

Texas Roadhouse, Inc.  
Form 10-K  
February 22, 2013

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 25, 2012

OR

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

For the transition period from to

**Texas Roadhouse, Inc.**

(Exact name of registrant specified in its charter)

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

**000-50972**  
(Commission File Number)

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

**6040 Dutchmans Lane, Suite 200  
Louisville, Kentucky 40205**  
(Address of principal executive offices) (Zip Code)

**(502) 426-9984**  
(Registrant's telephone number, including area code)  
Securities registered pursuant to Section 12(b) of the Act:

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Common Stock, par value \$0.001 per share	Nasdaq Global Select Market
Securities registered pursuant to Section 12(g) of the Act:	

**None**

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

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

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been

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subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of the last day of the second fiscal quarter ended June 26, 2012 was \$1,105,868,963 based on the closing stock price of \$17.90. Shares of voting stock held by each officer and director have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. The market value calculation was determined using the closing stock price of our common stock on the Nasdaq Global Select Market.

The number of shares of common stock outstanding were 69,300,870 on February 13, 2013.

Portions of the registrant's definitive Proxy Statement for the registrant's 2013 Annual Meeting of Stockholders, which is expected to be filed pursuant to Regulation 14A within 120 days of the registrant's fiscal year ended December 25, 2012, are incorporated by reference into Part III of the Form 10-K. With the exception of the portions of the Proxy Statement expressly incorporated by reference, such document shall not be deemed filed with this Form 10-K.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

our ability to raise capital in the future;

our ability to successfully execute our growth strategy;

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

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

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

the continued service of key management personnel;

health concerns about our food products;

our ability to attract, motivate and retain qualified employees;

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

the impact of litigation, including negative publicity;

the cost of our principal food products;

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

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

changes in consumer preferences and demographic trends;

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the impact of initiatives by competitors and increased competition generally;

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

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

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

negative publicity regarding food safety, health concerns and other food or beverage related matters;

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

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

supply and delivery shortages or interruptions;

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inadequate protection of our intellectual property;

volatility of actuarially determined insurance losses and loss estimates;

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

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

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

The words "believe," "may," "should," "anticipate," "estimate," "expect," "intend," "objective," "seek," "plan," "strive" or similar words, or the negatives of these words, identify forward-looking statements. We qualify any forward-looking statements entirely by these cautionary factors.

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

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

## PART I

### ITEM 1 BUSINESS

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

#### General Development of Business

Texas Roadhouse is a growing, moderately priced, full-service restaurant chain. Our founder, chairman and chief executive officer ("CEO"), W. Kent Taylor, started the business in 1993 with the opening of the first Texas Roadhouse in Clarksville, Indiana. Since then, we have grown to 392 restaurants in 47 states and two foreign countries. Our mission statement is "Legendary Food, Legendary Service®." Our operating strategy is designed to position each of our restaurants as the local hometown destination for a broad segment of consumers seeking high quality, affordable meals served with friendly, attentive service. As of December 25, 2012, we owned and operated 320 restaurants and franchised or licensed an additional 72 restaurants. Of the 320 restaurants we owned and operated at the end of 2012, 318 operated as Texas Roadhouse restaurants, while two operated under the name of Aspen Creek. All of our planned restaurant growth in 2013 will be Texas Roadhouse restaurants.

#### Financial Information about Operating Segments

We consider our restaurant and franchising operations as similar and have aggregated them into a single reportable segment. The majority of the restaurants operate in the U.S. within the casual dining segment of the restaurant industry, providing similar products to similar customers. The restaurants that operate in the U.S. also possess similar pricing structures, resulting in similar long-term expected financial performance characteristics. Each of our 320 company-owned restaurants is considered an operating segment.

#### Narrative Description of Business

Texas Roadhouse is a full-service, casual dining restaurant chain. We offer an assortment of specially seasoned and aged steaks hand-cut daily on the premises and cooked to order over open gas-fired grills. In addition to steaks, we also offer our guests a selection of ribs, fish,

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seafood, chicken, pork chops, pulled pork and vegetable plates, and an assortment of hamburgers, salads and sandwiches.

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The majority of our entrées include two made-from-scratch side items, and we offer all our guests a free unlimited supply of roasted in-shell peanuts and made-from-scratch yeast rolls.

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

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

*Offering performance-based manager compensation.* We offer a performance-based compensation program to our individual restaurant managers and multi-restaurant supervisors, who are called "managing partners" and "market partners," respectively. Each of these partners earns a base salary plus a performance bonus, which represents a percentage of each of their respective restaurant's pre-tax net income. By providing our partners with a significant stake in the success of our restaurants, we believe that we are able to attract and retain talented, experienced and highly motivated managing and market partners.

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

*Offering attractive price points.* We offer our food and beverages at moderate price points that are as low as or lower than those offered by many of our competitors. Within each menu category, we offer a choice of several price points with the goal of fulfilling each guest's budget and value expectations. For example, our steak entrées, which include the choice of two side items, generally range from \$9.99 for our 6-ounce sirloin to \$24.99 for our 23-ounce Porterhouse T-Bone. The per guest average check for the Texas Roadhouse restaurants we owned and operated in 2012 was \$15.44. Per guest average check represents restaurant sales divided by the number of guests served. We considered each sale of an entrée to be a single guest served. Our per guest average check is higher as a result of our weekday dinner only focus.

