon	2		2
Pennsylvania	20	6	26
Rhode Island	2		2
South Carolina	1	6	7
South Dakota	2		2
Tennessee	11	2	13
Texas	51	5	56
Utah	9	1	10
Vermont	1		1
Virginia	12		12
Washington	1		1
West Virginia	1	2	3
Wisconsin	10	3	13
Wyoming	2		2
Total domestic restaurants	372	70	442
United Arab Emirates			