BUFFALO WILD WINGS INC

FORM 10-Q
(Quarterly Report)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 26, 2016

Commission File No. 000-24743

BUFFALO WILD WINGS, INC.

(Exact name of registrant as specified in its charter)

Minnesota	**No. 31-1455915**
(State or Other Jurisdiction of Incorporation or Organization)	**(IRS Employer Identification No.)**

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

(952) 593-9943
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

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

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

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

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

The number of shares outstanding of the registrant's common stock as of July 25, 2016 : 18,297,886 shares.

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ITEM 1. FINANCIAL STATEMENTS

BUFFALO WILD WINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollar amounts in thousands)
(unaudited)

	June 26, 2016	December 27, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 13,635	11,220
Marketable securities	—	9,043
Accounts receivable, net of allowance of $25	36,958	34,087
Inventory	13,977	15,351
Prepaid expenses	5,831	6,386
Refundable income taxes	5,019	21,591
Restricted assets	22,370	100,073
Total current assets	97,790	197,751
Property and equipment, net	600,365	604,712
Reacquired franchise rights, net	125,138	129,282
Other assets	38,964	26,536
Goodwill	115,825	114,101
Total assets	$ 978,082	1,072,382
Liabilities and Stockholders' Equity		
Current liabilities:		
Unearned franchise fees	$ 2,262	2,144
Accounts payable	41,356	44,760
Accrued compensation and benefits	43,607	55,578
Accrued expenses	20,476	21,678
Current portion of long-term debt and capital lease obligations	5,826	2,147
Current portion of deferred lease credits	232	59
System-wide payables	70,514	137,257
Total current liabilities	184,273	263,623
Long-term liabilities:		
Other liabilities	16,747	16,473
Deferred income taxes	26,124	23,726
Long-term debt and capital lease obligations, net of current portion	93,052	70,954
Deferred lease credits	42,908	41,869
Total liabilities	363,104	416,645
Commitments and contingencies (note 11)		
Stockholders' equity:		
Undesignated stock, 1,000,000 shares authorized, none issued	—	—
Common stock, no par value. Authorized 44,000,000 shares; issued and outstanding 18,292,937 and 18,917,776, respectively	156,839	160,353
Retained earnings	461,711	499,085
Accumulated other comprehensive loss	(3,713)	(4,094)
Total stockholders' equity	614,837	655,344
Noncontrolling interests	141	393
Total equity	614,978	655,737
Total liabilities and equity	$ 978,082	1,072,382

See accompanying notes to consolidated financial statements.

BUFFALO WILD WINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(Amounts in thousands except per share data)
(unaudited)

	Three months ended		Six months ended	
	June 26, 2016	**June 28, 2015**	**June 26, 2016**	**June 28, 2015**
Revenue:				
Restaurant sales	$ 466,583	401,860	950,494	816,832
Franchise royalties and fees	23,595	24,527	47,941	50,141
Total revenue	490,178	426,387	998,435	866,973
Costs and expenses:				
Restaurant operating costs:				
Cost of sales	138,480	117,843	282,303	243,520
Labor	149,375	129,294	298,504	259,688
Operating	68,180	56,822	137,860	115,373
Occupancy	27,205	22,354	53,928	44,344
Depreciation and amortization	37,953	29,208	75,502	57,277
General and administrative	29,821	33,701	61,486	64,223
Preopening	1,838	3,204	3,701	4,474
Loss on asset disposals	1,874	2,306	3,096	2,911
Total costs and expenses	454,726	394,732	916,380	791,810
Income from operations	35,452	31,655	82,055	75,163
Interest and other expense (income)	1,874	(41)	1,847	34
Earnings before income taxes	33,578	31,696	80,208	75,129
Income tax expense	10,033	10,264	23,985	24,712
Net earnings including noncontrolling interests	23,545	21,432	56,223	50,417
Net loss attributable to noncontrolling interests	(157)	(67)	(252)	(145)
Net earnings attributable to Buffalo Wild Wings	$ 23,702	21,499	56,475	50,562
Earnings per common share – basic	$ 1.27	1.13	3.01	2.66
Earnings per common share – diluted	$ 1.27	1.12	3.00	2.65
Weighted average shares outstanding – basic	18,605	19,003	18,764	18,998
Weighted average shares outstanding – diluted	18,636	19,113	18,797	19,094

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Net earnings including noncontrolling interests	$ 23,545	21,432	56,223	50,417
Other comprehensive loss:				
Foreign currency translation adjustments, net of tax	(134)	(230)	(381)	665
Other comprehensive loss (income), net of tax	(134)	(230)	(381)	665
Comprehensive income including noncontrolling interests	23,679	21,662	56,604	49,752
Comprehensive loss attributable to noncontrolling interests	(157)	(67)	(252)	(145)
Comprehensive income attributable to Buffalo Wild Wings	$ 23,836	21,729	56,856	49,897

See accompanying notes to consolidated financial statements.

