

Texas Roadhouse, Inc.
Form 10-Q
November 02, 2012
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 25, 2012

OR

- o 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 70,642,037 on October 24, 2012.

Table of Contents

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

<u>Item 1</u>	<u>Financial Statements</u>	<u>Texas Roadhouse, Inc. and Subsidiaries</u>	3
	<u>Condensed Consolidated Balance Sheets</u>	<u>September 25, 2012 and December 27, 2011</u>	3
	<u>Condensed Consolidated Statements of Income and Comprehensive Income</u>	<u>For the 13 and 39 Weeks Ended September 25, 2012 and September 27, 2011</u>	4
	<u>Condensed Consolidated Statements of Stockholders' Equity</u>	<u>For the 39 Weeks Ended September 25, 2012</u>	5
	<u>Condensed Consolidated Statements of Cash Flows</u>	<u>For the 39 Weeks Ended September 25, 2012 and September 27, 2011</u>	6
	<u>Notes to Condensed Consolidated Financial Statements</u>		7
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>		15
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>		26
<u>Item 4</u>	<u>Controls and Procedures</u>		27

PART II. OTHER INFORMATION

<u>Item 1</u>	<u>Legal Proceedings</u>		28
<u>Item 1A</u>	<u>Risk Factors</u>		28
<u>Item 2</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>		29
<u>Item 3</u>	<u>Defaults Upon Senior Securities</u>		29
<u>Item 4</u>	<u>Mine Safety Disclosures</u>		29
<u>Item 5</u>	<u>Other Information</u>		29
<u>Item 6</u>	<u>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 25, 2012	December 27, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 84,320	\$ 73,731
Receivables, net of allowance for doubtful accounts of \$25 at September 25, 2012 and \$39 at December 27, 2011	13,683	16,526
Inventories, net	9,521	10,730
Prepaid income taxes		575
Prepaid expenses	5,032	7,045
Deferred tax assets	5,814	3,367
Total current assets	118,370	111,974
Property and equipment, net of accumulated depreciation of \$260,193 at September 25, 2012 and \$232,760 at December 27, 2011	523,482	497,217
Goodwill	110,946	110,946
Intangible assets, net	8,235	9,042
Other assets	13,464	11,491
Total assets	\$ 774,497	\$ 740,670
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt and obligations under capital leases	\$ 329	\$ 304
Accounts payable	27,645	32,744
Deferred revenue - gift cards	18,334	44,058
Accrued wages	24,470	23,701
Income tax payable	5,460	
Accrued taxes and licenses	13,507	12,381
Dividends payable	6,353	5,535
Other accrued liabilities	24,555	17,649
Total current liabilities	120,653	136,372
Long-term debt and obligations under capital leases, excluding current maturities	51,352	61,601
Stock option and other deposits	4,584	4,546
Deferred rent	19,380	17,133
Deferred tax liabilities	4,714	8,715
Fair value of derivative financial instruments	4,384	4,247
Other liabilities	14,114	12,234
Total liabilities	219,181	244,848
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, 70,620,137 and 69,186,967 shares issued and outstanding at September 25, 2012 and December 27, 2011, respectively)	71	69
Additional paid in capital	225,811	206,019
Retained earnings	326,721	288,425
Accumulated other comprehensive loss	(2,687)	(2,609)
Total Texas Roadhouse, Inc. and subsidiaries stockholders' equity	549,916	491,904
Noncontrolling interests	5,400	3,918
Total equity	555,316	495,822
Total liabilities and equity	\$ 774,497	\$ 740,670

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 25, 2012	September 27, 2011	September 25, 2012	September 27, 2011
Revenue:				
Restaurant sales	\$ 306,025	\$ 266,874	\$ 945,583	\$ 825,283
Franchise royalties and fees	2,631	2,379	8,217	7,327
Total revenue	308,656	269,253	953,800	832,610
Costs and expenses:				
Restaurant operating costs:				
Cost of sales	102,930	88,944	319,445	274,751
Labor	91,507	78,919	278,089	244,551
Rent	6,489	5,796	19,120	17,153
Other operating	50,183	45,112	151,967	136,331
Pre-opening	2,458	3,327	8,823	7,413
Depreciation and amortization	11,828	10,571	34,721	31,724
Impairment and closures	24	13	63	59
General and administrative	15,503	13,499	53,189	43,599
Total costs and expenses	280,922	246,181	865,417	755,581
Income from operations	27,734	23,072	88,383	77,029
Interest expense, net	603	669	1,776	1,776
Equity income from investments in unconsolidated affiliates	(141)	(71)	(303)	(271)
Income before taxes	27,272	22,474	86,910	75,524
Provision for income taxes	8,778	6,058	27,815	21,934
Net income including noncontrolling interests	\$ 18,494	\$ 16,416	\$ 59,095	\$ 53,590
Less: Net income attributable to noncontrolling interests	427	618	1,849	1,923
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	\$ 18,067	\$ 15,798	\$ 57,246	\$ 51,667
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on derivatives, net of tax of \$(0.1) million, \$0.5 million, \$0.1 million and \$0.9 million, respectively	28	(788)	(78)	(1,469)
Total comprehensive income	\$ 18,095	\$ 15,010	\$ 57,168	\$ 50,198
Net income per common share attributable to Texas Roadhouse, Inc. and subsidiaries:				

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

Basic	\$	0.26	\$	0.22	\$	0.82	\$	0.72
Diluted	\$	0.25	\$	0.22	\$	0.80	\$	0.71
Weighted-average shares outstanding:								
Basic		70,482		70,800		70,004		71,370
Diluted		71,928		72,186		71,480		72,903
Cash dividends declared per share	\$	0.09	\$	0.08	\$	0.27	\$	0.24

See accompanying notes to condensed consolidated financial statements.

Table of Contents**Texas Roadhouse, Inc. and Subsidiaries****Condensed Consolidated Statements of Stockholders Equity**

(in thousands, except share data)

(unaudited)

	Shares	Par Value	Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Texas Roadhouse, Inc. and Subsidiaries	Noncontrolling Interests	Total
Balance, December 27, 2011	69,186,967	\$ 69	\$ 206,019	\$ 288,425	\$ (2,609)	\$ 491,904	\$ 3,918	\$ 495,822
Net income				57,246		57,246	1,849	59,095
Unrealized loss on derivatives, net of tax of \$0.1 million					(78)	(78)		(78)
Distributions to noncontrolling interests							(2,183)	(2,183)
Minority interest contribution							1,816	1,816
Minority interest liquidation adjustments			(394)			(394)		(394)
Dividends paid (\$0.18 per share)				(12,597)		(12,597)		(12,597)
Dividends declared (\$0.09 per share)				(6,353)		(6,353)		(6,353)
Shares issued under stock option plan including tax effects	1,061,900	1	13,423			13,424		13,424
Settlement of restricted stock units	548,268	1				1		1
Indirect repurchase of shares for minimum tax withholdings	(176,998)		(2,991)			(2,991)		(2,991)
Share-based compensation			9,754			9,754		9,754
Balance, September 25, 2012	70,620,137	\$ 71	\$ 225,811	\$ 326,721	\$ (2,687)	\$ 549,916	\$ 5,400	\$ 555,316

