

Texas Roadhouse, Inc.
Form 10-Q
May 09, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended April 1, 2014

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)

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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 69,708,397 on April 30, 2014.

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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)**

	April 1, 2014	(As Adjusted) December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 90,696	\$ 94,874
Receivables, net of allowance for doubtful accounts of \$12 at April 1, 2014 and \$4 at December 31, 2013	16,939	25,391
Inventories, net	11,315	11,954
Prepaid income taxes	232	421
Prepaid expenses	11,045	10,250
Deferred tax assets	3,123	2,853
Total current assets	133,350	145,743
Property and equipment, net of accumulated depreciation of \$315,901 at April 1, 2014 and \$304,536 at December 31, 2013	596,656	586,212
Goodwill	117,197	117,197
Intangible assets, net	7,433	7,876
Other assets	19,903	20,616
Total assets	\$ 874,539	\$ 877,644
Liabilities and Stockholders Equity		
Current liabilities:		
Current maturities of long-term debt	\$ 240	\$ 243
Accounts payable	40,441	38,404
Deferred revenue gift cards	40,234	62,723
Accrued wages	31,794	28,994
Income taxes payable	10,379	
Accrued taxes and licenses	16,203	17,434
Dividends payable	10,481	
Other accrued liabilities	28,393	27,382
Total current liabilities	178,165	175,180
Long-term debt, excluding current maturities	50,922	50,990
Stock option and other deposits	5,776	5,311
Deferred rent	24,555	23,742
Deferred tax liabilities	5,287	5,774
Fair value of derivative financial instruments	2,402	2,696
Other liabilities	19,092	20,091

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Total liabilities	286,199	283,784
Texas Roadhouse, Inc. and subsidiaries stockholders' equity:		
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, 69,787,875 and 70,352,257 shares issued and outstanding at April 1, 2014 and December 31, 2013, respectively)	70	70
Additional paid-in-capital	193,368	215,051
Retained earnings	390,174	374,190
Accumulated other comprehensive loss	(1,472)	(1,652)
Total Texas Roadhouse, Inc. and subsidiaries stockholders' equity	582,140	587,659
Noncontrolling interests	6,200	6,201
Total equity	588,340	593,860
Total liabilities and equity	\$ 874,539	\$ 877,644

See accompanying notes to condensed consolidated financial statements.

Table of Contents**Texas Roadhouse, Inc. and Subsidiaries****Condensed Consolidated Statements of Income and Comprehensive Income**

(tabular amounts in thousands, except per share data)

(unaudited)

	13 Weeks Ended	
	April 1, 2014	March 26, 2013
Revenue:		
Restaurant sales	\$ 393,956	\$ 356,564
Franchise royalties and fees	3,186	3,112
Total revenue	397,142	359,676
Costs and expenses:		
Restaurant operating costs (excluding depreciation and amortization shown separately below):		
Cost of sales	134,812	124,552
Labor	114,672	101,661
Rent	8,042	7,057
Other operating	60,853	55,778
Pre-opening	4,277	2,824
Depreciation and amortization	14,085	12,212
Impairment and closure	17	57
General and administrative	20,200	17,367
Total costs and expenses	356,958	321,508
Income from operations	40,184	38,168
Interest expense, net	558	595
Equity income from investments in unconsolidated affiliates	(212)	(180)
Income before taxes	39,838	37,753
Provision for income taxes	12,230	10,534
Net income including noncontrolling interests	\$ 27,608	\$ 27,219
Less: Net income attributable to noncontrolling interests	1,143	1,048
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	\$ 26,465	\$ 26,171
Other comprehensive income, net of tax:		
Unrealized gain on derivatives, net of tax of \$(0.1) million and \$(0.1) million, respectively	180	196
Total comprehensive income	\$ 26,645	\$ 26,367
Net income per common share attributable to Texas Roadhouse, Inc. and subsidiaries:		
Basic	\$ 0.38	\$ 0.38
Diluted	\$ 0.37	\$ 0.37

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Weighted-average shares outstanding:			
Basic		70,132	69,359
Diluted		71,080	70,583
Cash dividends declared per share	\$	0.15	\$ 0.12

See accompanying notes to condensed consolidated financial statements.

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Texas Roadhouse, Inc. and Subsidiaries

Condensed Consolidated Statement of Stockholders Equity

(tabular amounts in thousands, except share data)

(unaudited)

	Shares	Par Value	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Texas Roadhouse, Inc. and Subsidiaries	Noncontrolling Interests	Total
Balance, December 31, 2013	70,352,257	\$ 70	\$ 215,051	\$ 374,190	\$ (1,652)	\$ 587,659	\$ 6,201	\$ 593,860
Net income				26,465		26,465	1,143	27,608
Unrealized gain on derivatives, net of tax of \$(0.1)					180	180		180
Distributions to noncontrolling interests							(1,144)	(1,144)
Dividends declared (\$0.15 per share)				(10,481)		(10,481)		(10,481)
Shares issued under stock option plan including tax effects	108,160		2,490			2,490		2,490
Repurchase shares of common stock	(960,000)	(1)	(24,172)			(24,173)		(24,173)
Settlement of restricted stock units	429,792	1				1		1
Indirect repurchase of shares for minimum tax withholdings	(142,334)		(3,622)			(3,622)		(3,622)
Share-based compensation			3,621			3,621		3,621
Balance, April 1, 2014	69,787,875	\$ 70	\$ 193,368	\$ 390,174	\$ (1,472)	\$ 582,140	\$ 6,200	\$ 588,340

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)**

	13 Weeks Ended	
	April 1, 2014	March 26, 2013
Cash flows from operating activities:		
Net income including noncontrolling interests	\$ 27,608	\$ 27,219
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,085	12,212
Deferred income taxes	(871)	(876)
Loss on disposition of assets	653	825
Equity income from investments in unconsolidated affiliates	(212)	(180)
Distributions of income received from investments in unconsolidated affiliates	138	116
Provision for doubtful accounts	8	5
Share-based compensation expense	3,621	3,512
Changes in operating working capital:		
Receivables	8,444	5,360
Inventories	639	471
Prepaid expenses and other current assets	(795)	(2,050)
Other assets	788	(949)
Accounts payable	385	2,760
Deferred revenue - gift cards	(22,489)	(20,500)
Accrued wages	2,800	2,175
Excess tax benefits from share-based compensation	(1,228)	(1,118)
Prepaid income taxes and income taxes payable	11,796	10,015
Accrued taxes and licenses	(1,231)	244
Other accrued liabilities	1,011	(2,461)
Deferred rent	813	683
Other liabilities	(999)	1,308
Net cash provided by operating activities	\$ 44,964	\$ 38,771
Cash flows from investing activities:		
Capital expenditures - property and equipment	(23,087)	(14,955)
Proceeds from sale of property and equipment, including insurance proceeds, and other		132
Net cash used in investing activities	\$ (23,087)	\$ (14,823)
Cash flows from financing activities:		
Repurchase of shares of common stock	(24,172)	
Distributions to noncontrolling interests	(1,144)	(948)
Excess tax benefits from share-based compensation	1,228	1,118
Proceeds from (repayments of) stock option and other deposits, net	464	(169)
Indirect repurchase of shares for minimum tax withholdings	(3,622)	(3,011)
Principal payments on long-term debt and capital lease obligations	(71)	(82)
Proceeds from exercise of stock options	1,262	5,986
Dividends paid to shareholders		(13,135)