BUFFALO WILD WINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollar amounts in thousands)
(unaudited)

	Six months ended	
	June 26, 2016	**June 28, 2015**
Cash flows from operating activities:		
Net earnings including noncontrolling interests	$ 56,223	50,417
Adjustments to reconcile net earnings to net cash provided by operations:		
Depreciation and amortization	75,502	57,277
Loss on asset disposals	3,096	2,911
Deferred lease credits	3,380	2,903
Deferred income taxes	2,397	(9,757)
Stock-based compensation	2,108	7,253
Excess tax benefit from stock issuance	(35)	(262)
Change in fair value of contingent consideration	(1,106)	—
Loss on investments in affiliates	1,247	—
Change in operating assets and liabilities, net of effect of acquisitions:		
Trading securities	—	(708)
Accounts receivable	802	144
Inventory	1,418	357
Prepaid expenses	567	(12,530)
Other assets	(2,462)	279
Unearned franchise fees	118	196
Accounts payable	(3,520)	236
Income taxes	16,607	7,187
Accrued expenses	(6,943)	(5,033)
Net cash provided by operating activities	149,399	100,870
Cash flows from investing activities:		
Acquisition of property and equipment	(70,630)	(67,334)
Acquisition of businesses	(3,862)	(49,036)
Purchase of marketable securities	—	(12,301)
Proceeds from marketable securities	—	14,155
Net cash used in investing activities	(74,492)	(114,516)
Cash flows from financing activities:		
Proceeds from line of credit	286,873	—
Repayments of line of credit	(263,343)	—
Borrowings from restricted funds	12,288	—
Repurchases of common stock	(99,981)	—
Other financing activities	(1,065)	—
Issuance of common stock	1,960	1,604
Excess tax benefit from stock issuance	35	262
Tax payments for restricted stock units	(9,172)	(7,627)
Net cash used in financing activities	(72,405)	(5,761)
Effect of exchange rate changes on cash and cash equivalents	(87)	(427)
Net increase (decrease) in cash and cash equivalents	2,415	(19,834)
Cash and cash equivalents at beginning of period	11,220	93,329
Cash and cash equivalents at end of period	$ 13,635	73,495

See accompanying notes to consolidated financial statements.

FOR THE SIX MONTHS ENDED JUNE 26, 2016 AND JUNE 28, 2015
(Dollar amounts in thousands except share and per share data)
(unaudited)

(1) Basis of Financial Statement Presentation

The consolidated financial statements as of June 26, 2016 and December 27, 2015 , and for the six -month periods ended June 26, 2016 and June 28, 2015 have been prepared by Buffalo Wild Wings, Inc. pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The financial information as of June 26, 2016 and for the six -month periods ended June 26, 2016 and June 28, 2015 is unaudited, but, in the opinion of management, reflects all adjustments and accruals necessary for a fair presentation of the financial position, results of operations, and cash flows for the interim periods.

References in the remainder of this document to "the Company," "we," "us" and "our" refer to the business of Buffalo Wild Wings, Inc. and its wholly and majority owned subsidiaries. We operate Buffalo Wild Wings ® , R Taco ® , and PizzaRev ® restaurants as well as sell Buffalo Wild Wings and R Taco restaurant franchises. In exchange for initial and continuing franchise fees, we give franchisees the right to use the brand names. We operate as a single segment for reporting purposes.

At June 26, 2016 and June 28, 2015 , we operated 609 and 517 company-owned restaurants, respectively, and had 596 and 593 franchised restaurants, respectively.

The financial information as of December 27, 2015 is derived from our audited consolidated financial statements and notes thereto for the fiscal year ended December 27, 2015 , which are included in Part II, Item 8, or our Annual Report on Form 10-K for the fiscal year ended December 27, 2015 , and should be read in conjunction with such financial statements.

The results of operations for the six -month period ended June 26, 2016 are not necessarily indicative of the results of operations that may be achieved for the entire year ending December 25, 2016 .

Certain amounts as of December 27, 2015 have been reclassified to conform to the current year presentation. The Company reclassified amounts previously presented separately on the Consolidated Balance Sheets as amounts due to restricted funds into our system-wide payables, to which they were related. The change in classification does not affect previously reported cash flows from operations or from financing activities in the Consolidated Statement of Cash Flows, or the previously reported Consolidated Statement of Earnings for any period.

(2) Summary of Significant Accounting Policies

Our significant accounting policies as disclosed in Part II, Item 8, of our Annual Report on Form 10-K for the fiscal year ended December 27, 2015 . There has been no significant change in our accounting policies since December 27, 2015 .

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09 "Revenue with Contracts from Customers (Topic 606)." ASU 2014-09 supersedes the current revenue recognition guidance, including industry-specific guidance. The guidance introduces a five-step model to achieve its core principal of the entity recognizing revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March 2016, the FASB issued ASU 2016-04, "Liabilities - Extinguishments of Liabilities: Recognition of Breakage for Certain Prepaid Stored-Value Products." ASU 2016-04 provides specific guidance for the derecognition of prepaid stored-value product liabilities. In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)." ASU 2016-08 provides specific guidance to determine whether an entity is providing a specified good or service itself or is arranging for the good or service to be provided by another party. In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing." ASU 2016-10 provides clarification on the subjects of identifying performance obligations and licensing implementation guidance. In May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers: Narrow Scope Improvements and Practical Expedients." ASU 2016-12 provides amendments to several narrow aspects of Topic 606.

The requirements for these standards relating to Topic 606 will be effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted for interim and annual periods beginning after December 15, 2016. We are currently evaluating the impact of the updated requirements on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases.” ASU 2016-02 requires for lease arrangements spanning more than 12 months, an entity to recognize an asset and liability. The updated guidance is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. We believe the adoption of ASU 2016-02 will materially impact our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “Compensation-Stock Compensation: Improvement to Employee Share-Based Payment Accounting.” ASU 2016-09 provides guidance intended to simplify accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance is effective for interim and annual periods beginning after December 15, 2016. Early adoption is permitted for any entity in any interim or annual period. We are currently evaluating the impact of the updated guidance, but do not believe it will materially impact our consolidated financial statements.

We reviewed all other significant newly issued accounting pronouncements and concluded they are not applicable to our operations.

