

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

- Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 25, 2011
or
 Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.

Commission File Number: 000-24743

BUFFALO WILD WINGS, INC.
(Exact name of registrant as specified in its charter)

Minnesota
(State or Other Jurisdiction of
Incorporation or Organization)

No. 31-1455915
(IRS Employer
Identification No.)

5500 Wayzata Boulevard, Suite 1600, Minneapolis, MN 55416
(Address of Principal Executive Offices)

Registrant's telephone number (952) 593-9943

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

Title of each class	Name of each exchange on which registered
Common Stock, no par value	Nasdaq Global Market

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 a checkmark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

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

The aggregate market value of the voting stock held by non-affiliates was \$1.1 billion based on the closing sale price of the Company's Common Stock as reported on the NASDAQ Stock Market on June 24, 2011.

The number of shares outstanding of the registrant's common stock as of February 10, 2012: 18,377,920 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2012 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

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PART I

ITEM 1. BUSINESS

General

References in this document to “Buffalo Wild Wings,” “company,” “we,” “us” and “our” refer to the business of Buffalo Wild Wings, Inc. and our subsidiaries. We maintain an Internet website address at www.buffalowildwings.com. We make available free of charge through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as they are reasonably available after these materials are electronically filed with or furnished to the Securities and Exchange Commission (“SEC”). These materials are also accessible on the SEC’s web site at www.sec.gov. The public may read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information from the Public Reference Room by calling the SEC at 1-800-SEC-0330.

We are an established and growing owner, operator, and franchisor of restaurants featuring a variety of boldly-flavored, cravable menu items including our Buffalo, New York-style chicken wings spun in any of our 16 signature sauces or 4 signature seasonings. Our restaurants create a welcoming neighborhood atmosphere that includes an extensive multi-media system, a full bar and an open layout, which appeals to sports fans and families alike. We differentiate our restaurants by the social environment we create and the connection we make with our Team Members, guests and the local community. Our guests have the option of watching sporting events or other popular programs on our projection screens and approximately 50 additional televisions, competing in Buzztime® Trivia, or playing video games. The open layout of our restaurants offers dining and bar areas that provide distinct seating choices for sports fans and families. Our flexible restaurants allow our guests to customize their Buffalo Wild Wings® experience to meet their time demands, service preferences or the experience they are seeking of a workday lunch, a dine-in dinner, a take-out meal, an afternoon or evening enjoying a sporting event or a late-night craving. Buffalo Wild Wings® restaurants are the place people want to be; where any excuse to get together is a good one.

Buffalo Wild Wings® restaurants have widespread appeal and have won dozens of “Best Wings” and “Best Sports Bar” awards across the country. Our made-to-order menu items are enhanced by the bold flavor profile of our 16 signature sauces and 4 signature seasonings, ranging from Sweet BBQ™ to Blazin’®. Our restaurants offer 20 to 30 domestic and imported beers on tap, including craft brews and a wide selection of bottled beers, wines, and liquor. Our award-winning food and memorable experience drives guest visits and loyalty.

We have established our brand through coordinated marketing and operational execution that ensures brand recognition and quality and consistency throughout our concept. These efforts include marketing programs and irreverent advertising to support both our company-owned and franchised restaurants. We also prominently feature our trademark Buffalo insignias, yellow and black colors, sports memorabilia, dozens of televisions and projection screens, and exterior trade dress at our restaurants and as branding for our company materials. Our concept is further strengthened by our emphasis on operational excellence supported by operating guidelines and employee training in both company-owned and franchised restaurants.

Buffalo Wild Wings was founded in 1982 at a location near The Ohio State University. Our original name was Buffalo Wild Wings & Weck® and we became more popularly known as bw-3®. In 1991, we began our franchising program. In 2003, we completed an initial public offering and became a publicly-held company. Today, we are popular throughout the United States and widely recognized as Buffalo Wild Wings.

Our Concept and Business Strategy

Our goal is to continue to grow and develop the Buffalo Wild Wings Grill & Bar® concept into a leading nationally and internationally recognized restaurant chain. To do so, we plan to execute the following strategies:

- *Continue to strengthen the Buffalo Wild Wings® brand;*
- *Deliver a unique guest experience;*
- *Offer boldly-flavored menu items with broad appeal;*
- *Create an inviting, neighborhood atmosphere;*
- *Focus on operational excellence;*
- *Open restaurants in new and existing domestic markets and new countries and;*
- *Increase same-store sales, average unit volumes, and profitability.*

North American Growth Strategy

Our growth strategy involves opening company-owned and franchised restaurants in both new and existing domestic markets and new countries. We believe that we have established and continue to expand the necessary infrastructure and control systems to support our disciplined growth strategy and that our concept can support about 1,500 restaurants in North America. We have developed procedures for identifying new opportunities in both domestic and international markets, determining our expansion strategy in those markets and identifying sites for company-owned and franchised restaurants. We have a mix of approximately 40% company-owned restaurants and approximately 60% franchised restaurants, with significantly all of our revenues derived from US operations. Our current North American growth strategy is to continue to open both company-owned restaurants and franchised restaurants.

In most of our existing markets, we plan to continue to open new company-owned restaurants until a market is penetrated to a point that will enable us to gain marketing, operational, cost, and other efficiencies. We intend to enter new domestic and international markets by opening several restaurants within a one-year period to quickly build our brand awareness. We intend to grow our franchise system through the development of new restaurants by existing and new franchisees. We may grow our company-owned restaurants through the acquisition of franchised restaurants.

International Growth Strategy

We plan to embark upon our international growth by adding company-owned restaurants, through development agreements with new and existing franchisees, and, potentially, through joint venture partnerships. A typical international franchise development agreement provides for payment of development fees and franchise fees in addition to subsequent royalty fees based on the gross sales of each restaurant. We expect development agreements and joint ventures for international locations to remain limited to organizations having significant experience as restaurant operators and proven financial ability to support and develop multi-unit and multi-brand operations.

The Buffalo Wild Wings® Menu

Our restaurants feature a variety of menu items including our Buffalo, New York-style chicken wings spun in one of our signature sauces from sweet to screamin' hot: Sweet BBQ, Teriyaki, Mild, Parmesan Garlic, Medium, Honey BBQ, Spicy Garlic, Jammin' Jalapeno™, Asian Zing®, Caribbean Jerk, Thai Curry™, Hot BBQ, Hot, Mango Habanero™, Wild® and Blazin'®; or signature seasonings: Buffalo, Desert Heat®, Chipotle BBQ, and Salt & Vinegar. Our chicken wings can be ordered in numbers ranging from six to 100 wings, with larger orders available for parties. Our sauces and seasonings complement and distinguish our wings and other menu offerings to create a bold flavor profile for our guests. In addition to traditional and boneless chicken wings, our menu features a wide variety of food items including Sharable appetizers, Wild Flatbreads™, specialty hamburgers and sandwiches, wraps, Buffalito® soft tacos, and salads. We also provide a 12 & Under Menu option for kids.

Our restaurants feature a full bar which offers an extensive selection of 20 to 30 domestic, imported, and craft beers on tap as well as bottled beers, wine and liquor. Additionally, in order to continually improve our menu, our research and development department continuously tests and introduces new menu items. Our goal is to balance the established menu offerings that appeal to our loyal guests with new menu items that increase guest frequency and attract new guests.

Restaurant Atmosphere and Layout

Our restaurants are sports grill and bars that provide a high-energy atmosphere where friends gather for camaraderie and to celebrate competition, as well as allow our guests the flexibility to customize their dining experience. The inviting and energetic environment of our restaurants is created using furnishings that can be easily rearranged to accommodate parties of various sizes. Our restaurants also feature distinct dining and bar areas, and many of the restaurants have patio seating.

We strategically place approximately 50 high-definition flat-screen monitors and up to 10 projection screens throughout the restaurant to allow for easy viewing. These televisions, combined with our sound system, Buzztime® Trivia and assorted video games, provide a source of entertainment for our guests and reinforce the energetic nature of our concept. We tailor the content and volume of our video and audio programming to reflect our guests' tastes. We believe the design of our restaurants enhances our guests' experiences, drives repeat visits and solidifies the broad appeal of our concept.

All of our menu items are made-to-order and are available for take-out, which approximated 13% of restaurant sales for company-owned restaurants in 2011. Many of our restaurants have separate parking spots for our take-out guests.

Current Restaurant Locations

As of December 25, 2011, we owned or franchised 817 Buffalo Wild Wings restaurants in North America, of which 319 were company-owned and 498 were franchised. In 2012, we expect to achieve 11% unit growth, increasing our net unit count by approximately 90 company-owned and franchised restaurants.

Our company-owned restaurants range in size from 3,900 to 9,700 square feet, with a typical size of approximately 5,700 square feet for restaurants that opened in the last three years. We anticipate that future restaurants will range in size from 4,500 square feet to 6,500 square feet with an average cash investment per restaurant of approximately \$2.0 million, excluding preopening expenses of approximately \$275,000. From time to time, we expect that our restaurants may be smaller or larger or cost more or less than our targeted range, depending on the particular circumstances of the selected site, market, or country. Also, from time to time, we expect to purchase the building or the land and building for certain restaurants, in which case the cash investment would be significantly higher.

Our restaurants are typically open on a daily basis from 11 a.m. to 2 a.m., although closing times vary depending on the day of the week and applicable regulations governing the sale of alcoholic beverages. Our franchise agreements require franchisees to operate their restaurants for a minimum of 12 hours a day.

Site Selection and Development

Our site selection process is integral to the successful execution of our growth strategy. We have processes for identifying, analyzing and assigning undeveloped markets for both company-owned and franchise development. Once a market is assigned, we use a trade area and site selection evaluation process to assist in identifying suitable trade areas within that market and suitable sites within identified trade areas. Criteria examined to determine appropriate trade areas include the presence of a casual dining corridor, projected growth within the trade area, the locations of key big box retailers, key demographics and population density, drive time and trade area analysis and other quantitative and qualitative measures. Once a suitable trade area is identified, we examine site-specific details including visibility, signage, access, ability to get trade dress, and parking. We employ an opportunistic approach to real estate by developing end caps, freestanding units, and conversions in both urban and suburban trade areas. Final approval by one or more members of our executive management team is required for each company-owned site. At least one senior executive or our Vice President of Franchising reviews each franchise site and visits the site when deemed necessary.

Marketing and Advertising

Since 1982, Buffalo Wild Wings has created a unique brand experience with a loyal fan base, award-winning wings and sauces, a variety of beers and an exciting social atmosphere. This unique experience, centered around sports, sets us apart from our competition. Our marketing programs are designed to build awareness of our brand with sports fans, encouraging them to visit and ultimately develop a personal connection to Buffalo Wild Wings. These programs are designed to consistently drive trial, same-store sales, average check and support strong restaurant openings.

Marketing Campaigns. Each marketing campaign has a theme that reflects guest lifestyles and behaviors. These lifestyles and behaviors are the cornerstone for creating key brand touch-points within each campaign that includes media, promotions, partnerships, and food and beverage experiences that will encourage social interactions and bring each theme to life. For example, we promoted Tablegating™ at Buffalo Wild Wings in 2011, which provided our guests with an opportunity to watch all the games and enjoy featured food and beverage items. In addition, our local restaurant marketing efforts are designed to enhance community connections. Example of this are our Home Team Advantage and Eat Wings, Raise Funds programs that connect our restaurants to local sports teams and community groups.

Advertising. Our media strategy is to build continuity throughout the year while still supporting our peak periods. Our primary media vehicles include national television in relevant programming to drive awareness and consideration, national and local radio to drive consideration and trial and digital and search to drive all three.

Franchise Involvement. System-wide campaigns and promotions are developed and implemented with input from the Buffalo Wild Wings Advertising Council. This volunteer board includes seven franchisees, elected by their peers, and meets regularly to review marketing strategies, provide input on advertising messages and vendor co-op programs, and discuss marketing objectives.

Operations

Our leadership team strives for operational excellence by recruiting, developing and supporting our highly qualified management teams and Team Members and implementing operational standards and best practices within our restaurants.

Restaurant Management. Our management structure consists of a General Manager, an Assistant General Manager and up to four other managers depending on sales volume of the restaurant. We utilize Regional Managers to oversee our General Managers in our company-owned locations, ensuring that they receive the training and support necessary to effectively operate their restaurants. Currently, we have 54 Regional Managers who oversee 4 to 10 restaurants each. As we expand geographically, we expect to add additional Regional Managers. Similarly, our franchised restaurants receive operational guidance from our 15 Franchise Consultants, who oversee 22 to 47 restaurants each. We have three Divisional Vice Presidents who have responsibility for all company-owned operations and 7 Directors of Operations who provide leadership to the Regional Managers. We also have a Vice President of Franchising who has responsibility for all franchised restaurant operations and 3 Directors of Operations who provide leadership to the Franchise Consultants.

Kitchen Operations. An important aspect of our concept is the efficient design, layout and execution of our kitchen operations. Due to the relatively simple preparation of our menu items, the kitchen consists of fryers, grill and food prep stations that are arranged assembly-line style for maximum productivity. Given our menu and kitchen design, we are able to staff our kitchen with hourly Team Members who require only basic training before reaching full productivity. Additionally, we do not require the added expense of an on-site chef. The ease and simplicity of our kitchen operations allows us to achieve our goal of preparing casual dining quality food with minimal wait times.

Training. We provide thorough training for our management and hourly Team Members to prepare them for their role in delivering a positively engaging Buffalo Wild Wings experience for each and every Guest.

Our managers are trained using a hands-on education process during a seven-week period at one of our Certified Training Restaurants. During this training period, our manager trainees work in and learn about key aspects of the business – from our culture to our core focus areas: Team, Guest, Quality Operations and Sales and Profits. This includes experience in both hourly and management functions.

After successful completion of the manager training program, the new managers work with their General Managers to build a tailored program to meet their training and development needs, specific to their assigned area of responsibility. A library of targeted modules covering both technical and managerial skills serves as the vehicle for this phase of learning. The program, which is progressive in nature, is also built around our core focus areas.

Later in their careers, our General Managers and high-potential Assistant General Managers attend a management skills class where they take a deeper look into bringing all of the core elements for success together to create the ultimate experience for our guests.

Our hourly Team Members complete a comprehensive position certification process. Position certification requires 16 to 20 hours of hands-on training. Team Members must also successfully pass position validations, which include menu certifications, responsible alcohol service training, and training in the safe handling of food.

Hourly Restaurant Team Members who have demonstrated outstanding performance are provided opportunities for career advancement. Those with a high level of knowledge in one or more positions within the restaurant are encouraged to apply for the Wing Certified Trainer (WCT) program. The WCT candidate completes a training plan, which includes developing and evaluating his/her ability to train and influence the performance of Team Members. Our objective is to have at least four WCTs in each restaurant. Team Members who have performed successfully as Wing Certified Trainers in three or more station areas can apply to become All-Star Trainers. Our All-Star Trainers have the opportunity to travel around the country to assist with training at new restaurant openings.

Further, Team Members with management potential can participate in the Shift Leader program, which is a developmental program that provides hourly Team Members the opportunity to build and demonstrate leadership capabilities while providing the restaurants with leaders who are trained to support management. The Shift Leader program helps us to identify talent and build bench strength throughout the organization – through the selection and training of those who have demonstrated the initiative, desire, behaviors and competencies necessary for success in restaurant management, or other positions of leadership.

Career Opportunities. Through our training programs, we are able to motivate and retain our field operations team by providing them with opportunities for increased responsibilities and advancement. In addition, we offer performance-based incentives tied to sales, profitability and qualitative measures such as guest and team-related metrics. We strive for a balance of internal promotion and external hiring. This provides us with the ability to retain and grow our Team Members and to infuse our organization with talented individuals from outside of Buffalo Wild Wings.

Recruiting. We actively recruit and select individuals who demonstrate enthusiasm and dedication and who share our passion for high quality guest service delivered through teamwork and commitment. To attract high caliber managers, we have developed a competitive compensation plan that includes a base salary and an attractive benefits package, including participation in a management incentive plan that rewards managers for achieving restaurant performance objectives.

Food Preparation, Quality Control and Purchasing

We strive to maintain high quality standards. Our systems are designed to protect our food supply at all times, from procurement through the preparation process. We provide detailed specifications to suppliers for our food ingredients, products and supplies. Our restaurant managers are certified in a comprehensive food safety and sanitation course, ServSafe®, which was developed by the National Restaurant Association Educational Foundation.

We negotiate directly with independent suppliers for our supply of food and paper products. Domestically, we use members of UniPro Food Services, Inc., a national cooperative of independent food distributors, to distribute these products to our restaurants. To maximize our purchasing efficiencies and obtain the lowest possible prices for our ingredients, products and supplies, our purchasing team negotiates prices based on the system-wide usage of both company-owned and franchised restaurants. We believe that competitively priced, high quality alternative manufacturers, suppliers, growers and distributors are available should the need arise.

T. Marzetti Company produces our signature sauces, and they maintain sufficient inventory levels to ensure consistent supply to our restaurants. We own the formulas for our sauces and seasonings which prevents them from being supplied to, or manufactured for, anyone else.

Chicken wings are an important component of our cost of sales. We work to counteract the effect of the volatility of chicken wing prices, which can affect our cost of sales and cash flow, with the introduction of new menu items, effective marketing promotions, focused efforts on food costs and waste, and menu price increases. We also explore purchasing strategies to reduce the severity of cost increases and fluctuations. We currently purchase our chicken wings at market price. If a satisfactory long-term pricing agreement for chicken wings were to arise, we would consider locking in prices to reduce our price volatility.

Restaurant Franchise Operations

Our concept continues to attract a strong group of franchisees, many of whom have substantial prior restaurant operations experience. Our franchisees execute a separate franchise agreement for each restaurant opened, typically providing for a 20-year initial term, with an opportunity to enter into a renewal franchise agreement subject to certain conditions. The initial franchise fee for a single restaurant is \$42,500. If a franchisee signs an area development agreement, the initial franchise fee is \$42,500 for the first restaurant and \$30,000 for each subsequent restaurant. If the franchisee is an existing franchisee who has operated a restaurant for a minimum of one year and is signing an area development agreement, the initial franchise fee is \$30,000 for the first restaurant and \$25,000 for each subsequent restaurant. If the franchisee signs a franchise agreement for a restaurant whose trade area is wholly within the designated area of another restaurant they own, the franchisee will only reimburse the costs incurred by us in assisting with the restaurant opening, and need not pay an initial franchise fee.

Franchisees also pay us a royalty fee of 5.0% of their restaurant sales. We also assess franchisees an advertising fee in the amount of 3.5% of their restaurant sales, of which 3.0% was contributed to our National Advertising Fund in 2011 and the remaining 0.5% was spent directly by the franchisee in the applicable local market. Our current form of franchise agreement permits us to increase the royalty fee under circumstances and to increase the required contribution to the Advertising Fund by 0.5% once every three years. The royalty fee and advertising fee are not expected to increase in 2012.

All of our franchise agreements require that each franchised restaurant be operated in accordance with our defined operating procedures, adhere to the menu established by us, meet applicable quality, service, health and cleanliness standards and comply with all applicable laws. We ensure these high standards are being followed through a variety of means including mystery shoppers and announced and unannounced quality assurance inspections by our franchise consultants. We may terminate the franchise rights of any franchisee who does not comply with our standards and requirements. We believe that maintaining superior food quality, an inviting and energetic atmosphere and excellent guest service are critical to the reputation and success of our concept; therefore, we consistently enforce the contractual requirements of our franchise agreements.

The area development agreement establishes the number of restaurants that must be developed in a defined geographic area and the deadlines by which these restaurants must open. For area development agreements covering three to seven restaurants, restaurants are often required to open in approximately 12-month intervals. For larger development agreements,

the interval is typically shorter. The area development agreement can be terminated by us if, among other reasons, the area developer fails to open restaurants on schedule.

We work hard to maintain positive and productive relationships with our franchisees. In 2005, we formed the Buffalo Wild Wings Leadership Council, which is an advisory board made up of six franchisees elected by their peers that meets three times a year in person with our senior leaders and holds monthly conference calls. We also have other councils of franchisees whom we consult with periodically on specific matters.