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Net cash used in financing activities	\$	(26,055)	\$	(10,241)
Net (decrease) increase in cash and cash equivalents		(4,178)		13,707
Cash and cash equivalents beginning of period		94,874		81,746
Cash and cash equivalents end of period	\$	90,696	\$	95,453
Supplemental disclosures of cash flow information:				
Interest, net of amounts capitalized	\$	587	\$	593
Income taxes paid	\$	1,305	\$	1,395
Capital expenditures included in accounts payable	\$	3,035	\$	1,712

See accompanying notes to condensed consolidated financial statements.

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Texas Roadhouse, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Tabular amounts in thousands, except share and per share data)

(unaudited)

(1) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Texas Roadhouse, Inc. (TRI), our wholly-owned subsidiaries and subsidiaries in which we own more than 50 percent interest (collectively the Company, we, our and/or us) as of April 1, 2014 and December 31, 2013 and for the 13 weeks ended April 1, 2014 and March 26, 2013. Our wholly-owned subsidiaries include: Texas Roadhouse Holdings LLC (Holdings), Texas Roadhouse Development Corporation (TRDC), Texas Roadhouse Management Corporation (Management Corp.) and Strategic Restaurant Concepts, LLC (Strategic Concepts). We and our subsidiaries operate restaurants primarily under the Texas Roadhouse name. Holdings also provides supervisory and administrative services for certain other franchise Texas Roadhouse restaurants. TRDC sells franchise rights and collects the franchise royalties and fees. Management Corp. provides management services to the Company and certain other franchise Texas Roadhouse restaurants. All significant balances and transactions between the consolidated entities have been eliminated.

As of April 1, 2014 and March 26, 2013, we owned 5.0% to 10.0% equity interests in 23 franchise restaurants. Additionally, as of April 1, 2014, we owned a 40% equity interest in four non-Texas Roadhouse restaurants as part of a joint venture agreement with a casual dining restaurant operator in China. The unconsolidated restaurants are accounted for using the equity method. While we exercise significant control over these Texas Roadhouse 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 investments in these unconsolidated affiliates are included in Other assets in our unaudited condensed consolidated balance sheets, and we record our percentage share of net income earned by these unconsolidated affiliates in our unaudited condensed consolidated statements of income and comprehensive income under Equity income from investments in unconsolidated affiliates. All significant intercompany balances and transactions for these unconsolidated restaurants have been eliminated.

We have made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reporting of revenue and expenses during the periods to prepare these unaudited condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP). Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, goodwill, obligations related to insurance reserves, share-based compensation expense and income taxes. 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 unaudited condensed consolidated financial statements have been prepared in accordance with GAAP, except that certain information and footnotes have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission (SEC). Operating results for the 13 weeks ended April 1, 2014 are not necessarily indicative of the results that may be expected for the year ending December 30, 2014. 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 31, 2013.

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

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

(2) Share-based Compensation

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

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

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

	13 Weeks Ended	
	April 1, 2014	March 26, 2013
Labor expense	\$ 1,368	\$ 1,330
General and administrative expense	2,253	2,182
Total share-based compensation expense	\$ 3,621	\$ 3,512

Share-based compensation activity by type of grant as of April 1, 2014 and changes during the 13 weeks then ended are presented below.

Summary Details for Share Options

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2013	1,043,438	\$ 13.77		
Granted				
Forfeited				
Exercised	(108,160)	11.67		
Outstanding at April 1, 2014	935,278	\$ 14.02	2.14	\$ 11,845
Exercisable at April 1, 2014	935,278	\$ 14.02	2.14	\$ 11,845

The total intrinsic value of options exercised during the 13 weeks ended April 1, 2014 and March 26, 2013 was \$1.5 million and \$3.3 million, respectively. No stock options vested during the 13 week periods ended April 1, 2014 and March 26, 2013.

Summary Details for RSUs

	Shares	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2013	1,283,862	\$ 18.68		
Granted	137,743	26.29		
Forfeited	(28,418)	17.04		
Vested	(429,792)	16.16		
Outstanding at April 1, 2014	963,395	\$ 20.94	8.67	\$ 25,703

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As of April 1, 2014, with respect to unvested RSUs, there was \$11.5 million of unrecognized compensation cost that is expected to be recognized over a weighted-average period of 1.3 years. The vesting terms of the RSUs range from approximately 1.0 to 5.0 years. The total intrinsic value of RSUs vested during the 13 weeks ended April 1, 2014 and March 26, 2013 was \$11.5 million and \$9.9 million, respectively.

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Long-term debt consisted of the following:

	April 1, 2014	December 31, 2013
Installment loans, due 2014 - 2020	\$ 1,162	\$ 1,233
Revolver	50,000	50,000
	51,162	51,233
Less current maturities	240	243
	\$ 50,922	\$ 50,990

The weighted-average interest rate for installment loans outstanding at both April 1, 2014 and December 31, 2013 was 10.54%. The debt is secured by certain land and buildings and is subject to certain prepayment penalties.

On November 1, 2013, we entered into Omnibus Amendment No. 1 and Consent to Credit Agreement and Guaranty with respect to our revolving credit facility dated as of August 12, 2011 with a syndicate of commercial lenders led by JP Morgan Chase Bank, N.A., PNC Bank, N.A., and Wells Fargo, N.A. The amended revolving credit facility remains an unsecured, revolving credit agreement under which we may borrow up to \$200.0 million. The amendment provides us with the option to increase the revolving credit facility by \$200.0 million, up to \$400.0 million, subject to certain limitations. The original revolving credit facility provided an option to increase the borrowing amount by \$100.0 million, up to \$300.0 million. The amendment also extends the maturity date of the revolving credit facility until November 1, 2018.