(3) Fair Value Measurements

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

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

The following table summarizes the financial instruments measured at fair value in our Consolidated Balance Sheet as of June 26, 2016 :

	Fair Value Measurements			
	Level 1	***Level 2***	***Level 3***	***Total***
Assets				
Deferred Compensation	$ 9,443	—	—	9,443
Liabilities				
Contingent Consideration	—	—	445	445
Deferred Compensation	9,275	—	—	9,275

The following table summarizes the financial instruments measured at fair value in our consolidated balance sheet as of December 27, 2015 :

	Fair Value Measurements			
	Level 1	***Level 2***	***Level 3***	***Total***
Assets				
Deferred Compensation	$ 9,043	—	—	9,043
Liabilities				
Contingent Consideration	—	—	1,551	1,551
Deferred Compensation	8,958	—	—	8,958

Our deferred compensation assets and liabilities comprise investments held for future needs of our non-qualified deferred compensation plan and were reported at fair market value, using the “market approach” valuation method. The “market approach” valuation method uses prices and other relevant information observable in market transactions involving identical or comparable assets and is a Level 1 approach. Our contingent consideration liabilities represent amounts owed in association with our fiscal year 2015 acquisitions. These liabilities were valued using a Level 3 approach that utilizes an option pricing model and the projected future performance of certain restaurants we acquired. The future performance of these acquired restaurants will ultimately determine the settlement amount of these liabilities. Estimates of fair value are inherently uncertain and represent only management's reasonable expectation regarding future developments. These estimates and the judgments and assumptions upon which the estimates are based will, in all likelihood, differ in some respects from actual future results.

The following table summarizes the activity within Level 3 instruments during the three- and six -month periods ended June 26, 2016 :

	Three Months Ended June 26, 2016	Six Months Ended June 26, 2016
Beginning Balance	$ (445)	$ (1,551)
Mark to market adjustment	—	1,106
Ending Balance	$ (445)	$ (445)

Adjustments to the contingent consideration liabilities are recognized in interest and other expense (income) on the Consolidated Statements of Earnings. There was no significant activity within Level 3 instruments during the three- or six -month period ended June 28, 2015 .

There were no significant transfers between the levels of the fair value hierarchy during either of the six -month periods ended June 26, 2016 and June 28, 2015 .

(4) Marketable Securities

Marketable securities consisted of the following:

	June 26, 2016	December 27, 2015
Trading		
Mutual funds	$ —	9,043
Total	$ —	9,043

There were no purchases or sales of available-for-sale securities during the six -month period ended June 26, 2016 . There were purchases totaling $12,301 and sales totaling $14,155 of available-for-sale securities during the six -month period ended June 28, 2015 .

As of June 26, 2016 , the Company reclassified amounts previously presented on the Consolidated Balance Sheets as marketable securities to other assets. The amounts represent investments held in our non-qualified deferred compensation plan. We concluded that prior period balances were immaterial to current assets and total assets on our Consolidated Balance Sheet and therefore, we did not reclassify the marketable securities balance in prior periods.

(5) Property and Equipment

Property and equipment consisted of the following:

	June 26, 2016	December 27, 2015
Construction in process	$ 28,922	18,662
Buildings	95,794	92,603
Capital leases and buildings under deemed landlord financing	26,664	25,105
Furniture, fixtures, and equipment	368,850	369,344
Leasehold improvements	581,062	553,736
Property and equipment, gross	1,101,292	1,059,450
Less accumulated depreciation and amortization	(500,927)	(454,738)
Property and equipment, net	$ 600,365	604,712

(6) Reacquired Franchise Rights

Reacquired franchise rights consisted of the following:

		June 26, 2016	December 27, 2015
Reacquired franchise rights	$	153,960	152,070
Accumulated amortization		(28,822)	(22,788)
Reacquired franchise rights, net	$	125,138	129,282

Amortization expense related to intangible assets for the six -month periods ended June 26, 2016 and June 28, 2015 , was $9,109 and $2,472 . The expense primarily related to amortization of reacquired franchise rights, and also included amortization of capital lease assets and software licenses.

(7) Long-Term Debt and Capital Lease Obligations

Our long-term debt and capital lease obligations consisted of the following:

	Average interest rate for the six months ended June 26, 2016	Maturity		June 26, 2016	December 27, 2015
Revolving credit facility	1.3%	July 2018	$	58,059	34,530
Capital lease and deemed landlord financing obligations	7.5%	Various through November 2030		40,819	38,571
Total debt and capital lease obligations				98,878	73,101
Less current maturities				(5,826)	(2,147)
Total long-term debt and capital lease obligations			$	93,052	70,954

We have a $200,000 unsecured revolving credit facility. Interest is charged at LIBOR plus an applicable margin based on our consolidated total leverage ratio. We also pay a commitment fee on the average unused portion of the facility at a rate per annum based on our consolidated total leverage ratio.

The revolving credit facility contains covenants that require us to maintain certain financial ratios, including consolidated coverage, consolidated total leverage and minimum EBITDA. The revolving credit facility also has other customary affirmative and negative covenants, including covenants that restrict the right of the Company and its subsidiaries to merge, to lease, sell or otherwise dispose of assets, to make investments and to grant liens on their assets. As of June 26, 2016 , we were in compliance with all of these covenants.

(8) Stockholders' Equity

During the six-month period ended June 26, 2016 , we repurchased 722,294 shares of our common stock for an aggregate purchase price of $99,981 . The repurchased shares were concurrently retired and credited to authorized, but unissued stock. The repurchase of these shares resulted in a decrease in common stock of $6,132 and a decrease in retained earnings of $93,849 for the same period.

We have 5.4 million shares of common stock reserved for issuance under our Equity Incentive Plan (Plan) for our employees, officers, and directors. The Plan had 640,122 shares available for grant as of June 26, 2016 .