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**

39 Weeks Ended			
Cash flows from operating activities:			
Net income including noncontrolling interests	\$	59,095	\$ 53,590
Depreciation and amortization		34,721	31,724
Deferred income taxes		(6,389)	(553)
Loss on disposition of assets		2,712	1,530
Equity income from investments in unconsolidated affiliates		(303)	(271)
Distributions received from investments in unconsolidated affiliates		336	261
Provision for doubtful accounts		14	178
Share-based compensation expense		9,754	8,151
Changes in operating working capital:			
Receivables		2,829	198
Inventories		1,209	519
Prepaid expenses and other current assets		2,013	2,670
Other assets		(1,866)	(3,457)
Accounts payable		(5,099)	(728)
Deferred revenue gift cards		(25,724)	(23,315)
Accrued wages		769	1,657
Excess tax benefits from share-based compensation		(3,159)	(1,994)
Prepaid income taxes and income taxes payable		9,194	3,577
Accrued taxes and licenses		1,126	389
Other accrued liabilities		6,906	3,984
Deferred rent		2,247	1,885
Other liabilities		1,880	1,014
Net cash provided by operating activities	\$	92,265	\$ 81,009
Cash flows from investing activities:			
Capital expenditures property and equipment		(63,146)	(51,839)
Proceeds from sale of property and equipment, including insurance proceeds		255	171
Net cash used in investing activities	\$	(62,891)	\$ (51,668)
Cash flows from financing activities:			
Repayments of revolving credit facility, net		(10,000)	
Proceeds from minority interest contributions and other		1,285	
Distributions to noncontrolling interest holders		(2,183)	(1,756)
Excess tax benefits from share-based compensation		3,159	1,994
Proceeds from stock option and other deposits		38	326
Repurchase shares of common stock			(46,445)
Indirect repurchase of shares for minimum tax withholdings		(2,991)	(2,891)
Principal payments on long-term debt and capital lease obligations		(224)	(203)
Proceeds from exercise of stock options		10,265	4,491
Dividends paid to stockholders		(18,134)	(11,399)

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

Net cash used in financing activities	\$	(18,785)	\$	(55,883)
Net increase (decrease) in cash and cash equivalents		10,589		(26,542)
Cash and cash equivalents beginning of period		73,731		82,215
Cash and cash equivalents end of period	\$	84,320	\$	55,673
Supplemental disclosures of cash flow information:				
Interest, net of amounts capitalized	\$	1,874	\$	1,718
Income taxes, net of refunds	\$	25,003	\$	18,908

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. (the Company, we and/or our), our wholly-owned subsidiaries and subsidiaries in which we own more than 50 percent interest, as of and for the 13 and 39 weeks ended September 25, 2012 and September 27, 2011. Our wholly-owned subsidiaries include: Texas Roadhouse Holdings LLC (Holdings), Texas Roadhouse Development Corporation (TRDC), Texas Roadhouse Management Corp. (Management Corp.) and Aspen Creek, LLC (Aspen Creek). We and our subsidiaries operate restaurants under the names Texas Roadhouse and Aspen Creek. Holdings also provides supervisory and administrative services for certain other franchise and license Texas Roadhouse restaurants. TRDC sells franchise rights and collects the franchise royalties and fees. Management Corp. provides management services to the Company, Holdings, Aspen Creek and certain other license and franchise Texas Roadhouse restaurants. All material balances and transactions between the consolidated entities have been eliminated.

As of September 25, 2012 and September 27, 2011, we owned 5.0% to 10.0% equity interest in 22 franchise restaurants. 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/or cash flows. Our investment in these unconsolidated affiliates is included in Other assets in our condensed consolidated balance sheets and we record our percentage share of net income earned by these unconsolidated affiliates in our 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 condensed consolidated financial statements and the reporting of revenue and expenses during the period to prepare these 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 39 weeks ended September 25, 2012 are not necessarily indicative of the results that may be expected for the year ending December 25, 2012. 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 27, 2011.

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

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

(2) Share-based Compensation

We may grant incentive and non-qualified stock options to purchase shares of common stock, stock bonus awards (restricted stock unit awards (RSUs)) and restricted stock awards under the Texas Roadhouse, Inc. 2004 Equity Incentive Plan (the 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.

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

	13 Weeks Ended		39 Weeks Ended	
	September 25, 2012	September 27, 2011	September 25, 2012	September 27, 2011
Labor expense	\$ 1,196	\$ 1,000	\$ 3,326	\$ 2,934
General and administrative expense	2,233	1,418	6,428	5,217
Total share-based compensation expense	\$ 3,429	\$ 2,418	\$ 9,754	\$ 8,151

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

Table of Contents

A summary of share-based compensation activity by type of grant as of September 25, 2012 and changes during the period then ended is presented below.

Summary Details for Plan Share Options

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 27, 2011	3,486,642	\$ 12.02		
Granted				
Forfeited	(106,069)	11.44		
Exercised	(1,061,900)	9.66		
Outstanding at September 25, 2012	2,318,673	\$ 13.12	3.21	\$ 9,734
Exercisable at September 25, 2012	2,316,858	\$ 13.12	3.20	\$ 9,724

The total intrinsic value of options exercised during the 13 weeks ended September 25, 2012 and September 27, 2011 was \$1.6 million and \$0.4 million, respectively. The total intrinsic value of options exercised during the 39 weeks ended September 25, 2012 and September 27, 2011 was \$8.2 million and \$2.6 million, respectively. 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 13 week period ended September 27, 2011 was \$0.1 million. The total grant date fair value of stock options vested for the 39 week periods ended September 25, 2012 and September 27, 2011 was \$0.1 million and \$0.5 million, respectively.

Summary Details for RSUs

	Shares	Weighted-Average Grant Date Fair Value
Outstanding at December 27, 2011	1,186,480	\$ 13.71
Granted	1,214,126	16.02
Forfeited	(39,522)	13.90
Vested	(548,268)	13.05
Outstanding at September 25, 2012	1,812,816	\$ 15.46

As of September 25, 2012, with respect to unvested RSUs, there was \$16.3 million of unrecognized compensation cost that is expected to be recognized over a weighted-average period of 1.5 years. The vesting terms of the RSUs range from 1.0 to 5.0 years. The total grant date fair value of RSUs vested for the 13 week periods ended September 25, 2012 and September 27, 2011 was \$1.8 million and \$1.9 million, respectively. For the 39 week periods ended September 25, 2012 and September 27, 2011, the total grant date fair value of RSUs vested was \$7.2 million and \$7.4 million, respectively.