The terms of the amended revolving credit facility require us to pay interest on outstanding borrowings at the 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 0.125% to 0.30% per year on any unused portion of the amended revolving credit facility, depending on our leverage ratio. The weighted-average interest rate for the revolving credit facility at both April 1, 2014 and December 31, 2013 was 3.96%, including the impact of interest rate swaps. At April 1, 2014, we had \$50.0 million outstanding under the revolving credit facility and \$144.6 million of availability, net of \$5.4 million of outstanding letters of credit.

The lenders' obligation to extend credit under the amended revolving credit facility depends on us maintaining certain financial covenants, including a minimum consolidated fixed charge coverage ratio of 2.00 to 1.00 and a maximum consolidated leverage ratio of 3.00 to 1.00. The amended revolving credit facility permits us to incur additional secured or unsecured indebtedness outside the facility, except for the incurrence of secured indebtedness that in the aggregate exceeds 15% 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 April 1, 2014.

(4) Income taxes

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A reconciliation of the statutory federal income tax rate to our effective tax rate for the 13 weeks ended April 1, 2014 and March 26, 2013 is as follows:

	13 Weeks Ended	
	April 1, 2014	March 26, 2013
Tax at statutory federal rate	35.0%	35.0%
State and local tax, net of federal benefit	3.5	3.7
FICA tip tax credit	(5.5)	(5.1)
Work opportunity tax credit	(0.6)	(3.4)
Incentive stock options	(0.1)	(0.6)
Nondeductible officer compensation	0.3	0.6
Net income attributable to noncontrolling interests	(1.0)	(1.0)
Other	(0.9)	(1.3)
Total	30.7%	27.9%

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(5) Derivative and Hedging Activities

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

Interest Rate Swaps

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

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

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

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

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	Balance Sheet Location	Derivative Assets		Derivative Liabilities	
		April 1, 2014	December 31, 2013	April 1, 2014	December 31, 2013
Derivative Contracts Designated as Hedging Instruments under ASC 815	(1)				
Interest rate swaps		\$	\$	\$ 2,402	\$ 2,696
Total Derivative Contracts		\$	\$	\$ 2,402	\$ 2,696

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

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The following table summarizes the effect of our interest rate swaps in the unaudited condensed consolidated statements of income and comprehensive income for the 13 weeks ended April 1, 2014 and March 26, 2013:

	13 Weeks Ended	
	April 1, 2014	March 26, 2013
Gain recognized in AOCI, net of tax (effective portion)	\$ 180	\$ 196
Loss reclassified from AOCI to income (effective portion)	\$ 357	\$ 360

The loss reclassified from AOCI to income was recognized in interest expense on our unaudited condensed consolidated statements of income and comprehensive income. For each of the 13 weeks ended April 1, 2014 and March 26, 2013, we did not recognize any gain or loss due to hedge ineffectiveness related to the derivative instruments in the unaudited condensed consolidated statements of income and comprehensive income.

(6) Recent Accounting Pronouncements

Discontinued Operations

(Accounting Standards Update 2014-08, ASU 2014-08)

In April 2014, the FASB issued ASU 2014-8, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which amends the requirements for reporting discontinued operations and modifies related disclosure requirements. ASU 2014-8 is effective prospectively for fiscal years beginning on or after December 15, 2014 (our 2015 fiscal year). The adoption of this guidance is not expected to have an impact on our consolidated financial position, results of operations or cash flows.

(7) Commitments and Contingencies

The estimated cost of completing capital project commitments at April 1, 2014 and December 31, 2013 was approximately \$71.8 million and \$65.2 million, respectively.

Effective December 31, 2013, we sold two restaurants, which operated under the name Aspen Creek, located in Irving, Texas and Louisville, Kentucky. We assigned the leases associated with these restaurants to the acquirer, but remain contingently liable if the acquirer defaults, under the terms of the lease. We are contingently liable for the initial term of the lease and any renewal periods. The Irving lease has an initial term that expires December 2019, along with three five-year renewals. The Louisville lease has an initial term that expires November 2023, along with three five-year renewals. The assignment of the Louisville lease releases us from liability after the initial lease term expiration contingent upon certain conditions being met by the acquirer. As the fair value of the guarantees is not considered significant, no liability has been recorded.

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We entered into real estate lease agreements for five franchises, listed in the table below, 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 the lease.

	Lease Assignment Date	Initial Lease Term Expiration
Everett, Massachusetts (1)	September 2002	February 2018
Longmont, Colorado (1)	October 2003	May 2014
Montgomeryville, Pennsylvania	October 2004	June 2021
Fargo, North Dakota (1)	February 2006	July 2016
Logan, Utah	January 2009	August 2019

(1) As discussed in note 9, these restaurants are owned, in whole or part, by certain officers, directors and 5% shareholders of the Company.

We are contingently liable for the initial term of the lease and any renewal periods. All of the leases have three five-year renewals. As the fair value of the guarantees is not considered significant, no liability has been recorded.

During the 13 weeks ended April 1, 2014, we bought most of our beef from four suppliers. Although there are a limited number of beef suppliers, we believe that other suppliers could provide a similar product on comparable terms. A change in suppliers, however, could cause supply shortages and a possible loss of sales, which would affect operating results adversely. We have no material minimum purchase commitments with our vendors that extend beyond a year.

On September 30, 2011, the U.S. Equal Employment Opportunity Commission (EEOC) filed a lawsuit styled Equal

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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 have filed an answer to the complaint, and the case is in discovery. We deny liability; however, in view of the inherent uncertainties of litigation, the outcome of this case cannot be predicted at this time. We cannot estimate the possible amount or range of loss, if any, associated with this matter.

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

(8) Divestitures and Acquisitions

On December 31, 2013, we sold our Aspen Creek concept, including two restaurants, and, pursuant to the terms of the purchase agreement, we received two Texas Roadhouse franchise restaurants in Ohio and \$1.5 million in cash, for an aggregate transaction value of \$6.0 million. The acquisition of the two franchise restaurants did not have a significant net revenue or accretive impact. The acquisition is consistent with our long-term strategy to increase net income and earnings per share.

The acquisition of the two franchise restaurants was accounted for using the purchase method as defined in ASC 805, Business Combinations (ASC 805). Based on a purchase price of \$4.5 million, \$3.7 million of goodwill was generated by the acquisition, which is not amortizable for book purposes, but is deductible for tax purposes.

The purchase price has been allocated as follows:

	Amounts Previously Recorded (1)	Measurement Period Adjustments	As Adjusted
Current assets	\$ 64		\$ 64
Property and equipment, net	558	19	577
Goodwill	3,013	730	3,743
Intangible asset	1,154	(749)	405
Current liabilities	(139)		(139)
Other liabilities	(150)		(150)
	\$ 4,500		\$ 4,500

(1) As previously reported in our 2013 Annual Report on Form 10-K.