Stock Options

The exercise price for stock options issued under the Plan is to be not less than the fair market value on the date of grant with respect to incentive and nonqualified stock options. Stock options vest in four equal annual installments and have a contractual life of seven years. We issue new shares of common stock upon the exercise of stock options. Option activity is summarized for the six months ended June 26, 2016 as follows:

	Number of shares		Weighted average exercise price	Average remaining contractual life (years)		Aggregate intrinsic value
Outstanding, December 27, 2015	131,248	$	113.12	4.0	$	7,051
Granted	33,996		147.55			
Exercised	(7,028)		69.76			
Cancelled	(3,805)		152.80			
Expired	(535)		147.52			
Outstanding, June 26, 2016	153,876	$	121.61	4.2	$	4,703
Exercisable, June 26, 2016	80,121	$	95.31	2.9	$	4,225

The aggregate intrinsic value in the table above is before applicable income taxes, based on our closing stock price of $144.01 as of the last business day of the six -month period ended June 26, 2016 , which would have been received by the optionees had all options been exercised and sold on that date. As of June 26, 2016 , total unrecognized stock-based compensation expense related to nonvested stock options was approximately $2,762 , which is expected to be recognized over a weighted average period of approximately 2.6 years . During the six -month periods ended June 26, 2016 and June 28, 2015 , the total intrinsic value of stock options exercised was $563 and $728 , respectively. During the six-month periods ended and June 26, 2016 and June 28, 2015 , the weighted average grant date fair value of options was $47.67 and $59.11 , respectively. No shares vested during either of the six -month periods ended June 26, 2016 or June 28, 2015 .

Restricted Stock Units

Restricted stock units are granted annually under the Plan at the discretion of the Compensation Committee of our Board of Directors.

We grant restricted stock units subject to three -year cliff vesting and a cumulative three -year earnings target. The number of units that vest at the end of the three-year period is based on performance against the target. These restricted stock units are subject to forfeiture if they have not vested at the end of the three-year period. Stock-based compensation is recognized for the number of units expected to vest at the end of the period and is expensed beginning on the grant date through the end of the performance period.

For each grant, restricted stock units meeting the performance criteria will vest as of the end of the third fiscal year in the performance period, subject to a Plan-specified maximum number of shares that may be issued to any individual in any year in settlement of restricted stock units. The distribution of vested restricted stock units as common stock typically occurs in March of the following year. The common stock is issued to participants net of the number of shares needed for the required minimum employee withholding taxes. We issue new shares of common stock upon the disbursement of restricted stock units. Restricted stock units are contingently issuable shares, and the activity for the six months ended June 26, 2016 was as follows:

	Number of shares		Weighted average grant date fair value
Outstanding, December 27, 2015	190,120	$	161.06
Granted	121,907		146.95
Vested	(4,949)		134.71
Cancelled	(11,030)		164.58
Outstanding, June 26, 2016	296,048	$	155.56

As of June 26, 2016 , the total stock-based compensation expense related to nonvested awards not yet recognized was $11,344 , which is expected to be recognized over a weighted average period of 2.1 years. The weighted average grant date fair value of restricted stock units granted during the six -month periods ended June 26, 2016 and June 28, 2015 was $146.95 and $180.97 , respectively. During the six -month periods ended June 26, 2016 and June 28, 2015 , we recognized $1,079 and $4,018 , respectively, of stock-based compensation expense related to restricted stock units. The six -month period ended June 26, 2016 included a reversal of previously recognized expense as the estimate of financial performance was reduced for our restricted stock units.

Employee Stock Purchase Plan

We have reserved 600,000 shares of common stock for issuance under our Employee Stock Purchase Plan (ESPP). The ESPP is available to substantially all employees subject to employment eligibility requirements. Participants may purchase our common stock at 85% of the beginning or ending closing price, whichever is lower, for each six-month period ending in May and November. During the six -month periods ended June 26, 2016 , and June 28, 2015 , we issued 12,857 and 8,747 shares of common stock, respectively, under the ESPP. As of June 26, 2016 , we had 172,901 shares available for future issuance under the ESPP.

(9) Earnings Per Common Share

The following is a reconciliation of basic and fully diluted earnings per common share for the three and six -month periods ended June 26, 2016 and June 28, 2015 :

	Three Months Ended June 26, 2016		
	Earnings (numerator)	Shares (denominator)	Per-share amount
Net earnings attributable to Buffalo Wild Wings	$ 23,702		
Earnings per common share	23,702	18,604,746	$ 1.27
Effect of dilutive securities – stock options	—	31,052	
Earnings per common share – assuming dilution	$ 23,702	18,635,798	$ 1.27

	Three Months Ended June 28, 2015		
	Earnings (numerator)	Shares (denominator)	Per-share amount
Net earnings attributable to Buffalo Wild Wings	$ 21,499		
Earnings per common share	21,499	19,002,526	$ 1.13
Effect of dilutive securities – stock options	—	73,086	
Effect of dilutive securities – restricted stock units	—	37,451	
Earnings per common share – assuming dilution	$ 21,499	19,113,063	$ 1.12

	Six Months Ended June 26, 2016		
	Earnings (numerator)	Shares (denominator)	Per-share amount
Net earnings attributable to Buffalo Wild Wings	$ 56,475		
Earnings per common share	56,475	18,763,812	$ 3.01
Effect of dilutive securities – stock options	—	33,017	
Earnings per common share – assuming dilution	$ 56,475	18,796,829	$ 3.00

