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Sally J. Smith – President, Chief Executive Officer & Director, Buffalo Wild Wings, Inc.

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen. Welcome to the Buffalo Wild Wings Second Quarter 2013 Conference Call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions. I would like to remind everyone that this conference call is being recorded.

I will now turn the call over to Mary Twinem, Chief Financial Officer and Executive Vice President of Buffalo Wild Wings. Please go ahead.

Mary J. Twinem, CFO, Treasurer, EVP & Head-Investor Relations

Good afternoon and thank you for joining us as we review our second quarter 2013 results. I am Mary Twinem, Chief Financial Officer and Executive Vice President of Buffalo Wild Wings. Joining me today is Sally Smith, our President and Chief Executive Officer. By now, everyone should have access to our second quarter earnings release.

Before we get started, I remind you that during the course of today's call, various remarks we make about future expectations, plans and prospects for the company constitute forward-looking statements. Actual results may vary materially from those contained in forward-looking statements based on a number of factors, including, but not limited to, our ability to achieve and manage our planned expansion, the sales and other growth factors at our company-owned and franchised locations, our ability to successfully operate in new markets including non-U.S. markets, unforeseen obstacles in developing sites, including nontraditional and non-U.S. locations, success of acquired restaurants and investments in new or emerging concepts, the cost of commodities, the success of our key initiatives and our advertising and marketing campaigns, our ability to control restaurant labor and other restaurant operating costs, economic conditions including changes in consumer preferences or consumer discretionary spending, and other factors disclosed from time-to-time in our filings with the U.S. Securities and Exchange Commission.

On today's call, Sally will provide an overview of our performance for the second quarter. After that, I will provide further detail on the quarter and comment on trends to-date in the third quarter. Finally, Sally will share some additional thoughts about the third quarter and the year. We will then answer questions.

So with that, I'll turn things over to Sally.

Sally J. Smith, President, Chief Executive Officer & Director

Good afternoon everyone. We're very pleased with our strong results for the second quarter. Revenue increased 27.8% and we had impressive net earnings growth of 41.4%. We've increased company-owned locations by 23% with continued new unit growth and franchise acquisitions over the past 12 months. We successfully managed controllable expenses while continuing to invest in labor hours to support our long-term business strategies. We're pleased traditional wing costs have moderated and cost of sales as a percent of sales declined on a year-over-year basis for the first time in eight quarters.

Our earnings per diluted share were $0.88 for the second quarter. Same-store sales in company-owned locations increased 3.8% for the quarter, starting strong during the Final Four and continuing through the NBA playoffs, driven in part by our increased advertising in those events, more weeks on air and radio and the benefit of Easter falling in the first quarter this year. We also drove sales with large order takeout for graduation and gift cards for Father's Day.

Franchised same-store sales increased 4.1%. Same-store sales for both outpaced the casual dining category, and this growth is on top of same-store sales of 5.3% and 5.5% in the prior year respectively. Beginning April 9, guests were able to enjoy a lineup of flavorful brats that were loaded with unique toppings and our signature sauces and seasonings. They included a Smokey Barbecue Dog, Buffalo Chicken Tender Dog, the High Five Brat, and the All American Brat Burger. Our menu panel also featured hog wild french fries in this lineup of summer favorites ended July 14.

We continue to evolve for the future. In the second quarter, we had additional restaurants operating with the guest experience business model, which is a guest-centered approach to operating our restaurants with the goal of creating a distinct sports viewing experience.

The guest experience business model produces incremental sales over restaurants that do not have the model in place. It encompasses several elements, including a new staffing structure for management team, an hourly staff, a guest experience captain and guest facing technology and entertainment platform.

The management structure clearly defines and separates manager responsibilities by function. The hourly staffing structure optimizes team member levels resulting in dedicated teams focused on guest service and operational excellence throughout the day. The management and hourly staffing structure will roll out to all company-owned locations by early 2014.

Guest experience captains are team members dedicated to enhancing the Buffalo Wild Wings experience for guests by engaging them with new technology, games, products, promotions and events. We currently have guest experience captains in about 130 restaurants and we expect to have it in place in all company-owned locations by the end of 2014.

As anticipated, in the second quarter, locations with captains incurred higher labor costs and we're testing variations to find the right balance of labor investments for the increased sales. We're building a pipeline of new interactive technologies, games and exclusive content on tabletop tablets that sets us apart from other restaurants. In test, we've seen these tablets more than double the gaming interactions of guests which we believe will increase the length of time guests stay in the restaurants and prompt more frequent return visits.

Tabletop tablets are currently in more than 30 restaurants and are planned to roll out to about 70 additional locations throughout the rest of 2013. We're creating exclusive and interactive content for our TVs to display. And we're developing new mobile and digital platforms that create additional ways for our guests to interact with our brand in our restaurants.

Various new entertainment options are available in approximately 60 locations, and we plan to roll them out to additional restaurants later this year and throughout 2014. On July 15, we transitioned to the new way of serving our traditional and boneless wings by portions called snack, small, medium, and large. Our guests now receive a more consistent amount of chicken in their order rather than a fixed number of wings.

This should have an immediate impact on cost of sales and stabilize margins when wing sizes fluctuate. Team members were well trained to speak to our guests regarding the transition to wings by the portion and we believe that any negative reaction will be limited and temporary similar to what we experienced in some of our test restaurants.

In summary, we're very pleased with the strength of our second quarter. Wing costs started moderating and we controlled expenses while working to create a unique and compelling experience for guests. With the first half of the year complete, we remain on plan and believe we're on track to achieve our annual growth goals.

Mary will now provide additional details on the second quarter as well as the third quarter to-date. Then I'll return to talk more about the third quarter and the remainder of the year.

