PARTICIPANTS

Corporate Participants

Mary J. Twinem – CFO, Treasurer, EVP & Head-Investor Relations, Buffalo Wild Wings, Inc.
Sally J. Smith – President, Chief Executive Officer & Director, Buffalo Wild Wings, Inc.

Other Participants

David E. Tarantino – Analyst, Robert W. Baird & Co. Equity Capital Markets
Nick Setyan – Analyst, Wedbush Securities, Inc.
Will E. Slabaugh – Analyst, Stephens, Inc.
Larry A. Miller – Analyst, RBC Capital Markets LLC
Michael Tamas – Analyst, Oppenheimer Securities
David Dorfman – Analyst, Morgan Stanley & Co. LLC
Keith Siegner – Analyst, Credit Suisse Securities (USA) LLC (Broker)
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Mark E. Smith – Analyst, Feltl & Co.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen. Welcome to the Buffalo Wild Wings First 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.

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

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

Good afternoon and thank you for joining us as we review our first 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 first 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 franchise 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, success of 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 for the U.S. Securities and Exchange Commission.

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

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

We're pleased with our strong revenue growth in the first quarter of over 21%. For the quarter, same-store sales in company-owned locations increased 1.4%, outpacing the negative same-stores sales in the casual dining category. If you recall, our first quarter includes one less week of the NFL season compared to last year, and our same-store sales at the time of February earnings were negative 2.8%, so we're very pleased with the upswing that brought our full quarter same-store sales to a positive 1.4%. This trend continues in April with same-store sales of 5.2%. Our first quarter results are also comping over a substantial same-store sales increase of 9.2% in 2012. Similarly, same-store sales in franchised locations increased 2.2% for the first quarter over strong results of 7.3% last year.

Buffalo Wild Wings fans continue to support our fast-paced new restaurant growth and we increased our presence in North America with 20 additional restaurants, including the opening of our 900th location in the first quarter. Our teams were focused on engaging our guests and creating our unique Buffalo Wild Wings experience, particularly during major sporting events like post-season football and college basketball.

Our same-store sales were especially strong on Super Bowl Sunday and during March Madness tournaments. The new pop-a-shot game we launched for March Madness was played more than 100,000 times with nearly 60% of those plays happening on the mobile app in our restaurants. These results are a testament that fans consider Buffalo Wild Wings a top destination to gather with friends to share the excitement of a big game.

In the first quarter, we continued to invest capital and labor for our future success, even though we faced the challenge of high wing costs and fluctuating wing yields. Poultry production, product specs, demand, commodity costs, seasonality and weather are all factors in the evolving wing marketplace and create inconsistency in the size of wings in our fresh wing supply.

Our current model of selling our wings in fixed quantities does not align with how we purchase wings or allow us to adapt to these ongoing, and at times volatile product changes. The strategies we began testing late last year for serving our wings evolved over the course of the last six months to ensure we continue to meet and exceed the expectations of our guests on both the quality and value of our wings, while also meeting our business goals.

Based on thorough analysis, we have decided to transition our menu serving to wings by portion in the beginning of the third quarter. Our new servings will allow us to serve a consistent portion of chicken to our guests when the size of wings fluctuates. Our new servings will be defined as snack, small, medium and large portion and our team members will be well-trained to help our guests adapt to the transition this summer. In addition to our plans to mitigate fluctuating wing yields, we're pleased the market price is trending downward.

We're excited about our guest experience business model as it further enhances our brand and we've seen this strategy build incremental sales. We're building the infrastructure and management teams to support this new model and the unique programs, promotions and technologies that truly create a Buffalo Wild Wings experience for our guests on every visit.

In the first quarter, this model incurred higher labor costs than we had last year when it was not in place. We continue to refine this already strong model for operating our restaurants. We now have tabletop tablets in numerous restaurants and plan to have that in nearly 100 locations by the end of the year. This platform provides an interactive gaming experience and we will integrate ordering and unique music capabilities in the future.

In addition to gaming, we're developing exclusive and interactive sports content for our TVs. This new technology is engaging our guests in seven test markets and we have plans to roll it to additional locations this year.

Unit growth remains a priority for us in North America and abroad. Domestically, we acquired three franchise locations in the first quarter. On the international front, our growth plans are also progressing with three new franchise agreements for locations in Mexico and we anticipate that three to five locations will open later this year.

Our recently announced minority investment in PizzaRev is an exciting first step in pursuing additional domestic growth through emerging brands. PizzaRev is a three unit California-based restaurant concept that has a new – fresh new approach to one of America's favorite foods. We believe the PizzaRev brand has high growth potential across the country.

In summary, while the first quarter began with some cost challenges, wing costs are moderating. We continue our work to improve margins and with our strengthening same-store sales and a focus on disciplined labor management, we believe we have a strong foundation to build upon for the year.

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

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

Thank you, Sally. Our revenue in the first quarter reached $304.4 million, increasing 21.2% over last year. System-wide, sales at our company-owned and franchised restaurants were $682 million for the quarter.