	Six Months Ended June 28, 2015		
	Earnings (numerator)	Shares (denominator)	Per-share amount
Net earnings attributable to Buffalo Wild Wings	$ 50,562		
Earnings per common share	50,562	18,997,734	$ 2.66
Effect of dilutive securities – stock options	—	77,163	
Effect of dilutive securities – restricted stock units	—	18,726	
Earnings per common share – assuming dilution	$ 50,562	19,093,623	$ 2.65

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

	Three months ended		Six months ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Stock options	83,952	53,068	66,983	35,212
Restricted stock units	296,048	291,827	296,048	310,552

(10) Supplemental Disclosures of Cash Flow Information

	Six months ended	
	June 26, 2016	June 28, 2015
Cash paid during the period for:		
Income taxes	$ 4,934	27,208
Interest	1,682	—
Noncash financing and investing transactions:		
Increase (decrease) in property and equipment not yet paid for	61	(6,552)
Increase in deemed owner assets and obligations	2,383	—
Increase in other assets and liabilities from hosted software arrangements	1,550	—

(11) Contingencies

We have a limited guarantee of the borrowings of Pie Squared Pizza, LLC, a subsidiary of Pie Squared Holdings, LLC, in the amount of $575 . We do not believe that payment under this guarantee is probable as of June 26, 2016 .

On June 2, 2015, two of our former employees (the "plaintiffs") filed a collective action under the Fair Labor Standards Act ("FLSA") and putative class action under New York state law against us in the United States District Court for the Western District of New York. The claim alleges that we have a policy or procedure requiring employees who receive compensation in part through tip credits to perform work that is ineligible for tip credit compensation at a tip credit rate in violation of the FLSA and New York state law. We intend to vigorously defend this lawsuit. We believe a loss is reasonably possible, but we are currently unable to reasonably estimate the amount of loss.

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

(12) Acquisition of Businesses

During the six -month periods ended June 26, 2016 and June 28, 2015 , we acquired 1 and 15 existing Buffalo Wild Wings restaurants, respectively. We also acquired 1 R Taco Franchised restaurant in the six-month period ended June 28, 2015. The total purchase price of $3,862 and $49,036 for franchised restaurants acquired during the six -month periods ended June 26, 2016 , and June 28, 2015 , respectively, was funded by cash from operations and the sale of marketable securities. The acquisitions were accounted for as business combinations.

	Six Months Ended	
	June 26, 2016	June 28, 2015
Inventory, prepaids, and other assets	$ 38	408
Property and equipment	224	12,625
Lease and other liabilities	(14)	(543)
Reacquired franchise rights	1,890	22,030
Goodwill	1,724	14,516
	$ 3,862	49,036

The excess of the purchase price over the aggregate fair value of assets acquired and liabilities assumed was allocated to goodwill. The results of operations of these locations are included in our Consolidated Statements of Earnings as of the date of acquisition.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included in Item 1 of Part 1 of this Quarterly Report and the audited consolidated financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the fiscal year ended December 27, 2015 . This discussion and analysis contains certain statements that are not historical facts, including, among others, those relating to our anticipated financial performance for 2016 , cash requirements, and our expected store openings and preopening costs. Such statements are forward-looking and speak only as of the date on which they are made. Actual results are subject to various risks and uncertainties including, but not limited to, those discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations as well as in Item 1A of Part I of the fiscal 2015 Annual Report on Form 10-K. Information included in this discussion and analysis includes commentary on company-owned and franchised restaurant units, restaurant sales, same-store sales, and average weekly sales volumes. Management believes such sales information is an important measure of our performance, and is useful in assessing consumer acceptance of the Buffalo Wild Wings, Inc. concepts and the overall health of the concepts. Franchise information also provides an understanding of our revenues because franchise royalties and fees are based on the opening of franchised units and their sales. However, franchised restaurant sales and same-store sales information does not represent sales in accordance with U. S. generally accepted accounting principles (GAAP), should not be considered in isolation or as a substitute for other measures of performance prepared in accordance with GAAP and may not be comparable to financial information as defined or used by other companies.

Critical Accounting Estimates

Our most critical accounting estimates, which are those that require significant judgment, include: valuation of long-lived assets and store closing reserves, business combinations, lessee involvement in construction, and stock-based compensation. An in-depth description of these can be found in our Annual Report on Form 10-K for the fiscal year ended December 27, 2015 . There have been no changes to those policies during this period.

We are currently monitoring several restaurants in regards to the valuation of long-lived assets. Based on our current estimates of the future operating results of these restaurants, we believe that the assets at these restaurants are not impaired. As we periodically refine our estimated future operating results, changes in our estimates and assumptions may cause us to realize impairment charges in the future. We believe that any future impairment charges related to the assets at these restaurants, in the aggregate, would not be material to our financial statements.

Overview

As of June 26, 2016 , we owned and operated 609 company-owned restaurants, including 601 Buffalo Wild Wings ® , 6 R Taco ® , and 2 PizzaRev ® restaurants in the United States and Canada. We also franchised an additional 596 restaurants, including 589 Buffalo Wild Wings restaurants and 7 R Taco restaurants. We are building for long-term future earnings growth by investing in Buffalo Wild Wings restaurants, franchising, and new and emerging brands. These investments will help us to achieve our vision of being a company of 3,000 total restaurants worldwide.

In 2016, we expect to open approximately 40 company-owned Buffalo Wild Wings restaurants, and we expect our franchisees to open 30 to 35 Buffalo Wild Wings restaurants in the United States and 12 to 15 Buffalo Wild Wings restaurants internationally. Our expectations for earnings per diluted share in 2016 remains at $5.65 to $5.85. Our growth and success depend on several factors and trends. First, we will continue to focus on trends in company-owned and franchised same-store sales as an indicator of the continued acceptance of our concept by consumers. We also review the overall trend in average weekly sales as an indicator of our ability to increase the sales volume and, therefore, cash flow per location. We remain committed to high quality operations and guest experience.