Mary J. Twinem, CFO, Treasurer, EVP & Head-Investor Relations

Thank you, Sally. Our revenue in the second quarter reached $305 million, increasing 27.8% over last year. System wide, sales at our company-owned and franchised restaurants were $676 million for the quarter. Company-owned restaurant sales for the second quarter increased to $285.4 million, a 29.4% increase over the same period in the prior year.

Same-store sales were 5.2% in the first four weeks of the second quarter. For the quarter, same-store sales of 3.8% were similar to the first four weeks if you adjust for the Easter benefit in the first four weeks, which we estimate at 150 basis points.

Same-store sales in the prior year's quarter were up 5.3%. Menu price increases and adjustments taken during the past 12 months at company-owned restaurants were about 4.7%. We had 77 additional company-owned restaurants in operation at the end of this quarter versus second quarter last year, a 23% unit increase. Average weekly sales increased by 6.3% in the second quarter, 250 basis points higher than our same-store sales percentage.

The average weekly sales calculation benefited by 200 basis points from company-owned locations opened or acquired during the last 15 months. And the remaining 50 basis point increase is from the closing of older lower volume locations during the last 12 months.

Royalty and franchise fee revenue for the second quarter grew by 7.9% to $19.6 million versus $18.2 million last year with an additional 20 franchised units in operation at the end of the second quarter versus a year ago. Same-store sales at franchised locations increased by 4.1% in the quarter compared to 5.5% last year. Franchised average weekly sales for the quarter increased by 6.2%, a 210 basis point increase over same-store sales.

Franchised locations opened during the last 15 months contributed 100 basis points of the increase. Store closures of older lower volume locations contributed 90 basis points and the sale of franchised units to the company contributed the remainder.

The following comments will focus on the performance of our company-owned restaurants.

Cost of sales for the second quarter was 30.4% of restaurant sales compared to 31.6% in second quarter last year, a 120 basis point decrease. This is the first time since the second quarter of 2011 where we achieved the year-over-year reduction in cost of sales as a percent of restaurant sales as traditional chicken wing prices have finally decreased from 2012 highs. Traditional wings were $1.61 per pound this quarter, $0.29 or 15% lower than last year's average of $1.90.

Food and non-alcoholic beverage sales were 78% of restaurant sales in second quarter of both years. Traditional wings accounted for 19% of sales in the second quarter compared to 20% last year and boneless wings were 20% of sales, up from 19% last year. This is the first quarter that boneless wings sales have surpassed traditional wings sales.

We are pleased with this trend as boneless wings have a higher gross margin than traditional and we have contracted our boneless and other chicken breast products at flat pricing through March of 2015. Cost of labor for the second quarter was 31.2% of restaurant sales, 100 points higher than second quarter last year.

As anticipated, we incurred higher labor expense with the guest experience business model. Hourly labor increases for the guest experience captain were partially offset by lower management labor as we begin rolling out our new management structure. In the second quarter, restaurant operating expenses as a percentage of restaurant sales were 14.4%, a decrease of 30 basis points from the prior year. Occupancy costs were 5.9% as a percentage of restaurant sales, which remain the same as last year.

In summary, restaurant level cash flow, which is calculated before depreciation and pre-opening expenses, was $51.8 million or 18.1% of restaurant sales versus $38.7 million or 17.5% in second quarter last year. This 60 basis point improvement is primarily a result of lower cost of sales as a percent of sales. Depreciation and amortization for the second quarter was 6.9% of total revenue, 20 basis points higher than the prior year with increased year-over-year amortization related to franchise acquisitions.

General and administrative expenses were $23.6 million in the second quarter or 7.7% of total revenue compared to $21 million or 8.8% in the prior year. Excluding stock-based compensation of $3.1 million in the second quarter and $2.7 million in the prior year, G&A expenses for the second quarter totaled $20.5 million or 6.7% of total revenue compared to 7.7% last year. G&A expense was lower than anticipated due to less management training expense and less travel.

We opened 10 company-owned restaurants in North America during the second quarter compared to four new locations in the second quarter of 2012. Pre-opening expenses for the quarter totaled $2.4 million versus $1.5 million last year. The $2.4 million includes $533,000 of pre-opening expenses for future openings that are under construction, and in the second quarter last year, we incurred $951,000 related to future openings.

Pre-opening cost averaged $313,000 per new restaurant during the first six months of 2013 compared to $279,000 in 2012. The loss on asset disposals and store closures for the second quarter totaled $229,000 compared to $597,000 last year.

We reported an investment loss of $84,000 for the quarter compared to a $115,000 loss in 2012. These losses are primarily from funds set aside for future payouts under our deferred compensation plan. The effective tax rate during the second quarter was 31.2% compared to 33.5% in the prior year. We estimate the effective tax rate for the full year 2013 will be approximately 30%.

In summary, we achieved net earnings in the second quarter of $16.5 million, a 41.4% increase over $11.7 million last year. Earnings per diluted share increased $0.26 to $0.88 in the quarter. On our balance sheet on June 30, 2013, cash totaled $23.5 million compared to $21.3 million at the end of our fiscal 2012. We ended the second quarter with $595.7 million in total assets and $420.8 million in stockholders' equity.

Cash flow from operations was $76.8 million for the quarter. In 2013, we estimate that capital spending will be about $160 million, which does not include funds that we have or may spend for franchise acquisitions or new concept investments. To-date, we have spent $64 million for property and equipment and $10 million for franchise acquisitions and our equity investment in PizzaRev.

Now, I will highlight trends and provide some comments on the third quarter of 2013. For the first four weeks of the third quarter, same-store sales are trending at 1.5% at company-owned restaurants and 1.2% at franchised locations and compared to same-store sales trends for the first four weeks in the third quarter last year at 6.8% at company-owned restaurants and 7.3% at franchised locations. Last year includes the benefit of one additional UFC pay-per-view fight.