Company-owned restaurant sales for the first quarter increased to $284.4 million, a 22.4% increase over the same period in the prior year. Same-store sales at company-owned restaurants were 1.4% for the first quarter compared to 9.2% for the comparable period last year. Menu price increases and adjustments taken during the past 12 months at company-owned restaurants were about 4.9%, which includes a small alcohol price increase taken in mid-March.

As you'll recall from our February conference call, our same-store sales were negative 2.8% for the first six weeks of the quarter as the first quarter of 2013 did not include any regular-season NFL games, whereas 2012 included the last week of the regular season.

We highlighted that the NCAA March Madness tournament had similar timing as last year with both the years having two weeks of the tournament, so Easter was in the first quarter and during the Sweet 16 Weekend this year. Our goal was to finish the quarter with positive same-store sales, which we accomplished.

We had 70 additional company-owned restaurants in operation at the end of this quarter versus first quarter last year, a 21% unit increase. Average weekly sales increased by 3.3% in the first quarter, 190 basis points higher than our same-store sales percentage. The average weekly sales calculation benefited by about 50 basis points from the closing of older lower volume locations during the last 12 months.

Company-owned locations opened during the last 15 months contributed an increase of 140 basis points. The 21 locations that we purchased for franchisees during the last 15 months are performing in line with our average weekly volume for the quarter.

Our royalty and franchise fee revenue for the first quarter grew by 6% to $19.9 million versus $18.8 million last year with an additional nine franchise units in operation at the end of the first quarter versus a year ago.

Same-store sales at franchised locations increased by 2.2% in the quarter compared to a 7.3% increase in first quarter last year. Average weekly sales volumes for the quarter increased by 4.8%, a 260 basis point increase over same-store sales. About 130 basis points of this increase are attributed to the closure of locations in our acquisition of the 21 franchise units.

The following comments will focus on the performance of our company-owned restaurants. Cost of sales for the first quarter was 32.7% of restaurant sales compared to 31.1% in first quarter last year, a 160 basis point increase. Traditional Wings were $2.10 per pound this quarter $0.18 or 9% higher than last year's average of $1.92. The size of wings increased over both prior year and last quarter and the result was that our cost per wing by the end of the first quarter was closer to 30% higher than last year.

Traditional Wings accounted for 20% of our restaurant sales this quarter compared to 19% last year and Boneless Wings were also 20% of sales, up from 18% last year. Food and nonalcoholic beverage sales were 78% of restaurant sales in first quarter of both years.

Cost of labor for the first quarter was 30.2% of restaurant sales, 80 basis points higher than first quarter last year. We incurred higher labor expense as we continue to refine our guest experience business model, which was partially offset by lower bonus expense.

In the first quarter, restaurant operating expenses as a percentage of restaurant sales were 14.5%, an increase of 40 basis points from the prior year with higher repairs and maintenance and store level marketing expenses. Occupancy costs were 5.7% as a percentage of restaurant sales compared to 5.5% last year.

In summary, restaurant level cash flow, which is calculated before depreciation and preopening expenses was $48.3 million or 17% of restaurant sales versus $46.3 million or 19.9% in the first quarter last year. This 290 basis point decline is primarily a reflection of higher cost of sales and labor and to a lesser extent deleveraging of fixed costs.

Depreciation and amortization for the first quarter was 6.6% of total revenue, 40 basis points higher than the prior year, half of which relates to incremental amortization for intangibles acquired as part of our franchise acquisitions. General and administrative expenses were $21.3 million in the first quarter or 7% of total revenue compared to $19.4 million or 7.7% in the prior year.

Excluding stock-based compensation of $870,000 in the first quarter and $1.2 million in the prior year, G&A expenses for the first quarter totaled $20.4 million or 6.7% of total revenue compared to 7.2% last year.

We opened or relocated 14 company-owned restaurants in North America during the first quarter compared to 10 new locations in the first quarter of 2012. We also acquired three franchised restaurants and closed one of our older locations.

Preopening expenses for the quarter totaled $4.3 million versus $2.6 million last year. The $4.3 million includes $1.1 million of preopening expenses for future openings that are under construction, and in the first quarter last year we incurred $779,000 related to future openings. Preopening costs averaged $285,000 per new restaurant during the first quarter 2013 compared to $256,000 in 2012.

The loss on asset disposals and store closures for the first quarter totaled $571,000 compared to $737,000 last year. We reported investment income of $345,000 for the quarter compared to $410,000 in 2012, which is primarily investment income from funds set aside for future payouts under our deferred compensation plan in both years.

Our effective tax rate during the first quarter was 26.5% compared to the 33% in the prior year. The first quarter includes the favorable impact of the American Taxpayer Relief Tax Act of 2012 that was enacted this year. We estimate our effective tax rate in the remaining quarters of 2013 will be about 31%.

In summary, our net earnings in the first quarter of 2013 were $16.4 million producing earnings per diluted share of $0.87 compared to $0.98 in the prior year. On our balance sheet on March 31, 2013, our cash and marketable securities totaled $14.8 million compared to $30.9 million at the end of 2012. We ended the quarter with $581 million in total assets and $400 million of stockholders' equity.