Information Technology

We utilize a standard point-of-sale system in all of our company-owned restaurants which is integrated to our central offices through a secure, high-speed connection. Visibility to sales, cost of sales, labor and other operating metrics is provided to company-owned restaurant management through web-based decision support and analysis tools. Franchisees are required to report sales on a daily basis through an on-line reporting network and submit their restaurant-level financial statements on a quarterly and annual basis. Based on custom-developed software as well as industry-specific applications, this technology allows us to monitor business performance and optimizes food and labor costs. This year we completed the pilot test of a new point-of-sale and web-based back office system that will begin to replace of our current point-of sale system in 2012. We will also continue the rollout of an automated kitchen management system that provides automation and reporting of cook line performance, including speed-of-service and order accuracy.

Competition

The restaurant industry is intensely competitive. We compete on the basis of the taste, quality and price of food offered, guest service, ambience, location, and overall dining experience. We believe that our attractive price-value relationship, the atmosphere of our restaurant, our focus on our guest and the quality and distinctive flavor of our food enable us to differentiate ourselves from our competitors. We believe we compete primarily with local and regional sports bars and national casual dining and quick casual establishments, and to a lesser extent with quick service restaurants such as wing-based take-out concepts. Many of our direct and indirect competitors are well-established national, regional or local chains and some have greater financial and marketing resources than we do. We also compete with other restaurant and retail establishments for site locations and restaurant Team Members.

Proprietary Rights

We own the rights to the “Buffalo Wild Wings®” service mark and to certain other service marks and trademarks used in our system. We attempt to protect our sauce recipes as trade secrets by, among other things, requiring a confidentiality agreement with our sauce supplier and executive officers. It is possible that competitors could develop recipes and procedures that duplicate or closely resemble our recipes and procedures. We believe that our trademarks, service marks and other proprietary rights have significant value and are important to our brand-building efforts and the marketing of our restaurant concept. We vigorously protect our proprietary rights. We cannot predict, however, whether steps taken by us to protect our proprietary rights will be adequate to prevent misappropriation of these rights or the use by others of restaurant features based upon, or otherwise similar to, our concept. It may be difficult for us to prevent others from copying elements of our concept and any litigation to enforce our rights will likely be costly and may not be successful. Although we believe that we have sufficient rights to all of our trademarks and service marks, we may face claims of infringement that could interfere with our ability to market our restaurants and promote our brand. Any such litigation may be costly and divert resources from our business. Moreover, if we are unable to successfully defend against such claims, we may be prevented from using our trademarks or service marks in the future and may be liable for damages.

Government Regulation

The restaurant industry is subject to numerous federal, state and local governmental regulations, including those relating to the preparation and sale of food and alcoholic beverages, sanitation, public health, fire codes, zoning, and building requirements. Each restaurant requires appropriate licenses from regulatory authorities allowing it to sell liquor, beer and wine, and each restaurant requires food service licenses from local health authorities. Our licenses to sell alcoholic beverages must be renewed annually and may be suspended or revoked at any time for cause, including violation by us or our employees of any law or regulation pertaining to alcoholic beverage control, such as those regulating the minimum age of employees or patrons who may serve or be served alcoholic beverages, the serving of alcoholic beverages to visibly intoxicated patrons, advertising, wholesale purchasing and inventory control. In order to reduce this risk, restaurant employees are trained in standardized operating procedures designed to assure compliance with all applicable codes and regulations. As we expand into international markets we are taking on additional responsibilities under the Foreign Corrupt Practices Act and similar local regulations. We have implemented policies, procedures and training to ensure compliance with these regulations.

We and our franchisees are also subject to laws governing our relationship with employees. Our failure or the failure of our franchisees to comply with international, federal, state and local employment laws and regulations may subject us to losses and harm our brands. The laws and regulations govern such matters as wage and hour requirements; workers' compensation insurance; unemployment and other taxes; working and safety conditions, and citizenship and immigration status. Significant additional government-imposed regulations under the Fair Labor Standards Act and similar laws related to minimum wages, overtime, rest breaks, paid leaves of absence, mandated health benefits, may also impact the performance of company and franchised operations. In addition, employee claims based on, among other things, discrimination, harassment, wrongful termination, wage and hour requirements, and payments to employees who receive gratuities may divert financial and management resources and adversely affect operations. The losses that may be incurred as a result of any violation of such governmental regulations by the company or our franchisees are difficult to quantify.

We are also subject to licensing and regulation by state and local departments relating to the service of alcoholic beverages, health, sanitation, and fire and safety standards. Compliance with these laws and regulations may lead to increased costs and operational complexity and may increase our exposure to governmental investigations or litigation. We may also be subject in certain states to "dram-shop" statutes, which generally allow a person injured by an intoxicated person to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. In addition, we are subject to various state and federal laws relating to the offer and sale of franchises and the franchisor-franchisee relationship. In general, these laws and regulations impose specific disclosure and registration requirements prior to the sale and marketing of franchises and regulate certain aspects of the relationship between franchisor and franchisee.

Because of gaming operations in our Nevada facilities, the ownership and operation of those facilities are subject to the Nevada Gaming Control Act and the regulations promulgated thereunder, as well as various local regulations related to gaming. Our gaming operations are also subject to the licensing and regulatory control of the Nevada Gaming Commission, the Nevada State Gaming Control Board and various county and city licensing agencies. These gaming laws, regulations, and supervisory procedures are based upon declarations of public policy that are concerned with, among other things:

- the prevention of unsavory or unsuitable persons from having a direct or indirect involvement with gaming at any time or in any capacity;
- the establishment and maintenance of responsible accounting practices;
- the maintenance of effective controls over the financial practices of licensees, including the establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues;
- providing reliable record keeping and requiring the filing of periodic reports with the gaming authorities;
- the prevention of cheating and fraudulent practices; and
- providing a source of state and local revenues through taxation and licensing fees.

Any change in such laws, regulations, and procedures could have an adverse effect on the gaming operations in our Nevada facilities. Additional information regarding regulation related to gaming in our Nevada facilities can be found in Exhibit 99.1 to this Form 10-K.

Team Members

As of December 25, 2011, we employed approximately 21,000 Team Members. We have 2,400 full-time and 18,300 part-time Team Members working in our company-owned restaurants and 300 Team Members based out of our home office or field support management positions. Our Team Members are not covered by any collective bargaining agreement, and we have never experienced an organized work stoppage or strike. We believe that our working conditions and compensation packages are competitive and consider our relations with our Team Members to be good.

Executive Officers

The following sets forth certain information about our executive officers:

Sally J. Smith, 54, has served as our Chief Executive Officer and President since July 1996 and as a director since August 1996. She served as our Chief Financial Officer from 1994 to 1996. Prior to joining Buffalo Wild Wings, she was the Chief Financial Officer of Dahlberg, Inc., the manufacturer and franchisor of Miracle-Ear hearing aids, from 1983 to 1994. Ms. Smith began her career with KPMG LLP, an international accounting and auditing firm. Ms. Smith holds an inactive CPA license. She serves on the boards of the National Restaurant Association and Alerus Financial Corporation.

Mary J. Twinem, 51, has served as our Executive Vice President, Chief Financial Officer and Treasurer since July 1996. She served as our Controller from January 1995 to July 1996. Ms. Twinem also served as a director on our Board from June 2002 to September 2003. Prior to joining Buffalo Wild Wings, she served as the Director of Finance/Controller of Dahlberg, Inc. from 1989 to December 1994. Ms. Twinem began her career in public accounting and holds an inactive CPA license. She serves on the boards of the Minnesota Restaurant Association and Mendota Holdings, Inc.

Kathleen M. Benning, 49, has served as our Executive Vice President, Global Brand and Business Development since October 2011. She served as Executive Vice President, Global Marketing and Brand Development from January 2010 until October 2011. She joined us in March 1997 as Vice President of Marketing and served as Senior Vice President, Marketing and Brand Development from January 2002 until December 2009. From 1992 to 1997, Ms. Benning was employed by Nemer, Fieger & Associates, an advertising agency, where she was a partner from 1994 to 1997.

Mounir N. Sawda, 54, has served as our Managing Director, International since August 2010. He joined us in August 2007 and served as our Senior Vice President, Franchise and Development until July 2010. Prior to joining us, Mr. Sawda managed his own consulting company from 2005 to 2007. From 1998 to 2005, Mr. Sawda served in various executive positions at Denny's Corporation, most recently as Vice President Development, Property Management, Construction and Facilities. From 1984 to 1993 and from 1996 to 1997, Mr. Sawda held several positions with Burger King Corporation. From 1993 to 1996, Mr. Sawda worked with Hanna International in Saudi Arabia.

James M. Schmidt, 52, has served as our Chief Operating Officer since January 2011. He served as our Executive Vice President since December 2006 and as General Counsel from April 2002 to January 2011. He served as either Vice President or Senior Vice President from April 2002 until December 2006. Mr. Schmidt also served as our Secretary from September 2002 until January 2011, and he served as a director on our Board from 1994 to September 2003. From 1985 to 2002, Mr. Schmidt was an attorney with the law firm of Robbins, Kelly, Patterson & Tucker, which provides legal services to us from time to time.

Judith A. Shoulak, 52, has served as our Executive Vice President, North American Operations since October 2011. She served as Executive Vice President, Global Operations and Human Resources from January 2010 until October 2011, as our Senior Vice President, Operations, from March 2004 to December 2009, Senior Vice President, Human Resources from January 2003 to February 2004 and Vice President of Human Resources from October 2001 to January 2003. From 1993 to 2001, Ms. Shoulak served as Vice President of Field Human Resources of OfficeMax Incorporated.

Lee R. Patterson, 38, has served as our Senior Vice President, Guest Experience and Innovation since October 2011. He served as Senior Vice President, Information Technology from January 2011 until October 2011 and as our Vice President, Information Technology from January 2008 until January 2011. Mr. Patterson was with Applebee's International, Inc. from May 2003 to January 2008, serving most recently as Director of Restaurant Systems.

Andrew Block, 43, has served as our Senior Vice President, Talent Management since January 2012. He served as Vice President, Talent Management from April 2010 until January 2012. Mr. Block served as Director of Human Resources at C. H. Robinson Worldwide from December 2002 to April 2011. From March 1996 to December 2002 Mr. Block was with Wells Fargo Home Mortgage as Director of Human Resources. Earlier in his career Mr. Block worked in the Human Resources field for Ecolab and a subsidiary of Sony Corporation of America.

Emily Decker, 32, has served as our Vice President, General Counsel and Secretary since January 2011. She served as our Franchise Attorney from August 2007 until January 2011. From September 2004 to July 2007, Ms. Decker was an Associate at Briggs and Morgan, P.A., which provides legal services to us from time to time.

ITEM 1A. RISK FACTORS

The foregoing discussion and the discussion contained in Item 7 of this Form 10-K contain various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities

Exchange Act of 1934, as amended. Forward-looking statements are based on current expectations or beliefs concerning future events. Such statements can be identified by the use of terminology such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “could,” “possible,” “plan,” “project,” “will,” “forecast” and similar words or expressions. Our forward-looking statements generally relate to our growth strategy, financial results, sales efforts, franchise expectations, restaurant openings and related expense, and cash requirements. Although we believe there is a reasonable basis for the forward-looking statements, our actual results could be materially different. While it is not possible to foresee all of the factors that may cause actual results to differ from our forward-looking statements, such factors include, among others, the risk factors that follow. Investors are cautioned that all forward-looking statements involve risks and uncertainties and speak only as of the date on which they are made, and we do not undertake any obligation to update any forward-looking statement. We believe that all material risk factors have been discussed below.

Fluctuations in chicken wing prices could impact our operating income.

A primary food product used by our company-owned and franchised restaurants is chicken wings. We work to counteract the effect of the volatility of chicken wing prices, which can significantly change our cost of sales and cash flow, with the introduction of new menu items, effective marketing promotions, focused efforts on food costs and waste, and menu price increases. We also explore purchasing strategies to reduce the severity of cost increases and fluctuations. We currently purchase our chicken wings at market price. If a satisfactory long-term pricing agreement for chicken wings were to arise, we would consider locking in prices to reduce our price volatility. Chicken wing prices in 2011 averaged 23.4% lower than 2010 as the average price per pound decreased to \$1.21 in 2011 from \$1.58 in 2010. If there is a significant rise in the price of chicken wings, and we are unable to successfully adjust menu prices or menu mix or otherwise make operational adjustments to account for the higher wing prices, our operating results could be adversely affected. For example, chicken wings accounted for approximately 19%, 24%, and 25% of our cost of sales in 2011, 2010, and 2009, respectively, with an annual average price per pound of \$1.21, \$1.58, and \$1.70, respectively. A 10% increase in the chicken wing costs for 2011 would have increased restaurant cost of sales by approximately \$3.8 million. Additional information related to chicken wing prices is included in Item 7 under “Results of Operations.”

If we are unable to successfully open new restaurants, our revenue growth rate and profits may be reduced.

To successfully expand our business, we must open new Buffalo Wild Wings® restaurants on schedule and in a profitable manner. In the past, we and our franchisees have experienced delays in restaurant openings and we may experience similar delays in the future. Delays in opening new restaurants could hurt our ability to meet our growth objectives, which may affect our results of operations, the expectations of securities analysts and shareholders and thus our stock price. We cannot guarantee that we or our franchisees will be able to achieve our expansion goals. Further, any restaurants that we, or our franchisees, open may not achieve operating results similar or better than our existing restaurants. If we are unable to generate positive cash flow from a new restaurant, we may be required to recognize an impairment loss with respect to the assets for that restaurant. Our ability to expand successfully will depend on a number of factors, many of which are beyond our control. These factors include:

- Negotiating acceptable lease or purchase terms for new restaurants;
- Cost effective and timely planning, design and build-out of restaurants;
- Creating guest awareness of our restaurants in new markets;
- Competition in new and existing markets;
- Impact of inclement weather, natural disasters, and other calamities; and
- General economic conditions.

We must identify and obtain a sufficient number of suitable new restaurant sites for us to sustain our growth.

We require that all proposed restaurant sites, whether for company-owned or franchised restaurants, meet our site selection criteria. We may make errors in selecting these criteria or applying these criteria to a particular site, or there may be an insignificant number of new restaurant sites meeting these criteria that would enable us to achieve our planned expansion in future periods. We face significant competition from other restaurant companies and retailers for sites that meet our criteria and the supply of sites may be limited in some markets. Further, we may be precluded from acquiring an otherwise suitable

site due to an exclusivity restriction held by another tenant. As a result of these factors, our costs to obtain and lease sites may increase, or we may not be able to obtain certain sites due to unacceptable costs. Our inability to obtain suitable restaurant sites at reasonable costs may reduce our growth.

Shortages or interruptions in the availability and delivery of food and other supplies may increase costs or reduce revenues.

Possible shortages or interruptions in the supply of food items and other supplies to our restaurants caused by inclement weather, terrorist attacks, natural disasters such as floods, drought and hurricanes, pandemics, the inability of our vendors to obtain credit in a tightened credit market, food safety warnings or advisories or the prospect of such pronouncements, or other conditions beyond our control could adversely affect the availability, quality and cost of items we buy and the operations of our restaurants. Our inability to effectively manage supply chain risk could increase our costs and limit the availability of products critical to our restaurant operations.

We may experience higher-than-anticipated costs associated with the opening of new restaurants or with the closing, relocating, and remodeling of existing restaurants, which may adversely affect our results of operations.

Our revenues and expenses can be impacted significantly by the location, number, and timing of the opening of new restaurants and the closing, relocating, and remodeling of existing restaurants. We incur substantial pre-opening expenses each time we open a new restaurant and incur other expenses when we close, relocate, or remodel existing restaurants. These expenses are generally higher when we open restaurants in new markets, but the costs of opening, closing, relocating or remodeling any of our restaurants may be higher than anticipated. An increase in such expenses could have an adverse effect on our results of operations.

Our restaurants may not achieve market acceptance in the new domestic and international geographic regions we enter.

Our expansion plans depend on opening restaurants in new domestic and international markets where we or our franchisees have little or no operating experience. We may not be successful in operating our restaurants in new markets on a profitable basis. The success of these new restaurants will be affected by the different competitive conditions, consumer tastes, and discretionary spending patterns of the new markets as well as our ability to generate market awareness of the Buffalo Wild Wings® brand. Sales at restaurants opening in new markets may take longer to reach average annual restaurant sales, if at all, thereby affecting their profitability.

New restaurants added to our existing markets may take sales from existing restaurants.

We and our franchisees intend to open new restaurants in our existing markets, which may reduce sales performance and guest visits for existing restaurants in those markets. In addition, new restaurants added in existing markets may not achieve sales and operating performance at the same level as established restaurants in the market.

Failure of our internal controls over financial reporting could harm our business and financial results.

Our management is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that we would prevent or detect a misstatement of our financial statements or fraud. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud. A significant financial reporting failure or material weakness in internal control over financial reporting could cause a loss of investor confidence and decline in the market price of our stock.

Economic conditions could have a material adverse impact on our landlords or other tenants in retail centers in which we or our franchisees are located, which in turn could negatively affect our financial results.

Our landlords may be unable to obtain financing or remain in good standing under their existing financing arrangements, resulting in failures to pay required construction contributions or satisfy other lease covenants to us. In addition other tenants at retail centers in which we or our franchisees are located or have executed leases may fail to open or may cease operations. If our landlords fail to satisfy required co-tenancies, such failures may result in us or our franchisees terminating leases or delaying openings in these locations. Also, decreases in total tenant occupancy in retail centers in which

we are located may affect guest traffic at our restaurants. All of these factors could have a material adverse impact on our operations.

An impairment in the carrying value of our goodwill or other intangible assets could adversely affect our financial condition and consolidated results of operations.

Goodwill represents the difference between the purchase price of acquired companies and the related fair values of net assets acquired. We test goodwill for impairment annually and whenever events or changes in circumstances indicate that impairment may have occurred. We compare the carrying value of a reporting unit, including goodwill, to the fair value of the unit. Carrying value is based on the assets and liabilities associated with the operations of that reporting unit. If the carrying value is less than the fair value, no impairment exists. If the carrying value is higher than the fair value, there is an indication of impairment. A significant amount of judgment is involved in determining if an indication of impairment exists. Factors may include, among others: a significant decline in our expected future cash flows; a sustained, significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; the testing for recoverability of a significant asset group within a reporting unit; and slower growth rates. Any adverse change in these factors would have a significant impact on the recoverability of these assets and negatively affect our financial condition and consolidated results of operations. We compute the amount of impairment by comparing the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. We are required to record a non-cash impairment charge if the testing performed indicates that goodwill has been impaired.

We evaluate the useful lives of our intangible assets to determine if they are definite- or indefinite-lived. Reaching a determination on useful life requires significant judgments and assumptions regarding the future effects of obsolescence, demand, competition, other economic factors (such as the stability of the industry, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels), the level of required maintenance expenditures, and the expected lives of other related groups of assets.

We cannot accurately predict the amount and timing of any impairment of assets. Should the value of goodwill or other intangible assets become impaired, there could be an adverse effect on our financial condition and consolidated results of operations.

We are dependent on franchisees and their success.

Currently, approximately 61% of our restaurants are franchised. Franchising royalties and fees represented approximately 8.6%, 9.5%, and 9.3% of our revenues during fiscal 2011, 2010, and 2009, respectively. Our performance depends upon (i) our ability to attract and retain qualified franchisees, (ii) the franchisees' ability to execute our concept and capitalize upon our brand recognition and marketing, and (iii) franchisees' ability to timely develop restaurants. We may not be able to recruit franchisees who have the business abilities or financial resources necessary to open restaurants on schedule, or who will conduct operations in a manner consistent with our concept and standards. Also, our franchisees may not be able to operate restaurants in a profitable manner.

Franchisees may take actions that could harm our business.

Franchisees are independent contractors and are not our employees. We provide training and support to franchisees, but the quality of franchised restaurant operations may be diminished if franchisees do not operate restaurants in a manner consistent with our standards and requirements, or if they do not hire and train qualified managers and other restaurant personnel. If franchisees do not adequately manage their restaurants, our image and reputation, and the image and reputation of other franchisees, may suffer materially and system-wide sales could significantly decline. In addition, we may also face potential claims and liabilities due to the acts of our franchisees based on agency or vicarious liability theories.

We could face liability from our franchisees.

A franchisee or government agency may bring legal action against us based on the franchisee/franchisor relationships. Various state and federal laws govern our relationship with our franchisees and our potential sale of a franchise. If we fail to comply with these laws, we could be liable for damages to franchisees and fines or other penalties. Expensive litigation with our franchisees or government agencies may adversely affect both our profits and our important relations with our franchisees.