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



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**Unit Prototype and Economics**

We design our restaurant prototypes to provide a relaxed atmosphere for our guests, while also focusing on restaurant-level returns over time. Our current prototypical restaurants consist of a freestanding building with approximately 6,700 to 7,200 square feet of space constructed on sites of approximately 1.7 to 2.0 acres or retail pad sites, with seating of approximately 57 to 64 tables for a total of 245 to 281 guests, including 15 bar seats, and parking for approximately 160 vehicles either on-site or in combination with some form of off-site cross parking arrangement. Our current prototypes are adaptable to in-line and end-cap locations and/or spaces within an enclosed mall or a shopping center.

As of December 25, 2012, we leased 197 properties and owned 123 properties. Our 2012 average unit volume was \$4.1 million, which represents restaurant sales for all Texas Roadhouse company restaurants open before June 28, 2011. The time required for a new restaurant to reach a steady level of cash flow is approximately three to six months. Our capital investment (including cash and non-cash costs) for new restaurants varies significantly depending on a number of factors including, but not limited to: the square footage, layout, scope of any required site work, type of construction labor (union or non-union), local permitting requirements, our ability to negotiate with landlords, cost of liquor and other licenses and hook-up fees and geographical location. For 2012, the average capital investment for Texas Roadhouse restaurants developed was \$3.88 million, broken down as follows:

	Average Cost	Low	High
Land(1)	\$ 960,000	\$ 457,000	\$ 1,438,000
Building(2)	1,440,000	1,138,000	2,108,000
Furniture and Equipment	1,000,000	943,000	1,112,000
Pre-opening costs	450,000	330,000	628,000
Other(3)	30,000		
<b>Total</b>	<b>\$ 3,880,000</b>		

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

Our 2012 average capital investment for restaurants developed was \$3.88 million compared to our 2011 average of \$3.76 million. Our 2011 average capital investment for restaurants developed was \$3.76 million compared to our 2010 average of \$3.74 million.

**Site Selection**

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

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#### **Existing Restaurant Locations**

As of December 25, 2012, we had 320 company restaurants and 72 franchise restaurants in 47 states and two foreign countries as shown in the chart below.

	Number of Restaurants		
	Company	Franchise	Total
Alabama	5		5
Arizona	12		12
Arkansas	2		2
California	2	4	6
Colorado	13	1	14
Connecticut	2		2
Delaware	2	1	3
Florida	10	4	14
Georgia	3	7	10
Idaho	5		5
Illinois	10		10
Indiana	13	8	21
Iowa	9		9
Kansas	3	1	4
Kentucky	10	2	12
Louisiana	7	1	8
Maine	3		3
Maryland	3	5	8
Massachusetts	8	1	9
Michigan	8	3	11
Minnesota	3		3
Mississippi	1		1
Missouri	10		10
Montana		1	1
Nebraska	3	1	4
Nevada	1		1
New Hampshire	2		2
New Jersey	4		4
New Mexico	2		2
New York	10		10
North Carolina	14		14
North Dakota	2	1	3
Ohio	17	4	21
Oklahoma	6		6
Pennsylvania	18	6	24
Rhode Island	2		2
South Carolina		6	6
South Dakota	2		2
Tennessee	10	2	12
Texas	51	4	55
Utah	8	1	9
Vermont	1		1
Virginia	11		11
Washington	1		1
West Virginia	1	2	3
Wisconsin	9	4	13
Wyoming	1		1
Dubai, UAE		1	1
Kuwait City, Kuwait		1	1
<b>Total</b>	<b>320</b>	<b>72</b>	<b>392</b>



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**Food**

*Menu.* Texas Roadhouse restaurants offer a wide variety of menu items at attractive prices that are designed to appeal to a broad range of consumer tastes. Our dinner entrée prices generally range from \$9.49 to \$24.99, with at least 15 meals priced under \$10.00. We offer a broad assortment of specially seasoned and aged steaks, including 6, 8, 11 and 16 oz. Sirloins; 10, 12, 16 and 20 oz. Rib-eyes; 6 and 8 oz. Filets; 12 and 16 oz. New York Strip; Prime Rib; and our Porterhouse T-Bone, all but one of our assortment of steaks are hand-cut daily on the premises and cooked over open gas-fired grills. We also offer our guests a selection of fish, seafood, chicken, pork chops, ribs, pulled pork and vegetable plates, and an assortment of hamburgers, salads and sandwiches. Entrée prices include made-from-scratch yeast rolls and most include the choice of two of the following made-from-scratch sides: baked potato, sweet potato, steak fries, mashed potatoes, house or Caesar salad, green beans, chili, seasoned rice, buttered corn, applesauce and steamed vegetables. Our menu allows guests to customize their meals by ordering steaks that are "smothered" either in sautéed mushrooms, onions, cheese or gravy. Guests may also customize their baked potatoes, mashed potatoes or steak fries by ordering them "loaded" with sour cream, cheese, bacon and/or butter. Other menu items include specialty appetizers such as the "Cactus Blossom®" and "Chicken Critters®" (chicken tenders). We also provide a "12 & Under" menu for children that includes sirloin steak, rib basket, Lil 'Dillo Sirloin Bites, Jr. Chicken Critters, mini-cheeseburgers, hot dog and macaroni and cheese, all served with one side item and a beverage at prices generally between \$2.99 and \$7.99.