In September, we will have one extra week of NFL and NCAA football games versus last year. For the full third quarter of 2012, same-store sales were 6.2% at company-owned and 5.8% at franchised locations. The potential menu price benefit for increases and adjustments taken in the last 12 months is about 2.9% for company-owned restaurants in the third quarter, which includes a 1% increase taken with our July menu rollout.

In the third quarter, we expect to open eight new company-owned restaurants in North America. Two of these units have already opened. As a reference point, in the third quarter of 2012, we opened 15 new company-owned locations. In the fourth quarter, we expect to open 26 company-owned restaurants.

We also expect that our franchisees will open about 12 restaurants during the third quarter with five already opened. Franchisees opened seven and closed one restaurant in the third quarter last year. We expect at least 13 franchised locations to open in the U.S. in the fourth quarter and three new international locations to also open.

For cost of sales, the traditional wing market has turned it slightly up since June resulting in the cost of chicken wings for the first two months of the third quarter to average about $1.64 per pound. Our monthly cost is calculated on the average of the prior month's wing market, plus markup for processing and distribution.

This price is favorable to last year's average cost for the third quarter of $1.97. Wings by the portion rolled into all restaurants since July 15 and we estimate this will provide approximately a 40 basis point improvement to cost of sales at the restaurants where the program was not previously implemented.

We anticipate higher labor cost as a percentage of restaurant sales compared to prior year with an increase of 50 basis points to 80 basis points as a result of the implementation of the guest experience business model. We continue to evaluate the right amount of labor investment for the captain position and plan to open new restaurants with this position. By the end of 2014, we expect to transition all company-owned restaurants.

We anticipate that G&A expenses in the third quarter, exclusive of stock-based compensation expense, will be $21 million to $22 million. The largest variable in G&A expense in the third quarter will be related to the timing and number of managers trained during the quarter.

Third quarter stock-based compensation expense is estimated to be $2.8 million compared to $2.3 million in the third quarter last year. Stock-based compensation expense for the year is estimated to be $9 million to $10 million and will vary depending on the level of net earnings achieved for 2013 as well as for estimates of net earnings in future years.

In April, we reaffirmed our net earnings growth goal of 17% for 2013 when calculated on full year 2012, equating to 25% on a 52-week basis.

Based on the first half results and the comments we've shared about the remainder of the year, we remain confident in our ability to achieve this goal for 2013. Please review the risk sections outlined in our SEC filings, including our 10-Q for the second quarter, which will be filed shortly as well as our Safe Harbor statement for factors affecting our forward-looking statements.

Now, Sally will share some additional thoughts about the third quarter and the year.

Sally J. Smith, President, Chief Executive Officer & Director

Thank you, Mary. This is an exciting time for Buffalo Wild Wings. We're evolving into an even stronger company that is aligned for long-term success. We're making changes that will continue to differentiate our brand and produce a compelling and relevant experience for guests in the future. We updated our logo and our restaurant design last year and half of all the company-owned restaurants opened this year will have incorporated the new stadia restaurant design.

We're excited about the launch of the new craft beer in our restaurants called Game Changer. Beer is a cornerstone of our brand and we believe Game Changer is a great addition to our craft beer lineup as it is designed to pair perfectly with our bold flavorful wings while watching a game.

Redhook [ph] brews this premium (20:29) and since its launch on July 15, it has received great reviews from guests and the media. In addition to the new beer, on July 15, we also refreshed our food and drink menu to add some successful limited time offerings from 2012. They include the five cheese Italian flatbread, chicken chopped salad and our Molten dip, which is a great start to any meal.

On the summer menu panel, we introduced new limited time offers featuring a trio of fresh summer salads, including our Mediterranean salad. Fans across the country are gearing up for the excitement of the upcoming football season. Football fanatics are counting the days until they can create their own fantasy football teams.

Our restaurant teams are developing their game plan, and they'll be well prepared to provide a great football experience all season long. We know Buffalo Wild Wings is the best place for any fantasy draft party. This year, we'll increase the promotion of fantasy draft parties with more radio and digital advertising than in past years with the goal of significantly increasing the number of parties at each restaurant. When fantasy football league posts their draft parties in our restaurants, we believe it drives incremental sales and visits throughout the football season.

Beginning September 3, our guests can play the Big Kick challenge in our restaurants on their mobile phones for chances to win a trip to the second Buffalo Wild Wings Bowl. In addition to football promotions, we'll have new radio and TV spots and we'll invest more advertising dollars in the third quarter than we did last year. We'll also have more weeks on air and more markets.

When the football season kicks off, we'll have some hearty new limited time offerings. These dishes will be loaded with flavors to satisfy any fans in our amped-up versions of traditional favorites, including the Not Your Ordinary rings which start with crispy onion rings that we layer with guest favorites and our signature chipotle barbecue seasoning.

And for those looking for lighter fare, we have the garden crasher platter with fresh cut veggies and hummus. They all go great with the wild Bloody Mary served with a Game Changer chaser. We have some exciting openings coming up as new unit growth continues. Watch for Buffalo Wild Wings restaurants in the world's busiest airports, Hartsfield Jackson in Atlanta and in New York City near Times Square.

With our fast-paced unit growth, we're on track to achieve the opening of the 1000th Buffalo Wild Wings restaurant early next year and we're actively building the infrastructure to support becoming a leading chain of 1700 restaurants across North America.

We have a dedicated team that will continue to drive growth through international development and we recently signed a new franchise agreement to open five locations in the Philippines. In March, we announced an equity investment in PizzaRev and we're excited to watch their growth plans unfold as they open additional locations in the LA market.

As part of the investment agreement, we're actively looking for potential sites for our own PizzaRev locations in the Minneapolis metro area. We believe we'll continue to provide a rewarding experience for Buffalo Wild Wings guests with new products and engaging entertainment choices. We remain diligent in managing the business with the right balance of executing today and preparing for tomorrow. We have many exciting changes in motion to continue to build the long-term success of Buffalo Wild Wings across the globe and we're in the early stages of building a foundation to become an enterprise of multiple brands in the future.