Cash flow from operations was $28 million for the quarter and we spent $35 million for capital expenditures and $10 million to acquire three franchised restaurants and a minority interest in the PizzaRev concept. In 2013, we estimate that our capital spending will be $160 million, which does not funds that we have or may spend for franchise acquisitions or new concept investments.

We have a three-year $100 million unsecured line of credit in place that allows us to remain nimble for future investments in franchised acquisitions and emerging brands. As of March 31, we had utilized $5 million of this credit line, which we have since repaid.

Now I will highlight trends and provide some comments on the second quarter of 2013. For the first four weeks of the second quarter our same-store sales are trending stronger at about 5.2% at company-owned restaurants and 5.8% at our franchised locations as compared to same-store sales trends for the first four weeks in the second quarter last year of 6.7% at company-owned restaurants and 6.6% at franchised locations. For the full second quarter of 2012, our same store sales were 5.3% at company-owned and 5.5% at franchised locations.

The potential menu price benefit for increases and adjustments taken in the last 12 months is about 4.7% for company-owned restaurants in the second quarter.

In the second quarter we expect to open nine new company-owned restaurants in North America. Three of these units have already opened. As a reference point, in the second quarter of 2012 we opened four new company-owned locations. We also expect that our franchisees will open about 12 restaurants during the second quarter.

The cost of sales, the traditional wing market has trended down since February resulting in our cost of chicken wings for the first two months in the second quarter to average about $1.75 per pound. This compares to last year's average cost for the second quarter of $1.90.

Whereas the cost per pound of Traditional Wings is favorable year-over-year, the yield per pound comparison is not, causing our estimate of cost per wing for the first two months in the second quarter to be similar in both years. If the current market price holds through May, our cost of wings in June would be less than $1.50 per pound. A reminder that the cost per pound that we pay is calculated on the average of the prior month wing market plus markup for processing and distribution.

We anticipate higher labor costs as a percentage of restaurant sales compared to the prior years, similar to the increase we experienced in the first quarter. We anticipate that our G&A expenses in the second quarter exclusive of stock-based compensation expense will be approximately $22 million. Second quarter stock-based compensation expense is estimated to be $3.2 million compared to $2.7 million in second 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 February, we updated our net earnings growth goals to 17% for 2013 when calculated on a full year 2012, equating to 25% on a 52-week basis. Based on the comments we shared about the rest of 2013, the current strength of our top line, the decrease in the cost of Traditional Wings and disciplined labor management, we are confident in our ability to achieve our net earnings goal for 2013. I'll remind you that the majority of our year-over-year growth will occur in the last half of the year.

Please review the risk sections outlined in our SEC filings including our 10-Q for the first 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 second quarter and the year.

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

Thank you, Mary. We're excited about the year ahead. Our new restaurants are opening with strong results and we're opening more restaurants earlier in the year compared to the last year. Our new restaurant design has a fresh, modern feel that is wowing our guests. They love the comfortable and bright atmosphere and they especially enjoy all the TVs along with the giant screens over the bar. And the open layout makes gathering with a large group of friends even better.

We'll continue to rollout this new design in about 15 company-owned locations later this year. We will also continue to invest in upgrading our existing restaurants and have plans to incorporate many of the new design elements into remodeled projects moving forward.

We saw a positive response in our restaurants and on-site at the Final Four from our new sponsorship as the official hangout of NCAA March Madness. And we're looking forward to further establishing our brand as the official hangout for all NCAA sports throughout the rest of the year.

In addition to college sports, we'll have a stronger TV presence than last year in NBA games and we have a new agreement with DirecTV that will ensure that we have every game and sport available to air in every restaurant.

During the second quarter, we are featuring unique new menu items that enhance the game day feeling in our restaurants. For the first time we have a lineup of flavorful [ph] brats (21:59) that are loaded with unique toppings and our signature sauces and seasonings. Our menu panel will also feature Hog Wild French Fries, which are loaded with queso that is kicked up with our signature Wild sauce and crumbled bacon. Based on guest response, three of our most popular limited-time offerings in 2012 will be added to our new permanent menu along with wings by portion later this summer.

Draft beer is another cornerstone of our brand. We continue to create new opportunities to enhance the draft beer experience for our guests, increase our beer sales and improved our draft beer margin. We're excited to announce that when we roll out a new drink menu this summer, we'll launch a new craft beer that is the result of an in-depth collaboration between Buffalo Wild Wings and established craft brewer, Redhook. The new beer, called Game Changer, is a premium craft beer that is designed to go perfectly with our flavorful wings while watching a game.

Our growth towards being a chain of 1,700 Buffalo Wild Wings locations across North America continues and our international growth is moving forward as we expand across the globe. We expect to open more than 100 Buffalo Wild Wings restaurants during the year.

We're excited about our investment in the PizzaRev concept. As PizzaRev continues to develop, we'll evaluate available options to increase capital investments and build company-owned locations. In addition to PizzaRev, we'll also continue to evaluate additional investment opportunities in emerging brands for domestic growth. We believe in our ability to provide a rewarding experience for our guests while diligently manage our business for the long term success.

With continued same-store sales momentum and moderating wing costs and our disciplined management of labor, we are confident we will achieve 17% net earnings growth for 2013, equating to 25% on a 52-week basis. We thank our franchisees, vendor partners and our team members for their passion and their continued dedication to the success of our brands.