(3) Long-term Debt and Obligations Under Capital Leases

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

	September 25, 2012		December 27, 2011
Installment loans, due 2012 - 2020	\$ 1,527	\$	1,679
Obligations under capital leases	154		226
Revolver	50,000		60,000
	51,681		61,905
Less current maturities	329		304
	\$ 51,352	\$	61,601

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

Table of Contents

The weighted-average interest rate for installment loans outstanding at September 25, 2012 and December 27, 2011 was 10.56% and 10.57%, respectively. The debt is secured by certain land and buildings.

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, National Association, and Wells Fargo, National Association. This facility replaced our previous five-year revolving credit facility. The facility expires on August 11, 2016. The terms of the 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 facility, depending on our leverage ratio. The weighted-average interest rate for the revolver at September 25, 2012 and December 27, 2011 was 3.96% and 3.20%, respectively, including the impact of interest rate swaps as discussed in note 5. At September 25, 2012, we had \$50.0 million outstanding under the credit facility and \$145.8 million of availability, net of \$4.2 million of outstanding letters of credit.

The lenders' obligation to extend credit under the 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 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 25, 2012.

(4) Income taxes

A reconciliation of the statutory federal income tax rate to our effective tax rate for September 25, 2012 and September 27, 2011 is as follows:

	13 Weeks Ended		39 Weeks Ended	
	September 25, 2012	September 27, 2011	September 25, 2012	September 27, 2011
Tax at statutory federal rate	35.0%	35.0%	35.0%	35.0%
State and local tax, net of federal benefit	3.8	3.7	3.8	3.7
FICA tip tax credit	(6.4)	(6.2)	(5.8)	(6.2)
HIRE retention credit		(2.4)		(2.1)
Work opportunity tax credit	(0.9)	(1.5)	(0.8)	(1.3)
Incentive stock options	(0.2)	(0.3)	(0.3)	(0.2)
Nondeductible officer compensation	1.4	(0.1)	1.1	0.4
Other		(0.5)	(0.3)	0.5
Total	32.7%	27.7%	32.7%	29.8%

(5) Derivative and Hedging Activities

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

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 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, commodity prices or the market price of our common stock. 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 credit facility. 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

Table of Contents

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 LIBOR component of 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 credit facility. 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 LIBOR component of 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 swap will be reported as a component of accumulated other comprehensive income. We will reclassify any gain or loss from accumulated other comprehensive income (AOCI), net of tax, in our condensed consolidated balance sheet to interest expense in our 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 10 for fair value discussion of these interest rate swaps.

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

	Balance Sheet Location	Derivative Assets		Derivative Liabilities	
		September 25, 2012	December 27, 2011	September 25, 2012	December 27, 2011
Derivative Contracts Designated as Hedging Instruments under ASC 815	(1)				
Interest rate swaps		\$	\$	\$ 4,384	\$ 4,247
Total Derivative Contracts		\$	\$	\$ 4,384	\$ 4,247

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

The following table summarizes the effect of derivative instruments in the condensed consolidated statements of income and comprehensive income for the 39 weeks ended September 25, 2012 and September 27, 2011:

Amount of Loss Recognized in AOCI (effective portion)	Location of Gain Reclassified from AOCI to	Amount of Gain Reclassified from AOCI to Income (effective portion)	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income (ineffective portion)
---	--	---	--	--

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

	2012	2011	Income	2012	2011	(ineffective portion)	2012	2011
Interest rate swaps	\$ 78	\$ 1,469	Interest expense, net	\$ 97	\$ 88		\$	\$

(6) Recent Accounting Pronouncements

Comprehensive Income

(ASU 2011-05)

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity, which was our presentation, and also requires presentation of reclassification adjustments from other comprehensive income to net income on the face of the financial statements. In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05*, to defer the effective date of the specific requirement to present items that are reclassified out of accumulated comprehensive income to net income alongside their respective components of net income and other comprehensive income. All other provisions of this update are effective for annual and interim reporting periods beginning after December 15, 2011 (our 2012 fiscal year). The adoption of this new guidance had no impact on our consolidated financial position, results of operations or cash flows, though it changed our income statement presentation.

Table of Contents

Goodwill and Other Intangibles

(ASU 2011-08)

In September 2011, the FASB issued ASU 2011-08, *Intangibles – Goodwill and Other, Testing Goodwill for Impairment*, which permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying value before applying the two-step goodwill impairment model that is currently in place. If it is determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying value, the remaining impairment steps would be unnecessary. The qualitative assessment is optional, allowing companies to go directly to the quantitative assessment. This update is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011 (our 2012 fiscal year). The adoption of this new guidance has no impact on the content of our financial statements or disclosures.

(7) Commitments and Contingencies

The estimated cost of completing capital project commitments at September 25, 2012 and December 27, 2011 was approximately \$55.9 million and \$58.6 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. The Longmont lease was assigned in October 2003 and expires in May 2014, the Everett lease was assigned in September 2002 and expires in February 2018, the Montgomeryville lease was assigned in October 2004 and expires in June 2021, the Fargo lease was assigned in February 2006 and expires in July 2016 and the Logan lease was assigned in January 2009 and expires in August 2019. As the fair value of the guarantees is not considered significant, no liability has been recorded. As discussed in note 8, the Everett, MA, Longmont, CO, and Fargo, ND restaurants are owned, in whole or part, by certain of our officers, directors or 5% shareholders.

We currently buy most of our beef from four suppliers. Although there are a limited number of beef suppliers, management believes 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, 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 believe we have meritorious defenses to the claims made by the EEOC, and we intend to vigorously defend against them. We filed a response to the complaint in the form of two motions, one to dismiss the case and one to transfer the case to Louisville, KY. A hearing on the motions was held on July 16, 2012. On July 24, 2012, the court issued a ruling allowing the EEOC to file an amended complaint containing additional information sufficient to meet the standard for stating a claim of age discrimination against Texas Roadhouse. The EEOC filed an amended complaint on August 27, 2012 and we filed a renewed motion to transfer the case to Louisville, KY on September 7, 2012. Based on the preliminary status of this matter, we cannot estimate the possible amount or

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

range of loss, if any, associated with this matter.

On January 19, 2011, a Massachusetts putative class action was filed styled *Jenna Crenshaw, Andrew Brickley, et al, and all others similarly situated v. Texas Roadhouse, Inc., Texas Roadhouse Holdings, LLC, Texas Roadhouse of Everett, LLC and Texas Roadhouse Management Corp., d/b/a Texas Roadhouse*. The complaint was filed in the United States District Court, District of Massachusetts. The complaint alleged a failure to comply with Massachusetts wage laws specifically that we improperly shared pooled tips with ineligible employees. On April 30, 2012, the parties filed a Settlement Agreement (the Agreement) seeking preliminary court approval to settle the lawsuit; the court approved the Agreement on September 5, 2012, and subsequently dismissed the complaint. Under the Agreement, the company agrees to pay \$5.0 million, which includes payment of the plaintiffs' attorneys' fees, payment of expenses to administer the settlement, and individual payments to resolve the claims of servers employed in Massachusetts restaurants from January 18, 2005 through September 5, 2012, the date of final court approval. As a result of the Agreement, as previously reported, we have recorded a \$5.0 million charge in the first quarter of 2012 which is included in general and administrative expenses in our condensed consolidated statements of income and comprehensive income.