We thank our franchisees, team members and vendor partners for their never-ending passion and continued dedication to Buffalo Wild Wings. We will now move to the question-and-answer session. In order to get in as many people as possible, we ask that participants limit themselves to one question. We'll end the call promptly at the top of the hour.

So, operator, please open the call to questions.

QUESTION AND ANSWER SECTION

Operator: [Operator instructions] Our first question is from the line of Jeff Farmer with Wells Fargo. Please go ahead.

<Q – Jeff Farmer – Wells Fargo Securities LLC>: Great, thank you and good afternoon. I'm just looking for some additional color on the shift to selling wings by volume. I guess I'd be more interested in hearing as much color as you'd be willing to provide on how customers reacted in both the early days and later days of the rollout and most specifically, do you think it in any way created a same-store sales headwind for you in July that won't be there in later months of this quarter?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Sure, Jeff. Couple of things, well, wings by the portion rolled into all restaurants July 15, so it's been in effect I guess, for a couple of weeks, so half of July. To go back to when we tested it, the first round of testing, we did have a few negative comments from guests and probably saw a decline in same-store sales just briefly in a few of the test markets. We believe that we needed to ramp up our training around serving wings by the portion and we did exactly that when we rolled system wide.

We really focused on training the team members, the heart of the house. We had information on tables for our guests. And we've received minimal comments from guests about this change. And feedback from the stores, team members, managers say it's really not been an issue. Whether there was any pushback in the last half of July, I don't think so. We've really been able to analyze our sales, our wing sales, things like that. And if you look at our year-over-year sales, we were able to see that, actually the second half of July is probably a little stronger than the first half of July in terms of comp store sales.

<Q – Jeff Farmer – Wells Fargo Securities LLC>: Okay. And if I can, just one real quick one. There's a lot of moving pieces to your cost of goods sold line right now. So, Mary I was curious, if you – I think you did this last quarter, if you'd be willing to provide us some high-level guidance on the COGS number in 3Q? I might have missed it, but anything would be helpful in terms of directionally modeling this.

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Yes, you bet. We think that from a cost of sales standpoint, we'll be about 30% in the third quarter, and last September, wing prices spiked dramatically. So although we have seen wing prices in July and August are up from what June had as a low, we do have the benefit from the rollout of wings by the portion and a menu price increase. So we're thinking somewhere around 30%.

<Q – Jeff Farmer – Wells Fargo Securities LLC>: Okay, thank you.

Operator: Thank you. Our next question comes from the line of Jeffrey Bernstein with Barclays Capital. Please go ahead.

<Q – Jeff Bernstein – Barclays Capital, Inc.>: Great, thank you. Also just one question and then a follow-up. The question relates to the comp trends through the quarter. I know you started the quarter with a fairly strong comp, but it was probably unusually inflated by the Easter shift. If I understood your comment correctly, the way you interpret the numbers, is it fair to say that comps then on a tier basis through the second quarter, ex-the Easter shift, you would say would then be stable through the quarter? Is that fair to say, is that – did I interpret that correctly?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Well, if you are doing it on a strict two-year cumulative basis for first quarter, we would have been 10.6%. In the second quarter, we would be 9.1%, and in the second quarter, we did have the benefit of the Easter shift in that two-year cumulative 9.1%. Just to make a reference now to July, so if you're taking July's numbers and we're starting at a 1.5% same-store sales, and then if you add back for the mismatch of having one less USC fight, we really had – on a comparable basis had 2.7% same-store sales in July. Last year for July, we would have been at 6.8%, so our two-year cumulative for the month of July is 9.5% which is actually a little bit better than what the second quarter's two-year trend is and significantly better than what the industry has seen according to Black Box.

<Q – Jeff Bernstein – Barclays Capital, Inc.>: And that second quarter 9.1% you're saying includes the Easter benefits so that July is a lot better than the second quarter on a normalized basis?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Yes, a little bit better.

<Q – Jeff Bernstein – Barclays Capital, Inc.>: And you said July got better in the back half versus the front half. So in terms of sequential trends, lot of people in the industry are talking about things slowing, but it doesn't seem like until most recently that things have slowed further few in July, if anything, they've gotten a little bit better.

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Yeah. I guess a couple comments on July is that we found was 4th of July being on a Wednesday last year versus a Thursday this year, we had stronger weekends last year around 4th of July than we did this year. So we are seeing improved same-store sales trends in the last two weeks of the month. That's coincidentally when the wings by the portion is out, but there are also going to be some relative nature to do with the 4th of July timing.

<Q – Jeff Bernstein – Barclays Capital, Inc.>: Okay. And then a clarification, I know you mentioned that wing prices have jumped or moved higher recently. In terms of what your suppliers are telling you, I mean should we expect more of a normal seasonal ramp up in coming months, any reason to believe it's going to return to, I guess it was pushing those $2 levels as we move into the wintertime? I know some of your larger restaurant peers are perhaps testing wings, I don't know what the kind of outlook is for wing prices going forward from here based on what you're hearing?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Yes, I don't know that there's ever a crystal ball on wing prices. We did share that the two months average for us in the third quarter is $1.64. You would expect that you'd have some trend up as you go into football. We don't see anything that leads us to believe it's going to look like 2012 did, and time will tell.

<Q – Jeff Bernstein – Barclays Capital, Inc.>: Great. Thank you.

Operator: Thank you. Our next question comes from the line of Jonathan Komp with Robert W. Baird. Please go ahead.