We may be unable to compete effectively in the restaurant industry.

The restaurant industry is intensely competitive. We believe we compete primarily with regional and local sports bars, casual dining and quick casual establishments, and to a lesser extent, quick service wing-based take-out concepts. In addition, independent owners of local or regional establishments may enter the wing-based restaurant business without significant barriers to entry and such establishments may provide price competition for our restaurants. Competition in the casual dining, quick casual and quick service segments of the restaurant industry is expected to remain intense with respect to price, service, location, concept and the type and quality of food. We also face intense competition for real estate sites, qualified management personnel, and hourly restaurant staff.

Our success depends substantially on the value of our brand and our reputation for offering guests an unparalleled guest experience.

We believe we have built a strong reputation for the quality and breadth of our menu items as part of the total experience that guests enjoy in our restaurants. We believe we must protect and grow the value of our brand to continue to be successful in the future. Any incident that erodes consumer trust in or affinity for our brand could significantly reduce its value. If consumers perceive or experience a reduction in food quality, service, or ambiance, or in any way believe we failed to deliver a consistently positive experience, our brand value could suffer.

Our inability to successfully and sufficiently raise menu prices could result in a decline in profitability.

We utilize menu price increases to help offset cost increases, including increased cost for commodities, minimum wages, employee benefits, insurance arrangements, construction, utilities, and other key operating costs. If our selection and amount of menu price increases are not accepted by consumers and reduce guest traffic, or are insufficient to counter increased costs, our financial results could be harmed.

A reduction in vendor allowances currently received could affect our costs of goods sold.

During fiscal 2011, 2010, and 2009, vendor allowances were recorded as a reduction in inventoriable costs, and cost of sales was reduced by \$7.0 million, \$6.4 million, and \$6.0 million, respectively. If the amount of vendor allowances is reduced, inventoriable costs may increase, as may the cost of sales.

Our quarterly operating results may fluctuate due to the timing of special events and other factors, including the recognition of impairment losses.

Our quarterly operating results depend, in part, on special events, such as the Super Bowl[®] and other sporting events viewed by our guests in our restaurants such as the NFL, MLB, NBA, NHL, and NCAA. Interruptions in the viewing of these professional and collegiate sporting league events due to strikes, lockouts, or labor disputes may impact our results. Additionally, our results are subject to fluctuations based on the dates of sporting events and their availability for viewing through broadcast, satellite and cable networks. Historically, sales in most of our restaurants have been higher during fall and winter months based on the relative popularity and extent of national, regional and local sporting and other events. Further, our quarterly operating results may fluctuate significantly because of other factors, including:

- Increases or decreases in same-store sales;
- Fluctuations in food costs, particularly chicken wings;
- The timing of new restaurant openings, which may impact margins due to the related preopening costs and initially higher restaurant level operating expense ratios;
- Profitability of our restaurants, particularly in new markets;
- Potential distraction or unusual expenses associated with our expansion into international markets;
- Our ability to operate effectively in new markets in which we or our franchisees have limited operating experience;
- Labor availability and costs for hourly and management personnel;

- Changes in competitive factors;
- Disruption in supplies;
- General economic conditions, consumer confidence, and fluctuations in discretionary spending;
- Claims experience for self-insurance programs;
- Increases or decreases in labor or other variable expenses;
- The impact of inclement weather, natural disasters, and other calamities;
- Fluctuations in interest rates;
- The timing and amount of asset impairment loss and restaurant closing charges; and
- Tax expenses and other non-operating costs.

As a result of the factors discussed above, our quarterly and annual operating results may fluctuate significantly. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year. These fluctuations may cause future operating results to fall below the expectations of securities analysts and shareholders. In that event, the price of our common stock would likely decrease.

We may not be able to attract and retain qualified Team Members and key executives to operate and manage our business.

Our success and the success of our individual restaurants and business depends on our ability to attract, motivate, develop and retain a sufficient number of qualified key executives and restaurant employees, including restaurant managers, and hourly Team Members. The inability to recruit, develop and retain these individuals may delay the planned openings of new restaurants or result in high employee turnover in existing restaurants, thus increasing the cost to efficiently operate our restaurants. This could inhibit our expansion plans and business performance and, to the extent that a labor shortage may force us to pay higher wages, harm our profitability. The loss of any of our executive officers could jeopardize our ability to meet our financial targets.

We may not be able to obtain and maintain licenses and permits necessary to operate our restaurants.

The restaurant industry is subject to various federal, state, and local government regulations, including those relating to the sale of food and alcoholic beverages. In addition, we are subject to gaming regulations with respect to our gaming operations within our nine company-owned restaurants in Las Vegas. The failure to obtain and maintain these licenses, permits and approvals, including food, liquor and gaming licenses, could adversely affect our operating results. Difficulties or failure to obtain the required licenses and approvals could delay or result in our decision to cancel the opening of new restaurants. Local authorities may revoke, suspend, or deny renewal of our food and liquor licenses if they determine that our conduct violates applicable regulations.

Unfavorable publicity could harm our business.

Multi-unit restaurant businesses such as ours can be adversely affected by publicity resulting from complaints or litigation or general publicity regarding poor food quality, food-borne illness, personal injury, food tampering, adverse health effects of consumption of various food products or high-calorie foods (including obesity), or other concerns. Negative publicity from traditional media or on-line social network postings may also result from actual or alleged incidents or events taking place in our restaurants. Regardless of whether the allegations or complaints are valid, unfavorable publicity relating to a number of our restaurants, or only to a single restaurant, could adversely affect public perception of the entire brand. Adverse publicity and its effect on overall consumer perceptions of food safety, or our failure to respond effectively to adverse publicity, could have a material adverse effect on our business.

The sale of alcoholic beverages at our restaurants subjects us to additional regulations and potential liability.

Because our restaurants sell alcoholic beverages, we are required to comply with the alcohol licensing requirements of the federal government, states and municipalities where our restaurants are located. Alcoholic beverage control regulations require applications to state authorities and, in certain locations, county and municipal authorities for a license and permit to sell alcoholic beverages on the premises and to provide service for extended hours and on Sundays. Typically, the licenses are renewed annually and may be revoked or suspended for cause at any time. Alcoholic beverage control regulations relate to numerous aspects of the daily operations of the restaurants, including minimum age of guests and employees, hours of operation, advertising, wholesale purchasing, inventory control and handling, storage and dispensing of alcoholic beverages. If we fail to comply with federal, state or local regulations, our licenses may be revoked and we may be forced to terminate the sale of alcoholic beverages at one or more of our restaurants. Further, growing movements to change laws relating to alcohol may result in a decline in alcohol consumption at our restaurants or increase the number of dram shop claims made against us, either of which may negatively impact operations or result in the loss of liquor licenses.

In certain states we are subject to “dram shop” statutes, which generally allow a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. Some dram shop litigation against restaurant companies has resulted in significant judgments, including punitive damages.

Changes in employment laws or regulation could harm our performance.

Various federal and state labor laws govern our relationship with our employees and affect operating costs. These laws include minimum wage requirements, overtime pay, healthcare reform, unemployment tax rates, workers’ compensation rates, citizenship requirements, union membership, and sales taxes. A number of factors could adversely affect our operating results, including additional government-imposed increases in minimum wages, overtime pay, paid leaves of absence and mandated health benefits, mandated training for employees, increased tax reporting and tax payment requirements for employees who receive tips, a reduction in the number of states that allow tips to be credited toward minimum wage requirements, changing regulations from the National Labor Relations Board and increased employee litigation including claims relating to the Fair Labor Standards Act.

The Americans with Disabilities Act is a federal law that prohibits discrimination on the basis of disability in public accommodations and employment. Although our restaurants are designed to be accessible to the disabled, we could be required to make modifications to our restaurants to provide service to, or make reasonable accommodations for disabled persons.

Changes in consumer preferences or discretionary consumer spending could harm our performance.

Our success depends, in part, upon the continued popularity of our Buffalo, New York-style chicken wings, our boneless wings, other food and beverage items, and appeal of sports bars and casual dining restaurants. We also depend on trends toward consumers eating away from home. Shifts in these consumer preferences could negatively affect our future profitability. Such shifts could be based on health concerns related to the cholesterol, carbohydrate, fat, calorie, or salt content of certain food items, including items featured on our menu. Negative publicity over the health aspects of such food items may adversely affect consumer demand for our menu items and could result in a decrease in guest traffic to our restaurants, which could materially harm our business. In addition, we will be required to disclose calorie counts for all food items on our menus, due to federal regulations, and this may have an effect on consumers’ eating habits. Other federal regulations could follow this pattern. In addition, our success depends to a significant extent on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. A decline in consumer spending or in economic conditions could reduce guest traffic or impose practical limits on pricing, either of which could harm our business, financial condition, operating results or cash flow.

A regional or global health pandemic could severely affect our business.

A health pandemic is a disease outbreak that spreads rapidly and widely by infection and affects many individuals in an area or population at the same time. If a regional or global health pandemic were to occur, depending upon its duration and severity, our business could be severely affected. We have positioned our brand as a place where people can gather together. Customers might avoid public gathering places in the event of a health pandemic, and local, regional or national governments might limit or ban public gatherings to halt or delay the spread of disease. A regional or global health pandemic might also adversely impact our business by disrupting or delaying production and delivery of materials and products in its supply chain and by causing staffing shortages in our restaurants. The impact of a health pandemic might be disproportionately greater than on other companies that depend less on the gathering of people together for the sale or use of their products and services.

The acquisition of existing restaurants from our franchisees or other acquisitions may have unanticipated consequences that could harm our business and our financial condition.

We may seek to selectively acquire existing restaurants from our franchisees or other restaurants. To do so, we would need to identify suitable acquisition candidates, negotiate acceptable acquisition terms and obtain appropriate financing. Any acquisition that we pursue, whether or not successfully completed, may involve risks, including:

- Material adverse effects on our operating results, particularly in the fiscal quarters immediately following the acquisition as the acquired restaurants are integrated into our operations;
- Risks associated with entering into markets or conducting operations where we have no or limited prior experience;
- Problems maintaining key personnel;
- Potential impairment of tangible and intangible assets and goodwill acquired in the acquisition;
- Potential unknown liabilities;
- Difficulties of integration; and
- Disruption of our ongoing business, including diversion of management's attention from other business concerns.

Future acquisitions of existing restaurants from our franchisees or other acquisitions, which may be accomplished through a cash purchase transaction, the issuance of our equity securities or a combination of both, could result in potentially dilutive issuances of our equity securities, the incurrence of debt and contingent liabilities and impairment charges related to goodwill and other intangible assets, any of which could harm our business and financial condition.

There is volatility in our stock price.

The market for our stock has, from time to time, experienced extreme price and volume fluctuations. Factors such as announcements of variations in our quarterly financial results and fluctuations in same-store sales could cause the market price of our stock to fluctuate significantly. In addition, the stock market in general, and the market prices for restaurant companies in particular, have experienced volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the price of our stock, regardless of our operating performance. Additionally, volatility or a lack of positive performance in our stock price may adversely affect our ability to retain key employees, many of whom have been granted equity compensation.

The market price of our stock can be influenced by stockholders' expectations about the ability of our business to grow and to achieve certain profitability targets. If our financial performance in a particular quarter does not meet the expectations of our stockholders, it may adversely affect their views concerning our growth potential and future financial performance. In addition, if the securities analysts who regularly follow our stock lower their ratings of our stock, the market price of our stock is likely to drop significantly.

We may be subject to increased labor and insurance costs.

Our restaurant operations are subject to federal and state laws governing such matters as minimum wages, working conditions, overtime, and tip credits. As federal and state minimum wage rates increase, we may need to increase not only the wages of our minimum wage employees, but also the wages paid to employees at wage rates that are above minimum wage. Labor shortages, increased employee turnover, and health care mandates could also increase our labor costs. This, in turn, could lead us to increase prices which could impact our sales. Conversely, if competitive pressures or other factors prevent us from offsetting increased labor costs by increases in prices, our profitability may decline. In addition, the current premiums that we pay for our insurance (including workers' compensation, general liability, property, health, and directors' and officers' liability) may increase at any time, thereby further increasing our costs. The dollar amount of claims that we actually experience under our workers' compensation and general liability insurance, for which we carry high per-claim deductibles, may also increase at any time, thereby further increasing our costs. Also, the decreased availability of property and liability insurance has the potential to negatively impact the cost of premiums and the magnitude of uninsured losses.

Our current insurance may not provide adequate levels of coverage against claims.

We currently maintain insurance customary for businesses of our size and type. However, there are types of losses we may incur that cannot be insured against or that we believe are not economically reasonable to insure, such as losses due to natural disasters. Such damages could have a material adverse effect on our business and results of operations.

We are dependent on information technology and any material failure of that technology could impair our ability to efficiently operate our business.

We rely on information systems across our operations, including, for example, point-of-sale processing in our restaurants, management of our supply chain, collection of cash, payment of obligations, and various other processes and procedures. Our ability to efficiently manage our business depends significantly on the reliability and capacity of these systems. The failure of these systems to operate effectively, problems with maintenance, upgrading or transitioning to replacement systems, or a breach in security of these systems could cause delays in customer service and reduce efficiency in our operations. Significant capital investments might be required to remediate any problems.

If we are unable to maintain our rights to use key technologies of third parties, our business may be harmed.

We rely on certain technology licensed from third parties, and may be required to license additional technology in the future for use in managing our Internet sites and providing related services to users and advertising customers. These third-party technology licenses may not continue to be available to us on acceptable commercial terms or at all. The inability to enter into and maintain any of these technology licenses could significantly harm our business, financial condition and operating results.

We may not be able to protect our trademarks, service marks or trade secrets.

We place considerable value on our trademarks, service marks and trade secrets. We actively enforce and defend our marks and if violations are identified, take appropriate action to preserve and protect our goodwill in our marks. We attempt to protect our sauce recipes as trade secrets by, among other things, requiring confidentiality agreements with our sauce suppliers and executive officers. However, we cannot be sure that we will be able to successfully enforce our rights under our marks or prevent competitors from misappropriating our sauce recipes. We can also not be sure that: (i) our marks are valuable, (ii) using our marks does not, or will not, violate others' marks, (iii) the registrations of our marks would be upheld if challenged, or (iv) we would not be prevented from using our marks in areas of the country where others might have already established rights to them. Any of these uncertainties could have an adverse effect on us and our expansion strategy.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We are headquartered in Minneapolis, Minnesota. Our home office has approximately 44,000 square feet of office space. We occupy this facility under a lease that terminates on November 30, 2017, with an option to renew for one five-year term. As of December 25, 2011, we owned and operated 319 restaurants. We typically lease the land and building for our sites. The majority of our existing leases are for 10 or 15-year terms, generally including options to extend the terms. We typically lease our restaurant facilities under "triple net" leases that require us to pay minimum rent, real estate taxes, maintenance costs and insurance premiums and, in some instances, percentage rent based on sales in excess of specified amounts. Most of our leases include "exclusive use" provisions prohibiting our landlords from leasing space to other restaurants that fall within certain specified criteria. Under our franchise agreements, we have certain rights to gain control of a restaurant site in the event of default under the lease or franchise agreement. The following table sets forth the states and provinces in which Buffalo Wild Wings restaurants are located and the number of restaurants in each state or province as of December 25, 2011:

	Number of Restaurants Open		
	Company-owned	Franchised	Total
United States:			
Alabama	1	10	11
Arizona	4	9	13
Arkansas	—	6	6
California	11	24	35

Colorado	17	2	19
Connecticut	—	7	7
Delaware	—	5	5
Florida	4	26	30
Georgia	11	1	12
Hawaii	—	1	1
Idaho	—	4	4
Illinois	13	46	59
Indiana	7	42	49
Iowa	14	1	15
Kansas	9	—	9
Kentucky	12	5	17
Louisiana	—	11	11
Maine	—	2	2
Maryland	1	11	12
Massachusetts	—	3	3
Michigan	—	43	43
Minnesota	23	5	28
Mississippi	2	7	9
Missouri	7	20	27
Montana	—	4	4
Nebraska	6	2	8
Nevada	9	1	10
New Hampshire	—	1	1
New Jersey	2	4	6
New Mexico	—	3	3
New York	10	11	21
North Carolina	14	4	18
North Dakota	—	5	5
Ohio	32	53	85
Oklahoma	—	14	14
Oregon	—	7	7
Pennsylvania	10	1	11
South Carolina	7	4	11
South Dakota	—	4	4
Tennessee	20	—	20
Texas	37	51	88
Vermont	—	1	1
Virginia	15	20	35
Washington	1	1	2
West Virginia	—	8	8
Wisconsin	16	8	24
Canada:			
Ontario	4	—	4
Total	<u>319</u>	<u>498</u>	<u>817</u>

ITEM 3. LEGAL PROCEEDINGS

Occasionally, we are a defendant in litigation arising in the ordinary course of our business, including claims arising from personal injuries, contract claims, franchise-related claims, dram shop claims, employment-related claims and claims from guests or employees alleging injury, illness or other food quality, health or operational concerns. To date, none of these types of litigation, most of which are typically covered by insurance, has had a material effect on us. We have insured and continue to insure against most of these types of claims. A judgment on any claim not covered by or in excess of our insurance coverage could adversely affect our financial condition or results of operations.

ITEM 4. MINING SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our Common Stock trades on the NASDAQ Global Market under the symbol "BWLD". The following table sets forth the high and low closing sale prices of our Common Stock.

	2011		2010	
	High	Low	High	Low
First Quarter	\$ 56.76	42.78	\$ 49.53	39.89
Second Quarter	63.52	53.75	52.61	35.67
Third Quarter	69.31	52.44	48.14	35.25
Fourth Quarter	68.24	56.30	50.08	44.46

Holders

As of February 10, 2012, there were approximately 145 record holders of our Common Stock, excluding shareholders whose stock is held either in nominee name and/or street name brokerage accounts. Based on information which we have obtained from our transfer agent, there are approximately 31,570 holders of our Common Stock whose stock is held either in nominee name and/or street name brokerage accounts.

Dividends

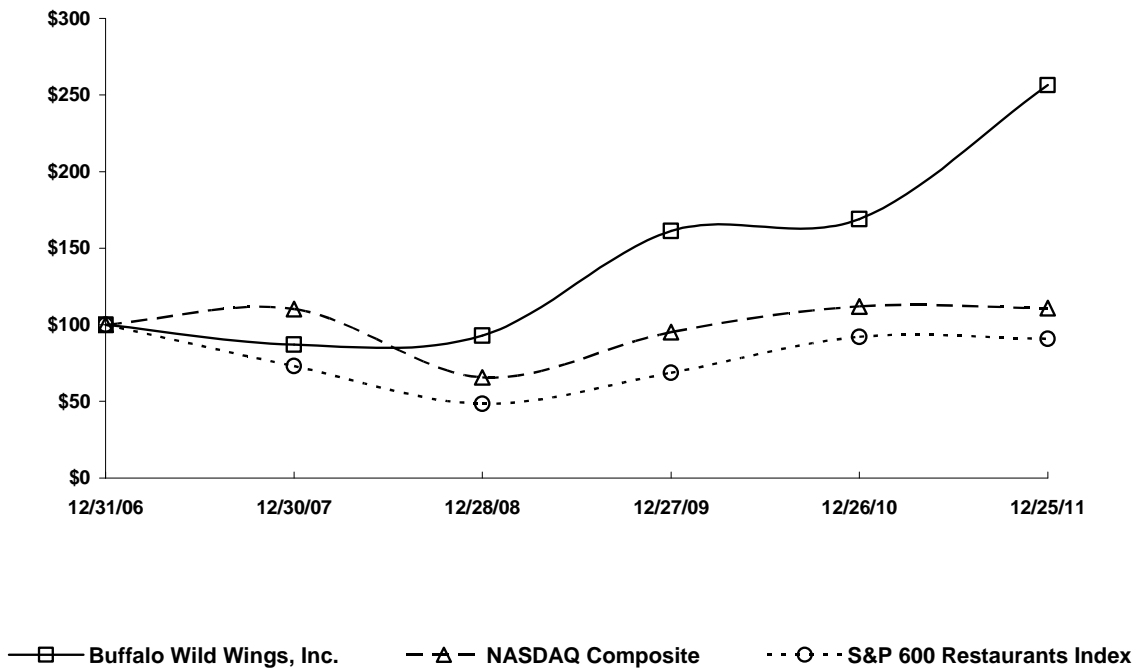
We have never declared or paid cash dividends on our Common Stock. It is our policy to preserve cash for development and other working capital needs and, therefore, do not currently have plans to pay any cash dividends. Our future dividend policy will be determined by our Board of Directors and will depend on various factors, including our results of operations, financial condition, anticipated cash needs and plans for expansion.