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) Related Party Transactions**

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 \$56,000 for each of the 13 week periods ending September 25, 2012 and September 27, 2011. For each of the 39 week periods ended September 25, 2012 and September 27, 2011, rent payments were \$0.2 million.

The Bossier City, Louisiana restaurant, of which Steven L. 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 \$50,000 for each of the 13 week periods ended September 25, 2012 and September 27, 2011. For each of the 39 week periods ended September 25, 2012 and September 27, 2011, rent payments were \$0.1 million.

We have 15 franchise and license restaurants owned, in whole or part, by certain of our officers, directors or 5% shareholders as of September 25, 2012 and September 27, 2011. These entities paid us fees of approximately \$0.6 million and \$0.5 million during the 13 week periods ended September 25, 2012 and September 27, 2011, respectively. For the 39 week periods ended September 25, 2012 and September 27, 2011, these entities paid us fees of \$1.7 million and \$1.6 million, respectively. As disclosed in note 7, we are contingently liable on leases which are related to three of these restaurants.

(9) 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, RSUs and restricted stock awards 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 25, 2012	September 27, 2011	September 25, 2012	September 27, 2011
Options	289,210	842,303	293,561	309,254
Nonvested stock			4,901	47

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

Total	289,210	842,303	298,462	309,301
-------	---------	---------	---------	---------

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

Table of Contents

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

	13 Weeks Ended		39 Weeks Ended	
	September 25, 2012	September 27, 2011	September 25, 2012	September 27, 2011
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	\$ 18,067	\$ 15,798	\$ 57,246	\$ 51,667
Basic EPS:				
Weighted-average common shares outstanding	70,482	70,800	70,004	71,370
Basic EPS	\$ 0.26	\$ 0.22	\$ 0.82	\$ 0.72
Diluted EPS:				
Weighted-average common shares outstanding	70,482	70,800	70,004	71,370
Dilutive effect of stock options and restricted stock	1,446	1,386	1,476	1,533
Shares diluted	71,928	72,186	71,480	72,903
Diluted EPS	\$ 0.25	\$ 0.22	\$ 0.80	\$ 0.71

(10) Fair Value Measurement

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 week periods ended September 25, 2012.

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

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

	Level	Fair Value Measurements	
		September 25, 2012	December 27, 2011
Interest rate swaps	2	\$ (4,384)	\$ (4,247)
Deferred compensation plan - assets	1	8,638	6,748
Deferred compensation plan - liabilities	1	(8,634)	(6,714)
Total		\$ (4,380)	\$ (4,213)

The fair value of our interest rate swaps were determined based on the present value of expected future cash flows considering the risks involved, including nonperformance risk, and using discount rates appropriate for the duration. 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 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 condensed consolidated statements of income and comprehensive income.

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

Table of Contents

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

	Level	Fair Value Measurements	
		September 25, 2012	December 27, 2011
Long-lived assets held for sale	2	\$ 1,398	\$ 1,398
Long-lived assets held for use	2	946	1,017
Goodwill	3	992	992
Total		\$ 3,336	\$ 3,407

Long-lived assets held for sale include land and building and are valued using Level 2 inputs, primarily an independent third party appraisal. These assets are included in Property and equipment in our condensed consolidated balance sheets as we do not expect to sell these assets in the next 12 months. Costs to market and/or sell the assets are factored into the estimates of fair value.

Long-lived assets held for use include building, equipment and furniture and fixtures and are valued using Level 2 inputs, primarily independent third party appraisals. These assets are included in Property and equipment in our condensed consolidated balance sheets.

Goodwill in the table above relates to two previously underperforming restaurants in which the carrying value of the associated goodwill was reduced to fair value, based on their historical results and anticipated future trends of operations. The fair value measurements in the impairment calculations were based on discounted cash flow estimates using unobservable inputs such as a capitalization rate and an estimated discount rate.

At September 25, 2012 and December 27, 2011, the fair value of cash and cash equivalents, accounts receivable and accounts payable approximated their carrying value based on the short-term nature of these instruments. The fair value of our long-term debt 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 debt are as follows:

		September 25, 2012		December 27, 2011	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Installment loans	Level 2	\$ 1,527	\$ 1,826	\$ 1,679	\$ 2,044
Revolver	Level 1	50,000	50,000	60,000	60,000

(11) Stock Repurchase Program

On February 16, 2012, our Board of Directors approved a stock repurchase program under which it authorized us to repurchase up to \$100.0 million of our common stock. Historically, repurchases under our stock repurchase program are 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 25, 2012 through this authorized stock repurchase program. For the 13 weeks ended September 27, 2011, we paid approximately \$21.2 million to repurchase 1,503,400 shares of our common stock. For the 39 weeks ended September 27, 2011, we paid approximately \$46.4 million to repurchase 3,003,400 shares of our common stock. The shares purchased in 2011 were purchased under a previously approved program.

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 27, 2011, 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 384 restaurants in 47 states and one international location. 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 25, 2012, our 384 restaurants included:

- 312 company restaurants, of which 298 were wholly-owned and 14 were majority-owned. The results of operations of company restaurants are included in our 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 condensed consolidated statements of income and comprehensive income.
- 72 franchise restaurants, of which 71 were franchise restaurants and one was a license restaurant. We have a 5.0% to 10.0% ownership interest in 22 franchise restaurants. 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 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 (i) the remaining equity interests in 12 of the 14 majority-owned company restaurants, and (ii) 65 of the franchise restaurants.

Presentation of Financial and Operating Data

Throughout this report, the 13 weeks ended September 25, 2012 and September 27, 2011 are referred to as Q3 2012 and Q3 2011, respectively, and the 39 weeks ended September 25, 2012 and September 27, 2011 are referred to as 2012 YTD and 2011 YTD.