Most of our restaurants feature a full bar that offers an extensive selection of draft and bottled beer, major brands of liquor and wine as well as margaritas. Managing partners are encouraged to tailor their beer selection to include regional and local brands. Alcoholic beverages accounted for approximately 11% of restaurant sales at Texas Roadhouse in fiscal 2012.

We have maintained a fairly consistent menu over time, with a selection of approximately 60 entrees and 90 total menu items. We continually review our menu to consider enhancements to existing menu items or the introduction of new items. We change our menu only after guest feedback and an extensive study of the operational and economic implications. To maintain our high levels of food quality and service, we generally remove one menu item for every new menu item introduced so as to facilitate our ability to execute high quality meals on a focused range of menu items.

*Food Quality and Safety.* We are committed to serving a varied menu of high-quality, great tasting food items with an emphasis on freshness. We have developed proprietary recipes to establish consistency in quality and taste throughout all restaurants and provide a unique flavor experience to our guests. At each restaurant, a fully trained meat cutter hand cuts our steaks and other restaurant team members prepare our side items and yeast rolls from scratch in the restaurants daily. We assign individual kitchen employees to the preparation of designated food items in order to focus on quality, consistency and speed. Additionally, we expect a management level employee to inspect every entrée before it leaves the kitchen to confirm it matches the guest's order and meets our standards for quality, appearance and presentation.

We employ a team of product coaches whose function is to provide continual, hands-on training and education to the kitchen staff in all Texas Roadhouse restaurants for the purpose of reinforcing the uniformity of recipes, food preparation procedures, food safety standards, food appearance, freshness and portion size. The team currently consists of 46 product coaches, supporting all Texas Roadhouse restaurants system-wide.

Food safety is of utmost importance to us. We currently utilize several programs to help facilitate adherence to proper food preparation procedures and food safety standards. We have a Product Quality team whose function, in conjunction with our product coaches, is to develop, enforce and maintain programs designed to promote compliance with food safety guidelines. Where required, food items purchased from qualified vendors have been inspected by reputable, outside inspection services

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confirming that the vendor is compliant with United States Food and Drug Administration (the "FDA") and United States Department of Agriculture ("USDA") guidelines.

We perform sanitation audits on each restaurant four times a year and these results are reviewed by various members of operations and management. To reinforce the importance of food safety, we have printed all HAACP (Hazard Analysis and Critical Points) in bold type on each recipe. In addition, most of our product coaches have obtained or are in the process of obtaining their food safety professional designation.

*Purchasing.* Our purchasing philosophy is designed to consistently supply fresh, quality products to the restaurants at competitive prices while maximizing operating efficiencies. We negotiate directly with suppliers for substantially all food and beverage products to ensure consistent quality and freshness and obtain competitive prices. Certain products, such as dairy products and select produce, are purchased locally to assure freshness.

Food and supplies are ordered by, and shipped directly to the restaurants, as we do not maintain a central product warehouse or commissary. Most food products used in the operation of our restaurants are distributed to individual restaurants through an independent national distribution company. We strive to qualify more than one supplier for all key food items and believe that beef of comparable quality as well as all other essential food and beverage products are available, upon short notice, from alternative qualified suppliers.

### **Service**

*Guest Satisfaction.* We believe that guest satisfaction and our ability to continually evaluate and improve the guest experience at each of our restaurants is important to our success. Through the use of guest surveys, our website "texasroadhouse.com," a toll-free guest response telephone line and personal interaction in the restaurant, we receive valuable feedback from guests. Additionally, we employ an outside service to administer a "Secret Shopper" program whereby trained individuals periodically dine and comprehensively evaluate the guest experience at each of our restaurants. Particular attention is given to food, beverage and service quality, cleanliness, staff attitude and teamwork, and manager visibility and interaction. The resulting reports are used for follow up training feedback to both staff and management. We continue to evaluate and implement processes relating to guest satisfaction, including reducing guest wait times and improving host interaction with the guest.

*Atmosphere.* The atmosphere of Texas Roadhouse restaurants is intended to appeal to broad segments of the population, children, families, couples, adults and business persons. Substantially all Texas Roadhouse restaurants are of our prototype design, reflecting a rustic southwestern lodge atmosphere, featuring an exterior of rough-hewn cedar siding and corrugated metal. The interiors feature pine floors and stained concrete and are decorated with hand-painted murals, neon signs, southwestern prints, rugs and artifacts. The restaur