<Q – Jonathan Komp – Robert W. Baird & Co. Equity Capital Markets>: Hi, thank you. And maybe just a broader question about the implied outlook for the second half of the year. If I exclude the extra week from last year and look at the level of implied earnings growth that you're assuming to get to the full-year guidance that you reiterated for this year, I come up with something near 45% growth on an underlying basis for the second half of the year. So maybe could you just help reconcile some of the pieces and why you're still comfortable guiding to that type of underlying earnings growth for the back half of the year?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Well, we had always expected that our biggest earnings growth would happen in the last half of the year and a lot of that has to do with the fact that we opened our stores so late in the fourth quarter last year, and we had the 18 stores that we acquired late in the fourth quarter.

So we really had no year-over-year benefit for them, plus all the pre-opening expenses related to those new stores. So we really do get the full-year benefit of those stores in the current year. So it is a year where we would have expected the biggest earnings gains to happen in the last half.

<Q – Jonathan Komp – Robert W. Baird & Co. Equity Capital Markets>: Okay. That's helpful. And maybe just a quick follow-up. Can you give us any sense or perspective maybe from a top-line perspective on what type of same-store sales growth? I know July may be a little bit hard to read here. But as you look to the balance of Q3 and Q4, what type of or maybe how positive a comp you might need to hit the guidance?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Yeah. We haven't given specifics on that. We do talk about how there is different ways to get there, obviously different same-store sales levels, different wing price levels, different control in labor and different G&A leveraging points.

So, I think that our feeling is that you can have various levels of achievement on those factors. And you can still end up with an answer at the bottom that gets you to 17% net earnings growth to 25% on a 52-week basis.

<Q – Jonathan Komp – Robert W. Baird & Co. Equity Capital Markets>: Okay. And would you need to see a significant change from the – I think you said July running near $2.7 million if you cancel out the UFC impact. Would you need to see a significant change in the trajectory from that or how should we think about it?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: I think there's ways that we'd model to that. I think with wing prices and where the market would move would depend on the bottom-line impact.

<Q – Jonathan Komp – Robert W. Baird & Co. Equity Capital Markets>: Okay. Thank you very much.

Operator: Thank you. Our next question is from the line of Michael Kelter, Goldman Sachs. Please go ahead.

<Q – Mike Kelter – Goldman Sachs & Co.>: Yeah. I just wanted to ask, first off, I mean, despite the comments about two-year same-store sales holding steady, the same restaurant traffic is now down for each of the past three quarters. And there's some explanations each time it's happened. But broadly, is that something that you're now concerned about and proactively addressing or do you feel like it's something that will just resolve itself?

<A – Sally Smith – Buffalo Wild Wings, Inc.>: I think that we're probably seeing some of the macro things that other restaurant companies are as well. We typically do see a trend up in traffic in the third and – late third and fourth quarters of the year. I'm very comfortable about where we're at from a menu standpoint, from a pricing standpoint, to move to wings by the portion.

Any time there is an event in restaurants, that certainly helps. I can't recall matchups for March Madness or some of the matchups in the NBA, how that might have affected us in the second quarter. But we have a lot of ways to drive traffic. And I think we're in the right track with additional media, a compelling message and, again, really improved audiovisual and some gaming in new restaurants. So we're not concerned.

<Q – Mike Kelter – Goldman Sachs & Co.>: And then, on the labor line, that's another area where I mean, at 31.2%, that's the highest in a quarter in over five years. And so I guess I'm curious, and I know the guest service captain is an incremental expense. Is there anything that might rein that line item in other than the reacceleration of comps and some leverage? Or do we just need to get used to higher labor costs as a percentage of sales?

<A – Sally Smith – Buffalo Wild Wings, Inc.>: I think the short term, as Mary indicated, we do expect labor to be a little bit higher in the third quarter, but our goal is to get it back to historical levels. Now it may run a little bit higher, but there's other ways, other things we can leverage.

We are going forward with the guest experience rollout and that – and we're doing the appropriate training, so it will take throughout 2014, cognizant of the fact that if you rolled it all at once, you would have probably some unacceptable hourly labor.

But we do see it drive incremental sales. And what we're really working on at this point is how many shifts and what's the appropriate number of hours to have the guest experience captain in restaurants? We started out with the guest expense captain at every shift and now we're testing two different hourly components. There are some areas where you really don't need a guest experience captain.

So we've been tweaking it and I would say that definitely, we'll get labor closer to historical levels, but it is going to be quarter or two, I'm sure.

<Q – Mike Kelter – Goldman Sachs & Co.>: So what does a guest experience location look like on the numbers versus a non-guest experience location? You said higher same-store sales? And you said earlier in the call, higher labor expense. You didn't quantify either of those? Could you do that, just kind of what the comp lift is from having that incremental expense and what the labor expense might be? Just – it would be very helpful to understand.

<A – Sally Smith – Buffalo Wild Wings, Inc.>: Sure. But we probably are still early in the test to know what we will expect long-term from a comp lift, and labor has really fluctuated because we're also rolling out this new management structure and they're designed really to go together.

We do have guest experience in 130 of our stores. We're currently rolling that out at new restaurants that have higher labor expense anyway. And so, as we continue to work through that, if there's going to be a permanent change in labor, we'll certainly provide that guidance over time. But it's still too early to give any specific detail.

<Q – Mike Kelter – Goldman Sachs & Co.>: All right. Thank you.

Operator: Thank you. Our next question is from the line of Keith Siegner with Credit Suisse. Please go ahead.

<Q – Keith Siegner – Credit Suisse Securities (USA) LLC (Broker)>: Thank you. As the new unit openings accelerate into the back half and also considering how strong the average weekly sales growth has been versus the same-store sales growth, particularly even in this quarter, is there any – what can you tell us about the composition of that back half opening?

Any changes kind of year-over-year or even versus trend in terms of coastal units or urban units or other – anything else that might influence that pace of average weekly sales growth versus same-store sales growth would be very helpful? Thank you.