Stock Performance Chart

The following graph compares the yearly percentage change in the cumulative total shareholder return on our Common Stock for the five-year period ended December 25, 2011 with the cumulative total return on the Nasdaq Composite and the S&P 600 Restaurants Index. The comparison assumes \$100 was invested in Buffalo Wild Wings Common Stock on December 31, 2006, and in each of the foregoing indices on December 31, 2006 and assumes reinvestment of dividends.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Buffalo Wild Wings, Inc., the NASDAQ Composite Index, and S&P 600 Restaurants Index



*\$100 invested on 12/31/06 in stock or index, including reinvestment of dividends. Indexes calculated on month-end basis.

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	12/31/06	12/30/07	12/28/08	12/27/09	12/26/10	12/25/11
Buffalo Wild Wings, Inc.	100.00	86.99	92.93	161.35	169.06	256.54
NASDAQ Composite	100.00	110.26	65.65	95.19	112.10	110.81
S&P 600 Restaurants	100.00	73.01	48.55	68.69	92.23	90.88

The preceding stock performance chart is furnished and not filed with the Securities and Exchange Commission. Notwithstanding anything to the contrary set forth in any of our previous filings made under the Securities Act of 1933 or the Securities Exchange Act of 1934 that incorporate future filings made by us under those statutes, the above stock performance chart is not to be incorporated by reference in any prior filings, nor shall it be incorporated by reference into any future filings made by us under those statutes.

ITEM 6. SELECTED FINANCIAL DATA

The following summary information should be read in conjunction with the Consolidated Financial Statements and related notes thereto set forth in Item 8 of this Form 10-K.

	Fiscal Years Ended (1)				
	Dec. 25, 2011	Dec. 26, 2010	Dec. 27, 2009	Dec. 28, 2008	Dec. 30, 2007
	(in thousands, except share and per share data)				
Consolidated Statements of Earnings Data:					
Revenue:					
Restaurant sales	\$ 717,395	555,184	488,702	379,686	292,824
Franchise royalties and fees	67,083	58,072	50,222	42,731	36,828
Total revenue	<u>784,478</u>	<u>613,256</u>	<u>538,924</u>	<u>422,417</u>	<u>329,652</u>
Costs and expenses:					
Restaurant operating costs:					
Cost of sales	203,291	160,877	147,659	113,266	90,065
Labor	215,649	167,193	146,555	114,609	87,784
Operating	109,654	88,694	76,358	60,205	47,974
Occupancy	44,005	36,501	32,362	25,157	19,986
Depreciation and amortization	49,913	39,205	32,605	23,622	16,987
General and administrative	72,689	53,996	49,404	40,151	35,740
Preopening	14,564	8,398	7,702	7,930	4,520
Loss on asset disposals and store closures	1,929	2,051	1,928	2,083	987
Total costs and expenses	<u>711,694</u>	<u>556,915</u>	<u>494,573</u>	<u>387,023</u>	<u>304,043</u>
Income from operations	72,784	56,341	44,351	35,394	25,609
Investment income	118	684	1,077	970	2,909
Earnings before income taxes	72,902	57,025	45,428	36,364	28,518
Income tax expense	22,476	18,625	14,757	11,929	8,864
Net earnings	<u>\$ 50,246</u>	<u>38,400</u>	<u>30,671</u>	<u>24,435</u>	<u>19,654</u>
Earnings per common share – basic	\$ 2.75	2.11	1.70	1.37	1.12
Earnings per common share – diluted	2.73	2.10	1.69	1.36	1.10
Weighted average shares outstanding – basic	18,337,000	18,175,000	18,010,000	17,813,000	17,554,000
Weighted average shares outstanding – diluted	18,483,000	18,270,000	18,177,000	17,995,000	17,833,000
Consolidated Statements of Cash Flow Data:					
Net cash provided by operating activities	\$ 148,260	89,699	79,286	66,107	43,579
Net cash used in investing activities	(146,682)	(85,226)	(79,172)	(60,134)	(54,687)
Net cash provided by financing activities	3,690	1,265	1,119	853	873

	As Of (1)				
	Dec. 25, 2011	Dec. 26, 2010	Dec. 27, 2009	Dec. 28, 2008	Dec. 30, 2007
	(in thousands)				
Consolidated Balance Sheets Data:					
Total current assets	\$ 139,245	134,204	98,523	68,568	84,506
Total assets	495,359	380,357	309,073	243,818	197,098
Total current liabilities	114,270	79,116	66,704	48,202	32,490
Total liabilities	177,373	123,536	99,240	72,225	55,433
Retained earnings	204,772	154,346	115,946	85,275	60,840
Total stockholders' equity	317,986	256,821	209,833	171,593	141,665

(1) We utilize a 52- or 53-week accounting period that ends on the last Sunday in December. Each of the fiscal years in the five years ended December 25, 2011 were comprised of 52 weeks. Our next 53-week year will occur in 2012.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes. This discussion and analysis contains certain statements that are not historical facts, including, among others, those relating to our anticipated financial performance for fiscal 2012, cash requirements, and our expected restaurant openings. Such statements are forward-looking and speak only as of the date on which they are made. There are risks and uncertainties including those discussed in Item 1A of this 10-K under "Risk Factors." Information included in this discussion and analysis includes commentary on company-owned and franchised restaurant units, restaurant sales, same-store sales, and average weekly sales volumes. Management believes such sales information is an important measure of our performance, and is useful in assessing consumer acceptance of the Buffalo Wild Wings® Grill & Bar concept and the overall health of the concept. Franchise information also provides an understanding of our revenues because franchise royalties and fees are based on the opening of franchised units and their sales. However, franchise sales and same-store sales information does not represent sales in accordance with U. S. Generally Accepted Accounting Principles (GAAP), should not be considered in isolation or as a substitute for other measures of performance prepared in accordance with GAAP and may not be comparable to financial information as defined or used by other companies.

Overview

As of December 25, 2011, we owned and operated 319 and franchised an additional 498 Buffalo Wild Wings Grill & Bar® restaurants in North America. We believe that we will grow the Buffalo Wild Wings brand to about 1,500 locations in North America, continuing the strategy of developing both company-owned and franchised restaurants.

We believe we will have 60 company-owned and 50 franchised restaurant openings in 2012 and have set an annual net earnings growth goal of 20%. Our growth and success depend on several factors and trends. First, we will continue our focus on trends in company-owned and franchised same-store sales as an indicator of the continued acceptance of our concept by consumers. We also review the overall trend in average weekly sales as an indicator of our ability to increase the sales volume and, therefore, cash flow per location. We remain committed to high quality operations and guest hospitality.

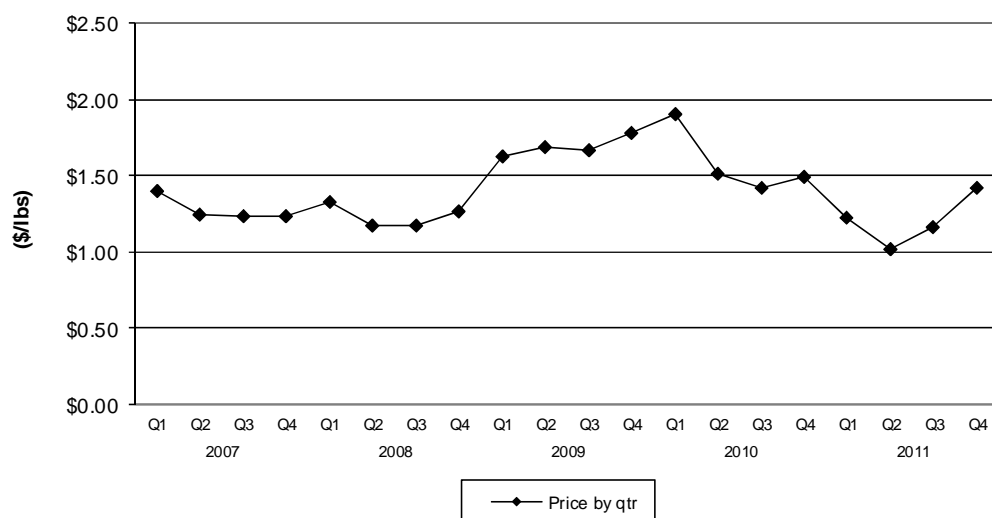
Our revenue is generated by:

- Sales at our company-owned restaurants, which represented 91% of total revenue in 2011. Food and nonalcoholic beverages accounted for 76% of restaurant sales. The remaining 24% of restaurant sales was from alcoholic beverages. The menu items with the highest sales volumes are traditional and boneless wings at 20% and 19%, respectively, of total restaurant sales.
- Royalties and franchise fees received from our franchisees.

A second factor is our success in developing restaurants in new markets. There are inherent risks in opening new restaurants, especially in new markets, including the lack of experience, logistical support, and brand awareness. These factors may result in lower than anticipated sales and cash flow for restaurants in new markets along with higher preopening costs. We believe our focus on our new restaurant opening procedures, along with our expanding North American presence, will help to mitigate the overall risk associated with opening restaurants in new markets.

Third, we continue to monitor and react to changes in our cost of goods sold. The costs of goods sold is difficult to predict, as it ranged from 27.2% to 30.6% of restaurant sales per quarter in 2011 and 2010, mostly due to the price fluctuation in chicken wings. We work to counteract the volatility of chicken wing prices with the introduction of new menu items, marketing promotions, focused efforts on food costs and waste, and menu price increases. We will continue to monitor the cost of chicken wings, as it can significantly change our cost of sales and cash flow from company-owned restaurants. We continue to explore purchasing strategies to lessen the severity of cost increases and fluctuations, and are reviewing menu additions and other strategies that may decrease the percentage that chicken wings represent in terms of total restaurant sales. We are currently purchasing chicken wings at market prices. The market price for traditional wings reached its lowest price in several years during the second quarter of 2011. The market price trended substantially higher toward the end of 2011. The chart below illustrates the fluctuation in chicken wing prices from quarter to quarter in the last five years.

Average Quarterly Wing Prices 2007-2011



We generate cash from the operation of our company-owned restaurants and from franchise royalties and fees. We highlight the specific costs associated with the on-going operation of our company-owned restaurants in the consolidated statement of earnings under “Restaurant operating costs.” Our depreciation and amortization expense consists of depreciation on assets used by our company-owned restaurants and amortization of reacquired franchise rights. Preopening costs are those costs associated with opening new company-owned restaurants and will vary annually based on the number of new locations opening and under construction and the markets we enter. Loss on asset disposals and store closures expense is related to company-owned restaurants and includes the costs associated with closures of locations and normal asset retirements. General and administrative expenses are related to home office and field support provided to both company-owned restaurants and franchising operations.

We operate on a 52 or 53-week fiscal year ending on the last Sunday in December. Each of the fiscal years in the five years ended December 25, 2011 were 52-week years. Our next 53-week year will occur in 2012.

Critical Accounting Estimates

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements, which were prepared in accordance with GAAP. Critical accounting policies are those that we believe are both important to the portrayal of our financial condition and results and require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

We believe that the following discussion represents our more critical accounting policies and estimates used in the preparation of our consolidated financial statements, although it is not all inclusive.

Valuation of Long-Lived Assets and Store Closing Reserves

We review long-lived assets quarterly to determine if triggering events have occurred which would require a test to determine if the carrying amount of these assets may not be recoverable based on estimated future cash flows. Assets are reviewed at the lowest level for which cash flows can be identified, which is at the individual restaurant level. In the absence of extraordinary circumstances, restaurants are included in the impairment analysis after they have been open for 15 months. We evaluate the recoverability of a restaurant’s long-lived assets, including intangibles, leasehold improvements, equipment and fixtures over the remaining life of the primary asset in the asset group, after considering the potential impact of planned operational improvements, marketing programs, and anticipated changes in the trade area. In determining future cash flows, significant estimates are made by us with respect to future operating results of each restaurant over its remaining lease term. If assets are determined to be impaired, the impairment charge is measured by calculating the amount by which the asset carrying amount exceeds its fair value based on our estimate of discounted future cash flows. The determination of asset fair

value is also subject to significant judgment. During fiscal 2009 we recognized \$237,000 of asset impairment charges. No impairments were recognized in fiscal 2011 or 2010.

In addition to the valuation of long-lived assets, we also record a store closing reserve when a restaurant is abandoned due to closure or relocation. The store closing reserve is subject to significant judgment as accruals are made for lease obligations on abandoned leased facilities. Many factors, including the local business environment, other available lease sites, the willingness of lessors to negotiate lease buyouts, and the ability to sublease our sites are considered in making the accruals. We estimate future lease obligations based on these factors and evaluate quarterly the adequacy of the estimated reserve based on current market conditions. During 2011, 2010, and 2009, we recorded expenses of \$205,000, \$310,000, and \$31,000, respectively, for restaurants that closed.

Goodwill

We review goodwill for impairment annually, or whenever circumstances change in a way which could indicate that impairment may have occurred. Goodwill is tested at the reporting unit level.

We identify potential goodwill impairments by comparing the fair value of the reporting unit to its carrying amount, which includes goodwill and other intangible assets. The fair value of the reporting unit is calculated using a market approach. This amount is compared to the carrying value of the reporting entity, including goodwill.

If the carrying amount of the reporting unit exceeds the fair value, this is an indication that impairment may exist. We calculate the amount of the impairment by comparing the fair value of the assets and liabilities to the fair value of the reporting unit. The fair value of the reporting unit in excess of the value of the assets and liabilities is the implied fair value of the goodwill. If this amount is less than the carrying amount of goodwill, impairment is recognized for the difference. As of December 25, 2011, our analysis of the fair value of our goodwill substantially exceeded the carrying value and therefore we concluded that our goodwill was not impaired. No goodwill impairment charges were recognized during 2011, 2010, or 2009.

Vendor Allowances

Vendor allowances include allowances and other funds received from vendors. Certain of these funds are determined based on various quantitative contract terms. We also receive vendor allowances from certain manufacturers and distributors calculated based upon purchases made by franchisees. Amounts that represent a reimbursement of costs incurred, such as advertising, are recorded as a reduction of the related expense. Amounts that represent a reduction of inventory purchase costs are recorded as a reduction of inventoriable costs. We record an estimate of earned vendor allowances that are calculated based upon monthly purchases. We generally receive payment from vendors approximately 30 days after the end of a month for that month's purchases. During fiscal 2011, 2010, and 2009, vendor allowances were recorded as a reduction in inventoriable costs, and cost of sales was reduced by \$7.0 million, \$6.4 million, and \$6.0 million, respectively.

Revenue Recognition — Franchise Operations

Our franchise agreements have terms ranging from 10 to 20 years. These agreements also convey extension terms of 5 or 10 years depending on contract terms and if certain conditions are met. We provide training, preopening assistance and restaurant operating assistance in exchange for area development fees, franchise fees and royalties of 5% of the franchised restaurant's sales. Franchise fee revenue from individual franchise sales is recognized upon the opening of the restaurant when we have performed all of our material obligations and initial services. Area development fees are dependent upon the number of restaurants granted in the agreement as are our obligations under the area development agreement. Consequently, as our obligations are met, area development fees are recognized in relation to the expenses incurred with the opening of each new restaurant and any royalty-free periods. Royalties are accrued as earned and are calculated each period based on reported franchisees' sales.

Self-Insurance Liability

We are self-insured for a significant portion of our risks and associated liabilities with respect to workers' compensation, general liability, and employee health benefits. The accrued liabilities associated with these programs are based on our estimate of the ultimate costs to settle known claims as well as claims that may have arisen but have not yet been reported to us as of the balance sheet date. Our estimated liabilities are not discounted and are based on information provided by our insurance brokers and insurers, combined with our judgments regarding a number of assumptions and factors, including the frequency and severity of claims, and claims development history. We maintain stop-loss coverage with third-party insurers to limit our total exposure for each of these programs. Significant judgment is required to estimate claims incurred but not reported as parties have yet to assert such claims. If actual claims trends, including the frequency or severity of claims, differ from our estimates, our financial results could be impacted.

Stock-Based Compensation

We account for stock-based compensation in accordance with the fair value recognition provisions, under which we use the Black-Scholes-Merton pricing model, which requires the input of subjective assumptions. These assumptions include the expected life of the options, expected volatility over the expected term, the risk-free interest rate, and the expected forfeitures.

Compensation expense for restricted stock units is recognized for the expected number of shares vesting at the end of each annual period. Restricted stock units granted in 2011, 2010 and 2009 are subject to three-year cliff vesting and a cumulative three-year earnings target. The number of units that vest is based on performance against the target. Stock-based compensation is recognized for the expected number of shares vesting at the end of the three-year period and is expensed over that period. For these restricted stock unit grants, significant assumptions are made to estimate the expected net earnings levels for future years.

Results of Operations

Our operating results for 2011, 2010, and 2009, are expressed below as a percentage of total revenue, except for the components of restaurant operating costs, which are expressed as a percentage of restaurant sales.

	Fiscal Years Ended		
	Dec. 25, 2011	Dec. 26, 2010	Dec. 27, 2009
Revenue:			
Restaurant sales	91.4%	90.5%	90.7%
Franchise royalties and fees	8.6	9.5	9.3
Total revenue	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Costs and expenses:			
Restaurant operating costs:			
Cost of sales	28.3	29.0	30.2
Labor	30.1	30.1	30.0
Operating	15.3	16.0	15.6
Occupancy	6.1	6.6	6.6
Depreciation and amortization	6.4	6.4	6.1
General and administrative	9.3	8.8	9.2
Preopening	1.9	1.4	1.4
Loss on asset disposals and store closures	0.2	0.3	0.4
Total costs and expenses	<u>90.7</u>	<u>90.8</u>	<u>91.8</u>
Income from operations	9.3	9.2	8.2
Investment income	—	0.1	0.2
Earnings before income taxes	9.3	9.3	8.4
Income tax expense	2.9	3.0	2.7
Net earnings	<u>6.4%</u>	<u>6.3%</u>	<u>5.7%</u>

The number of company-owned and franchised restaurants open are as follows:

	As of		
	Dec. 25, 2011	Dec. 26, 2010	Dec. 27, 2009
Company-owned restaurants	319	259	232
Franchised restaurants	498	473	420

The restaurant sales for company-owned and franchised restaurants are as follows (amounts in thousands):

	Fiscal Years Ended		
	Dec. 25, 2011	Dec. 26, 2010	Dec. 27, 2009
Company-owned restaurant sales	\$ 717,395	555,184	488,702
Franchised restaurant sales	1,326,213	1,147,848	992,043

Increases in comparable same-store sales are as follows (based on restaurants operating at least fifteen months):

	Fiscal Years Ended		
	Dec. 25, 2011	Dec. 26, 2010	Dec. 27, 2009
Company-owned same-store sales	6.1%	0.6%	3.1%
Franchised same-store sales	3.6	(0.2)	3.4

The annual average prices paid per pound for chicken wings for company-owned restaurants are as follows:

	Fiscal Years Ended		
	Dec. 25, 2011	Dec. 26, 2010	Dec. 27, 2009
Average price per pound	\$ 1.21	1.58	1.70

Fiscal Year 2011 Compared to Fiscal Year 2010

Restaurant sales increased by \$162.2 million, or 29.2%, to \$717.4 million in 2011 from \$555.2 million in 2010. The increase in restaurant sales was due to a \$131.2 million increase associated with 50 new company-owned restaurants that opened in 2011, 18 franchised locations that were acquired in 2011 and 84 company-owned restaurants opened before 2011 that did not meet the criteria for same-store sales for all or part of the year, and \$31.1 million related to a 6.1% increase in same-store sales.

Franchise royalties and fees increased by \$9.0 million, or 15.5%, to \$67.1 million in 2011 from \$58.1 million in 2010. The increase was due primarily to additional royalties collected from the 53 new franchised restaurants that opened in 2011 and a full year of operations for the 60 franchised restaurants that opened in 2010. Same-store sales for franchised restaurants increased 3.6% in 2011.