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As a result of this acquisition, we recorded an intangible asset associated with reacquired franchise rights of \$0.4 million in accordance with ASC 805. ASC 805 requires that a business combination between two parties that have a preexisting relationship be evaluated to determine if a settlement of a preexisting relationship exists. ASC 805 also requires that certain reacquired rights (including the rights to the acquirer's trade name under a franchise agreement) be recognized as intangible assets apart from goodwill.

The fair value of \$0.4 million assigned to the intangible asset acquired was determined primarily using valuation methods that discount expected future cash flow to present value using estimates and assumptions determined by management. The intangible asset has a weighted-average life of approximately 2.7 years based on the remaining terms of the franchise agreements. We expect the annual expense for the next three years to average approximately \$0.1 million.

Pro forma results of operations have not been presented because the effects of the acquisitions were not material to our consolidated financial position, results of operations or cash flows.

(9) 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 initial lease term was 15 years and was scheduled to terminate in November 2014. We exercised our first renewal term so the lease will now expire on October 31, 2019. The lease can be renewed for three additional terms of five years each. Rent is approximately \$19,000 per month. The lease can be terminated if the tenant fails to pay the rent on a timely basis, fails to maintain the insurance specified in the lease, fails to maintain the building or property or becomes insolvent. Total rent payments were approximately \$0.1 million for each of the 13 weeks ended April 1, 2014 and March 26, 2013.

The Bossier City, Louisiana restaurant, of which Mr. Ortiz beneficially owns 66.0% and we own 5.0%, leases the land and

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restaurant building from an entity owned by Mr. Ortiz. The lease term is 15 years and will terminate on March 31, 2020. Rent is approximately \$16,600 per month and escalates 10% each five year period during the term. The next rent escalation is in the second quarter of 2015. The lease can be terminated if the tenant fails to pay rent on a timely basis, fails to maintain insurance, abandons the property or becomes insolvent. Total rent payments were approximately \$0.1 million for each of the 13 weeks ended April 1, 2014 and March 26, 2013.

We have 15 franchise restaurants owned in whole or part, by certain of our officers, directors and stockholders of the Company as of April 1, 2014 and March 26, 2013. These entities paid us fees of approximately \$0.6 million for both of the 13 weeks ended April 1, 2014 and March 26, 2013. As disclosed in note 7, we are contingently liable on leases which are related to three of these restaurants.

(10) Earnings Per Share

The share and net income per share data for all periods presented are based on the historical weighted-average shares outstanding. The diluted earnings per share calculations show the effect of the weighted-average stock options and RSUs outstanding from our equity incentive plans 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	
	April 1, 2014	March 26, 2013
Options		278,230
Nonvested stock	4,277	9,980
Total	4,277	288,210

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

	13 Weeks Ended	
	April 1, 2014	March 26, 2013
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	\$ 26,465	\$ 26,171
Basic EPS:		
Weighted-average common shares outstanding	70,132	69,359
Basic EPS	\$ 0.38	\$ 0.38

Diluted EPS:

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Weighted-average common shares outstanding	70,132	69,359
Dilutive effect of stock options and nonvested stock	948	1,224
Shares diluted	71,080	70,583
Diluted EPS	\$ 0.37	\$ 0.37

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(11) Fair Value Measurements

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

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

There were no transfers among levels within the fair value hierarchy during the 13 weeks ended April 1, 2014.

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

	Level	Fair Value Measurements	
		April 1, 2014	December 31, 2013
Interest rate swaps	2	\$ (2,402)	\$ (2,696)
Deferred compensation plan - assets	1	12,708	11,916
Deferred compensation plan - liabilities	1	(12,708)	(11,913)

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

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

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At April 1, 2014 and December 31, 2013, the fair values of cash and cash equivalents, accounts receivable and accounts payable approximated their carrying values based on the short-term nature of these instruments. The fair value of our revolving credit facility at April 1, 2014 and December 31, 2013 approximated its carrying value since it is a variable rate credit facility (Level 2). The fair value of our installment loans is estimated based on the current rates offered to us for instruments of similar terms and maturities. The carrying amounts and related estimated fair values for our installment loans are as follows:

	April 1, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Installment loans				
Level 2	\$ 1,162	\$ 1,342	\$ 1,233	\$ 1,434

(12) Stock Repurchase Program

On February 16, 2012, our Board of Directors approved a stock repurchase program which authorized us to repurchase up to \$100.0 million of our common stock. This stock repurchase program has no expiration date. Any repurchases will be 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.

For the 13 week period ended April 1, 2014 we paid approximately \$24.2 million to repurchase 960,000 shares of our common stock. We did not repurchase any shares of our common stock during the 13 week period ended March 26, 2013. As of April 1, 2014, we had \$33.7 million remaining under our authorized stock repurchase program.

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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 31, 2013, 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 427 restaurants in 48 states and three 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 April 1, 2014, our 427 restaurants included:

- 352 company restaurants, of which 337 were wholly-owned and 15 were majority-owned. The results of operations of company restaurants are included in our unaudited condensed consolidated statements of income and comprehensive income. The portion of income attributable to minority interests in company restaurants that are not wholly-owned is reflected in the line item entitled Net income attributable to noncontrolling interests in our unaudited condensed consolidated statements of income and comprehensive income.

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

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We have contractual arrangements which grant us the right to acquire at pre-determined valuation formulas the remaining equity interests in 13 of the 15 majority-owned company restaurants and 66 of the franchise restaurants.

Presentation of Financial and Operating Data

Throughout this report, the 13 weeks ended April 1, 2014 and March 26, 2013 are referred to as Q1 2014 and Q1 2013, respectively.

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.

Our average capital investment for Texas Roadhouse restaurants opened during 2013, including pre-opening expenses, was \$4.2

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million. This average includes 10 times the annual base rent amount for restaurants where we do not own the land. We anticipate that our 2014 development costs will be similar to our 2013 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 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 development agreement in 2010 for the development of Texas Roadhouse restaurants in eight countries in the Middle East over the next ten years, in which five restaurants are currently open. Additionally, in 2010, we entered into a joint venture agreement with a casual dining restaurant operator in China for minority ownership in four non-Texas Roadhouse restaurants, all of which are currently open. In 2013, we signed a franchise development agreement for the development of Texas Roadhouse restaurants in Taiwan over five years. We continue to explore opportunities in other countries for international expansion. We may also look to acquire franchise restaurants under terms favorable to the Company and our stockholders. Additionally, from time to time, we will evaluate potential mergers, acquisitions, joint ventures or other strategic initiatives to acquire or develop additional concepts. Of the 352 restaurants we owned and operated at April 1, 2014, we owned and operated 351 as Texas Roadhouse restaurants. We currently plan to open 25 to 30 company restaurants in 2014. In addition, we anticipate our existing franchise partners will open as many as five Texas Roadhouse restaurants in 2014, including as many as three internationally.