We will now move to the question-and-answer session and ask that participants limit themselves to one or two questions. We'll end the call at the top of the hour, and we'll follow-up individually with participants after the call for any additional questions.

Operator, would you please open the call to questions.

QUESTION AND ANSWER SECTION

Operator: Thank you, ma'am. Ladies and gentlemen, at this time we will begin the question-and-answer session. [Operator Instructions] Our first question comes from the line of David Tarantino with Robert W. Baird. Please go ahead.

<Q – David Tarantino – Robert W. Baird & Co. Equity Capital Markets>: Hi. Good afternoon. My questions are mainly centered around the cost of sales line and I'm just wondering if given all the moving parts in that line if you could just talk, Mary, about what you might expect for the cost of sales ratio as you move into the second quarter and maybe the back half of the year? And how does the transition to selling the wings by portion sizes play into that equation? Any perspective there would be helpful. Thanks.

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: All right. We'll talk about the second quarter, so very pleased that wing prices have declined and we shared in the call that the average for what we are paying in April and May will be $1.75 versus $1.90 last year. So with the yield differences that we've seen at least through April, the cost is actually very similar on a cost per wing basis.

The good news, I guess, is that for June we're seeing prices now based on the May market that would put us under $1.50. So assuming that the yield size remains very similar to what we've seen in March and April, we would start to see year-over-year declines in the cost per wing. When you consider the fact that we're finally hitting the point at a similar cost and we have taken menu price increases since last year, our feeling is that for the second quarter we should get under 31% from a cost of sales line.

Your question related to wings per portion, we have just a very small set of our groups now that -or of our stores that have been testing that, about 40 of our company stores. What we're finding in those stores based on the current wing size that we've seen in March and April that they would have cost savings somewhere in the 40 to 50 basis point range.

<Q – David Tarantino – Robert W. Baird & Co. Equity Capital Markets>: Great. That's helpful. And then in the second – so if you were to implement that, that would come in, in the second half. And then are you still expecting to also get some savings on the distribution side that you've talked about previously so would that be on top of what you mentioned there?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Yes. The rest of our company stores will roll-out the new distribution system in June, so by the end of June, we'll be over to that. What we're not sure about is if we'll see that full 40 basis points savings immediately and part of our – we're working through some additional processes that we need to do in order to capture all of the trade discounts that are available. So when we're fully functional and we have all of our systems done, we do believe it's at least 40 basis points going forward.

<Q – David Tarantino – Robert W. Baird & Co. Equity Capital Markets>: Great. Thank you very much.

Operator: And our next question comes from the line of Nick Setyan with Wedbush Securities. Please go ahead.

<Q – Nick Setyan – Wedbush Securities, Inc.>: Thanks for taking my question. In terms of labor as a percentage of sales, you guys mentioned we should expect that to be a little bit higher in the second quarter as well relative to last year. How about in the second half? Is that something that we should continue to see or could we maybe see a little bit of leverage flowing through, particularly as comps have – seem to have accelerated in the second quarter? And if that continues, perhaps we could see some of that flow down a little bit more?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: All right, our current thinking is that as we go through the year, the gap will lessen. We do think we have the potential to be up year-over-year, second quarter through fourth quarter, but as we roll out more efficiently underneath this model and as we start to lap of over the rollout that we had in the prior year, we think that gap will lessen.

Operator: And our next question comes from the line of Will Slabaugh with Stephens Inc. Please go ahead.

<Q – Will Slabaugh – Stephens, Inc.>: Yeah, thanks. I wonder if you could talk a little bit more about your acquisition or investment thoughts here, given your PizzaRev acquisition or investment there and then if that is a typical size we should be thinking about, assuming there are more coming down the road?

<A – Sally Smith – Buffalo Wild Wings, Inc.>: Sure. Well, first of all the answer to your question regarding acquisitions, we remain open and interested in acquiring Buffalo Wild Wings franchised locations where it makes sense, where there's additional territory to develop or where we have restaurants already. So our franchisees know that. With regard to our investment in PizzaRev, this is the first one that we've made with our strategy to start making investments in small concepts. And so yes, I would say this would be pretty typical of what we're looking for. Again, we have some other – some things we want to make sure that they meet, that they have the ability to be a nationwide concept and as a franchisable, simple operation. But size-wise, yes, I would expect that.

<Q – Will Slabaugh – Stephens, Inc.>: Great. Thank you. Just a quick follow-up on your pricing comment earlier, you mentioned you'd be at 4.7% price in 2Q. Could you talk about, with some of the pricing falling off later in the year, where you would like to be for 3Q and 4Q?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Well, with no additional menu price increase, third quarter will be 2% and fourth quarter will be 0.2%. We do anticipate rolling a menu in July that would include this wings by the portion philosophy on it. We still haven't made a final decision on what type of menu price increase would go along with that.

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

Operator: And our next question comes from the line of Larry Miller from RBC. Please go ahead.