Cost of sales increased by \$42.4 million, or 26.4%, to \$203.3 million in 2011 from \$160.9 million in 2010 due primarily to more restaurants being operated in 2011. Cost of sales as a percentage of restaurant sales decreased to 28.3% in 2011 from 29.0% in 2010, primarily due to lower chicken wing prices partially offset by a sales mix shift to appetizers. In 2011, the cost of chicken wings averaged \$1.21 per pound which was a 23.4% decrease compared to 2010.

Labor expenses increased by \$48.5 million, or 29.0%, to \$215.6 million in 2011 from \$167.2 million in 2010 due primarily to more restaurants being operated in 2011. Labor expenses as a percentage of restaurant sales remained steady at 30.1% in 2011 and 2010. Cost of labor as a percentage of restaurant sales was primarily affected by higher hourly labor costs partially offset by lower management labor costs.

Operating expenses increased by \$21.0 million, or 23.6%, to \$109.7 million in 2011 from \$88.7 million in 2010 due primarily to more restaurants being operated in 2011. Operating expenses as a percentage of restaurant sales decreased to 15.3% in 2011 from 16.0% in 2010. The decrease in operating expenses as a percentage of restaurant sales was primarily due to lower utility and insurance costs.

Occupancy expenses increased by \$7.5 million, or 20.6%, to \$44.0 million in 2011 from \$36.5 million in 2010 due primarily to more restaurants being operated in 2011. Occupancy expenses as a percentage of restaurant sales decreased to

6.1% in 2011 from 6.6% in 2010 due primarily to leveraging rent costs with higher sales and a shift toward more company-owned buildings.

Depreciation and amortization increased by \$10.7 million, or 27.3%, to \$49.9 million in 2011 from \$39.2 million in 2010. The increase was primarily due to the additional depreciation on 50 new restaurants that opened in 2011, 18 franchised locations that were acquired in 2011, and 35 new restaurants opened in 2010 and operated for a full year in 2011. Depreciation and amortization expense as a percentage of total revenue remained steady at 6.4% in 2011 and 2010 due primarily to leveraging costs with higher sales offset by higher depreciation on company-owned buildings and amortization related to reacquired franchise rights.

General and administrative expenses increased by \$18.7 million, or 34.6%, to \$72.7 million in 2011 from \$54.0 million in 2010. General and administrative expenses as a percentage of total revenue increased to 9.3% in 2011 from 8.8% in 2010. Exclusive of stock-based compensation, our general and administrative expenses increased to 7.8% of total revenue in 2011 from 7.5% in 2010. This increase was primarily due to higher cash incentive expense.

Preopening costs increased by \$6.2 million, or 73.4%, to \$14.6 million in 2011 from \$8.4 million in 2010. In 2011, we incurred costs of \$13.4 million for 50 new company-owned restaurants and costs of \$1.1 million for restaurants that will open in 2012. In 2010, we incurred costs of \$8.0 million for 35 new company-owned restaurants and costs of \$390,000 for restaurants that opened in 2011. Average preopening cost per restaurant in 2011 and 2010 was \$275,000 and \$235,000, respectively. The higher per restaurant costs in 2011 were due to additional costs for expansion into new markets.

Loss on asset disposals and store closures decreased by \$122,000 to \$1.9 million in 2011 from \$2.1 million in 2010. The expense in 2011 represented the closures costs for eight closed or relocated restaurants of \$205,000, and the write-off of miscellaneous equipment and disposals due to remodels. The expense in 2010 represented the closure costs for eight closed or relocated restaurants of \$310,000, and the write-off of miscellaneous equipment and disposals due to remodels.

Investment income decreased by \$566,000 to \$118,000 in 2011 from \$684,000 in 2010. The majority of our investments were in short-term municipal securities. The decrease in investment income was due to a loss on investments held for a deferred compensation plan and lower rates of return on investments. Cash and marketable securities balances at the end of the year were \$60.5 million in 2011 compared to \$72.1 million in 2010.

Provision for income taxes increased \$3.9 million to \$22.5 million in 2011 from \$18.6 million in 2010. The effective tax rate as a percentage of income before taxes decreased to 30.8% in 2011 from 32.7% in 2010. The rate decrease was primarily due to higher employment-related Federal tax credits.

Fiscal Year 2010 Compared to Fiscal Year 2009

Restaurant sales increased by \$66.5 million, or 13.6%, to \$555.2 million in 2010 from \$488.7 million in 2009. The increase in restaurant sales was due to a \$63.8 million increase associated with the opening of 35 new company-owned restaurants in 2010 and the 65 company-owned restaurants opened before 2010 that did not meet the criteria for same-store sales for all, or part, of the year. A same-store sales increase of 0.6% accounted for \$2.6 million of the increase in restaurant sales.

Franchise royalties and fees increased by \$7.9 million, or 15.6%, to \$58.1 million in 2010 from \$50.2 million in 2009. The increase was due primarily to additional royalties collected from the 60 new franchised restaurants that opened in 2010 and a full year of operations for the 59 franchised restaurants that opened in 2009. Same-store sales for franchised restaurants decreased 0.2%.

Cost of sales increased by \$13.2 million, or 9.0%, to \$160.9 million in 2010 from \$147.7 million in 2009 due primarily to more restaurants being operated in 2010. Cost of sales as a percentage of restaurant sales decreased to 29.0% in 2010 from 30.2% in 2009, primarily due to lower chicken wing prices. In 2010, chicken wings averaged \$1.58 per pound which was a 7% decrease compared to 2009. Traditional wings decreased to 20.3% of our restaurant sales in 2010 from 20.4% in 2009. However, boneless wings, which are a better margin item than traditional wings, increased to 18.8% of our restaurant sales in 2010 from 18.3% in 2009.

Labor expenses increased by \$20.6 million, or 14.1%, to \$167.2 million in 2010 from \$146.6 million in 2009 due primarily to more restaurants being operated in 2010. Labor expenses as a percentage of restaurant sales increased to 30.1% in 2010 compared to 30.0% in 2009. The increase in labor expenses as a percentage of restaurant sales is primarily due to higher management and hourly labor costs partially offset by lower health insurance costs.

Operating expenses increased by \$12.3 million, or 16.2%, to \$88.7 million in 2010 from \$76.4 million in 2009 due primarily to more restaurants being operated in 2010. Operating expenses as a percentage of restaurant sales increased to

16.0% in 2010 from 15.6% in 2009. The increase in operating expenses as a percentage of restaurant sales was primarily due to additional costs related to pay-per-view sporting events.

Occupancy expenses increased by \$4.1 million, or 12.8%, to \$36.5 million in 2010 from \$32.4 million in 2009 due primarily to more restaurants being operated in 2010. Occupancy expenses as a percentage of restaurant sales remained consistent at 6.6% in 2010 and 2009.

Depreciation and amortization increased by \$6.6 million, or 20.2%, to \$39.2 million in 2010 from \$32.6 million in 2009. The increase was primarily due to the additional depreciation on 35 new restaurants in 2010 and 36 new restaurants opened in 2009 and operated for a full year in 2010.

General and administrative expenses increased by \$4.6 million, or 9.3%, to \$54.0 million in 2010 from \$49.4 million in 2009. General and administrative expenses as a percentage of total revenue decreased to 8.8% in 2010 from 9.2% in 2009. Exclusive of stock-based compensation, our general and administrative expenses decreased to 7.5% of total revenue in 2010 from 8.0% in 2009. This decrease was primarily due to lower cash incentive expense and better leverage of our wage-related expenses, partially offset by higher professional fees and travel costs.

Preopening costs increased by \$696,000, or 9.0%, to \$8.4 million in 2010 from \$7.7 million in 2009. In 2010, we incurred costs of \$8.0 million for 35 new company-owned restaurants and costs of \$390,000 for restaurants that will open in 2011. In 2009, we incurred costs of \$7.4 million for 36 new company-owned restaurants and costs of \$242,000 for restaurants that opened in 2010. Average preopening cost per restaurant in 2010 and 2009 was \$235,000 and \$220,000, respectively.

Loss on asset disposals and store closures increased by \$123,000 to \$2.1 million in 2010 from \$1.9 million in 2009. The expense in 2010 represented the closure costs for eight closed or relocated restaurants of \$310,000, and \$1.7 million for the write-off of miscellaneous equipment. During 2009, we impaired the assets of one underperforming restaurant for \$237,000, incurred \$31,000 for the closure of one restaurant, and incurred costs of \$1.6 million for the write-off of miscellaneous equipment.

Investment income decreased by \$393,000 to \$684,000 in 2010 from \$1.1 million in 2009. The majority of our investments were in short-term municipal securities. The decrease in investment income was primarily due to lower earnings on investments held for a deferred compensation plan and lower rates of return on investments. Cash and marketable securities balances at the end of the year were \$72.1 million in 2010 compared to \$53.2 million in 2009.

Provision for income taxes increased \$3.9 million to \$18.6 million in 2010 from \$14.8 million in 2009. The effective tax rate as a percentage of income before taxes increased to 32.7% in 2010 from 32.5% in 2009. The rate increase was primarily due to an increase in state income taxes.

Liquidity and Capital Resources

Our primary liquidity and capital requirements have been for constructing, remodeling and maintaining our new and existing company-owned restaurants; working capital; acquisitions; and other general business needs. We fund these expenses, except for acquisitions, primarily with cash from operations. Depending on the size of the transaction, acquisitions would generally be funded from cash and marketable securities balances. The cash and marketable securities balance at December 25, 2011 was \$60.5 million. We invest our cash balances in debt securities with the focus on protection of principal, adequate liquidity and return on investment based on risk. As of December 25, 2011, nearly all excess cash was invested in high quality municipal securities.

During fiscal 2011, 2010, and 2009, net cash provided by operating activities was \$148.3 million, \$89.7 million, and \$79.3 million, respectively. Net cash provided by operating activities in 2011 consisted primarily of net earnings adjusted for non-cash expenses and an increase in accounts payable and accrued expenses. The increase in accounts payable was primarily due to an increase in the number of restaurants and the timing of payments. The increase in accrued expenses was due to higher payroll-related costs including incentive compensation and wages.

Net cash provided by operating activities in 2010 consisted primarily of net earnings adjusted for non-cash expenses and an increase in accounts payable partially offset by an increase in refundable income taxes and trading securities. The increase in accounts payable was primarily due to an increase in the number of restaurants and the timing of payments. The increase in refundable income taxes was due to benefits received from tax laws changed in late 2010. The increase in trading securities was due to additional contributions to and investment returns on our deferred compensation plan.

Net cash provided by operating activities in 2009 consisted primarily of net earnings adjusted for non-cash expenses and an increase in accrued expenses partially offset by an increase in accounts receivable and trading securities. The increase in accrued expenses was primarily due to increased payroll related costs including wages, incentive compensation, and deferred compensation costs. The increase in accounts receivable was primarily due to the timing of payments received related to credit cards and royalties which was affected by the Christmas holiday. The increase in trading securities was due to additional contributions to our deferred compensation plan.

Net cash used in investing activities for 2011, 2010, and 2009, was \$146.7 million, \$85.2 million, and \$79.2 million, respectively. Investing activities included acquisitions of property and equipment related to the opening of new company-owned restaurants and restaurants under construction in all periods. In 2011, we opened 50 new restaurants and purchased 18 franchised restaurants. In 2010 we opened 35 new restaurants. In 2009 we opened 36 new restaurants. In 2012, we expect capital expenditures of approximately \$121.6 million for the cost of 60 new or relocated company-owned restaurants, \$10.0 million for technology improvements on our restaurant and corporate systems, and \$20.0 million for capital expenditures at existing restaurants. In 2011, we purchased \$97.1 million of marketable securities and received proceeds of \$114.3 million as marketable securities matured or were sold. In 2010, we purchased \$99.2 million of marketable securities and received proceeds of \$87.3 million as investments in marketable securities matured or were sold. In 2009, we purchased \$57.0 million of marketable securities and received proceeds of \$51.6 million as investments in marketable securities matured or were sold.

Net cash provided by financing activities for 2011, 2010, and 2009, was \$3.7 million, \$1.3 million, and \$1.1 million, respectively. Net cash provided by financing activities for 2011 resulted primarily from the issuance of common stock for options exercised and employee stock purchases of \$1.7 million and excess tax benefits for stock issuance of \$4.5 million partially offset by tax payments for restricted stock units issuances of \$2.5 million. Net cash provided by financing activities for 2010 resulted primarily from the issuance of common stock for options exercised and employee stock purchases of \$1.4 million and excess tax benefits for restricted stock unit issuances of \$1.5 million partially offset by tax payments for restricted stock units of \$1.6 million. Net cash provided by financing activities for 2009 resulted primarily from the issuance of common stock for options exercised and employee stock purchases of \$1.2 million and excess tax benefits for restricted stock unit issuances of \$1.5 million partially offset by tax payments for restricted stock units of \$1.5 million. No additional funding from the issuance of common stock (other than from the exercise of options and employee stock purchases) is anticipated in 2012.

Our liquidity is impacted by minimum cash payment commitments resulting from operating lease obligations for our restaurants and our corporate offices. Lease terms are generally 10 to 15 years with renewal options and generally require us to pay a proportionate share of real estate taxes, insurance, common area maintenance and other operating costs. Some restaurant leases provide for contingent rental payments based on sales thresholds. We own the buildings in which 64 of our restaurants operate and therefore have the limited ability to enter into sale-leaseback transactions as a potential source of cash.

The following table presents a summary of our contractual operating lease obligations and commitments as of December 25, 2011:

	Total	Payments Due By Period (in thousands)			After 5 years
		Less than one year	1-3 years	3-5 years	
Operating lease obligations	\$ 362,088	39,856	76,636	71,149	174,447
Commitments for restaurants under development	60,964	2,457	7,398	7,407	43,702
Total	\$ 423,052	42,313	84,034	78,556	218,149

We believe the cash flows from our operating activities and our balance of cash and marketable securities will be sufficient to fund our operations and building commitments and meet our obligations in the foreseeable future. Our future cash outflows related to income tax uncertainties amount to \$733,000 as of December 25, 2011. These amounts are excluded from the contractual obligations table due to the high degree of uncertainty regarding the timing of these liabilities.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05 "Presentation of Comprehensive Income." ASU 2011-05 amends ASC 220 Comprehensive Income to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The guidance requires entities to report the components of comprehensive income in either a single,

continuous statement or two separate but consecutive statements. We have determined that the guidance will not have a material impact to our consolidated financial statements. The guidance will become effective for our fiscal year ending December 30, 2012.

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-08 "Intangibles – Goodwill and Other." ASU 2011-08 amends ASC 350 Intangibles – Goodwill and Other to simplify how an entity tests goodwill for impairment. The guidance allows companies to assess qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test. We have determined that the guidance will not have a material impact to our consolidated financial statements. The guidance was early adopted and became effective for our fiscal year ending December 25, 2011.

Impact of Inflation

In the last three years we have not operated in a period of high general inflation; however, the cost of commodities, labor and certain utilities have generally increased or experienced price volatility. Our restaurant operations are subject to federal and state minimum wage laws governing such matters as working conditions, overtime and tip credits. Significant numbers of our food service and preparation personnel are paid at rates related to the federal and/or state minimum wage and, accordingly, increases in the minimum wage have increased our labor costs in the last three years. In addition, costs associated with our operating leases, such as taxes, maintenance, repairs and insurance, are often subject to upward pressure. To the extent permitted by competition, we have mitigated increased costs by increasing menu prices and may continue to do so if deemed necessary in future years.

Quarterly Results of Operations

The following table sets forth, by quarter, the unaudited quarterly results of operations for the two most recent years, as well as the same data expressed as a percentage of our total revenue for the periods presented. Restaurant operating costs are expressed as a percentage of restaurant sales. The information for each quarter is unaudited and we have prepared it on the same basis as the audited financial statements appearing elsewhere in this document. In the opinion of management, all necessary adjustments, consisting only of normal recurring adjustments, have been included to present fairly the unaudited quarterly results. All amounts, except per share amounts, are expressed in thousands.

Quarterly and annual operating results may fluctuate significantly as a result of a variety of factors, including increases or decreases in same-store sales, changes in commodity prices, the timing and number of new restaurant openings and related preopening expenses, asset impairment charges, store closing charges, general economic conditions, stock-based compensation, and seasonal fluctuations. As a result, our results of operations are not necessarily indicative of the results that may be achieved for any future period.

Results of Quarterly Operations (unaudited)

	<u>Mar. 28, 2010</u>	<u>Jun. 27, 2010</u>	<u>Sep. 26, 2010</u>	<u>Dec. 26, 2010</u>	<u>Mar. 27, 2011</u>	<u>Jun. 26, 2011</u>	<u>Sep. 25, 2011</u>	<u>Dec. 25, 2011</u>
Revenue:								
Restaurant sales	137,962	131,531	136,953	148,738	165,527	167,896	181,036	202,936
Franchise royalties and fees	14,309	14,170	14,395	15,198	16,623	16,205	16,727	17,528
Total revenue	<u>152,271</u>	<u>145,701</u>	<u>151,348</u>	<u>163,936</u>	<u>182,150</u>	<u>184,101</u>	<u>197,763</u>	<u>220,464</u>
Costs and expenses:								
Restaurant operating costs:								
Cost of sales	42,224	37,601	38,232	42,820	46,264	45,735	51,655	59,637
Labor	40,685	40,089	41,995	44,424	48,878	51,309	54,783	60,679
Operating	21,455	21,173	22,835	23,231	24,549	25,048	28,537	31,520
Occupancy	8,910	8,807	9,131	9,653	10,227	10,659	11,195	11,924
Depreciation and amortization	9,550	9,456	9,766	10,433	11,022	11,931	12,748	14,212
General and administrative	12,026	12,929	14,003	15,038	16,292	18,766	18,336	19,295
Preopening	1,115	1,197	2,789	3,297	2,387	4,116	3,864	4,197
Loss on asset disposals and store closures	411	526	682	432	411	492	612	414
Total costs and expenses	<u>136,376</u>	<u>131,778</u>	<u>139,433</u>	<u>149,328</u>	<u>160,030</u>	<u>168,056</u>	<u>181,730</u>	<u>201,878</u>
Income from operations	15,895	13,923	11,915	14,608	22,120	16,045	16,033	18,586
Investment income (loss)	185	(156)	305	350	356	(152)	(374)	288
Earnings before income taxes	16,080	13,767	12,220	14,958	22,476	15,893	15,659	18,874
Income tax expense	5,519	4,601	3,716	4,789	7,615	5,220	4,393	5,248
Net earnings	<u>10,561</u>	<u>9,166</u>	<u>8,504</u>	<u>10,169</u>	<u>14,861</u>	<u>10,673</u>	<u>11,266</u>	<u>13,626</u>
Earnings per common share – basic	0.58	0.50	0.47	0.56	0.81	0.58	0.61	0.74
Earnings per common share – diluted	0.58	0.50	0.47	0.55	0.81	0.58	0.61	0.73
Weighted average shares outstanding – basic	18,147	18,167	18,187	18,200	18,306	18,330	18,352	18,361
Weighted average shares outstanding – diluted	18,229	18,234	18,253	18,363	18,375	18,401	18,520	18,633

Results of Quarterly Operations (unaudited)

	<u>Mar. 28, 2010</u>	<u>Jun. 27, 2010</u>	<u>Sep. 26, 2010</u>	<u>Dec. 26, 2010</u>	<u>Mar. 27, 2011</u>	<u>Jun. 26, 2011</u>	<u>Sep. 25, 2011</u>	<u>Dec. 25, 2011</u>
Revenue:								
Restaurant sales	90.6%	90.3%	90.5%	90.7%	90.9%	91.2%	91.5%	92.0%
Franchise royalties and fees	9.4	9.7	9.5	9.3	9.1	8.8	8.5	8.0
Total revenue	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Costs and expenses:								
Restaurant operating costs:								
Cost of sales	30.6	28.6	27.9	28.8	27.9	27.2	28.5	29.4
Labor	29.5	30.5	30.7	29.9	29.5	30.6	30.3	29.9
Operating	15.6	16.1	16.7	15.6	14.8	14.9	15.8	15.5
Occupancy	6.5	6.7	6.7	6.5	6.2	6.3	6.2	5.9
Depreciation and amortization	6.3	6.5	6.5	6.4	6.1	6.5	6.4	6.4
General and administrative	7.9	8.9	9.3	9.2	8.9	10.2	9.3	8.8
Preopening	0.7	0.8	1.8	2.0	1.3	2.2	2.0	1.9
Loss on asset disposals and store closures	0.3	0.4	0.5	0.3	0.2	0.3	0.3	0.2
Total costs and expenses	<u>89.6</u>	<u>90.4</u>	<u>92.1</u>	<u>91.1</u>	<u>87.9</u>	<u>91.3</u>	<u>91.9</u>	<u>91.6</u>
Income from operations	10.4	9.6	7.9	8.9	12.1	8.7	8.1	8.4
Investment income (loss)	0.1	(0.1)	0.2	0.2	0.2	(0.1)	(0.2)	0.1
Earnings before income taxes	10.6	9.4	8.1	9.1	12.3	8.6	7.9	8.6
Income tax expense	3.6	3.2	2.5	2.9	4.2	2.8	2.2	2.4
Net earnings	<u>6.9%</u>	<u>6.3%</u>	<u>5.6%</u>	<u>6.2%</u>	<u>8.2%</u>	<u>5.8%</u>	<u>5.7%</u>	<u>6.2%</u>

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to international market risk related to our cash and cash equivalents and marketable securities. We invest our excess cash in highly liquid short-term investments with maturities of less than one year. These investments are not held for trading or other speculative purposes. We invest with a strategy focused on principal preservation. Changes in interest rates affect the investment income we earn on our cash and cash equivalents and marketable securities and, therefore, impact our cash flows and results of operations. We also have trading securities, which are held to generate returns that seek to offset changes in liabilities related to the equity market risk of our deferred compensation arrangements.