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

Leveraging Our Scalable Infrastructure. To support our growth, we continue to make investments in our infrastructure. Over the past several years, we have made significant investments in our infrastructure, including information systems, real estate, human resources, legal, marketing, international and operations. In 2013, general and administrative costs increased at a faster growth rate than our revenue, excluding the impact of a legal settlement charge of \$5.0 million recorded in the first quarter of 2012. Our longer term goal is to have general and administrative costs increase at a slower growth rate than our revenue. Whether we are able to leverage our infrastructure in future years will depend, in part, on our new restaurant openings, our comparable restaurant sales growth rate going forward and the level of investment we continue to make in our infrastructure.

Returning Capital to Shareholders. We continue to pay dividends and evaluate opportunities to return capital to our shareholders through repurchases of common stock. In 2011, our Board of Directors declared our first quarterly dividend of \$0.08 per share of common stock. We have consistently grown our per share dividend each year since that time and our long-term strategy includes increasing our regular quarterly dividend amount over time. On February 20, 2014, our Board of Directors declared a quarterly dividend of \$0.15 per share of common stock payable on April 4, 2014 to shareholders of record as of March 14, 2014. 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.

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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. All repurchases to date under our stock repurchase program have been made through open market transactions. Our long term strategy includes repurchasing shares of our common stock to at least offset the dilutive impact of our share-based compensation programs. Beyond that, we will be opportunistic in repurchasing shares of our common stock. As of April 1, 2014, \$33.7 million remains authorized for repurchase. In Q1 2014, we paid \$24.2 million to repurchase 960,000 shares of our common stock. Since 2008, we have paid \$182.5 million through our authorized stock repurchase programs to repurchase 13,693,362 shares of our common stock at an average price per share of \$13.33.

Key Measures We Use to Evaluate Our Company

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

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

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

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

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

Other Key Definitions

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

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

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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. In addition, we include royalties and fees paid to us by our international franchisee. The terms of the international agreements may vary significantly from our domestic agreements.

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

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

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

Restaurant Other Operating Expenses. Restaurant other operating expenses consist of all other restaurant-level operating costs, the major components of which are utilities, supplies, advertising, repair and maintenance, property taxes, credit card and gift card fees, gift card breakage income 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

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the opening of a new restaurant and are comprised principally of opening team and training compensation and benefits, travel expenses, rent, food, beverage and other initial supplies and expenses. Pre-opening costs vary by location depending on a number of factors, including the size and physical layout of each location; the number of management and hourly employees required to operate each restaurant; the availability of qualified restaurant staff members; the cost of travel and lodging for different geographic areas; the timing of the restaurant opening; and the extent of unexpected delays, if any, in obtaining final licenses and permits to open the restaurants.

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

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

General and Administrative Expenses. General and administrative expenses (G&A) are comprised of expenses associated with corporate and administrative functions that support development and restaurant operations and provide an infrastructure to support future growth including the net amount of advertising costs incurred less amounts remitted by company and franchise restaurants. Supervision and accounting fees received from certain franchise restaurants are offset against G&A. G&A also includes share-based compensation expense related to executive officers, support center employees and area managers, including market partners. The realized and unrealized holding gains and losses related to the investments in our deferred compensation plan, as well as offsetting compensation expense, are also recorded in G&A.

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 April 1, 2014 and March 26, 2013, we owned a 5.0% to 10.0% equity interest in 23 franchise restaurants. Additionally, as of April 1, 2014, we owned a 40% equity interest in four non-Texas Roadhouse restaurants as part of a joint venture agreement with a casual dining restaurant operator in China. Equity income from unconsolidated affiliates represents our percentage share of net income earned by these unconsolidated affiliates.

Net Income Attributable to Noncontrolling Interests. Net income attributable to noncontrolling interests represents the portion of income attributable to the other owners of the majority-owned or controlled restaurants. Our consolidated subsidiaries at April 1, 2014 and March 26, 2013 included 15 majority-owned restaurants, all of which were open.

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(\$ in thousands)	April 1, 2014		13 Weeks Ended	
	\$	%	\$	%
Revenue:				
Restaurant sales	393,956	99.2	356,564	99.1
Franchise royalties and fees	3,186	0.8	3,112	0.9
Total revenue	397,142	100.0	359,676	100.0
Costs and expenses:				
<i>(As a percentage of restaurant sales)</i>				
Restaurant operating costs (excluding depreciation and amortization shown separately below):				
Cost of sales	134,812	34.2	124,552	34.9
Labor	114,672	29.1	101,661	28.5
Rent	8,042	2.0	7,057	2.0
Other operating	60,853	15.4	55,778	15.6
<i>(As a percentage of total revenue)</i>				
Pre-opening	4,277	1.1	2,824	0.8
Depreciation and amortization	14,085	3.5	12,212	3.4
Impairment and closure	17	NM	57	NM
General and administrative	20,200	5.1	17,367	4.8
Total costs and expenses	356,958	89.9	321,508	89.4
Income from operations	40,184	10.1	38,168	10.6
Interest expense, net	558	0.1	595	0.2
Equity income from investments in unconsolidated affiliates	(212)	0.1	(180)	0.1
Income before taxes	39,838	10.1	37,753	10.5
Provision for income taxes	12,230	3.1	10,534	2.9
Net income including noncontrolling interests	27,608	7.0	27,219	7.6
Less: Net income attributable to noncontrolling interests	1,143	0.3	1,048	0.3
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	26,465	6.7	26,171	7.3

	April 1, 2014		13 Weeks Ended	
	\$	%	\$	%
Restaurant margin (\$ in thousands)	75,577	19.2	67,515	18.9
Restaurant margin \$/store week	16,706		16,175	

NM Not meaningful

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Restaurant Unit Activity

	Company	Franchise	Total
Balance at December 31, 2013	346	74	420
Openings Texas Roadhouse	6	1	7
Openings Other			
Acquisitions (Dispositions)			
Closures			
Balance at April 1, 2014	352	75	427

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Q1 2014 (13 weeks) Compared to Q1 2013 (13 weeks)

Restaurant Sales. Restaurant sales increased by 10.5% in Q1 2014 as compared to Q1 2013. This increase was primarily attributable to the opening of new restaurants combined with an increase in average unit volume primarily due to comparable restaurant sales growth. In addition, restaurant sales were positively impacted by the acquisition of two franchise restaurants in the fourth quarter of 2013. This impact was mostly offset by the sale of two non-Texas Roadhouse restaurants in the same quarter.