<A – Sally Smith – Buffalo Wild Wings, Inc.>: No, it's our goal to always open very strong. And so we have a very methodical approach to opening restaurants. As I think back on what we're opening in the last half, nothing comes to mind that stands out as to location or density. We still have a lot of opportunity in California, so we're opening there.

I believe we opened our first one in Boston, and so we're continuing to build out that market. But nothing stands out. And certainly, it partly is dependent on the timing of restaurants that change or that delta in same-store sales over average unit volumes, but we would expect that that would continue.

<Q – Keith Siegner – Credit Suisse Securities (USA) LLC (Broker)>: And then one clarification question, sorry about this. Mary, you mentioned in your prepared remarks or near the end of your prepared remarks on labor a 50 basis point to 80 basis point headwind to labor from guest experience model. Was that specific to the back half or was that a unit-by-unit basis? I'm sorry I missed that?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Yes, that was specific to the third quarter overall.

<Q – Keith Siegner – Credit Suisse Securities (USA) LLC (Broker)>: Perfect. Thank you.

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: You're welcome.

Operator: Thank you. Our next question is from the line of Jason West with Deutsche Bank. Please go ahead

<Q – Jason West – Deutsche Bank Securities, Inc.>: Yes, thanks. Just a question on the wing costs. Mary, I know the wing weights have been an issue kind of exacerbating the price inflation there. Can you talk about what the deflation would have been on wings when you factor in weights? Are those now flat year-over-year or where do you think that's heading in the back half?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Okay. I'd just talk about the weight specific. I won't get back to what it is on a weight per wing basis, but our wing sizes – in June, our wing sizes were still about 10% bigger than the prior year. And so, if you assume that bird sizes stay where they're at today, that delta will continue to decline to the end of 2013 and then we should be neutral on the wing size year-over-year sometime in the first quarter of 2014.

Now with the wing side of portion rollouts that we took in July, we'll regain most of that margin loss that we experienced from the bigger wings as we go through the rest of the year. And then in the future, the factor of wing size won't matter as it relates to having a cost of sales variance on that item.

<Q – Jason West – Deutsche Bank Securities, Inc.>: Right, okay. So that becomes really a non-issue with the new menu anyway?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Correct.

<Q – Jason West – Deutsche Bank Securities, Inc.>: Okay. And then you said the 40 basis points on the new menu from the COGS pickup. Just I thought that sounded a little bit less than we would've estimated just given the significant change in the potential units there. Can you talk a bit about – is that a good run rate going forward with that number, do you think get bigger over time as you – this has only been out for two weeks? Are you doing still six units for the smalls in a lot of cases things like that?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: We do have some of all of that going on. We've only rolled it for two weeks. We're estimating about a 40 basis point improvement for the restaurants when that did not already have this in place, so we did have stores that had been testing this that won't have that improvement because they've already experienced it. And then we're still gathering the information on wing sizes in some of our markets where we believe that they were already at account that would have them at fixed and so they wouldn't see any difference in their cost of sales either. So, we're working through all of that. Our estimation right now is that, overall, it would be about a 40 basis point improvement for those restaurants that see that conversion.

<Q – Jason West – Deutsche Bank Securities, Inc.>: Thank you.

Operator: Thank you. Our next question is from the line of John Glass with Morgan Stanley. Please go ahead.

<Q – John Glass – Morgan Stanley & Co. LLC>: Thanks, I – just two quick follow-ups please. One is just on the cost of goods estimate for the third quarter, is that also including the full benefit of the distribution agreement or is that something still to come? In other words, is that the right level to think about going forward if wing prices stay constant or is there more levers like that distribution? And then secondly, can you just comment on the G&A reductions this quarter in travel and some other expenses, was that temporary and that's going to shift? Trying to understand if you were actually ahead of your own internal guidance this quarter but you're maintaining your full year, maybe some of these costs have just shifted or if this was just – you're ahead this quarter and you're just being conservative on your guidance? Thanks.

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: As it relates to the cost of sales and the distribution concept, we did fully roll out the rest of our company stores in the month of June. So, we are fully converted over to the new distribution contract. We would have had, in our second quarter, the benefit of those final stores rolling in. So from a quarter-to-quarter basis, you wouldn't get the full benefit of that sequentially, second quarter to third quarter. So, when I'm looking at the second quarter cost of sales, the things that I'm looking at is that in the – or in – for the third quarter cost of sales, is that in the second quarter, we were 30.4%. We do have higher wing prices in July and August compared to what the second quarter average is, probably about a 20 basis point increase. We do have wings by the portion, we think that's somewhere around 30 basis points to 40 basis points savings, maybe 30 basis points, if not all of the stores are having a conversion from six to five for those smaller orders. Then there is some incremental benefit from [indiscernible] (43:11) as well as the menu price increase that we took in July. So, it brings me to a third quarter estimate somewhere in that 30% range.

<Q – John Glass – Morgan Stanley & Co. LLC>: And then just related to the G&A in the overall guidance?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Yeah, and G&A, we had estimated hire on the number of managers that we were going to put through training, some of that is more of a push in the third and fourth quarter as the openings are delayed, but we're also finding that we're having more [ph] internal (43:39) promotion we had anticipated and as we adjust these management structures in some cases from five or six managers down to four managers, we also have less managers to hire as we transition those managers to other locations. So, we are giving for the third quarter a pretty wide range for G&A, up $21 million to $22 million, but really you can have that kind of variations just based on the number of managers you have entering training.

<Q – John Glass – Morgan Stanley & Co. LLC>: Okay. Thank you.

Operator: Thank you. Our next question is from the line of Will Slabaugh with Stephens, Inc. Please go ahead.

<Q – Will Slabaugh – Stephens, Inc.>: Yeah, thank you. Just a quick clarification first, I wanted to ask if you would mind giving us the impact of the UFC fight year-over-year if you could for July?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: We did. For the month of July, we said that that was worth about 150 basis points. So instead of running – 120 basis points, so instead of running 1.5% we would have ran 2.7% for July.