Financial Instruments

Financial instruments that potentially subject us to concentrations of credit risk consist principally of municipal securities. We do not believe there is a significant risk of non-performance by these municipalities because of our investment policy restrictions as to acceptable investment vehicles.

Inflation

The primary inflationary factors affecting our operations are food, labor, and restaurant operating costs. Substantial increases in these costs in any country that we operate in could impact operating results to the extent that such increases cannot be passed along through higher menu prices. A large number of our restaurant personnel are paid at rates based on the applicable federal and state minimum wages, and increases in the minimum wage rates and tip-credit wage rates could directly affect our labor costs. Many of our leases require us to pay taxes, maintenance, repairs, insurance and utilities, all of which are generally subject to inflationary increases.

Commodity Price Risk

Many of the food products purchased by us are affected by weather, production, availability and other factors outside our control. We believe that almost all of our food and supplies are available from several sources, which helps to control food product and supply risks. We negotiate directly with independent suppliers for our supply of food and other products. Domestically, we use members of UniPro Food Services, Inc., a national cooperative of independent food distributors, to distribute these products from the suppliers to our restaurants. We have minimum purchase requirements with some of our vendors, but the terms of the contracts and nature of the products are such that our purchase requirements do not create a market risk. The primary food product used by company-owned and franchised restaurants is chicken wings. We work to counteract the effect of the volatility of chicken wing prices, which can significantly change our cost of sales and cash flow, with the introduction of new menu items, effective marketing promotions, focused efforts on food costs and waste, and menu price increases. We also explore purchasing strategies to reduce the severity of cost increases and fluctuations. We currently purchase our chicken wings at market prices. Chicken wings accounted for approximately 19%, 24%, and 25% of our cost of sales in 2011, 2010, and 2009, respectively, with an annual average price per pound of \$1.21, \$1.58, and \$1.70, respectively. A 10% increase in traditional chicken wing costs during 2011, would have increased restaurant cost of sales by approximately \$3.8 million for fiscal 2011. Additional information related to chicken wing prices and our approaches to managing the volatility thereof is included in Item 7 under "Results of Operations."

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

For supplemental information regarding quarterly results of operations, refer to Item 7, “Results of Quarterly Operations.”

BUFFALO WILD WINGS, INC.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Buffalo Wild Wings, Inc.:

We have audited the accompanying consolidated balance sheets of Buffalo Wild Wings, Inc. and subsidiaries as of December 25, 2011 and December 26, 2010, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the fiscal years in the three-year period ended December 25, 2011. In connection with our audits of the consolidated financial statements, we have also audited the accompanying financial statement schedule for each of the fiscal years in the three-year period ended December 25, 2011. We also have audited Buffalo Wild Wings, Inc.'s internal control over financial reporting as of December 25, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Buffalo Wild Wings, Inc.'s management is responsible for these consolidated financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Buffalo Wild Wings, Inc. and subsidiaries as of December 25, 2011 and December 26, 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 25, 2011, in conformity with U.S. generally accepted accounting principles. In our opinion, the accompanying financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also in our opinion, Buffalo Wild Wings, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 25, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ KPMG LLP

Minneapolis, Minnesota
February 21, 2012

BUFFALO WILD WINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 25, 2011 and December 26, 2010
(Dollar amounts in thousands)

	<u>December 25,</u> <u>2011</u>	<u>December 26,</u> <u>2010</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 20,530	15,309
Marketable securities	39,956	56,827
Accounts receivable, net of allowance of \$25	12,165	9,033
Inventory	6,311	4,158
Prepaid expenses	3,707	3,505
Refundable income taxes	7,561	6,366
Deferred income taxes	6,323	6,069
Restricted assets	42,692	32,937
Total current assets	<u>139,245</u>	<u>134,204</u>
Property and equipment, net	310,170	224,970
Other assets	28,174	9,937
Goodwill	17,770	11,246
Total assets	<u>\$ 495,359</u>	<u>380,357</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Unearned franchise fees	\$ 1,852	2,109
Accounts payable	30,089	17,632
Accrued compensation and benefits	30,499	19,324
Accrued expenses	7,580	5,696
Current portion of deferred lease credits	—	293
System-wide payables	44,250	34,062
Total current liabilities	<u>114,270</u>	<u>79,116</u>
Long-term liabilities:		
Other liabilities	1,544	1,574
Deferred income taxes	38,512	24,557
Deferred lease credits, net of current portion	23,047	18,289
Total liabilities	<u>177,373</u>	<u>123,536</u>
Commitments and contingencies (notes 6 and 15)		
Stockholders' equity:		
Undesignated stock, 1,000,000 shares authorized, none issued	—	—
Common stock, no par value. Authorized 44,000,000 shares; issued and outstanding 18,377,920 and 18,214,065, respectively	113,509	102,484
Retained earnings	204,772	154,346
Accumulated other comprehensive loss	(295)	(9)
Total stockholders' equity	<u>317,986</u>	<u>256,821</u>
Total liabilities and stockholders' equity	<u>\$ 495,359</u>	<u>380,357</u>

See accompanying notes to consolidated financial statements.

BUFFALO WILD WINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
Fiscal years ended December 25, 2011, December 26, 2010, and December 27, 2009
(Amounts in thousands except per share data)

	Fiscal years ended		
	December 25, 2011	December 26, 2010	December 27, 2009
Revenue:			
Restaurant sales	\$ 717,395	555,184	488,702
Franchise royalties and fees	67,083	58,072	50,222
Total revenue	<u>784,478</u>	<u>613,256</u>	<u>538,924</u>
Costs and expenses:			
Restaurant operating costs:			
Cost of sales	203,291	160,877	147,659
Labor	215,649	167,193	146,555
Operating	109,654	88,694	76,358
Occupancy	44,005	36,501	32,362
Depreciation and amortization	49,913	39,205	32,605
General and administrative	72,689	53,996	49,404
Preopening	14,564	8,398	7,702
Loss on asset disposals and store closures	1,929	2,051	1,928
Total costs and expenses	<u>711,694</u>	<u>556,915</u>	<u>494,573</u>
Income from operations	72,784	56,341	44,351
Investment income	118	684	1,077
Earnings before income taxes	<u>72,902</u>	<u>57,025</u>	<u>45,428</u>
Income tax expense	22,476	18,625	14,757
Net earnings	<u>\$ 50,426</u>	<u>38,400</u>	<u>30,671</u>
Earnings per common share – basic	\$ 2.75	2.11	1.70
Earnings per common share – diluted	\$ 2.73	2.10	1.69
Weighted average shares outstanding – basic	18,337	18,175	18,010
Weighted average shares outstanding – diluted	18,483	18,270	18,177

See accompanying notes to consolidated financial statements.

BUFFALO WILD WINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Fiscal years ended December 25, 2011, December 26, 2010, and December 27, 2009
(Dollar amounts in thousands)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
	Shares	Amount			
Balance at December 28, 2008	17,887,271	\$ 86,318	85,275	—	\$171,593
Net earnings	—	—	30,671	—	30,671
Shares issued under employee stock purchase plan	48,237	1,096	—	—	1,096
Shares issued from restricted stock units	155,394	—	—	—	—
Units effectively repurchased for required employee withholding taxes	(49,633)	(1,553)	—	—	(1,553)
Exercise of stock options	13,106	83	—	—	83
Tax benefit from stock issued	—	1,453	—	—	1,453
Stock-based compensation	—	6,490	—	—	6,490
Balance at December 27, 2009	18,054,375	93,887	115,946	—	209,833
Net earnings	—	—	38,400	—	38,400
Other comprehensive loss	—	—	—	(9)	(9)
Comprehensive income	—	—	—	—	38,391
Shares issued under employee stock purchase plan	36,049	1,186	—	—	1,186
Shares issued from restricted stock units	134,819	—	—	—	—
Units effectively repurchased for required employee withholding taxes	(37,038)	(2,005)	—	—	(2,005)
Exercise of stock options	25,860	229	—	—	229
Tax benefit from stock issued	—	1,475	—	—	1,475
Stock-based compensation	—	7,712	—	—	7,712
Balance at December 26, 2010	18,214,065	102,484	154,346	(9)	256,821
Net earnings	—	—	50,426	—	50,426
Other comprehensive loss	—	—	—	(286)	(286)
Comprehensive income	—	—	—	—	50,140
Shares issued under employee stock purchase plan	30,127	1,373	—	—	1,373
Shares issued from restricted stock units	142,797	—	—	—	—
Units effectively repurchased for required employee withholding taxes	(45,539)	(6,530)	—	—	(6,530)
Exercise of stock options	36,470	337	—	—	337
Tax benefit from stock issued	—	4,462	—	—	4,462
Stock-based compensation	—	11,383	—	—	11,383
Balance at December 25, 2011	<u>18,377,920</u>	<u>\$ 113,509</u>	<u>204,772</u>	<u>(295)</u>	<u>\$317,986</u>

See accompanying notes to consolidated financial statements.

BUFFALO WILD WINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Fiscal years ended December 25, 2011, December 26, 2010, and December 27, 2009
(Dollar amounts in thousands)

	Fiscal years ended		
	December 25, 2011	December 26, 2010	December 27, 2009
Cash flows from operating activities:			
Net earnings	\$ 50,426	38,400	30,671
Adjustments to reconcile net earnings to cash provided by operations:			
Depreciation	49,003	38,591	31,993
Amortization	910	614	612
Loss on asset disposals and store closures	1,680	1,835	1,928
Deferred lease credits	3,632	2,217	2,181
Deferred income taxes	12,816	6,486	4,817
Stock-based compensation	11,383	7,712	6,490
Excess tax benefit from stock issuance	(4,462)	(1,475)	(1,453)
Change in operating assets and liabilities, net of effect of acquisition:			
Trading securities	(317)	(1,369)	(2,051)
Accounts receivable	(1,222)	(357)	(2,663)
Inventory	(1,840)	(514)	(540)
Prepaid expenses	20	(533)	322
Other assets	(2,550)	(885)	(490)
Unearned franchise fees	(257)	(597)	192
Accounts payable	17,676	1,898	1,150
Income taxes	3,267	(3,019)	1,192
Accrued expenses	8,095	695	4,935
Net cash provided by operating activities	<u>148,260</u>	<u>89,699</u>	<u>79,286</u>
Cash flows from investing activities:			
Purchase of property and equipment	(130,127)	(73,399)	(73,748)
Purchase of marketable securities	(97,148)	(99,165)	(57,024)
Proceeds of marketable securities	114,337	87,338	51,600
Acquisition of franchised restaurants	(33,744)	—	—
Net cash used in investing activities	<u>(146,682)</u>	<u>(85,226)</u>	<u>(79,172)</u>
Cash flows from financing activities:			
Issuance of common stock	1,709	1,415	1,179
Excess tax benefit from stock issuance	4,462	1,475	1,453
Tax payments for restricted stock units	(2,481)	(1,625)	(1,513)
Net cash provided by financing activities	<u>3,690</u>	<u>1,265</u>	<u>1,119</u>
Effect of exchange rate changes on cash and cash equivalents	(47)	(9)	—
Net increase in cash and cash equivalents	<u>5,221</u>	<u>5,729</u>	<u>1,233</u>
Cash and cash equivalents at beginning of year	15,309	9,580	8,347
Cash and cash equivalents at end of year	<u>\$ 20,530</u>	<u>15,309</u>	<u>9,580</u>

See accompanying notes to consolidated financial statements.

BUFFALO WILD WINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 25, 2011 and December 26, 2010 (Dollar amounts in thousands, except per-share amounts)

(1) Nature of Business and Summary of Significant Accounting Policies

(a) Nature of Business

References in these financial statement footnotes to “company”, “we”, “us”, and “our” refer to the business of Buffalo Wild Wings, Inc. and our subsidiaries. We were organized for the purpose of operating Buffalo Wild Wings® restaurants, as well as selling Buffalo Wild Wings restaurant franchises. In exchange for the initial and continuing franchise fees received, we give franchisees the right to use the name Buffalo Wild Wings. We operate as a single segment in North America for reporting purposes.

At December 25, 2011, December 26, 2010, and December 27, 2009, we operated 319, 259, and 232 company-owned restaurants, respectively, and had 498, 473, and 420 franchised restaurants, respectively.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of Buffalo Wild Wings, Inc. and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Our franchise and license arrangements provide our franchisee and licensee entities the power to direct the activities that most significantly impact their economic performance; therefore, we do not consider ourselves to be the primary beneficiary of any such entity that might be a variable interest entity. The renewal option terms in certain of our operating lease agreements give us a variable interest in the lessor entity, however we have concluded that we do not have the power to direct the activities that most significantly impact the lessor entities’ economic performance and as a result do not consider ourselves to be the primary beneficiary of such entities.

(c) Accounting Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) Fiscal Year

We utilize a 52- or 53-week accounting period that ends on the last Sunday in December. The fiscal years ended December 25, 2011, December 26, 2010, and December 27, 2009, comprised 52 weeks. Our next 53-week year will occur in 2012.

(e) Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less.

(f) Marketable Securities

Marketable securities consist of available-for-sale securities and trading securities that are carried at fair value and held-to-maturity securities that are stated at amortized cost, which approximates market.

Available-for-sale securities are classified as current assets based upon our intent and ability to use any and all of the securities as necessary to satisfy the operational requirements of our business. Realized gains and losses from the sale of available-for-sale securities were not material for fiscal 2011, 2010, and 2009. Unrealized losses are charged against net earnings when a decline in fair value is determined to be other than temporary. The available-for-sale investments carry short-term repricing features which generally result in these investments having a value at or near par value (cost).

BUFFALO WILD WINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 25, 2011 and December 26, 2010 (Dollar amounts in thousands, except per-share amounts)

Trading securities are stated at fair value, with gains or losses resulting from changes in fair value recognized currently in earnings as investment income. We have funded a deferred compensation plan using trading assets in a marketable equity portfolio. This portfolio is held to generate returns that seek to offset changes in liabilities related to the equity market risk of certain deferred compensation arrangements. These deferred compensation liabilities were \$5,153 and \$4,815 as of December 25, 2011 and December 26, 2010, respectively, and are included in accrued compensation and benefits in the accompanying consolidated balance sheets.

(g) Accounts Receivable

Accounts receivable consists primarily of contractually-determined receivables for leasehold improvements, credit cards, vendor allowances, and franchise royalties. Cash flows related to accounts receivable are classified in net cash provided by operating activities in the Consolidated Statements of Cash Flows.

(h) Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method. Cash flows related to inventory sales are classified in net cash provided by operating activities in the Consolidated Statements of Cash Flows.

We purchase products from a number of suppliers and believe there are alternative suppliers. We have minimum purchase commitments from some of our vendors but the terms of the contracts and nature of the products are such that purchase requirements do not create a market risk. The primary food product used by company-owned and franchised restaurants is chicken wings. Chicken wings are purchased by us at market prices. For fiscal 2011, 2010, and 2009, chicken wings were 19%, 24%, and 25%, of restaurant cost of sales, respectively.

(i) Property and Equipment

Property and equipment are recorded at cost. Leasehold improvements, which include the cost of improvements funded by landlord incentives or allowances, are amortized using the straight-line method over the lesser of the term of the lease, without consideration of renewal options, or the estimated useful lives of the assets, which typically range from five to ten years. Leasehold improvements related to remodels are depreciated using the straight-line method over the estimated useful life, which is typically 5 years. Buildings are depreciated using the straight-line method over the estimated useful life, which ranges from 10 to 20 years. Furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets, which range from two to eight years. Maintenance and repairs are expensed as incurred. Upon retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the respective accounts and the related gains or losses are credited or charged to earnings.

We review property and equipment, along with other long-lived assets, quarterly to determine if triggering events have occurred which would require a test to determine if the carrying value of these assets may not be recoverable based on estimated future undiscounted cash flows. Assets are reviewed at the lowest level for which cash flows can be identified, which is the individual restaurant level. In determining future cash flows, significant estimates are made by us with respect to future operating results of each restaurant over its remaining lease term. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Fair value is generally determined by estimated discounted future cash flows.

(j) Goodwill and Other Assets

Goodwill represents the excess of cost over the fair value of identified net assets of businesses acquired. Goodwill and indefinite-life purchased liquor licenses are subject to an annual impairment analysis. We identify potential impairments of goodwill by comparing the fair value of the reporting unit to its net book value, which includes goodwill and other intangible assets. The fair value of the reporting unit is calculated using a market approach. This amount is compared to the carrying value of the reporting unit. If the fair value of the reporting unit exceeds the carrying amount, the assets are not impaired. If the carrying amount exceeds the fair value, this is an indication that impairment may exist. We calculate the amount of the impairment by comparing the fair value of the assets and liabilities to the fair value of the reporting unit.

BUFFALO WILD WINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 25, 2011 and December 26, 2010 (Dollar amounts in thousands, except per-share amounts)

If the fair value of the asset is less than the carrying amount, impairment is recognized for the difference. All goodwill was considered recoverable as of December 25, 2011.

Other assets consist primarily of reacquired franchise rights and liquor licenses. Reacquired franchise rights are amortized over the life of the related franchise agreement. We evaluate reacquired franchise rights in conjunction with our impairment evaluation of long-lived assets. Liquor licenses are either amortized over their annual renewal period or, if purchased, are carried at the lower of fair value or cost. We identify potential impairments for liquor licenses by comparing the fair value with its carrying amount. If the fair value exceeds the carrying amount, the liquor licenses are not impaired. If the carrying amount exceeds the fair value, we calculate the possible impairment by comparing the fair value of the liquor licenses with the carrying amount. If the fair value of the asset is less than the carrying amount, an impairment is recorded. The carrying amount of the liquor licenses not subject to amortization as of December 25, 2011 and December 26, 2010 was \$2,455 and \$598, respectively, and is included in other assets in the accompanying consolidated balance sheets.

(k) Fair Values of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. We use a three-tier fair value hierarchy based upon observable and non-observable inputs that prioritizes the information used to develop our assumptions regarding fair value. Fair value measurements are separately disclosed by level within the fair value hierarchy.

The carrying value of cash and cash equivalents, accounts receivable, accounts payable, and other current assets and liabilities approximate fair value because of their short-term maturity.

(l) Asset Retirement Obligations

An asset retirement obligation associated with the retirement of a tangible long-lived asset is recognized as a liability in the period incurred or when it becomes determinable, with an associated increase in the carrying amount of the related long-lived asset. We must recognize a liability for the fair value of a conditional asset retirement obligation when incurred, if the liability's fair value can be reasonably estimated. Conditional asset retirement obligations are legal obligations to perform asset retirement activities when the timing and/or method of settlement are conditional on a future event or may not be within our control. Asset retirement costs are depreciated over the useful life of the related asset. As of December 25, 2011 and December 26, 2010, we had asset retirement obligations of \$304 and \$301, respectively.