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 2011, including pre-opening expenses, was \$3.8 million. This average includes 10 times the annual base rent amount for restaurants where we do not own the land. We anticipate that our 2012 development costs will be fairly consistent with our 2011 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 the next 10 years, the first of which opened in August 2011. Additionally, in 2010, we entered into a joint venture agreement with a casual dining restaurant operator in China for the minority ownership in three non-Texas Roadhouse restaurants, two of which were open as of the end of Q3 2012. We may also look to acquire franchise restaurants under terms favorable to us and our stockholders. 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 384 restaurants we owned and operated at September 25, 2012, we operated 381 as Texas Roadhouse restaurants, while three operated under the name of Aspen Creek. We have opened 18 restaurants in 2012 YTD and we currently plan to open approximately 25 restaurants in 2012, all of which will be company-owned Texas Roadhouse restaurants. In addition, we anticipate our existing franchise partners will open two Texas Roadhouse restaurants in 2012. We currently plan to open approximately 28 company restaurants in 2013, all of which will be Texas Roadhouse restaurants. In addition, we anticipate our existing franchise partners will open as many as four Texas Roadhouse restaurants in 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 Q3 2012, our average unit volumes and comparable restaurant sales increased 3.3% and 3.6%, respectively, for Texas Roadhouse restaurants. In 2012 YTD, our average unit volumes and comparable restaurant sales increased 4.4% and 4.8 %, respectively. The growth in these measures was primarily due to a combination of menu price increases taken throughout 2011 and 2012 along with higher guest traffic counts. In an effort to partially offset inflationary pressures, we increased menu prices approximately 2.2% in early 2012 and 2.5% to 3.0% during 2011. In general, we continue to balance the impacts 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 margins, as a percentage of sales, in any given year, depending on the level of inflation we experience. However, in addition to restaurant margin, as a percentage of sales, we also focus on restaurant margin 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. We also continue to drive various localized marketing programs in order to attract new guests and increase the frequency of visits of our existing guests.

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 goal is to have general and administrative costs increase at a slower growth rate than our revenue. Whether we are able to continue leveraging our infrastructure will depend, in part, on our new restaurant openings and our comparable restaurant sales growth rate going forward. In 2012, we anticipate our general and administrative costs will increase at a faster growth rate than our revenue as a result of a legal settlement charge of \$5.0 million recorded in the first quarter of 2012.

Returning Capital to Shareholders. We continue to evaluate opportunities to return capital to our shareholders through the payment of dividends and/or repurchases of common stock. We started paying dividends in 2011. During 2011, we declared dividends of \$22.5 million, or \$0.32 per share of common stock (\$0.08 per share per quarter). On August 16, 2012, our Board of Directors authorized the payment of a cash dividend of \$0.09 per share of common stock. This payment of \$6.4 million was distributed on September 28, 2012, to shareholders of record at the close of business on September 12, 2012. The declaration and payment of cash dividends on our common stock is at the discretion of our Board of Directors, and any 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 credit facility and other contractual restrictions, or other factors deemed relevant. During the first

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

three quarters of 2012, we have declared dividends of \$19.0 million, or \$0.27 per share of common stock (\$0.09 per share per quarter).

On February 16, 2012, our Board of Directors approved a stock repurchase program under which we may repurchase up to \$100.0 million of our common stock. Any repurchases will be made through open market transactions. As of September 25, 2012, \$100.0 million remains authorized for repurchase. Since 2008, we have paid \$116.1 million to repurchase 10.5 million shares of our common stock at an average price per share of \$11.08 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.

Table of Contents

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.

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 annual restaurant sales for company-owned Texas Roadhouse restaurants open for a full six months before the beginning of the period measured. Average unit volume excludes sales on 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 Margins. Restaurant margins represent restaurant sales less restaurant operating costs. Restaurant margins, as a percentage of restaurant sales, may fluctuate based on changes in average unit volumes, inflationary pressures, commodity costs and wage rates. We also focus on restaurant margin growth per store week as a measure of restaurant level profitability as it provides additional insight on operating performance.

Other Key Definitions

Restaurant Sales. Restaurant sales include gross food and beverage sales, net of promotions and discounts, for all company-owned 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 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 agreement, 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 managers. 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 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 fees 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 salaries, travel expenses, rent, food, beverage and other initial supplies and expenses.

Depreciation and Amortization Expenses. Depreciation and amortization expenses (D&A) includes the depreciation of fixed assets and amortization of intangibles with definite lives.

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.

Table of Contents

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 and license 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 25, 2012 and September 27, 2011, we owned a 5.0% to 10.0% equity interest in 22 and 21 franchise restaurants, respectively. Additionally, as of September 25, 2012, we owned a 40% equity interest in two 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 25, 2012 included 15 majority-owned restaurants, 14 of which were open. Our consolidated subsidiaries at September 27, 2011 included 11 majority-owned restaurants, all of which were open.

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 14 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.

Table of Contents**Results of Operations**

(\$ in thousands)	13 Weeks Ended				39 Weeks Ended			
	September 25, 2012		September 27, 2011		September 25, 2012		September 27, 2011	
	\$	%	\$	%	\$	%	\$	%
Revenue:								
Restaurant sales	306,025	99.1	266,874	99.1	945,583	99.1	825,283	99.1
Franchise royalties and fees	2,631	0.9	2,379	0.9	8,217	0.9	7,327	0.9
Total revenue	308,656	100.0	269,253	100.0	953,800	100.0	832,610	100.0
Costs and expenses:								
<i>(As a percentage of restaurant sales)</i>								
Restaurant operating costs:								
Cost of sales	102,930	33.6	88,944	33.3	319,445	33.8	274,751	33.3
Labor	91,507	29.9	78,919	29.6	278,089	29.4	244,551	29.6
Rent	6,489	2.1	5,796	2.2	19,120	2.0	17,153	2.1
Other operating	50,183	16.4	45,112	16.9	151,967	16.1	136,331	16.5
<i>(As a percentage of total revenue)</i>								
Pre-opening	2,458	0.8	3,327	1.2	8,823	0.9	7,413	0.9
Depreciation and amortization	11,828	3.8	10,571	3.9	34,721	3.6	31,724	3.8
Impairment and closure	24	NM	13	NM	63	NM	59	NM
General and administrative	15,503	5.0	13,499	5.0	53,189	5.6	43,599	5.2
Total costs and expenses	280,922	91.0	246,181	91.4	865,417	90.7	755,581	90.7
Income from operations	27,734	9.0	23,072	8.6	88,383	9.3	77,029	9.3
Interest expense, net	603	0.2	669	0.2	1,776	0.2	1,776	0.2
Equity income from investments in unconsolidated affiliates	(141)	NM	(71)	NM	(303)	NM	(271)	NM
Income before taxes	27,272	8.8	22,474	8.3	86,910	9.1	75,524	9.1
Provision for income taxes	8,778	2.8	6,058	2.2	27,815	2.9	21,934	2.6
Net income including noncontrolling interests	18,494	6.0	16,416	6.1	59,095	6.2	53,590	6.4
Net income attributable to noncontrolling interests	427	0.1	618	0.2	1,849	0.2	1,923	0.2
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	18,067	5.9	15,798	5.9	57,246	6.0	51,667	6.2

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 U.S. Generally Accepted Accounting Principles (GAAP) throughout this document, the Company has 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.

The Company 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, the Company believes 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 the Company does not believe are indicative of our ongoing operations in the 39 weeks ended September 25, 2012.

	39 weeks ended	
	September 25, 2012	September 27, 2011
	\$	\$
Net income attributable to Texas Roadhouse, Inc. and subsidiaries, excluding settlement charge	60,308	51,667
Amount reserved for settlement of a legal matter, net of tax (1)	(3,062)	
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	57,246	51,667
Weighted average diluted shares outstanding	71,480	72,903
Diluted earnings per share, excluding settlement charge	0.84	0.71
Impact of settlement charge on diluted earnings per share	(0.04)	
	0.80	0.71

(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 is included in general administrative costs in our condensed consolidated statements of income and comprehensive income.