<Q – Larry Miller – RBC Capital Markets LLC>: Yeah, hi. Thanks. I just wanted to back up to the wings pricing by the contract notion. I'm trying to get at it a different way maybe, but at what price, spot price that we can follow along and given the current size would wings be in that target 29% to 30% range? How far would wings have to go down?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Well, I'm not exactly sure on the price, Larry, at the average that we would be looking at is $1.75 now at the current size we have, we would be, we believe, under 31%, but to get under 30%, I'd have to do the math on how much lower the price would have to get. We don't believe that the yield size at this point can be any worse than it is in April.

<Q – Larry Miller – RBC Capital Markets LLC>: Okay. It seems like it might have to get back to an historic low almost given the yield. I guess the yield is so bad. Is it close to $1 a pound? I guess we can talk about that off-line maybe, even with the [indiscernible] (31:46). And then just a quick question on the Game Changer beer that you guys are rolling out. What are you thinking in terms of pricing and margin on that particular item and how that might mix?

<A – Sally Smith – Buffalo Wild Wings, Inc.>: Certainly part of our goal of beer is improving beer margins, which has been difficult in the last couple of years with continued price increases from manufacturers and distributors. And the thought is that we can price this somewhere between domestic and imported draft beer with probably similar margins to our domestic draft beer.

<Q – Larry Miller – RBC Capital Markets LLC>: Thanks very much.

Operator: Our next question comes from the line of Brian Bittner from Oppenheimer and Company. Please go ahead.

<Q – Mike Tamas – Oppenheimer Securities>: Hi. Thanks. This is Mike Tamas on for Brian. Just a quick question on the new unit performance. Can you just talk about how the new units are performing and if you're pleased with the way they're performing and if we should expect the same trajectory going forward? Thank you.

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Yes, we are pleased with the way our new units are performing. We've definitely seen strength in our sales on the West and the East Coast and we had shared on the call that as it relates to the increase in our average weekly volumes for the first quarter that the new restaurant opening had contributed 140 basis points.

Operator: And our next question comes from the line of David Dorfman with Morgan Stanley. Please go ahead.

<Q – David Dorfman – Morgan Stanley & Co. LLC>: Hi. Thank you. Just two questions. One is, first, if you can talk about where the first quarter came in versus your expectations? Maybe halfway through the quarter you gave your guidance that it would be – you were expecting roughly similar EPS to the prior year and you came in quite a bit below. Maybe you can talk about where the deviation was? And then secondly, if you can just – I thought you said labor for the second quarter you were thinking it would be up similar to the amount it was up in the first quarter, like 80 bps. Is that right? And COGS under 31%. Can you just confirm those two?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Yes. Comments regarding the second quarter are correct. Labor should be up about 80 basis points, similar to the first quarter, and the cost of sales line, assuming that the – on the average that we've seen so far for the quarter that we would be under 31%. Your question regarding how the first quarter from a bottom line turned out from what we were expecting, I would say that there were two areas that we would not have expected. One was that the wing yield would actually get worse in the first quarter from where it was in the fourth quarter.

I think the good news on that is that from March and April those sizes have been very consistent. So we'd like to think that we've hit the biggest wings we'll see in the near-term. The other area would be labor trends that we experienced earlier in the quarter. And I think that was just a reflection of the lower same-store sales for that period of time and I think those inefficiencies we have grown out of.

<Q – David Dorfman – Morgan Stanley & Co. LLC>: So it sounded like the parts where you missed were actually from before you – that you sort of had a view of that before you give guidance so there was nothing after that period where on your earnings call last time when you gave the flat year-over-year guidance, things actually got better from that point?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: We wouldn't have had a full view of our labor at the time that we did our February earnings call.

<Q – David Dorfman – Morgan Stanley & Co. LLC>: Got it. Okay. Thank you.

Operator: And our next question comes from the line of Matthew DiFrisco from Lazard Capital. Please go ahead.

<Q>: Hi. Thank you. This is [ph] Fong Lee (35:39) in for Matt. I just had a quick question about the timing of Easter. Wondering did that help or hurt you guys in terms of the quarter to date trends? And if so, if you could quantify the impact?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Yes. It has helped us for the first four weeks of April and we believe it's about 150 basis points of the 5.2% on that we have. On the other side, we believe that in the first quarter, it's hard to come up with exact math on that, but for the first quarter numbers, Easter probably hurt us about 50 basis points to 75 basis points.

<Q>: Great. And if I could ask one more here, I was wondering if you could just maybe go into the tabletop tablets initiative a little bit more. I'm curious what – how that's going to be organized. Is it like a free-flowing tablet? Is it embedded within the table? And then if you expect any incremental costs associated with that? And if potentially down the road, it'll allow you to manage your labor line a little bit better?

<A – Sally Smith – Buffalo Wild Wings, Inc.>: Yeah, there's a couple of things. It's a free-floating tablet. It is similar to the Buzztime Playmaker that we have in restaurants now. So we'll have a number of them in per restaurant. And we're hoping that some of these gaming technologies, you'll be able to use an iPad or a phone if you happen to bring those into the restaurant.

From a cost standpoint, the tablets themselves probably run just slightly higher than the Buzztime tablets or the Buzztime Playmakers right now. And we have built into our G&A budget the labor and people and some of the costs associated with establishing those games and the integrated TV.