(m) Foreign Currency

Our reporting currency is the U.S. dollar, while the functional currency of our Canadian operations is the Canadian dollar. Our assets and liabilities denominated in foreign currencies are translated at the rate of exchange on the balance sheet date. Revenues and expenses are translated using the average exchange rate for the period.

(n) Revenue Recognition

Franchise agreements have terms ranging from 10 to 20 years. These agreements also convey multiple extension terms of five or ten years, depending on contract terms and certain conditions that must be met. We provide the use of the Buffalo Wild Wings trademarks, system, training, preopening assistance, and restaurant operating assistance in exchange for area development fees, franchise fees, and royalties of 5% of a restaurant's sales.

Franchise fee revenue from individual franchise sales is recognized upon the opening of the franchised restaurant when all material obligations and initial services to be provided by us have been performed. Area development fees are dependent upon the number of restaurants in the territory, as are our obligations under the area development agreement. Consequently, as obligations are met, area development fees are recognized proportionally with expenses incurred with the opening of each new restaurant and any royalty-free periods. Royalties are accrued as earned and are calculated each period based on restaurant sales.

BUFFALO WILD WINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 25, 2011 and December 26, 2010 (Dollar amounts in thousands, except per-share amounts)

Sales from company-owned restaurant revenues are recognized as revenue at the point of the delivery of meals and services. All sales taxes are presented on a net basis and are excluded from revenue.

(o) Franchise Operations

We enter into franchise agreements with unrelated third parties to build and operate restaurants using the Buffalo Wild Wings brand within a defined geographical area. We believe that franchising is an effective and efficient means to expand the Buffalo Wild Wings brand. The franchisee is required to operate their restaurants in compliance with their franchise agreement that includes adherence to operating and quality control procedures established by us. We do not provide loans, leases, or guarantees to the franchisee or the franchisee's employees and vendors. If a franchisee becomes financially distressed, we do not provide financial assistance. If financial distress leads to a franchisee's noncompliance with the franchise agreement and we elect to terminate the franchise agreement, we have the right but not the obligation to acquire the assets of the franchisee at fair value as determined by an independent appraiser. We have financial exposure for the collection of the royalty payments. Franchisees generally remit royalty payments weekly for the prior week's sales, which substantially minimizes our financial exposure. Historically, we have experienced insignificant write-offs of franchisee royalties. Franchise and area development fees are paid upon the signing of the related agreements.

(p) Advertising Costs

Contributions from franchisees related to the national advertising fund constitute agency transactions and are not recognized as revenues and expenses. Related advertising obligations are accrued and the costs expensed at the same time the related contributions are recognized. These advertising fees are recorded as a liability against which specific costs are charged.

Contributions to the national advertising fund related to company-owned restaurants are expensed as contributed and local advertising costs for company-owned restaurants are expensed as incurred. These costs aggregated \$26,127, \$20,415, and \$17,758, in fiscal years 2011, 2010, and 2009, respectively.

(q) Preopening Costs

Costs associated with the opening of new company-owned restaurants are expensed as incurred.

(r) Payments Received from Vendors

Vendor allowances include allowances and other funds received from vendors. Certain of these funds are determined based on various quantitative contract terms. We also receive vendor allowances from certain manufacturers and distributors calculated based upon purchases made by franchisees. Amounts that represent a reimbursement of costs incurred, such as advertising, are recorded as a reduction of the related expense. Amounts that represent a reduction of inventory purchase costs are recorded as a reduction of inventoriable costs. We recorded an estimate of earned vendor allowances that are calculated based upon monthly purchases. We generally receive payment from vendors approximately 30 days from the end of a month for that month's purchases. During fiscal 2011, 2010, and 2009, vendor allowances were recorded as a reduction in inventoriable costs, and cost of sales was reduced by \$7,032, \$6,385, and \$5,985, respectively.

(s) Restricted Assets and System-wide Payables

We have a system-wide marketing and advertising fund. Company-owned and franchised restaurants are required to remit a designated portion of restaurant sales, to a separate advertising fund that is used for marketing and advertising efforts throughout the system. That amount was 3% of restaurant sales in all years presented. Certain payments received from various vendors are deposited into the national advertising fund. These funds are used for development and implementation of system-wide initiatives and programs. As of December 25, 2011 and December 26, 2010, the national advertising fund liability was \$20,586 and \$22,041, respectively.

BUFFALO WILD WINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 25, 2011 and December 26, 2010 (Dollar amounts in thousands, except per-share amounts)

We have a system-wide gift card fund which consists of a cash balance, which is restricted to funding of future gift card redemptions and gift card related costs, and a corresponding liability for those outstanding gift cards which we believe will be redeemed in the future. As of December 25, 2011 and December 26, 2010, the gift card liability was \$23,664 and \$11,436, respectively.

We account for the assets and liabilities of these funds as “restricted assets” and “system-wide payables” on our accompanying consolidated balance sheets.

(t) Earnings Per Common Share

Basic earnings per common share excludes dilution and is computed by dividing the net earnings available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share include dilutive common stock equivalents consisting of stock options determined by the treasury stock method. Restricted stock units are contingently issuable shares subject to vesting based on performance criteria. Vesting typically occurs in the fourth quarter of the year when income targets have been met. Upon vesting, the shares to be issued are included in the diluted earnings per share calculation as of the beginning of the period in which the vesting conditions are satisfied. Restricted stock units included in diluted earnings per share are net of the required minimum employee withholding taxes.

(u) Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the balance sheet carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Any effects of changes in income tax rates or law changes are included in the provision for income taxes in the period enacted. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized.

(v) Deferred Lease Credits

Deferred lease credits consist of reimbursement of costs of leasehold improvements from our lessors and adjustments to recognize rent expense on a straight-line basis. Reimbursements are amortized on a straight-line basis over the term of the applicable lease, without consideration of renewal options. Leases typically have an initial lease term of between 10 and 15 years and contain renewal options under which we may extend the terms for periods of three to five years. Certain leases contain rent escalation clauses that require higher rental payments in later years. Leases may also contain rent holidays, or free rent periods, during the lease term. Rent expense is recognized on a straight-line basis over the term of the lease commencing at the start of our construction period for the restaurant, without consideration of renewal options, unless renewals are reasonably assured because failure to renew would result in an economic penalty.

(w) Stock-Based Compensation

We maintain a stock equity incentive plan under which we may grant non-qualified stock options, incentive stock options, and restricted stock units to employees, non-employee directors and consultants. We also have an employee stock purchase plan (“ESPP”).

Stock-based compensation expense is recognized in the consolidated financial statements for granted, modified, or settled stock options and for expense related to the ESPP, since the related purchase discounts exceeded the amount allowed for non-compensatory treatment. Restricted stock units vesting upon the achievement of certain performance targets are expensed based on the fair value on the date of grant, net of estimated forfeitures. All stock-based compensation is recognized as general and administrative expense.

Total stock-based compensation expense recognized in the consolidated statement of earnings for fiscal year 2011 was \$11,383 before income taxes and consisted of restricted stock units, stock options, and employee stock purchase plan (ESPP) expense of \$9,985, \$920 and \$478, respectively. The related total tax benefit recognized in 2011 was \$3,929.

BUFFALO WILD WINGS, INC. AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
December 25, 2011 and December 26, 2010
(Dollar amounts in thousands, except per-share amounts)**

Total stock-based compensation expense recognized in the consolidated statement of earnings for fiscal year 2010 was \$7,712 before income taxes and consisted of restricted stock, stock options, and employee stock purchase plan (ESPP) expense of \$6,519, \$560 and \$633, respectively. The related total tax benefit recognized in 2010 was \$2,528.

Total stock-based compensation expense recognized in the consolidated statement of earnings for fiscal year 2009 was \$6,490 before income taxes and consisted of restricted stock, stock options, and employee stock purchase plan (ESPP) expense of \$5,769, \$392 and \$329, respectively. The related total tax benefit was \$2,298 during 2009.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes-Merton (“BSM”) option valuation model with the following assumptions:

	Stock Options		
	December 25, 2011	December 26, 2010	December 27, 2009
Expected dividend yield	0.0%	0.0%	0.0%
Expected stock price volatility	54.1%	54.4%	59.2%
Risk-free interest rate	2.2%	2.6%	2.0%
Expected life of options	5 years	5 years	5 years
	Employee Stock Purchase Plan		
	December 25, 2011	December 26, 2010	December 27, 2009
Expected dividend yield	0.0%	0.0%	0.0%
Expected stock price volatility	49.2-50.1%	50.0-50.6%	52.7-59.1%
Risk-free interest rate	0.04-0.07%	0.19-0.30%	0.17-0.30%
Expected life of options	0.5 years	0.5 years	0.5 years

The expected term of the options represents the estimated period of time until exercise and is based on historical experience of similar awards, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. Expected stock price volatility is based on historical volatility of our stock. The risk-free interest rate is based on the implied yield available on U.S. Treasury zero-coupon issues with an equivalent remaining term. We have not paid dividends in the past.

(x) New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05 “Presentation of Comprehensive Income.” ASU 2011-05 amends ASC 220 Comprehensive Income to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The guidance requires entities to report the components of comprehensive income in either a single, continuous statement or two separate but consecutive statements. We have determined that the guidance will not have a material impact to our consolidated financial statements. The guidance will become effective for our fiscal year ending December 30, 2012.

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-08 “Intangibles – Goodwill and Other.” ASU 2011-08 amends ASC 350 Intangibles – Goodwill and Other to simplify how an entity tests goodwill for impairment. The guidance allows companies to assess qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test. We have determined that the guidance will not have a material impact to our consolidated financial statements. The guidance was early adopted and became effective for our fiscal year ending December 25, 2011.

(y) Subsequent Events

There were no subsequent events that required recognition or disclosure.

BUFFALO WILD WINGS, INC. AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
December 25, 2011 and December 26, 2010
(Dollar amounts in thousands, except per-share amounts)**

(2) Fair Value Measurements

The guidance for fair value measurements establishes the authoritative definition of fair value, sets out a framework for measuring fair value, and outlines the required disclosures regarding fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. We use a three-tier fair value hierarchy based upon observable and non-observable inputs as follows:

- Level 1 – Observable inputs such as quoted prices in active markets;
- Level 2 – Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3 – Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The following table summarizes the financial instruments measured at fair value in our consolidated balance sheet as of December 25, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Cash Equivalents	\$ 10,103	1,500	—	11,603
Marketable Securities	5,304	—	—	5,304

The following table summarizes the financial instruments measured at fair value in our consolidated balance sheet as of December 26, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Cash Equivalents	\$ 2,608	—	—	2,608
Marketable Securities	4,987	11,949	—	16,936
Liabilities				
Derivatives	86	—	—	86

We classified a portion of our marketable securities as available-for-sale and trading securities which were reported at fair market value, using the ‘market approach’ valuation technique. The ‘market approach’ valuation method uses prices and other relevant information observable in market transactions involving identical or comparable assets. Our trading securities are valued using the Level 1 approach. Our cash equivalents include commercial paper and money market funds which are valued using Level 1 and Level 2 approaches.

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the fiscal years ended December 25, 2011, December 26, 2010, and December 27, 2009.

Our financial assets and liabilities requiring a fair-value measurement on a non-recurring basis were not significant as of December 25, 2011.

Assets and liabilities that are measured at fair value on a recurring basis

At December 25, 2011, we did not have any significant nonfinancial assets or liabilities that required a fair-value measurement on a recurring basis.

BUFFALO WILD WINGS, INC. AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
December 25, 2011 and December 26, 2010
(Dollar amounts in thousands, except per-share amounts)**

Assets and liabilities that are measured at fair value on a non-recurring basis

We generally estimate long-lived asset fair values, including property, plant and equipment and leasehold improvements, using the income approach. The inputs used to determine fair value relate primarily to future assumptions regarding restaurant sales and profitability. These inputs are categorized as Level 3 inputs. The inputs used represent management's assumptions about what information market participants would use in pricing the assets and are based upon the best information available at the balance sheet date.

The following table presents the asset impairment charges we recorded during 2009 and the net carrying value of those impaired long-lived assets as of December 27, 2009:

	Net Carrying Value as of December 27, 2009	Fair Value Measured and Recorded At Reporting Date			2009 Impairment Charges
		Level 1	Level 2	Level 3	
Long-lived assets	\$ 296	—	—	296	(296)

Financial assets and liabilities not measured at fair value

Certain of our financial assets and liabilities are recorded at their carrying amounts which approximate fair value, based on their short-term nature or variable interest rate. These financial assets and liabilities include cash and cash equivalents, accounts receivable, and accounts payable.

(3) Marketable Securities

Marketable securities were comprised as follows:

	December 25, 2011	December 26, 2010
Held-to-maturity		
Municipal securities	\$ 34,652	39,891
Available-for-sale		
Municipal securities	—	11,949
Trading		
Mutual funds	5,304	4,987
Total	\$ 39,956	56,827

Purchases of available for-sale securities totaled \$58,932 and sales totaled \$70,955 in 2011. Purchases of held-to-maturity securities totaled \$38,142 and proceeds from maturities totaled \$43,383 in 2011. All held-to-maturity debt securities mature within one year and had an aggregate fair value of \$34,640 at December 25, 2011.

Purchases of available for-sale securities totaled \$56,088 and sales totaled \$68,440 in 2010. Purchases of held-to-maturity securities totaled \$43,607 and proceeds from maturities totaled \$18,899 in 2010. All held-to-maturity debt securities mature within one year and had an aggregate fair value of \$39,877 at December 26, 2010.

Purchases of available for-sale securities totaled \$36,084 and sales totaled \$29,113 in 2009. Purchases of held-to-maturity securities totaled \$20,940 and proceeds from maturities totaled \$22,487 in 2009. All held-to-maturity debt securities mature within one year and had an aggregate fair value of \$15,712 at December 27, 2009.

Trading securities represent investments held for future needs of a non-qualified deferred compensation plan.

BUFFALO WILD WINGS, INC. AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
December 25, 2011 and December 26, 2010
(Dollar amounts in thousands, except per-share amounts)**

(4) Property and Equipment

Property and equipment consisted of the following:

	December 25, 2011	December 26, 2010
Construction in process	\$ 20,078	9,521
Buildings	37,956	24,167
Furniture, fixtures, and equipment	175,718	140,064
Leasehold improvements	245,506	184,589
Property and equipment, gross	479,258	358,341
Less accumulated depreciation	(169,088)	(133,371)
Property and equipment, net	<u>\$ 310,170</u>	<u>224,970</u>

(5) Goodwill and Other Intangible Assets

Goodwill is summarized below:

	December 25, 2011	December 26, 2010
Beginning of year	\$ 11,246	11,246
Additions	6,524	—
End of year	<u>\$ 17,770</u>	<u>11,246</u>

Goodwill is not subject to amortization but nearly all is deductible for tax purposes.

Reacquired franchise rights consisted of the following:

	December 25, 2011	December 26, 2010
Reacquired franchise rights	\$ 23,370	7,040
Accumulated amortization	(2,342)	(1,433)
Reacquired franchise rights, net	<u>\$ 21,028</u>	<u>5,607</u>

Amortization expense related to reacquired franchise rights for 2011, 2010, and 2009 was \$910, \$614, and \$612, respectively. The weighted average amortization period is 16 years. Estimated future amortization expense as of December 25, 2011 was as follows:

Fiscal year ending:	
2012	\$ 2,706
2013	2,496
2014	2,176
2015	1,946
2016	1,771
Thereafter	9,933
Total future amortization expense	<u>\$ 21,028</u>

BUFFALO WILD WINGS, INC. AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
December 25, 2011 and December 26, 2010
(Dollar amounts in thousands, except per-share amounts)**

(6) Lease Commitments

We lease all of our restaurants and corporate offices under operating leases that have various expiration dates. Most of these operating leases contain renewal options. In addition to base rents, leases typically require us to pay our share of common area maintenance, insurance, real estate taxes, and other operating costs. Certain leases also include provisions for contingent rentals based upon sales.

Future minimum rental payments due under noncancelable operating leases for existing restaurants and commitments for restaurants under development as of December 25, 2011 were as follows:

	Operating leases	Restaurants under development
Fiscal year ending:		
2012	\$ 39,856	2,457
2013	38,795	3,699
2014	37,841	3,699
2015	36,530	3,699
2016	34,619	3,708
Thereafter	174,447	43,702
Total future minimum lease payments	\$ 362,088	60,964

In 2011, 2010, and 2009, we rented office space under operating leases which, in addition to the minimum lease payments, require payment of a proportionate share of the real estate taxes and building operating expenses. We also rent restaurant space under operating leases, some of which, in addition to the minimum lease payments and proportionate share of real estate and operating expenses, require payment of percentage rents based upon sales levels. Rent expense, excluding our proportionate share of real estate taxes and building operating expenses, was as follows:

	Fiscal Years Ended		
	December 25, 2011	December 26, 2010	December 27, 2009
Minimum rents	\$ 36,647	30,438	27,042
Percentage rents	371	285	361
Total	\$ 37,018	30,723	27,403
Equipment and auto leases	\$ 452	536	495

(7) Derivative Instruments

We have used commodity derivatives to manage our exposure to price fluctuations. We may enter into options and future contracts to reduce our risk of natural gas price fluctuations. These derivatives do not qualify for hedge accounting and changes in fair value are included in current net income. These changes are classified as a component of restaurant operating expenses. All changes in the fair value of these contracts are recorded in earnings in the period in which they occur. Net losses of \$1, \$225, and \$383 were recognized in fiscal 2011, 2010, and 2009, respectively. The fair value of our derivative instruments as of December 26, 2010 was \$86, and is a liability in accrued expenses in the accompanying consolidated balance sheets. As of December 26, 2010 we were party to natural gas swap contracts with notional values of \$249. As of December 25, 2011, we had no outstanding natural gas swap contracts or other derivatives.

BUFFALO WILD WINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 25, 2011 and December 26, 2010
(Dollar amounts in thousands, except per-share amounts)

(8) Income Taxes

We file income tax returns in the U.S. federal and state jurisdictions and Canada. The Internal Revenue Service completed their examination of our 2008 U.S. federal income tax return in 2010. With few exceptions, we are no longer subject to state income tax examinations for years before 2007. We do not anticipate that total unrecognized tax benefits will significantly change due to the settlement of audits and the expiration of statutes of limitations prior to December 30, 2012. The provision for income taxes consisted of the following:

	Fiscal Years Ended		
	December 25, 2011	December 26, 2010	December 27, 2009
Current:			
Federal	\$ 6,009	9,345	7,917
State	3,651	2,794	2,023
Deferred:			
Federal	13,297	6,462	4,824
State	394	24	(7)
Foreign	(875)	—	—
Total income tax expense	<u>\$ 22,476</u>	<u>18,625</u>	<u>14,757</u>

The following is a reconciliation of the expected federal income taxes (benefits) at the statutory rate of 35% to the actual provision for income taxes:

	Fiscal Years Ended		
	December 25, 2011	December 26, 2010	December 27, 2009
Expected federal income tax expense	\$ 25,516	19,959	15,883
State income tax expense, net of federal effect	2,660	1,944	1,310
General business credits	(5,808)	(3,902)	(2,713)
Other, net	108	624	277
Total income tax expense	<u>\$ 22,476</u>	<u>18,625</u>	<u>14,757</u>

BUFFALO WILD WINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 25, 2011 and December 26, 2010
(Dollar amounts in thousands, except per-share amounts)

Deferred tax assets and liabilities are classified as current and noncurrent on the basis of the classification of the related asset or liability for financial reporting. Deferred income taxes are provided for temporary differences between the basis of assets and liabilities for financial reporting purposes and income tax purposes. A valuation allowance is established when it is more likely than not that some portion of deferred tax assets will not be realized. Since we believe sufficient future taxable income will be generated to utilize the benefits of the deferred tax assets, a valuation allowance has not been recognized. Our foreign net operating losses begin expiring in 2030. Temporary differences comprising the net deferred tax assets and liabilities on the accompanying consolidated balance sheets are as follows:

	Fiscal Years Ended	
	December 25, 2011	December 26, 2010
Deferred tax assets:		
Unearned revenue	\$ 982	870
Accrued compensation and benefits	2,956	2,660
Deferred lease credits	5,231	2,362
Stock-based compensation	2,727	2,631
Advertising costs	2,260	2,329
Other	1,604	855
Total	<u>\$ 15,760</u>	<u>11,707</u>
Deferred tax liabilities:		
Depreciation	\$ 46,354	29,593
Goodwill and other amortization	1,595	602
Total	<u>\$ 47,949</u>	<u>30,195</u>

The following is a reconciliation of the beginning and ending amount of unrecognized tax benefits:

Balance at December 26, 2010	\$ 721
Additions based on tax positions related to the current year	165
Reductions based on tax positions related to prior years	(21)
Reductions based on expiration of statute of limitations	(133)
Balance at December 25, 2011	<u>\$ 732</u>

We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. During 2011, 2010, and 2009, interest and penalties of (\$18), (\$5), and (\$24), respectively, were included in income tax expense. As of December 25, 2011, and December 26, 2010, interest and penalties related to unrecognized tax benefits totaled \$60 and \$85, respectively. Included in the balance at December 25, 2011, and December 26, 2010, are unrecognized tax benefits of \$476 and \$469, respectively, which if recognized, would affect the annual effective tax rate. The difference between these amounts and the amount reflected in the reconciliation above relates to the deferred U.S. federal income tax benefit on unrecognized tax benefits related to U.S. state income taxes.