Restaurant Unit Activity

	Company	Franchise	Total
Balance at December 27, 2011	294	72	366
Openings Texas Roadhouse	18		18
Openings Aspen Creek			
Acquisitions (Dispositions)			
Closures			
Balance at September 25, 2012	312	72	384

Table of Contents**Q3 2012 (13 weeks) Compared to Q3 2011 (13 weeks) and 2012 YTD (39 weeks) Compared to 2011 YTD (39 weeks)**

Restaurant Sales. Restaurant sales increased by 14.7% in Q3 2012 as compared to Q3 2011 and 14.6% in 2012 YTD compared to 2011 YTD. These increases were primarily attributable to the opening of new restaurants and an increase in average unit volumes, primarily comparable restaurant sales.

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

	Q3 2012	Q3 2011	2012 YTD	2011 YTD
Increase in store weeks	10.9%	5.6%	9.6%	5.1%
Increase in average unit volumes	3.3%	4.2%	4.4%	4.7%
Other (1)	0.5%	(0.2)%	0.6%	(0.3)%
Total increase in restaurant sales	14.7%	9.6%	14.6%	9.5%
Store weeks	4,041	3,643	11,854	10,818
Comparable restaurant sales growth	3.6%	4.1%	4.8%	4.4%

(1) Includes the impact of the year-over-year change in sales volume of all Aspen Creek 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 are attributable to the opening of new restaurants. Company restaurant count activity is shown in the restaurant unit activity table above.

The increase in average unit volumes for Q3 2012 and 2012 YTD was 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 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. The menu price increases we have taken in the first quarter of 2012 and throughout fiscal 2011 are driving the increase in our per person average check. We increased menu prices in the first quarter of 2012 approximately 2.2%. In 2011, we increased menu prices approximately 2.5% to 3.0% with just over 1% during the first quarter of the year and the remaining during the third and fourth quarters of the year. These menu price increases were taken as a result of inflationary pressures, primarily commodities.

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

The increase in average unit volumes for Q3 2011 and 2011 YTD was primarily driven by positive comparable restaurant sales, along with higher year-over-year sales for the newer restaurants included in our average unit volumes but excluded from comparable restaurant sales. Comparable restaurant sales of 4.0% in Q3 2011 and 4.4% in 2011 YTD were primarily due to increases in our guest traffic counts of 2.0% in Q3 2011 and 3.2% in 2011 YTD, along with an increase in our per person average check driven by menu price increases taken in the first quarter of 2011 as previously discussed.

In 2012, we plan to open approximately 25 company restaurants, 18 of which opened in 2012 YTD. We have begun construction for all the remaining planned restaurant openings. Additionally, we currently plan to open approximately 28 company restaurants in 2013.

Franchise Royalties and Fees. Franchise royalties and fees increased by \$0.3 million, or by 10.6%, in Q3 2012 from Q3 2011 and increased by \$0.9 million, or by 12.1% in 2012 YTD from 2011 YTD. These increases were primarily attributable to an increase in average unit volumes. Franchise comparable restaurant sales increased 4.9% and 5.5% in Q3 2012 and 2012 YTD, respectively. Franchise restaurant count activity is shown in the restaurant unit activity table above.

Restaurant Cost of Sales. Restaurant cost of sales, as a percentage of restaurant sales, increased to 33.6% in Q3 2012 from 33.3% in Q3 2011 and increased to 33.8% in 2012 YTD from 33.3% in 2011 YTD. These increases were primarily attributable to commodity inflation of approximately 5.5% for the quarter and approximately 6.5% year-to-date, partially offset by the impact of menu pricing actions in 2012 and 2011 and the benefit of favorable mix shift. Inflation was driven by higher food costs on items such as pork and beef, partially offset by lower costs for certain produce items, specifically potatoes. The benefit of favorable mix shift was primarily driven by the addition of pictures to the menu in late January 2012 which has resulted in higher sales for the items shown. These items have a slightly lower food cost, as a percentage of sales, than other items within the same category.

Table of Contents

For the remainder of 2012, we have fixed price contracts for approximately 75% of our overall food costs, including approximately 90% of our beef, with the remainder subject to fluctuating market prices. We expect commodity cost inflation of 6.5% to 7.0% for full year 2012. For 2013, we anticipate commodity cost inflation will be 5.0%-8.0% driven by expectations for higher beef costs.

Restaurant Labor Expenses. Restaurant labor expenses, as a percentage of restaurant sales, increased to 29.9% in Q3 2012 compared to 29.6% in Q3 2011 and decreased to 29.4% 2012 YTD from 29.6% in 2011 YTD. The increase in Q3 2012 was primarily driven by higher workers compensation costs, labor inefficiencies associated with recently opened restaurants and higher average wage rates, partially offset by the benefit from an increase in average unit volumes. Workers compensation costs were \$0.7 million higher in Q3 2012 as a result of a \$0.6 million credit recorded in Q3 2011 due to better claims experience.

The decrease in 2012 YTD was primarily driven by an increase in average unit volumes, partially offset by labor inefficiencies associated with recently opened restaurants and higher average wage rates. The timing of restaurant openings in 2011 and 2012 YTD led to an increase in labor inefficiencies, as a percentage of restaurant sales, in Q3 2012 and 2012 YTD. Typically, restaurants open with an initial start-up period of higher than normalized sales volumes and higher than normalized labor costs, as a percentage of restaurant sales.

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

In 2013, we anticipate our labor costs will be pressured by inflation due to increases in minimum and tip wage rates. 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, decreased to 2.1% in Q3 2012 compared to 2.2% in Q3 2011 and decreased to 2.0% in 2012 YTD compared to 2.1% in 2011 YTD. The benefit from an increase in average unit volumes was partially offset by the impact of leasing more land and buildings than we have in the past.

Restaurant Other Operating Expenses. Restaurant other operating expenses, as a percentage of restaurant sales, decreased to 16.4% in Q3 2012 from 16.9% in Q3 2011 and decreased to 16.1% in 2012 YTD from 16.5% in 2011 YTD. These decreases were primarily attributable to an increase in average unit volumes and lower utility costs and credit card fees, partially offset by higher property tax costs and an increase in losses associated with the disposal of assets. Property tax costs were higher due to credits recorded in Q3 2011, while utility costs were lower primarily due to lower electricity and natural gas prices. In addition, we continue to experience lower credit card fees due to regulatory changes related to debit card interchange fees that took effect in October 2011.