The other factors that we should talk about, potentially that's a downside to the third quarter. There is one last event in July and that will make one less event for the quarter as a whole. But from an upside potential in the third quarter, we do have the additional week of the NFL and the NCAA football versus last year. We think for the quarter that's worth about 60 basis points to our same-store sales.

We also have a pretty big fight in September, a pay-per-view fight with Mayweather. We have about 85% of our company-owned restaurants are going to carry that fight, we think that's a big day, bigger than a lot of UFC fights that we've had this year. And then Sally talked about new media spots, great – we think we have a great media plan going into third and fourth quarter.

<Q – Will Slabaugh – Stephens, Inc.>: Got you. Thanks. And then one other quick follow-up if I may. How about the launch of the Game Changer beer? And just, I know it's been only a couple of weeks, but how that went? And if this is more of a signal of a move toward more branded beers and other beverages, or is it too early to say? And then on the back of that is the margin structure significantly different for you on that beer versus other crafts?

<A – Sally Smith – Buffalo Wild Wings, Inc.>: Yeah. We're really pleased with the results of Game Changer in just the first two weeks. We introduced it with a discounted craft price to encourage trial and the sales have exceeded our expectations.

In the last two weeks, Game Changer is the fourth most popular draft beer at company-owned locations. What we like about Game Changer, it is a premium beer that fits really nicely between domestics and crafts and at a nice value for our guests. So they get craft quality beer at a mid price, which we think will drive back some of the margin dollars that we have lost in the last couple of years due to price increases that some of the large brewers have taken.

<Q – Will Slabaugh – Stephens, Inc.>: Got it. Thank you.

Operator: Thank you. The next question is from the line of Alvin Concepcion with Citi. Please go ahead.

<Q – Alvin Concepcion – Citigroup Global Markets Inc. (Broker)>: Thank you. Just a follow-up on selling the wings as a portion, I know it's early, but did the rollout build incremental sales and also what kind of impact did you see on traffic and mix in the initial rollout and the test?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Yeah. From a sales standpoint it's really not a sales driver. We didn't take price increases as it relates to really not wing size portion. It really is about protecting the cost of sales margin when wing sizes fluctuate. So we did share that we think that the benefit of that because we have had larger wings in our restaurants for a while and we do – now with the new portions we'll have people adjusting down the quantities that we will get some cost of sales benefit for that in the future, since we've rolled it out, but it isn't about a test driving sales.

<Q – Alvin Concepcion – Citigroup Global Markets Inc. (Broker)>: And then just a follow-up. I know a lot of companies mentioned June was a rainy month. Did weather have an impact on comps in the quarter, if any, to a significant extent?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: It's difficult. We don't spend a lot of time quantifying that. I mean, we can talk about weather in the Midwest in June and July have not been great weather months here. And so if other people are talking about weather impacting them whether it's use of patios or otherwise, I'm sure that we have some of that impact on our stores as well.

<Q – Alvin Concepcion – Citigroup Global Markets Inc. (Broker)>: And just wanted to get your updated thoughts on a potential acquisition. Are you still looking for those opportunities, and have you honed sort of what you're looking for specifically?

<A – Sally Smith – Buffalo Wild Wings, Inc.>: We're still looking, nothing in particular stands out right now. But it's – they still have – what we're looking for still has the qualities or the – I guess the attributes that we've mentioned in previous calls. We would like it to be franchisable. We want it to be something small that has passionate founders that want to grow the brand.

It needs to be work as well in Los Angeles as it does in Minneapolis, as it does in Des Moines, Iowa. So we want it to be – have possibility to be a nationwide concept. I mentioned franchisable, most likely in fast casual, possibly casual dining sector so not QSR, not fine dining. We've got a lot of things that we're looking at and I have a team that's eating and thinking.

<Q – Alvin Concepcion – Citigroup Global Markets Inc. (Broker)>: Thanks a lot.

Operator: Thank you. Our next question is from the line of Greg McKinley with Dougherty & Company. Please go ahead.

<Q – Greg McKinley – Dougherty & Co. LLC>: Yeah. Thank you just a couple of quick number questions. What were wings as a percentage of your cost of sales for the quarter? And then, could you just run us through, again, the number of openings and closures that occurred in Q2? Thank you.

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Wings as a percent of cost of sales is 23.5%.

<Q – Greg McKinley – Dougherty & Co. LLC>: Okay.

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: And then, you had asked a question regarding...?

<Q – Greg McKinley – Dougherty & Co. LLC>: Yeah, the number of gross openings and closures for both company-owned and franchised locations in the quarter. And then maybe just refresh our memory on what your thought is on that for the second half?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Yeah, we didn't have any closures for either company or franchise in the second quarter, so we did have 10 company stores opened and 11 franchise opened. And then on the company side, we do have one relocation that's on the books for later this year...

<Q – Greg McKinley – Dougherty & Co. LLC>: Okay.

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: ...here in Minneapolis and I'm not sure on the franchisees side; there tends to be a couple every now and then.

<Q – Greg McKinley – Dougherty & Co. LLC>: Thank you.

Operator: Thank you. Our next question comes from the line of Nick Setyan with Wedbush Securities. Please go ahead.

<Q – Nick Setyan – Wedbush Securities, Inc.>: Hi, thanks. Just going in a different direction here a little bit. Did I understand correctly that you guys are actually looking to search spot for lease for PizzaRev in Minneapolis, and if that's true, is that like a 2014 event and maybe you guys can give us a little bit more information around that...?

<A – Sally Smith – Buffalo Wild Wings, Inc.>: Sure, you are kind of breaking up. So I'm thinking the question you asked is that in the script you talked about that we were looking to put a PizzaRev in Minneapolis and that is correct. We are pursuing different sites as part of our agreement.