Our revenue is generated by:

- Sales at our company-owned restaurants, which represented 95% of total revenue in the second quarter of 2016 . Food and nonalcoholic beverages accounted for 80% of restaurant sales. Alcoholic beverages accounted for 19% of restaurant sales. Other items accounted for the remaining 1% of restaurant sales. The menu items with the highest sales volumes in the second quarter of 2016 are traditional and boneless wings, each representing 21% of restaurant sales.

- Royalties and franchise fees received from our franchisees.

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

Third, we continue to monitor and react to changes in our cost of sales. The cost of sales is difficult to predict, as it has ranged from 29.3% to 30.3% of restaurant sales per quarter in our 2015 fiscal year and year-to-date in 2016 , mostly due to the price fluctuations in chicken wings. We are focused on minimizing the impact of rising costs per wing. Our efforts include selling wings by portion, new purchasing strategies, menu price increases, and reduced food waste, as well as marketing promotions, menu additions, and menu changes that affect the percentage that chicken wings represent of total restaurant sales. We will continue to monitor the cost of chicken wings, as it can significantly change our cost of sales and cash flow from company-owned restaurants. Current-month chicken wing prices are determined based on the average of the previous month's wing market plus mark-up for processing and distribution. If the monthly average exceeds an upper threshold or falls below a lower threshold set in the contract, we split the impact with our suppliers, reducing our risk related to wing price fluctuations. We continually evaluate alternative pricing models in order to mitigate price volatility.

We generate cash from the operation of company-owned restaurants and from franchise royalties and fees. We highlight the specific costs associated with the ongoing operation of our company-owned restaurants in the Consolidated Statements of Earnings under "Restaurant operating costs." Our depreciation and amortization expense consists primarily of depreciation related to assets used by our company-owned restaurants and amortization of reacquired franchise rights. Preopening costs are those costs associated with opening new company-owned restaurants and will vary quarterly based on the number of new locations opening and under construction. Loss on asset disposals is related to company-owned restaurants and includes the costs associated with remodels, closures of locations, and normal asset retirements. General and administrative expenses are related to home office and field support provided to both company-owned restaurant and franchising operations.

We operate on a 52- or 53-week fiscal year ending on the last Sunday in December. Both of the second quarters of 2016 and 2015 consisted of 13 weeks.

Quarterly Results of Operations

Our operating results for the periods indicated are expressed below as a percentage of total revenue, except for the components of restaurant operating costs, which are expressed as a percentage of restaurant sales. The information for each three- and six -month period is unaudited, and we have prepared it on the same basis as the audited financial statements. In the opinion of management, all necessary adjustments, consisting only of normal recurring adjustments, have been included to fairly present the unaudited quarterly results.

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

	Three months ended		Six months ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Revenue:				
Restaurant sales	95.2 %	94.2	95.2	94.2
Franchise royalties and fees	4.8	5.8	4.8	5.8
Total revenue	100.0	100.0	100.0	100.0
Costs and expenses:				
Restaurant operating costs:				
Cost of sales	29.7	29.3	29.7	29.8
Labor	32.0	32.2	31.4	31.8
Operating	14.6	14.1	14.5	14.1
Occupancy	5.8	5.6	5.7	5.4
Depreciation and amortization	7.7	6.9	7.6	6.6
General and administrative	6.1	7.9	6.2	7.4
Preopening	0.4	0.8	0.4	0.5
Loss on asset disposals	0.4	0.5	0.3	0.3
Total costs and expenses	92.8	92.6	91.8	91.3
Income from operations	7.2	7.4	8.2	8.7
Interest and other expense (income)	0.4	(0.0)	0.2	0.0
Earnings before income taxes	6.9	7.4	8.0	8.7
Income tax expense	2.0	2.4	2.4	2.9
Net earnings including noncontrolling interests	4.8	5.0	5.6	5.8
Net loss attributable to noncontrolling interests	(0.0)	(0.0)	(0.0)	(0.0)
Net earnings attributable to Buffalo Wild Wings	4.8 %	5.0	5.7	5.8

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

	Six Months Ended					
	June 26, 2016			June 28, 2015		
	Corporate	Franchise	Total	Corporate	Franchise	Total
Buffalo Wild Wings						
Beginning of period	590	573	1,163	487	584	1,071
Opened	11	18	29	12	22	34
Acquired	1	(1)	—	15	(15)	—
Closed/Relocated	(1)	(1)	(2)	(2)	(4)	(6)
End of period	601	589	1,190	512	587	1,099
R Taco						
Beginning of period	4	6	10	2	7	9
Opened	2	1	3	—	—	—
Acquired	—	—	—	1	(1)	—
Closed/Relocated	—	—	—	—	—	—
End of period	6	7	13	3	6	9
PizzaRev						
Beginning of period	2	n/a	2	2	n/a	2
Opened	—	n/a	—	—	n/a	—
Acquired	—	n/a	—	—	n/a	—
Closed/Relocated	—	n/a	—	—	n/a	—
End of period	2	n/a	2	2	n/a	2
Consolidated						
End of the period	609	596	1,205	517	593	1,110

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

	Three months ended		Six months ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Company-owned restaurant sales	$ 466,583	401,860	950,494	816,832
Franchised restaurant sales	469,459	487,134	952,297	995,589

Increases (decreases) in comparable same-store sales for Buffalo Wild Wings restaurants in the United States and Canada are as follows (based on restaurants operating at least fifteen months):

	Three months ended		Six months ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Company-owned same-store sales	(2.1)%	4.2	(1.9)	5.6
Franchised same-store sales	(2.6)	2.5	(2.6)	4.2

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

	Three months ended		Six months ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Average price per pound	$ 1.94	1.79	1.95	1.85

Results of Operations for the Three Months Ended June 26, 2016 and June 28, 2015

Restaurant sales increased by $64.7 million , or 16.1% , to $466.6 million in 2016 from $401.9 million in 2015 . The increase in restaurant sales was due to a $73.1 million increase associated with six company-owned restaurants that opened or were acquired in 2016 and the company-owned restaurants that opened or were acquired before 2016 that did not meet the criteria for same-store sales for all or part of the three-month period, partially offset by an $8.4 million decrease related to a 2.1% decrease in same-store sales at Buffalo Wild Wings restaurants.