Restaurant Pre-opening Expenses. Pre-opening expenses decreased to \$2.5 million in Q3 2012 from \$3.3 million in Q3 2011 and increased to \$8.8 million in 2012 YTD from \$7.4 million in 2011 YTD. The change in pre-opening expenses in Q3 2012 and 2012 YTD is primarily attributable to the timing of restaurant openings throughout 2012 compared to 2011. We opened three restaurants in Q3 2012 and plan to open seven restaurants in the fourth quarter of 2012, which is less than the five restaurants and ten restaurants opened in Q3 2011 and the fourth quarter of 2011, respectively. As a result, pre-opening expenses were lower in Q3 2012 than in Q3 2011. However, pre-opening expenses are higher in 2012 YTD, since we have opened 18 company restaurants in 2012 YTD compared to 10 company restaurants in 2011 YTD.

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

Pre-opening costs will fluctuate from period to period based on the number and timing of restaurant openings and the number and timing of restaurant managers hired. Based on our increased restaurant development plans, we expect pre-opening expenses to be higher in 2013.

Depreciation and Amortization Expense. D&A, as a percentage of total revenue, decreased to 3.8% in Q3 2012 from 3.9% in Q3 2011 and decreased to 3.6% in 2012 YTD from 3.8% in 2011 YTD. Along with an increase in average unit volumes, this decrease was 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. The decrease was 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, was unchanged at 5.0% in Q3 2012 compared Q3 2011 and increased to 5.6% in 2012 YTD from 5.2% in 2011 YTD.

In Q3 2012, the benefit from an increase in average unit volumes was offset by higher costs associated with share-based compensation and legal fees. In 2012 YTD, the increase was primarily attributable to a one-time, pre-tax charge of \$5.0 million (\$3.1 million after-tax) recorded in the first quarter of 2011 related to the settlement of a previously disclosed legal matter. This charge had a \$0.04 impact on diluted earnings per share in 2012 YTD. This increase was offset by an increase in average unit volumes and lower costs related to our annual managing partner conference in the second quarter of 2012.

We expect share-based compensation costs to be approximately \$1.8 million higher in 2012 compared to 2011 primarily driven

by a higher stock price associated with a grant of restricted stock units on January 7, 2012 in conjunction with the execution of certain

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

Table of Contents

executive employment contracts at the beginning of 2012. Overall, in 2012, we expect total G&A costs, excluding the legal settlement charge, to increase at a slower growth rate than our revenue.

Based on the location of our annual managing partner conference in the second quarter of 2013, we expect these costs to be higher in 2013 compared to 2012.

Interest Expense, Net. Interest expense remained relatively flat at \$0.6 million in Q3 2012 compared to \$0.7 million in Q3 2011 and was unchanged at \$1.8 million in 2012 YTD and 2011 YTD. In Q3 2012, a decrease in amortization expense was partially offset by an increase in expense attributable to higher interest rates and a decrease in capitalized interest. In 2012 YTD, a decrease in amortization expense, along with an increase in capitalized interest was offset by an increase in expense attributable to higher interest rates.

Income Tax Expense. Our effective tax rate increased to 32.7% in Q3 2012 from 27.7% in Q3 2011 and increased to 32.7% in 2012 YTD from 29.8% in 2011 YTD. The increase in Q3 2012 was primarily attributable to the loss of the HIRE Retention tax credit, lower FICA tip and Worker Opportunity tax credits (WOTC) as a percentage of pre-tax income, and higher non-deductible officer s compensation. The increase in 2012 YTD was primarily attributable to the loss of the HIRE Retention tax credit, higher non-deductible officer s compensation and lower WOTC as a percentage of pre-tax income, partially offset by higher FICA tip credits.

The HIRE Retention tax credit was a 2011 federal tax credit enacted to encourage the retention of new hires for 52 weeks and ended after 2011.

We expect the tax rate to be approximately 32.5% - 33.0% for fiscal 2012 compared to 29.5% in fiscal 2011 due to lower federal tax credits and an expected increase in non-deductible officer s compensation. For 2013, we expect the tax rate to be approximately 32.5% to 33.0%.

Liquidity and Capital Resources

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

	39 Weeks Ended	
	September 25, 2012	September 27, 2011
Net cash provided by operating activities	\$ 92,265	\$ 81,009
Net cash used in investing activities	(62,891)	(51,668)
Net cash used in financing activities	(18,785)	(55,883)
Net increase (decrease) in cash and cash equivalents	\$ 10,589	\$ (26,542)

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

Net cash provided by operating activities was \$92.3 million in 2012 YTD compared to \$81.0 million in 2011 YTD. This increase was primarily due to an increase in net income driven by a continued growth in overall sales combined with higher restaurant level profitability. The continued opening of new restaurants and an increase in comparable restaurant sales drove our sales growth.

Our operations have not required significant working capital and we have been able to operate with negative working capital in the past. 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.

Net cash used in investing activities was \$62.9 million in 2012 YTD compared to \$51.7 million in 2011 YTD. This increase was primarily due to spending on capital expenditures as a result of increased spending on the refurbishment of existing restaurants, such as remodeling, room additions and other general maintenance, and more restaurant openings. We plan to open approximately 25 restaurants in 2012 as compared to 20 restaurants in 2011. We have opened 18 restaurants in 2012 YTD compared to 10 restaurants in 2011 YTD.

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 25, 2012, 123 of the 312 company restaurants have been developed on land which we own.

Table of Contents

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

(in 000 s)	2012 YTD		2011 YTD	
New company restaurants	\$	41,675	\$	39,625
Refurbishment of existing restaurants (1)		21,471		12,214
Total capital expenditures	\$	63,146	\$	51,839
Restaurant-related repairs and maintenance expense (2)	\$	10,338	\$	9,208

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

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

Our future capital requirements will primarily depend on the number of new restaurants we open and 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 2012, we expect our capital expenditures to be approximately \$90.0 million, the majority of which will relate to planned restaurant openings, including approximately 25 and approximately 28 restaurant openings in 2012 and 2013, respectively. This amount excludes 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 credit facility. For 2012, we anticipate net cash provided by operating activities will exceed capital expenditures. We currently plan to use this excess to pay dividends (as approved by our Board of Directors) and/or repurchase common stock.

Net cash used in financing activities was \$18.8 million in 2012 YTD as compared to \$55.9 million in 2011 YTD. This decrease was primarily due to no repurchases of shares of common stock in 2012 YTD compared to \$46.4 million of repurchases in 2011 YTD. The decrease in share repurchases along with higher proceeds from the exercise of stock options in 2012 YTD was partially offset by increased payments on borrowings under our credit facility and an additional dividend payment in 2012 YTD. We began paying dividends in the second fiscal quarter of 2011.

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. Historically, repurchases under our stock repurchase program are 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 2012 YTD through our stock repurchase program.

We paid cash dividends of \$18.1 million in 2012 YTD. Additionally, on August 16, 2012, our Board of Directors authorized the payment of a cash dividend of \$0.09 per share of common stock. This payment of \$6.4 million was distributed on September 28, 2012 to shareholders of record at the close of business on September 12, 2012. The declared dividends are included as a liability in our condensed consolidated balance sheet as of September 25, 2012.