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

	Q1 2014	Q1 2013
Company Restaurants		
Increase in store weeks	8.4%	8.4%
Increase in average unit volumes	2.2%	2.8%
Other (1)	(0.1)%	(0.5)%
Total increase in restaurant sales	10.5%	10.7%
Store weeks		
Store weeks	4,524	4,174
Comparable restaurant sales growth	2.8%	3.5%
Texas Roadhouse restaurants only:		
Comparable restaurant sales growth	2.8%	3.5%
Average unit volume (in thousands)	\$ 1,121	\$ 1,096
Weekly sales by group:		
Comparable restaurants (310 and 278 units, respectively)	\$ 86,670	\$ 86,042
Average unit volume restaurants (19 and 30 units, respectively)	\$ 78,958	\$ 80,119
Restaurants less than six months old (22 and 13 units, respectively)	\$ 102,589	\$ 88,660

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

The increases in store weeks for the periods presented above is primarily 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 volume for Q1 2014 was primarily driven by positive comparable restaurant sales growth, partially offset by lower year-over-year sales for the newer restaurants included in our average unit volumes but excluded from comparable restaurant sales. Comparable restaurant sales growth of 2.8% in Q1 2014 was due to a combination of an increase in our per person average check of 1.5% and an increase in guest traffic counts of 1.3%.

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The increase in average unit volume for Q1 2013 was primarily driven by positive comparable restaurant sales growth, partially offset by lower year-over-year sales for the newer restaurants included in our average unit volume but excluded from comparable restaurant sales. Comparable restaurants sales of 3.5% in Q1 2013 were primarily due to increases in our per person average check of 3.0%, along with increases in guest traffic counts of 0.5%.

The increase in our per person average check for the periods presented was driven by menu price increases taken throughout 2013 and 2012. In 2013, we increased menu prices approximately 1.5% in early December. In 2012, we increased menu prices approximately 2.2% the first quarter and approximately 2.2% in early December. These menu price increases were taken as a result of inflationary pressures, mainly commodities.

In 2014, we plan to open 25 to 30 company restaurants, six of which opened in Q1 2014. We have either begun construction or have sites under contract for purchase or lease for 17 of the remaining restaurants.

Franchise Royalties and Fees. Franchise royalties and fees increased by \$0.1 million, or by 2.4%, in Q1 2014 from Q1 2013. This increase was primarily attributable to the opening of new franchise restaurants and an increase in average unit volume, partially offset by the impact of the acquisition of two franchise restaurants in the fourth quarter of 2013. Franchise comparable restaurant sales increased 3.8% in Q1 2014. The acquired franchise restaurants generated approximately \$0.1 million in franchise royalties in Q1 2013. Franchise restaurant count activity is shown in the restaurant unit activity table above. In 2014, we anticipate our franchise

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partners will open as many as five Texas Roadhouse restaurants including as many as three internationally.

Restaurant Cost of Sales. Restaurant cost of sales, as a percentage of restaurant sales, decreased to 34.2% in Q1 2014 from 34.9% in Q1 2013. This decrease was primarily attributable to approximately 1.5% of menu pricing actions in late 2013 which more than offset commodity inflation, along with the benefit of operating efficiencies associated with process improvements at the restaurant level. Commodity inflation of approximately 0.5% in Q1 2014 was driven by higher food costs, primarily produce and dairy. We expect low single digit commodity cost inflation for full year 2014.

Restaurant Labor Expenses. Restaurant labor expenses, as a percentage of restaurant sales, increased to 29.1% in Q1 2014 compared to 28.5% in Q1 2013. The increase was primarily driven by labor inefficiencies associated with recently opened restaurants and higher average wage rates, along with higher costs associated with workers' compensation, health insurance and restaurant cleaning. The increase was partially offset by an increase in average unit volume.

The timing of restaurant openings over the last six months compared to the same period of the prior year led to an increase in labor inefficiencies in Q1 2014, as a percentage of restaurant sales. Typically, restaurants open with an initial start-up period of higher than normalized sales volume and higher than normalized labor costs, as a percentage of sales. Workers compensation costs were higher in Q1 2014 due to changes in our claims development history included in our quarterly actuarial reserve estimate. Health insurance costs were higher due to an increase in premiums, along with offering coverage to an expanded population of employees. In addition, we reclassified certain restaurant cleaning costs from restaurant other operating expenses to restaurant labor expenses. This reclass had no impact on restaurant margin.

We anticipate our labor costs will be pressured throughout the remainder of 2014 by inflation due to state-mandated increases in minimum and tip wage rates, along with higher healthcare costs. At the beginning of 2014, we offered health coverage to employees which included hourly employees that work a minimum of 35 hours per week. As a result of this change, we expect our health benefit costs will be \$2.5 to \$3.0 million higher in 2014 compared to prior year. These increases in costs may or may not be offset by menu price adjustments and/or guest traffic growth.

Restaurant Rent Expense. Restaurant rent expense, as a percentage of restaurant sales, remained unchanged at 2.0% in Q1 2014 compared to Q1 2013. The impact of leasing more land and buildings than we have in the past was offset by the benefit from an increase in average unit volume.

Restaurant Other Operating Expenses. Restaurant other operating expenses, as a percentage of restaurant sales, decreased to 15.4% in Q1 2014 compared to 15.6% in Q1 2013. The decrease is primarily attributable to an increase in average unit volume and lower costs associated with liquor taxes, restaurant cleaning, supplies and linens, partially offset by higher utility costs.

Lower liquor taxes were a result of legislative changes in Texas which lowered our tax rate associated with liquor sales effective at the beginning of 2014, while lower restaurant cleaning costs were due to the reclassification of wages as discussed above in the restaurant labor discussion. Lower supply and linen costs were primarily driven by purchasing initiatives. Higher utility costs were primarily driven by higher natural gas prices, which were up considerably in Q1 2014 compared to Q1 2013.

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Restaurant Pre-opening Expenses. Pre-opening expenses increased to \$4.3 million in Q1 2014 from \$2.8 million in Q1 2013. This increase was primarily attributable to an increase in the number of restaurants opened in Q1 2014 and an increase in spending on a per store basis. We opened six restaurants in Q1 2014 compared to three restaurants in Q1 2013. Overall, we plan to open 25 to 30 company restaurants in 2014 compared to 26 company restaurants in 2013. Pre-opening costs will fluctuate from quarter to quarter based on the specific pre-opening costs incurred for each restaurant, the number and timing of restaurant openings and the number and timing of restaurant managers hired.