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

<Q – Keith Siegner – Credit Suisse Securities (USA) LLC (Broker)>: Thank you. Just wondering if you could talk for a second about how you might be measuring the return on the increases in ad spending and maybe some of the new channels and new sponsorships? And then maybe to follow that up, if you could talk about how you think about the summer? And can you get the same benefit when it's less about these big media buys and the sponsorships and more about local team sponsorships and community involvement? Thanks.

<A – Sally Smith – Buffalo Wild Wings, Inc.>: We still do a lot of local sponsorships and community involvement. One of the things we noted in the script is that operating expenses increased slightly due to additional advertising, and that advertising was happening at the store level or regionally in co-ops. So local and regional sponsorship is still very, very important to us.

With regard to the overall advertising spend, the national ad fund, that remains at 3% of total sales. And what it allows us to do is there are some – I mean, the synergies with the NCAA, for example, in restaurants, not just in our advertising, but how do we have fantasy drafts or that kind of thing in restaurants. And there are 89 different championships and so somewhere someone has a fan and a hometown that should definitely help. The ability to quantify that overall relationship, we were already spending a significant amount of advertising dollars – advertising during March Madness and so the additional spend, we think we really got a great program that we're able to utilize throughout the country.

<Q – Keith Siegner – Credit Suisse Securities (USA) LLC (Broker)>: Great. And then if I can, just one follow-up. As you think about the new unit design and some of the learnings you've taken away from these units, has anything popped out as a potential for, say, a broader remodel or retrofit, something you could lay into the existing store system to extrapolate extra value from that?

<A – Sally Smith – Buffalo Wild Wings, Inc.>: Well, the feedback that we're getting from the guests is that they can easily see where it accommodates large groups. So they may have in the past where it might have been too crowded or a very large group finding difficulty. We certainly have tried to do that. We have a center bar in the stadia look and that is showing up in our research as well as being very appealing and it's still too early to say, but we would like to say that it drives alcohol sales.

And then we have a separate area for takeout. So that the guests can come in whether they've called in the order or they come in and actually to place their order, that has separate seating and separate point of sale, but it's still really kind of part of the restaurant so it has visibility to all of the TVs as well.

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

Operator: And our next question comes from the line of Michael Kelter with Goldman Sachs. Please go ahead.

<Q – Michael Kelter – Goldman Sachs & Co.>: You guys mentioned if I understood it right that April was helped by 150 basis points from the Easter shift, which implies 3.7% same-store sales underlying while you have almost 5% pricing rolling through. So traffic is still negative in April even after the rebound in same-store sales. Is that possibly from elasticity from the ongoing price increases? Or do you think something else that might be driving that?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: I don't know that we have a specific on that. We do try to quantify as best we could the Easter effect for this period of time. And whether there's other factors like weather or macroeconomic conditions that are affecting that number, we don't have quantification on that.

<Q – Michael Kelter – Goldman Sachs & Co.>: And then, can you talk a little more about your experience with the flex pricing test? How has consumer behavior shifted in the 40 restaurants that have implemented the pricing structure? Has it, for example, helped or hurt same-store sales and traffic?

<A – Sally Smith – Buffalo Wild Wings, Inc.>: Initially, same-store sales are flat to just slightly down. What the most important thing to the guest is to really understand how many wings they're getting and we think that with the new portion sizes, as well as training throughout the restaurant, the ability to describe accurately what that will be negates any change in customer perception and value and we've seen that actually climb after a period of time.

<Q – Michael Kelter – Goldman Sachs & Co.>: And then lastly, wing prices as you mentioned have fallen off quite a bit. What are – from your perspective inside the market, what are the key factors that are driving that? And if they are transitory possibly, any thoughts to locking in prices at the lower levels as you've done in the past?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: What we do believe is that production is up year-over-year. There is more – a strengthening breast market, which always helps. We always thought last year's prices were higher than was warranted based on demand, so I think we feel some of this is just natural correction that's been long past time. And we don't see for the near future anything that would cause us to believe that prices will return to where they have been the last couple quarters. So our internal estimation is that we're going to have a pretty low wing market for the summer, which would be great, and then we'll watch and see what happens as we go into football.

<Q – Michael Kelter – Goldman Sachs & Co.>: Very helpful. Thank you very much.

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

<Q – Jason West – Deutsche Bank Securities, Inc.>: Yeah, thanks. Just one more back on the labor deleverage in the quarter. I think you said the second quarter should be similar, but you're obviously running higher comps so far and you've got the Easter help in there. So I just want to understand why labor would delever that much on the healthier comp with healthy pricing in there. And what are the key drivers of that?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Well I think we're just being cautionary, Jason. But we did see 80 basis points in the first quarter. We definitely have full attention to how we're rolling out this guest experience business model. And so we do believe that there is improvement to have on that as we go through the year. We're just not confident at this point in the second quarter on whether or not we'll see all of that. So we do think that for at least the near term an increase similar to Q1 is the most appropriate guidance.