BUFFALO WILD WINGS, INC. AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
December 25, 2011 and December 26, 2010
(Dollar amounts in thousands, except per-share amounts)**

(9) Stockholders' Equity

(a) Stock Options

We have 3.9 million shares of common stock reserved for issuance under the Equity Incentive Plan (Plan) for employees, officers, and directors. The option price for shares issued under this plan is to be not less than the fair market value on the date of grant with respect to incentive and nonqualified stock options. Incentive stock options become exercisable in four equal installments from the date of the grant and have a contractual life of seven to ten years. Nonqualified stock options issued pursuant to the Plan have varying vesting periods from immediately to four years and have a contractual life of seven to ten years. Incentive stock options may be granted under this plan until May 15, 2018. We issue new shares of common stock upon exercise of stock options. Option activity is summarized for the year ended December 25, 2011 as follows:

	Number of shares	Weighted average exercise price	Average remaining contractual life (years)	Aggregate Intrinsic Value
Outstanding, December 26, 2010	186,166	\$ 25.96	4.0	\$ 3,663
Granted	33,869	53.75		
Exercised	(36,470)	10.68		
Cancelled	(936)	40.95		
Outstanding, December 25, 2011	182,629	\$ 34.06	4.0	\$ 6,242
Exercisable, December 25, 2011	127,566	28.44	3.4	5,077

The aggregate intrinsic value in the table above is before applicable income taxes, based on our closing stock price of \$68.24 as of the last business day of the year ended December 25, 2011, which would have been received by the optionees had all options been exercised on that date. As of December 25, 2011, total unrecognized stock-based compensation expense related to nonvested stock options was approximately \$1,001, which is expected to be recognized over a weighted average period of approximately 2.0 years. During 2011, 2010, and 2009, the total intrinsic value of stock options exercised was \$1,700, \$928, and \$450, respectively. During 2011, 2010, and 2009, the total fair value of options vested was \$751, \$536, and \$369, respectively. During 2011 and 2010, the weighted average grant date fair value of options granted was \$26.07 and \$23.82, respectively.

The following table summarizes our stock options outstanding at December 25, 2011:

Range	Options outstanding			Options exercisable	
	Shares	Average remaining contractual life (years)	Weighted average exercise price	Shares	Weighted average exercise price
\$ 5.63 – 14.13	23,775	1.3	\$ 8.75	23,775	\$ 8.75
17.41 – 24.96	44,943	3.0	24.86	44,943	24.86
30.87 – 31.00	45,721	4.0	30.91	33,757	30.91
48.35 – 53.75	68,190	5.5	51.06	25,091	50.19
	<u>182,629</u>			<u>127,566</u>	

The Plan has 246,085 shares available for grant as of December 25, 2011.

BUFFALO WILD WINGS, INC. AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
December 25, 2011 and December 26, 2010
(Dollar amounts in thousands, except per-share amounts)**

(b) Restricted Stock Units

We have a stock performance plan, under which restricted stock units are granted annually at the discretion of the Board of Directors.

In 2011, 2010 and 2009, we granted restricted stock units subject to three-year cliff vesting and a cumulative three-year earnings target. The number of units which vest at the end of the three-year period is based on performance against the target. These restricted stock units are subject to forfeiture if they have not vested at the end of the three-year period. Stock-based compensation is recognized for the expected number of units vesting at the end of the period and is expensed over the three-year period.

For each grant, restricted stock units meeting the performance criteria will vest as of the end of our fiscal year. The distribution of vested restricted stock units as common stock typically occurs in March of the following year. The common stock is issued to participants net of the number of shares needed for the required minimum employee withholding taxes. We issue new shares of common stock upon the disbursement of restricted stock units. Restricted stock units are contingently issuable shares, and the activity for fiscal 2011 is as follows:

	Number of shares	Weighted average grant date fair value
Outstanding, December 26, 2010	493,653	\$ 35.66
Granted	178,800	53.94
Vested	(289,812)	33.97
Cancelled	(22,361)	37.95
Outstanding, December 25, 2011	360,280	\$ 45.95

As of December 25, 2011, the stock-based compensation expense related to nonvested awards not yet recognized was \$9,353, which is expected to be recognized over a weighted average period of 1.7 years. During fiscal years 2011 and 2010 the total grant date fair value of shares vested was \$9,845 and \$3,101, respectively. The weighted average grant date fair value of restricted stock units granted during 2010 was \$40.82. During 2011, we recognized \$9,985 of stock-based expense related to restricted stock units.

(c) Employee Stock Purchase Plan

We have reserved 600,000 shares of common stock for issuance under the Employee Stock Purchase Plan (“ESPP”). The ESPP is available to substantially all employees subject to employment eligibility requirements. Participants may purchase our common stock at 85% of the beginning or ending closing price, whichever is lower, for each six-month period ending in May and November. During 2011, 2010, and 2009, we issued 30,127, 36,049, and 48,237 shares, respectively, of common stock. As of December 25, 2011, we had 274,662 shares available for future issuance under the ESPP.

BUFFALO WILD WINGS, INC. AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
December 25, 2011 and December 26, 2010
(Dollar amounts in thousands, except per-share amounts)**

(10) Earnings Per Common Share

The following is a reconciliation of basic and fully diluted earnings per common share for fiscal 2011, 2010, and 2009:

	Fiscal year ended December 25, 2011		
	Earnings (numerator)	Shares (denominator)	Per-share amount
Net earnings	\$ 50,426		
Earnings per common share	50,426	18,337,433	\$ 2.75
Effect of dilutive securities – stock options	—	73,249	
Effect of dilutive securities – restricted stock units	—	72,415	
Earnings per common share – assuming dilution	<u>\$ 50,426</u>	<u>18,483,097</u>	<u>\$ 2.73</u>
	Fiscal year ended December 26, 2010		
	Earnings (numerator)	Shares (denominator)	Per-share amount
Net earnings	\$ 38,400		
Earnings per common share	38,400	18,175,358	\$ 2.11
Effect of dilutive securities – stock options	—	72,391	
Effect of dilutive securities – restricted stock units	—	21,812	
Earnings per common share – assuming dilution	<u>\$ 38,400</u>	<u>18,269,561</u>	<u>\$ 2.10</u>
	Fiscal year ended December 27, 2009		
	Earnings (numerator)	Shares (denominator)	Per-share amount
Net earnings	\$ 30,671		
Earnings per common share	30,671	18,010,430	\$ 1.70
Effect of dilutive securities – stock options	—	78,383	
Effect of dilutive securities – restricted stock units	—	87,881	
Earnings per common share – assuming dilution	<u>\$ 30,671</u>	<u>18,176,694</u>	<u>\$ 1.69</u>

The following is a summary of those securities outstanding at the end of the respective periods, which have been excluded from the fully diluted calculations because the effect on net earnings per common share would have been anti-dilutive or were performance-granted shares for which the performance criteria had not yet been met:

	December 25, 2011	December 26, 2010	December 27, 2009
Stock options	11,233	—	45,958
Restricted stock units	360,280	493,653	450,869

BUFFALO WILD WINGS, INC. AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
December 25, 2011 and December 26, 2010
(Dollar amounts in thousands, except per-share amounts)**

(11) Supplemental Disclosures of Cash Flow Information

	Fiscal Years Ended		
	December 25, 2011	December 26, 2010	December 27, 2009
Cash paid during the period for:			
Income taxes	\$ 6,755	15,315	8,899
Noncash financing and investing transactions:			
Property and equipment not yet paid for	(5,211)	2,298	(4,405)
Tax withholding for restricted stock units	5,828	1,780	1,400
Goodwill adjustment	—	—	274

(12) Loss on Asset Disposals and Store Closures

In 2011, 2010, and 2009, we closed restaurants resulting in a charge to earnings for remaining lease obligations, utilities, and other related costs. These charges were recognized as a part of the loss on asset disposals and store closures on our accompanying consolidated statements of earnings.

The following is a rollforward of the store closing reserve for the years ended December 25, 2011, December 26, 2010, and December 27, 2009:

	December 25, 2011	December 26, 2010	December 27, 2009
Beginning reserve balance	\$ 60	—	—
Store closing costs incurred	205	310	31
Costs paid	(247)	(250)	(31)
Ending reserve balance	\$ 18	60	—

During 2009, we recorded an impairment charge for the assets of one underperforming restaurant. An impairment charge of \$237 was recorded to the extent that the carrying amount of the assets was not considered recoverable based on estimated discounted future cash flows and the underlying fair value of the assets. We also recorded an impairment charge of \$59 related to liquor licenses to the extent that the carrying amount of the licenses was higher than the fair value as determined using market quotes.

The following is a summary of the loss on asset disposals and store closure charges recognized by us:

	Fiscal Years Ended		
	December 25, 2011	December 26, 2010	December 27, 2009
Store closing charges	\$ 205	310	31
Long-lived asset impairment	—	—	296
Miscellaneous asset write-offs	1,724	1,741	1,601
Loss on asset disposals and store closures	\$ 1,929	2,051	1,928

(13) Defined Contribution Plans

We have a defined contribution 401(k) plan whereby eligible employees may contribute pretax wages in accordance with the provisions of the plan. We match 100% of the first 3% and 50% of the next 2% of contributions made by eligible employees. Matching contributions of approximately \$1,249, \$1,005, and \$819 were made by us during fiscal 2011, 2010, and 2009, respectively.

BUFFALO WILD WINGS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements December 25, 2011 and December 26, 2010 (Dollar amounts in thousands, except per-share amounts)

Under our Management Deferred Compensation Plan, our executive officers and certain other individuals are entitled to receive an amount equal to a percentage of their base salary ranging from 7.5% to 12.5% which is credited on a monthly basis to their deferred compensation account. Cash contributions of \$435, \$329, and \$359 were made by us during 2011, 2010, and 2009, respectively. Such amounts are subject to certain vesting provisions, depending on length of employment and circumstances of employment termination. In addition, individuals may elect to defer a portion or all of their cash compensation.

(14) Related Party Transactions

It is our policy that all related party transactions must be disclosed and approved by the disinterested directors. We have evaluated the terms and considerations for such related party transactions and compared and evaluated these terms to amounts that would have to be paid or received, as applicable, in arms-length transactions with independent third-parties. We believe all related party transactions are comparable to arms-length.

A member of our board of directors, Warren Mack, is an officer at one of our major law firms. Another member of our board of directors, Jerry Rose, is an officer at one of our suppliers.

(15) Contingencies

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

(16) Acquisition of Franchised Restaurants

During 2011, we acquired 18 Buffalo Wild Wings franchised restaurants through three acquisitions. The total purchase price of \$33,744, was paid in cash and was funded by cash from operations and the sale of marketable securities. The acquisitions were accounted for as a business combination. The assets acquired were recorded based on their fair values at the time of the acquisitions as detailed below:

Inventory, prepaids, and other assets	\$	789
Equipment and leasehold improvements		11,265
Deferred lease credits		(279)
Deferred income taxes		(885)
Reacquired franchise rights		16,330
Goodwill		6,524
Total purchase price	\$	<u>33,744</u>

The excess of the purchase price over the aggregate fair value of assets acquired was allocated to goodwill. The assessment of the valuation of certain assets is preliminary, if new information is obtained about facts and circumstances that existed at the acquisition date, the acquisition accounting will be revised to reflect the resulting adjustments to current estimates of these items. The results of operations of these locations are included in our consolidated statement of earnings as of the date of acquisition.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have established and maintain disclosure controls and procedures that are designed to ensure that material information relating to us and our subsidiaries required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of the date of such evaluation to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, our chief executive and chief financial officers and effected by our board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with the authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate. However, these inherent limitations are known features of the financial reporting process. It is possible to design into the process safeguards to reduce, through not eliminate, the risk that misstatements are not prevented or detected on a timely basis. Management is responsible for establishing and maintaining adequate internal control over financial reporting for the company.

Management assessed the effectiveness of our internal control over financial reporting as of December 25, 2011. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework*. Based on this assessment, our management concluded that, as of December 25, 2011, our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation and presentation of financial statements for external purposes in accordance with generally accepted accounting principles. Our independent registered public accounting firm, KPMG LLP, has issued an audit report on the effectiveness of our internal control over financial reporting.

Change in Internal Control Over Financial Reporting

There were no changes in the our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this item is contained in Part I of this document under the heading “Executive Officers,” and the sections entitled “Election of Directors,” “Compliance with Section 16(a) of the Exchange Act,” and “Corporate Governance” appearing in our Proxy Statement to be delivered to shareholders in connection with the 2012 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

Our Board of Directors has adopted a Code of Ethics & Business Conduct for all employees and directors. A copy of this document is available on our website at www.buffalowildwings.com, free of charge, under the Corporate Governance Investors section. We will satisfy any disclosure requirements under Item 10 or Form 8-K regarding an amendment to, or waiver from, any provision of the Code with respect to our principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions by disclosing the nature of such amendment or waiver on our website or in a report on Form 8-K.

Our Board of Directors has determined that Mr. J. Oliver Maggard, a member of the Audit Committee and an independent director, is an audit committee financial expert, as defined under 407(d) (5) of Regulation S-K. Mr. Maggard is an “independent director” as that term is defined in Nasdaq Rule 4200(a)(15). The designation of Mr. Maggard as the audit committee financial expert does not impose on Mr. Maggard any duties, obligations or liability that are greater than the duties, obligations and liability imposed on Mr. Maggard as a member of the Audit Committee and the Board of Directors in the absence of such designation or identification.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is contained in the sections entitled “Executive Compensation” and “Compensation Discussion and Analysis” appearing in our Proxy Statement to be delivered to shareholders in connection with the 2012 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item relating to the security ownership of certain holders is contained in the sections entitled “Security Ownership of Officers and Directors,” “Security Ownership of Certain Beneficial Holders,” and “Equity Compensation Plan Information” appearing in our Proxy Statement to be delivered to shareholders in connection with the 2012 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is contained in the sections entitled “Corporate Governance” and “Certain Relationships and Related Transactions” appearing in our Proxy Statement to be delivered to shareholders in connection with the 2012 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is contained in the section entitled “Independent Registered Public Accounting Firm” appearing in our Proxy Statement to be delivered to shareholders in connection with the 2012 Annual Meeting of Shareholders. Such information is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) *Financial Statements*. The following consolidated financial statements of ours are filed with this report and can be found at Item 8 of this Form 10-K.

Report of Independent Registered Public Accounting Firm dated February 21, 2011

Consolidated Balance Sheets as of December 25, 2011 and December 26, 2010

Consolidated Statements of Earnings for the Fiscal Years Ended December 25, 2011, December 26, 2010, and December 27, 2009

Consolidated Statements of Stockholders' Equity for the Fiscal Years Ended December 25, 2011, December 26, 2010, and December 27, 2009

Consolidated Statements of Cash Flows for the Fiscal Years Ended December 25, 2011, December 26, 2010, and December 27, 2009

Notes to Consolidated Financial Statements

(b) *Financial Statement Schedules*. The following schedule is included following the exhibits to this Form 10-K.

Schedule II – Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulations of the SEC have been omitted as not required or not applicable, or the information required has been included elsewhere by reference in the financial statements and related notes.

(c) *Exhibits*. See "Exhibit Index" following the signature page of this Form 10-K for a description of the documents that are filed as Exhibits to this report on Form 10-K or incorporated by reference herein.

Buffalo Wild Wings, Inc.

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

<u>Description</u>		<u>Balance at Beginning of Period</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Deductions From Reserves</u>	<u>Balance at End of Period</u>
Allowance for doubtful accounts	2011	\$ 25	98	98	25
	2010	25	—	—	25
	2009	25	—	—	25

BUFFALO WILD WINGS, INC.
EXHIBIT INDEX TO FORM 10-K

For the Fiscal Year Ended:
December 25, 2011

Commission File No.
000-24743

Exhibit Number	Description
3.1	Restated Articles of Incorporation, as Amended (incorporated by reference to Exhibit 3.1 to our Form 10-Q for the fiscal quarter ended June 29, 2008)
3.2	Amended and Restated Bylaws, as Amended (incorporated by reference to Exhibit 3.1 to our current report on Form 8-K filed May 27, 2009)
4.1	Form of specimen certificate representing Buffalo Wild Wings, Inc.'s common stock (incorporated by reference to Exhibit 4.1 to Amendment No. 2 to our Registration Statement on Form S-1, Reg. No. 333-108695 filed November 5, 2003)
10.1	Forms of stock option agreements under 2003 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to Amendment No. 2 to our Registration Statement on Form S-1, Reg. No. 333-108695 filed November 5, 2003)(1)
10.2	Employee Stock Purchase Plan and Amendment No. 1 (incorporated by reference to Exhibit 10.19 to Amendment No. 2 to our Registration Statement on Form S-1, Reg. No. 333-108695 filed November 5, 2003) (1)
10.3	Cash Incentive Plan (incorporated by reference to Appendix B to our Proxy Statement filed on April 20, 2007) (1)
10.4	Form of Notice of Performance-Based Restricted Stock Unit Award (Officer Level) as of March 1, 2009 (incorporated by reference to Exhibit 10.2 to our Form 10-Q for the fiscal quarter ended March 29, 2009) (1)
10.5	Form of Notice of Incentive Stock Option Award under the 2003 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to our Form 8-K filed on February 22, 2008) (1)
10.6	2003 Equity Incentive Plan, as Amended and Restated on May 15, 2008 (incorporated by reference to Exhibit 10.1 to our Form 8-K filed May 21, 2008)(1)
10.7	The Executive Nonqualified Excess Plan as of May 15, 2008 (incorporated by reference to Exhibit 10.2 to our Form 8-K filed May 21, 2008)(1)
10.8	The Executive Nonqualified Excess Plan Adoption Agreement as of May 15, 2008 (incorporated by reference to Exhibit 10.3 to our Form 8-K filed May 21, 2008)(1)
10.9	Employment Agreement dated September 16, 2008 with Sally J. Smith (incorporated by reference to Exhibit 10.1 to our Form 8-K filed September 22, 2008)(1)
10.10	Employment Agreement dated September 16, 2008 with Mary J. Twinem (incorporated by reference to Exhibit 10.2 to our Form 8-K filed September 22, 2008)(1)
10.11	Employment Agreement dated September 16, 2008 with James M. Schmidt (incorporated by reference to Exhibit 10.3 to our Form 8-K filed September 22, 2008)(1)
10.12	Employment Agreement dated September 16, 2008 with Judith A. Shoulak (incorporated by reference to Exhibit 10.4 to our Form 8-K filed September 22, 2008)(1)
10.13	Employment Agreement dated September 16, 2008 with Kathleen M. Benning (incorporated by reference to Exhibit 10.5 to our Form 8-K filed September 22, 2008)(1)
10.14	Employment Agreement dated September 16, 2008 with Mounir N. Sawda (incorporated by reference to Exhibit 10.8 to our Form 10-Q for the fiscal quarter ended September 28, 2008)(1)
10.15	Amendment No. 1 to 2003 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to our Form 8-K filed on December 10, 2008)(1)

21.1*	List of Subsidiaries
23.1*	Consent of KPMG LLP, Independent Registered Public Accounting Firm
24.1*	Power of Attorney (included on the signature page)
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 Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1*	Nevada Gaming Regulation
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document

* Filed herewith.

** In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Annual Report on Form 10-K shall be deemed to be “furnished” and not “filed.”