In 2012 YTD, we paid distributions of \$2.2 million to equity holders of 12 of our majority-owned company restaurants. In 2011 YTD, we paid distributions of \$1.8 million to equity holders of 11 of our majority-owned company restaurants.

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

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, National Association, and Wells Fargo, National Association. This facility replaced our previous five-year revolving credit facility. The new facility expires on August 11, 2016. The terms of the 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 the facility, depending on our leverage ratio. The weighted-average interest rate for the revolver at September 25, 2012 and December 27, 2011 was 3.96% and 3.20%, respectively, including the impact of interest rate swaps discussed below. At September 25, 2012, we had \$50.0 million outstanding under the credit facility and \$145.8 million of availability, net of \$4.2 million of outstanding letters of credit.

The lenders' obligation to extend credit under the 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 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 25, 2012.

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

Table of Contents

At September 25, 2012, in addition to the amounts outstanding on our credit facility, we had various other notes payable totaling \$1.5 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 25, 2012 was 4.16%, 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 credit facility. 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 LIBOR component of 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 credit facility. 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 LIBOR component of 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 25, 2012:

	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	\$ 51,527	\$ 223	\$ 523	\$ 50,349	\$ 432
Capital lease obligations	154	106	48		
Interest (1)	11,143	1,954	3,810	3,710	1,669
Operating lease obligations	209,824	25,002	47,357	40,549	96,916
Capital obligations	55,851	55,851			
Total contractual obligations	\$ 328,499	\$ 83,136	\$ 51,738	\$ 94,608	\$ 99,017

(1) Assumes constant rate until maturity for our fixed and variable rate debt and capital lease obligations.

Uses interest rates as of September 25, 2012 for our variable rate debt. Interest payments on our variable-rate revolving credit facility balance at September 25, 2012 are calculated based on the assumption that debt relating to the interest rate swaps covering notional amounts totaling \$50.0

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

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 0.50% margin, which was in effect as of September 25, 2012.

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

Off-Balance Sheet Arrangements

Except for operating leases (primarily restaurant leases), we do not have any 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 value has been recorded.

Table of Contents

Recently Issued Accounting Standards

Comprehensive Income

(ASU 2011-05)

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity, which was our presentation, and also requires presentation of reclassification adjustments from other comprehensive income to net income on the face of the financial statements. In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05*, to defer the effective date of the specific requirement to present items that are reclassified out of accumulated comprehensive income to net income alongside their respective components of net income and other comprehensive income. All other provisions of this update are effective for annual and interim reporting periods beginning after December 15, 2011 (our 2012 fiscal year). The adoption of this new guidance has no impact on our consolidated financial position, results of operations or cash flows, though it did change our income statement presentation.

Goodwill and Other Intangibles

(ASU 2011-08)

In September 2011, the FASB issued ASU 2011-08, *Intangibles - Goodwill and Other, Testing Goodwill for Impairment*, which permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying value before applying the two-step goodwill impairment model that is currently in place. If it is determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying value, the remaining impairment steps would be unnecessary. The qualitative assessment is optional, allowing companies to go directly to the quantitative assessment. This update is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011 (our 2012 fiscal year). The adoption of this new guidance has no impact on our consolidated financial position, results of operations, cash flows or disclosures.

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 line of credit. Our options for the rate are 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% or the LIBOR plus an applicable margin. At September 25, 2012 there was \$50.0 million outstanding under our revolving line of credit which bears interest at approximately 87.5 to 187.5 basis points (depending on our leverage ratios) over LIBOR. As of September 25, 2012, our various other notes payable totaled \$1.5 million and had a weighted average interest rate of 10.56%.

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

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 LIBOR component of 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 credit facility. 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 LIBOR component of 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 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

Table of Contents

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, we may encounter supply shortages and incur higher costs to secure adequate supplies, any of which would harm our business.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

We have 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, performed under the supervision and with the participation of our management, including the Chief Executive Officer (the CEO) and the Chief Financial Officer (the CFO), our management, including the CEO and 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, 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 believe we have meritorious defenses to the claims made by the EEOC, and we intend to vigorously defend against them. We filed a response to the complaint in the form of two motions, one to dismiss the case and one to transfer the case to Louisville, KY. A hearing on the motions was held on July 16, 2012. On July 24, 2012, the court issued a ruling allowing the EEOC to file an amended complaint containing additional information sufficient to meet the standard for stating a claim of age discrimination against Texas Roadhouse. The EEOC filed an amended complaint on August 27, 2012 and we filed a renewed motion to transfer the case to Louisville, KY on September 7, 2012. Based on the preliminary status of this matter, we cannot estimate the possible amount or range of loss, if any, associated with this matter.

On January 19, 2011, a Massachusetts putative class action was filed styled *Jenna Crenshaw, Andrew Brickley, et al, and all others similarly situated v. Texas Roadhouse, Inc., Texas Roadhouse Holdings, LLC, Texas Roadhouse of Everett, LLC and Texas Roadhouse Management Corp., d/b/a Texas Roadhouse.* The complaint was filed in the United States District Court, District of Massachusetts. The complaint alleged a failure to comply with Massachusetts wage laws specifically that we improperly shared pooled tips with ineligible employees. On April 30, 2012, the parties filed a Settlement Agreement (the Agreement) seeking preliminary court approval to settle the lawsuit; the court approved the Agreement on September 5, 2012, and subsequently dismissed the complaint. Under the Agreement, the company agrees to pay \$5.0 million, which includes payment of the plaintiffs attorneys fees, payment of expenses to administer the settlement, and individual payments to resolve the claims of servers employed in Massachusetts restaurants from January 18, 2005 through September 5, 2012, the date of final court approval. As a result of the Agreement, as previously reported, we have recorded a \$5.0 million charge in the first quarter of 2012 which is included in general and administrative expenses in our condensed consolidated statements of income and comprehensive income.

ITEM 1A. RISK FACTORS

Information regarding risk factors appears in our Annual Report on Form 10-K for the year ended December 27, 2011, 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.

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 under which it authorized us to repurchase up to \$100.0 million of our common stock. Historically, repurchases under our authorized stock repurchase program are 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. This authorization replaced an existing stock repurchase program, which had no expiration date and \$40.9 million remaining as of the cancellation date.

The following table includes information regarding purchases of our common stock made by us during the 13 weeks ended September 25, 2012:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
June 27 to July 24				\$ 100,000,000
July 25 to August 21				\$ 100,000,000
August 22 to September 25				\$ 100,000,000
Total				

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

Exhibit No.	Description
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	The following financial statements from the Texas Roadhouse, Inc. Quarterly Report on Form 10-Q for the quarter ended September 25, 2012, filed November 2, 2012, formatted in eXtensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income and Comprehensive Income, (iii) Condensed Consolidated Statements of Stockholders' Equity, (iv) Condensed Consolidated Statements of Cash Flows, and (v) the Notes to the Condensed Consolidated Financial Statements.

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 2, 2012

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

Date: November 2, 2012

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