Franchise royalties and fees decreased by $0.9 million , or 3.8% , to $23.6 million in 2016 from $24.5 million in 2015 . The decrease was due to lower average weekly sales and a 2.6% decrease in same-store sales for the franchised Buffalo Wild Wings restaurants in operation at the end of the period compared to the same period in 2015 .

Cost of sales increased by $20.6 million , or 17.5% , to $138.5 million in 2016 from $117.8 million in 2015 due primarily to more company-owned restaurants being operated in 2016 . Cost of sales as a percentage of restaurant sales increase d to 29.7% in 2016 from 29.3% in 2015 , primarily due to higher chicken wing prices. During the second quarter of 2016 , the average cost per pound for traditional chicken wings was $1.94 , an 8.4% increase over the same period in 2015 .

Labor expenses increased by $20.1 million , or 15.5% , to $149.4 million in 2016 from $129.3 million in 2015 due primarily to more restaurants being operated in 2016 . Labor expenses as a percentage of restaurant sales decreased to 32.0% in 2016 from 32.2% in 2015 . Cost of labor as a percentage of restaurant sales decreased primarily due to a decrease in bonus expenses, partially offset by an increase in management salaries as a percentage of sales due to deleveraging salaries expense on the same-store sales decrease.

Operating expenses increased by $11.4 million , or 20.0% , to $68.2 million in 2016 from $56.8 million in 2015 due primarily to more restaurants being operated in 2016 . Operating expenses as a percentage of restaurant sales increased to 14.6% in 2016 from 14.1% in 2015 . The increase in operating expenses as a percentage of restaurant sales was primarily due to deleveraging repair and maintenance expenses on the same-store-sales decrease.

Occupancy expenses increased by $4.9 million , or 21.7% , to $27.2 million in 2016 from $22.4 million in 2015 due primarily to more restaurants being operated in 2016 . Occupancy expenses as a percentage of restaurant sales increased to 5.8% in 2016 from 5.6% in 2015 primarily due to deleveraging rent costs on the same-store-sales decrease.

Depreciation and amortization increased by $8.7 million , or 29.9% , to $38.0 million in 2016 from $29.2 million in 2015 . The increase was primarily due to the additional depreciation related to the 92 additional company-owned restaurants compared to the same period in 2015 . Depreciation and amortization as a percentage of total revenue increased to 7.7% in 2016 from 6.9% in 2015 . The increase was due to amortization of reacquired franchise rights and depreciation related to capital leases acquired as part of the acquisitions we completed in 2015.

General and administrative expenses decreased by $3.9 million , or 11.5% , to $29.8 million in 2016 from $33.7 million in 2015 primarily due to decreased bonus and stock-based compensation expenses. Stock-based compensation totaled $0.7 million in the second quarter and $4.5 million in the prior year. The decrease in stock-based compensation included a reversal of previously recognized expense as the estimate of financial performance was reduced for our restricted stock units. General and administrative expenses as a percentage of total revenue decreased to 6.1% in 2016 from 7.9% in 2015 primarily due to a decrease in stock-based compensation, bonus expense, professional fees and repair and maintenance costs.

Preopening costs decreased by $1.4 million to $1.8 million in 2016 from $3.2 million in 2015 . In 2016 , we incurred costs of $0.9 million for six new company-owned restaurants opened in the second quarter of 2016 and costs of $1.0 million for restaurants that will open in the third quarter of 2016 or later. In 2015 , we incurred costs of $2.1 million for nine new company-owned restaurants opened in the second quarter of 2015 and costs of $1.1 million for restaurants that opened in the third quarter of 2015 or later. Preopening costs per new company-owned Buffalo Wild Wings restaurant averaged $252,000 and $291,000 , in the second quarters of 2016 and 2015 , respectively.

Loss on asset disposals decreased by $0.4 million to $1.9 million in 2016 from $2.3 million in 2015 . The expense in 2016 represented disposals due to remodels and the write-off of miscellaneous equipment. The expense in 2015 represented two store closures, disposals due to remodels, and the write-off of miscellaneous equipment.

Interest and other expenses increased to $1.9 million in 2016 from other income of $41,000 in 2015 . Other expenses in 2016 consisted of a loss on our minority investment in Pie Squared Holdings of $1.1 million and interest expense of $0.9 million.

Provision for income taxes decreased $0.2 million to $10.0 million in 2016 from $10.3 million in 2015 . The effective tax rate decreased to 29.9% in 2016 from 32.4% in 2015 primarily due to employment credits. We estimate our effective tax rate in 2016 will be about 30% based on federal and state tax rates and credits currently in effect.

Results of Operations for the Six Months Ended June 26, 2016 and June 28, 2015

Restaurant sales increased by $133.7 million , or 16.4% , to $950.5 million in 2016 from $816.8 million in 2015 . The increase in restaurant sales was due to a $149.2 million increase associated with 14 new company-owned restaurants that opened or were acquired in 2016 and the company-owned restaurants that opened or were acquired before 2016 that did not meet the criteria for same-store sales for all or part of the six -month period, partially offset by a $15.5 million decrease related to a 1.9% decrease in same-store sales.