<Q – Jason West – Deutsche Bank Securities, Inc.>: And you're still expanding this guest relation model to more stores? Or is that static now in the test stores?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: We are opening our new restaurants with it so that will be incremental stores in the second quarter, otherwise we are holding at the rest of our existing restaurants as we work through some of the nuances as it relates to the guest experience model.

<Q – Jason West – Deutsche Bank Securities, Inc.>: Okay. And then on the wing tests or the rollout for the new portion size ordering, can you talk a bit about – are most orders going to shift to that five now from six if you're on the smaller order size, given the size of the wings, and so most people will be consistently seeing five instead of six? Or is it that doesn't happen as often? Can you talk at all about how often people are getting the lower wing counts? How often that tends to swing around from week to week or day to day? And is that a concern as people see it in different counts moving up and down?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Well, we do plan to roll it with our July menu rollout and if wing size has stayed at the same place they are today, people would see a 5, 10, 15, 20 count as compared to the 6, 12, 18, 24. But if wing prices are different when we get to July, that could change – sizes, yes. Sorry, the wing sizes are the same as what they are today.

<A – Sally Smith – Buffalo Wild Wings, Inc.>: The other thing I think is important to note is that from a – an amount of chicken should be similar to what they were receiving before we had this huge increase in size of wing.

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

Operator: And our next question comes from the line of Jeffrey Bernstein from Barclays. Please go ahead.

<Q – Jeff Bernstein – Barclays Capital, Inc.>: Great. Thank you. Two questions. First, a follow-up on the wings by portion. It sounds like we're now targeting July for implementation. Just wondering whether you can share some of the perhaps most recent learnings from the test market? I know last quarter or the past couple of quarters there was some uncertainty as to if and when to rollout. I'm just wondering what the learnings are and whether there's any change in the implementation rollout with the recent easing of the wing prices? And how much traffic you might willing to lose near term if that were to be expected? Like what's the delta that you're willing to lose on traffic to get this implemented?

<A – Sally Smith – Buffalo Wild Wings, Inc.>: Sure. I think there were a couple of key things that we learned and that's why we continued the test and our research for six months. First of all, it's very important that our servers and those taking phone calls for takeout orders really understand and can talk about the quantity of wings that you're going to be receiving that day so they can help the guests understand that it's math really is as a single portion.

We had tested originally in those 60 plus restaurants, we have used the terminology stacked meal, feast or platter and feast and our research told us at the larger sizes that implied that there were some sides that came along with, which wasn't the case. So we went back and retested the names and these were the names that our guests helped to select and said that most clearly identified how many wings they were going to get and the big take away, as I said, from the research is that the guest just wants to know how many there are.

Regardless of whether wing prices fluctuate or not, we've talked about wings by the portion for some time, not just when wing sizes got larger, but there was a time when wing sizes used to really – or when the size of wings fell and decreased in late summer and you might be getting 12 to 14 per pound and the opposite happened. Our guests were unhappy about the size of the wings. So we had tested this several years ago.

With the move to larger wings and that continued fluctuation for years on yield, we just felt that regardless of what wing prices do, because they could go up again next year, we don't know, that it was important to have a consistent quantity. And after research, once the guests in those test restaurants were used to the portion sizes, we found that they reacted very favorably to the quantity and value – or the quality and value they were receiving and we did see sales rebound. So we're going to do a roll of this so we don't anticipate that every restaurant goes on the same day, but we will roll it, but we do want it to be in place before the beginning of football season.

<Q – Jeff Bernstein – Barclays Capital, Inc.>: Got it. And then just separately on the G&A line, we've seen kind of increased or improved leverage in recent years. I'm just wondering how you guys think of the growth on a dollar basis as the system moves more toward maturity. I mean, some people frame it up as a percentage of sales whether you'd expect it to grow at half the rate of sales, or kind of what are the biggest buckets within there and whether you'd expect further leverage over the next couple of years?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Our goal over several years has been that we increase our G&A at a rate lower than what we are increasing our top line and that's definitely our goal for 2013. We do expect to have continued G&A leveraging this year.

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

Operator: And our next question comes from the line of Conrad Lyon with B. Riley & Co. Please go ahead.

<Q – Conrad Lyon – B. Riley & Co. LLC>: Thanks. Just a couple quick ones. Captains, are the use of captains part of the reason for labor by any chance? Increased labor?

<A – Sally Smith – Buffalo Wild Wings, Inc.>: Yes. Part of the guest experience model that we are rolling out includes guest experience captains. This is an additional position within the restaurant and they are there not to take orders, but rather to find out why the guest is there, help them with some of this tablet technology we have, find out if there's a specific game they want to watch. And when we began testing that, we had about 100% coverage. Now we're going back and saying, okay, are there different times during the day or the week that we don't need to have 100% coverage? And that's why it's only opening in new restaurants at this time while we continue to refine the number of hours and the number of guest experience captains that we have on in any restaurant.

<Q – Conrad Lyon – B. Riley & Co. LLC>: Okay. Before, was the plan to put captains in existing restaurants too?