Depreciation and Amortization Expense. D&A, as a percentage of total revenue, increased to 3.5% in Q1 2014 from 3.4% Q1 2013. The increase was primarily due to higher depreciation, as a percentage of revenue, at new restaurants and lower depreciation expense in Q1 2013 due to annual expense being recorded over 53 weeks in fiscal 2013. The increase was partially offset by an increase in average unit volume.

General and Administrative Expenses. G&A, as a percentage of total revenue, increased to 5.1% in Q1 2014 from 4.8% in Q1 2013. The increase was primarily attributable to higher compensation costs, as a percentage of revenue, partially offset by an increase in average unit volume. Higher compensation costs are primarily due to continued investment in our infrastructure, specifically relating to food and service, as we continue to develop more restaurants.

Interest Expense, Net. Interest expense remained relatively flat at \$0.5 million in Q1 2014 compared to \$0.6 million in Q1 2013.

Income Tax Expense. Our effective tax rate increased to 30.7% in Q1 2014 from 27.9% in Q1 2013. The increase in Q1 2014

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was primarily attributable to the expiration of the Work Opportunity Tax Credits (WOTC) at the end of 2013.

We expect the tax rate to be 30.0% to 31.0% for fiscal 2014 compared to 28.9% in fiscal 2013 primarily due to the expiration of WOTC.

Liquidity and Capital Resources

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

(in 000 s)	13 Weeks Ended	
	April 1, 2014	March 26, 2013
Net cash provided by operating activities	\$ 44,964	\$ 38,771
Net cash used in investing activities	(23,087)	(14,823)
Net cash used in financing activities	(26,055)	(10,241)
Net (decrease) increase in cash and cash equivalents	\$ (4,178)	\$ 13,707

Net cash provided by operating activities was \$45.0 million in Q1 2014 compared to \$38.8 million in Q1 2013. This increase was primarily due to an increase in net income and depreciation and amortization expense, along with changes in working capital. The increase in net income before noncash items, particularly depreciation and amortization expense, was driven by the continued opening of new restaurants and an increase in comparable restaurant sales at existing restaurants, partially offset by higher labor and other operating costs. The changes in working capital are primarily driven by an increase in receivables which is primarily due to an increase in amounts due from our third party gift card retailers as the program has expanded.

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

Net cash used in investing activities was \$23.1 million in Q1 2014 compared to \$14.8 million in Q1 2013. This increase was primarily due to the timing of restaurant openings, along with increased spending on capital expenditures related to future planned restaurant openings. We opened six company restaurants in Q1 2014 compared to three company restaurants in Q1 2013. We plan to open 25 to 30 company restaurants in 2014 compared to 26 restaurants in 2013.

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 April 1, 2014, 123 of the 352 company restaurants have been developed on land which we own.

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

(in 000 s)	Q1 2014		Q1 2013	
New company restaurants	\$	15,497	\$	8,533
Refurbishment of existing restaurants (1)		7,590		6,422
Total capital expenditures	\$	23,087	\$	14,955
Restaurant-related repairs and maintenance expense (2)	\$	3,920	\$	3,512

(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, 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 2014, we expect our capital expenditures to be \$100.0 to \$110.0 million, the majority of which will relate to planned restaurant openings, including 25 to 30 restaurant openings in 2014. These amounts exclude any cash used for franchise acquisitions. We intend to satisfy our capital requirements over the next 12 months with cash on hand, net cash provided by operating activities and, if needed, funds available under our amended revolving credit facility. For 2014, we anticipate net cash provided by operating activities will exceed capital expenditures, which we currently plan to use to repurchase common stock, pay dividends, as approved by our Board of Directors, and/or repay borrowings under our amended revolving credit facility.

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Net cash used in financing activities was \$26.1 million in Q1 2014 as compared to \$10.2 million in Q1 2013. This increase was primarily due to higher share repurchases partially offset by lower dividend payments in Q1 2014 due to the timing of the declaration and payment dates and an extra dividend payment in Q1 2013 of \$6.9 million.

On February 16, 2012, our Board of Directors approved a stock repurchase program under which we may repurchase up to \$100 million of our common stock. This stock repurchase program has no expiration date. All repurchases to date under our stock repurchase program have been made through open market transactions. The timing and the amount of any repurchases will be determined by management under parameters established by the Board of Directors, based on its evaluation of our stock price, market conditions and other corporate considerations. During Q1 2014, we paid approximately \$24.2 million to repurchase 960,000 shares of our common stock, and we had \$33.7 million remaining under our authorized stock repurchase program as of April 1, 2014.

On February 20, 2014, our Board of Directors authorized the payment of a cash dividend of \$0.15 per share of common stock. The payment of this dividend totaling \$10.5 million was distributed on April 4, 2014 to shareholders of record at the close of business on March 19, 2014. The declared dividends are included as a liability in our unaudited condensed consolidated balance sheet as of April 1, 2014.

In Q1 2014, we paid distributions of \$1.1 million to equity holders of 15 of our majority-owned company restaurants. In Q1 2013, we paid distributions of \$0.9 million to equity holders of 14 of our majority-owned company restaurants.

On November 1, 2013, we entered into Omnibus Amendment No. 1 and Consent to Credit Agreement and Guaranty with respect to our revolving credit facility dated as of August 12, 2011 with a syndicate of commercial lenders led by JP Morgan Chase Bank, N.A., PNC Bank, N.A., and Wells Fargo, N.A. The amended revolving credit facility remains an unsecured, revolving credit agreement under which we may borrow up to \$200.0 million. The amendment provides us with the option to increase the revolving credit facility by \$200.0 million, up to \$400.0 million, subject to certain limitations. The original revolving credit facility provided an option to increase the borrowing amount by \$100.0 million, up to \$300.0 million. The amendment also extends the maturity date of the revolving credit facility until November 1, 2018.

The terms of the amended revolving credit facility require us to pay interest on outstanding borrowings at the 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 0.125% to 0.30% per year on any unused portion of the amended revolving credit facility, depending on our leverage ratio. The weighted-average interest rate for the revolving credit facility at both April 1, 2014 and March 26, 2013 was 3.96%, including the impact of interest rate swaps. At April 1, 2014, we had \$50.0 million outstanding under the revolving credit facility and \$144.6 million of availability, net of \$5.4 million of outstanding letters of credit.

The lenders' obligation to extend credit under the amended revolving credit facility depends on us maintaining certain financial covenants, including a minimum consolidated fixed charge coverage ratio of 2.00 to 1.00 and a maximum consolidated leverage ratio of 3.00 to 1.00. The amended revolving credit facility permits us to incur additional secured or unsecured indebtedness outside the facility, except for the incurrence of secured indebtedness that in the aggregate exceeds 15% 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 April 1, 2014.