We have the opportunity to open locations in Minneapolis partly to – as a test of the concept and partly because this is our home territory, so it's a great opportunity for us to take a look at how it functions and the upside potential to it. We'd like to have something open if possible probably the first quarter of 2014. The capital commitment is not significant and would be reflected in the capital information that we've given you to-date and we'll provide additional detail on it in the – at the next quarter conference call.

<Q – Nick Setyan – Wedbush Securities, Inc.>: Okay. And then just on the international front, it looks like you guys are going to have the first few openings in Q4. How should we think about the international as in terms of the openings going forward? Can you just maybe remind us how many signed agreements you have now and how should we think about that going forward?

<A – Sally Smith – Buffalo Wild Wings, Inc.>: Sure. Well, I just want to remind everyone that we are – that our international development is franchised. So we'll be receiving royalty on it. Certainly, the revenue won't be picked up, but just rather the royalty revenue. We have three different agreements in Mexico, three different groups and there – each of them are – each agreement has between I think 8 and 10 locations each. And we expect that each of the groups will open one restaurant in this fourth quarter, and I think that total timeframe is somewhere five to seven years to open all of the restaurants.

We also have an agreement for the Middle East and that is I believe a 12 store agreement with the opportunity to go up to 20 locations. We're currently – they are currently building out a location in Dubai and in Saudi Arabia and then we did just sign a five-store development in the Philippines and we would expect that the first restaurant there will open probably very early in the first quarter of 2014.

Going forward, I think we're going to be on about the same pace if not more as we have a lot of inquiries throughout in a lot of countries that we've been – that we've visited and have been meeting with prospective franchisees and they're in various stages of development I guess at this point, but very pleased with where we're at from an international development standpoint.

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Next caller.

Operator: Thank you. Our next question from the line of Stephen Anderson with Miller Tabak & Company. Please go ahead.

<Q – Stephen Anderson – Miller Tabak + Co. LLC>: Thanks, good afternoon. Most of my questions have been answered, but I wanted to follow-up on the international development, come a little bit closer to stateside with regards to Canada. I just wanted to see what your development schedule has been there? I know you have about six or maybe about seven units there right now. And what's your outlook going into 2014?

<A – Sally Smith – Buffalo Wild Wings, Inc.>: We actually have 13 locations open in Canada at this point in the Greater Toronto or Toronto – Greater Toronto and in the Calgary market. And I don't recall how many exactly we expect to open between now and the next year. But we'll be getting – I can't recall.

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Yeah, we have opened six so far this year and I don't know if there is additional sites that we'll still open in 2013 or not, but we will have more in 2014.

<A – Sally Smith – Buffalo Wild Wings, Inc.>: We have one more site to open there this year actually.

<Q – Stephen Anderson – Miller Tabak + Co. LLC>: Okay. Thank you.

Operator: Thank you. Our next question is from the line of Conrad Lyon with B. Riley & Company. Please go ahead.

<Q – Conrad Lyon – B. Riley & Co. LLC>: Hey, a couple ones real quick here. First one, new menu with the new structure. Is there any media related to that to just kind of alert people? Or is it just simply when you go in the restaurant, managers and staff will train you on it?

<A – Sally Smith – Buffalo Wild Wings, Inc.>: It's simply in restaurant and we have cards on every table that explain same great wings just a new look. And cards that explain why we've made the change and all of the servers have been trained as well as the managers. But no, we're not doing any media behind it.

<Q – Conrad Lyon – B. Riley & Co. LLC>: Okay. Different direction, 2014, I wanted to see if it's possible to shed any light on the development schedule both company, franchise? And what you might be looking at in terms of units, if possible?

<A – Sally Smith – Buffalo Wild Wings, Inc.>: Well, obviously we'll hit our 1,000th restaurant in probably January of 2014. And as we've mentioned for the last few quarters, at some point we probably can't keep up the same pace. The same number of units will probably decrease slightly. But we'd like to still target in that probably 50 unit range for the company and I'm not even sure for franchise. I actually don't have that at my fingertips. But somewhere under the number we're opening today, I would think. It just becomes more difficult to find the appropriate location. And we want to make sure every location we open is the right one and not just to meet some number.

<Q – Conrad Lyon – B. Riley & Co. LLC>: Sure. Got you. All right. Great. Thank you, Sally.

Operator: Thank you. Our next question is from the line of Matthew DiFrisco with Lazard Capital. Please go ahead.

<Q – Phan Le – Lazard Capital Markets LLC>: Hi, thank you. This is Phan sitting in for Matt. I was just wondering if you guys happen to see any disparity within different regions of markets. Or wondering if the trends you're seeing are consistent across the country?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Yeah, we haven't called out specific markets in the past. So I think our comments regarding July and the weekend around July 4 not being strong was really across the country.

<Q – Phan Le – Lazard Capital Markets LLC>: Okay. And then, I guess, another follow-up question then in terms of the relative operating costs. It looks like it's been moving around a bit. You saw 40 basis points of deleverage in the first quarter and you saw some leverage in this current quarter. I'm wondering with the increased incremental marketing costs, would that flow through that line. And is it fair to say we'd expect a little bit of deleverage in the third and fourth quarter perhaps?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: No. On the marketing piece, we do expense that on a steady percent of sales through the year and then just place it to media in chunks. So we wouldn't see that as an uptick in our OpEx line for the third quarter.

Operator: Thank you. And I'm showing no further questions at this time. I'd like to turn the conference back over to management for any closing remarks.

Sally J. Smith, President, Chief Executive Officer & Director

Okay. Well, thank you for sharing the conference call with us as we talked about our second quarter results. We look forward to speaking with you again sometime at the end of October when we review third quarter 2013 results. Thanks everyone.

Operator: Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you very much for your participation and at this time you may now disconnect.