<A – Sally Smith – Buffalo Wild Wings, Inc.>: Yes. They are in existing restaurants. That was part of the test is that we had – I think we had about 100 by the end of the year of guest – about 25% of the system was rolled out, at least of the company stores. And then as during the first quarter we had so many other things happening, a new point-of-sale system, the transition to a new distribution system, that we decided to hold on rolling out that to the rest of the company stores, but rather to just open them in new markets. We're going to roll it anyway so we felt it was important – not in the new markets, but new restaurants that open. We didn't want to go back and retrain after the fact.

<Q – Conrad Lyon – B. Riley & Co. LLC>: Okay. Last question. I think you said 15 new company locations would include – did I hear right? – the stadia prototype or a new format. Is that right?

<A – Sally Smith – Buffalo Wild Wings, Inc.>: Yes, we expect that we will have 15 by the end of the year with the new stadia look.

<Q – Conrad Lyon – B. Riley & Co. LLC>: Got you. Can you provide any color on the CapEx related to those formats?

<A – Sally Smith – Buffalo Wild Wings, Inc.>: Well, right now obviously with just two restaurants open, they're more expensive to build. We don't have our volume pricing yet on many of the materials. Our goal was that it would be just a slight increase over prior – over the previous design. We're seeing certainly increases in just general construction costs, but I believe that we have built that into our CapEx budget.

<Q – Conrad Lyon – B. Riley & Co. LLC>: Okay. All right. Fair enough. Thank you.

Operator: And our next question comes from the line of Peter Saleh with Telsey Advisory Group. Please go ahead.

<Q – Peter Saleh – Telsey Advisory Group LLC>: Great. Thanks. Aside from chicken wings, can you talk about the inflation that you're seeing in the rest of your basket, if you're seeing relative to where we were last quarter, if you're seeing some less inflation as we go through the year?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: When you look at our cost of sales, we do have a few items that have gone up from a cost standpoint and we have some that have gone down. When you look at the 160 basis point increase in cost of sales, nearly all of that can be related to wings and boneless wings.

<Q – Peter Saleh – Telsey Advisory Group LLC>: Great. Thank you.

Operator: And our next question comes from the line of Greg McKinley with Dougherty. Please go ahead.

<Q – Greg McKinley – Dougherty & Co. LLC>: Yes, thank you. Could you maybe help us understand, I know you accrue your advertising expense as a flat percentage of sales each quarter, but can you give us a sense for how your spending changed in terms of actual cash outlays in Q1 and how we should be thinking of that for Q2 as well?

<A – Sally Smith – Buffalo Wild Wings, Inc.>: From a cash outlay standpoint, I think we were – let's see, I'm just looking here. I think there was a – just slightly up in Q1. Q2, we do have an increase over second quarter last year. Most of that is related to increased network radio and some increase in our presence in the NBA and [ph] TNT (55:13).

<Q – Greg McKinley – Dougherty & Co. LLC>: Thank you. And then, chicken wings, can you tell us your disclosure I think you put in your Q your chicken wing cost as a percent of your cost of sales?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: Yep. First quarter, it was 28.8%.

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

Operator: And we have time for one more question and it comes from the line of Mark Smith with Feltl & Co. Please go ahead.

<Q – Mark Smith – Feltl & Co.>: Hi, guys. Can you talk a little bit about initiatives for the craft beer and any change in the mix in alcohol sales?

<A – Sally Smith – Buffalo Wild Wings, Inc.>: Could you repeat that? I didn't hear it.

<Q – Mark Smith – Feltl & Co.>: Yeah. Can you just give us an update on craft beer initiatives in testing and then the mix of sales of alcohol during the quarter?

<A – Sally Smith – Buffalo Wild Wings, Inc.>: Sure. The mix of – the percent of alcohol during the quarter was 22% for company locations in the first quarter. And that was similar to prior year. Craft beer continues to be an initiative – I don't know if I have any more color on that. We have, where possible, increased the number of tap handles in our restaurants from 24 to 30 to accommodate some of the more regional and local craft beers that our general managers wanted to put on. But it continues to be a focus and we're seeing it certainly is a focus of our guests as well.

<Q – Mark Smith – Feltl & Co.>: Okay. And then just in Q1 and then looking into Q2, any big changes in the sports calendar, UFC fights, other than the change in weeks in the NFL, that impact it or maybe will impact Q2?

<A – Mary Twinem – Buffalo Wild Wings, Inc.>: In the second quarter from a UFC fight standpoint, there are three that are planned for both the current year and last year. We talked about Easter being a difference in second quarter. In the third quarter, the NFL season will start a week earlier in our fiscal year this year compared to last year, as well as the NCAA college football season. And then in fourth quarter at year-end, Christmas is week 52 of this year versus it was in week 53 of last year, as well as the Buffalo Wild Wings Bowl is in week 52 this year versus 53 last year. And then the NFL will, because it's beginning at a different point, it will be at week 17 when we hit our fifty-second week this year.

<Q – Mark Smith – Feltl & Co.>: Great. Thank you.

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

Okay. I want to thank everyone for listening in on our first quarter 2013 conference call. We look forward to speaking with you again in July at the end of our second quarter. Thanks, everyone.

Operator: Ladies and gentlemen, this concludes the conference for today. We thank you for your participation and you may now disconnect.