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At April 1, 2014, in addition to the amounts outstanding on our revolving credit facility, we had various other notes payable totaling \$1.2 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 April 1, 2014 was 4.11%, including the impact of interest rate swaps discussed below.

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

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

Contractual Obligations

The following table summarizes the amount of payments due under specified contractual obligations as of April 1, 2014:

	Total	Payments Due by Period			
		Less than 1 year	1-3 Years	3-5 Years	More than 5 years
			(in thousands)		
Long-term debt obligations	\$ 51,162	\$ 240	\$ 411	\$ 50,345	\$ 166
Interest (1)	5,119	2,082	1,999	1,030	8
Operating lease obligations	551,816	30,934	58,415	58,404	404,063
Capital obligations	71,765	71,765			
Total contractual obligations	\$ 679,862	\$ 105,021	\$ 60,825	\$ 109,779	\$ 404,237

(1) Assumes constant rate until maturity for our fixed and variable rate debt. Uses interest rates as of April 1, 2014 for our variable rate debt. Interest payments on our variable-rate revolving credit facility balance at April 1, 2014 are calculated based on the assumption that debt relating to the interest rate swaps covering notional amounts totaling \$50.0 million remains outstanding until the expiration of the respective swap arrangements. The interest rates used in determining interest payments to be made under the interest rate swap agreements were determined by taking the applicable fixed rate of each swap plus the 0.875% margin, which was in effect as of April 1, 2014. Additionally, we have assumed that \$50.0 million in revolving credit facility borrowings remain outstanding after the termination of the interest rate swaps and have calculated interest payments using the weighted average interest rate of 1.03%, which was the interest rate associated with our amended revolving credit facility on April 1, 2014.

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

Off-Balance Sheet Arrangements

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

Guarantees

Effective December 31, 2013, we sold two restaurants, which operated under the name Aspen Creek, located in Irving, Texas and Louisville, Kentucky. We assigned the leases associated with these restaurants to the acquirer, but remain contingently liable under the terms of the lease if the acquirer defaults. We are contingently liable for the initial term of the lease and any renewal periods. The Irving lease has an initial term that expires December 2019, along with three five-year renewals. The Louisville lease has an initial term that expires November 2023, along with three five-year renewals. The assignment of the Louisville lease releases us from liability after the initial lease term expiration contingent upon certain conditions being met by the acquirer. As the fair value of the guarantees is not considered significant, no liability has been recorded.

We entered into real estate lease agreements for five franchises, listed in the table below, 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 the lease.

	Lease Assignment Date	Initial Lease Term Expiration
Everett, Massachusetts (1)	September 2002	February 2018
Longmont, Colorado (1)	October 2003	May 2014
Montgomeryville, Pennsylvania	October 2004	June 2021
Fargo, North Dakota (1)	February 2006	July 2016
Logan, Utah	January 2009	August 2019

(1) As discussed in note 9, these restaurants are owned, in whole or part, by certain officers, directors and 5% shareholders of the Company.

We are contingently liable for the initial term of the lease and any renewal periods. All of the leases have three five-year renewals. As the fair value of the guarantees is not considered significant, no liability has been recorded.

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Recently Issued Accounting Standards

Discontinued Operations

(Accounting Standards Update 2014-08, ASU 2014-08)

In April 2014, the FASB issued ASU 2014-8, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which amends the requirements for reporting discontinued operations and modifies related disclosure requirements. ASU 2014-8 is effective prospectively for fiscal years beginning on or after December 15, 2014 (our 2015 fiscal year). The adoption of this guidance is not expected to have an impact on our consolidated financial position, results of operations or cash flows.

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. The terms of the revolving credit facility require us to pay interest on outstanding borrowings at London Interbank Offering Rate (LIBOR) plus a margin of 0.875% to 1.875%, depending on our leverage ratio, or the Alternate Base Rate, which is the higher of the issuing bank's prime lending rate, the Federal Funds rate plus 0.50% or the Adjusted Eurodollar Rate for a one month interest period on such day plus 1.0%. At April 1, 2014, we had \$50.0 million outstanding under the revolving credit facility, which bears interest at approximately 87.5 to 187.5 basis points (depending on our leverage ratios) over LIBOR. We had various other notes payable totaling \$1.2 million with fixed interest rates ranging from 10.46% to 10.80%.

On October 22, 2008, we entered into an interest rate swap, which started 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 borrowings. We have designated the interest rate swap as a cash flow hedge of our exposure to variability in future cash flows attributable to interest payments on a \$25.0 million tranche of floating rate debt borrowed under our revolving credit facility. Under the terms of the swap, we pay a fixed rate of 2.34% on the \$25.0 million notional amount and receive payments from the counterparty based on the 1-month LIBOR rate for a term ending on January 7, 2016, effectively resulting in a fixed rate LIBOR component of the \$25.0 million notional amount.

By using a derivative instrument 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 swap is JP Morgan 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 certain produce and certain dairy products, therefore, we are subject to prevailing market conditions when purchasing those types of commodities. For other commodities, we employ various purchasing and pricing contract techniques in an effort to minimize volatility, including fixed price contracts for terms of 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.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

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

Changes in internal control

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

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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 have filed an answer to the complaint, and the case is in discovery. We deny liability; however, in view of the inherent uncertainties of litigation, the outcome of this case cannot be predicted at this time. We cannot estimate the possible amount or range of loss, if any, associated with this matter.

ITEM 1A. RISK FACTORS

Information regarding risk factors appears in our Annual Report on Form 10-K for the year ended December 31, 2013, under the heading Special Note Regarding Forward-looking Statements and in the Form 10-K Part I, Item 1A, Risk Factors. There have been no material changes from the risk factors previously disclosed in our Form 10-K for the year ended December 31, 2013.

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On February 16, 2012, our Board of Directors approved a stock repurchase program which authorized us to repurchase up to \$100.0 million of our common stock of which \$33.7 million remains outstanding at April 1, 2014. This stock repurchase program has no expiration date. All repurchases to date under our stock repurchase program have been made through open market transactions. The timing and the amount of any repurchases through this program will be determined by management under parameters established by our Board of Directors, based on its evaluation of our stock price, market conditions and other corporate considerations.

The following table includes information regarding purchases of our common stock made by us during the 13 weeks ended April 1, 2014:

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
January 1 to January 28	190,000	\$ 25.82	190,000	\$ 52,961,419
January 29 to February 25	460,000	\$ 24.27	460,000	\$ 41,806,618
February 26 to April 1	310,000	\$ 26.14	310,000	\$ 33,710,480
Total	960,000	\$ 25.18	960,000	

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

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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: May 9, 2014

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

Date: May 9, 2014

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