Franchise royalties and fees decreased by $2.2 million , or 4.4% , to $47.9 million in 2016 from $50.1 million in 2015 . The decrease was due to lower average weekly sales volumes and a 2.6% decrease in same-store sales for the franchised Buffalo Wild Wings restaurants in operation at the end of the period compared to the same period in 2015 .

Cost of sales increased by $38.8 million , or 15.9% , to $282.3 million in 2016 from $243.5 million in 2015 due primarily to more restaurants being operated in 2016 . Cost of sales as a percentage of restaurant sales decreased to 29.7% in 2016 from 29.8% in 2015 , primarily due to a decrease in the cost of boneless wings, partially offset by an increase in the average cost per pound for traditional chicken wings. During the first six months of 2016 , the average cost per pound for traditional wings was $1.95 , a 5.4% increase over the same period in 2015 .

Labor expenses increased by $38.8 million , or 14.9% , to $298.5 million in 2016 from $259.7 million in 2015 due primarily to more restaurants being operated in 2016 . Labor expenses as a percentage of restaurant sales decreased to 31.4% in 2016 from 31.8% in 2015 . Cost of labor as a percentage of restaurant sales decreased primarily due to decreased bonus expenses, partially offset by deleveraging salaries expenses on the decrease in same-store sales.

Operating expenses increased by $22.5 million , or 19.5% , to $137.9 million in 2016 from $115.4 million in 2015 due primarily to more restaurants being operated in 2016 . Operating expenses as a percentage of restaurant sales increased to 14.5% in 2016 from 14.1% in 2015 , due primarily to deleveraging repair and maintenance expenses and to incremental expenses incurred to enhance internet performance in our restaurants.

Occupancy expenses increased by $9.6 million , or 21.6% , to $53.9 million in 2016 from $44.3 million in 2015 due primarily to more restaurants being operated in 2016 . Occupancy expenses as a percentage of restaurant sales increased to 5.7% in 2016 from 5.4% in 2015 due primarily to deleveraging rent costs with the same-store sales decrease.

Depreciation and amortization increased by $18.2 million , or 31.8% , to $75.5 million in 2016 from $57.3 million in 2015 . The increase was primarily due to the additional depreciation related to the 92 additional company-owned restaurants compared to the same period in 2015 . Depreciation and amortization as a percentage of total revenue increased to 7.6% in 2016 from 6.6% in 2015 . The increase was due to amortization of reacquired franchise rights and depreciation related to capital leases acquired as part of the acquisitions we completed in 2015.

General and administrative expenses decreased by $2.7 million , or 4.3% , to $61.5 million in 2016 from $64.2 million in 2015 primarily due to decreases in bonus and stock-based compensation expenses. General and administrative expenses as a percentage of total revenue decreased to 6.2% in 2016 from 7.4% in 2015 , partially due to the decrease in stock-based compensation and bonus expenses.

Preopening costs decreased by $0.8 million to $3.7 million in 2016 from $4.5 million in 2015 . In 2016 , we incurred costs of $2.6 million for 13 new company-owned restaurants opened in the first six months of 2016 and costs of $1.1 million for restaurants that will open in the third quarter of 2016 or later. In 2015 , we incurred costs of $3.3 million for 12 new company-owned restaurants opened in the first six months of 2015 and costs of $1.2 million for restaurants that opened in the third quarter of 2015 or later. Preopening costs per new company-owned Buffalo Wild Wings restaurant averaged $275,000 and $300,000 in 2016 and 2015 , respectively.

Loss on asset disposals and impairment increased by $0.2 million to $3.1 million in 2016 from $2.9 million in 2015 . The expense in 2016 represented disposals due to remodels and the write-off of miscellaneous equipment. The expense in 2015 represented two store closures, the write-off of miscellaneous equipment and disposals due to remodels.

Interest and other expenses increased to $1.8 million in 2016 from $34,000 in 2015 . Other expense in 2016 consisted primarily of interest expense on our long-term debt and capital lease obligations of $1.8 million and a loss on our minority investment in Pie Squared Holdings of $1.2 million, partially offset by a gain related to an increase in the valuation of our contingent consideration of $1.1 million.

Provision for income taxes decreased $0.7 million to $24.0 million in 2016 from $24.7 million in 2015 . The effective tax rate decreased to 29.9% in 2016 from 32.9% in 2015 .

Liquidity and Capital Resources

Our primary liquidity and capital requirements have been for constructing, remodeling and maintaining our new and existing company-owned restaurants; working capital; acquisitions; improving technology; share repurchases; and other general business needs. Depending on the size of the transaction, acquisitions of businesses or investments in affiliates and share repurchases would generally be funded from our cash balances or additional borrowing under our revolving credit facility. Our other liquidity and capital requirements are primarily funded with cash from operations.

Our cash balance at June 26, 2016 was $13.6 million . As of June 26, 2016 , we had $141.9 million available under our revolving credit facility.

For the six months ended June 26, 2016 , net cash provided by operating activities was $149.4 million . Net cash provided by operating activities consisted primarily of net earnings adjusted for non-cash expenses and a decrease in income taxes receivable, partially offset by a decrease in accrued expenses. The decrease in income taxes receivable was primarily due to the receipt of an expedited refund for a portion of the year-end receivable balance, and an increase in income taxes payable during the first six months of 2016 due to the timing of estimated tax payments. The decrease in accrued expenses was primarily due to the timing of bonus and payroll payments.

For the six months ended June 28, 2015 , net cash provided by operating activities was $100.9 million . Net cash provided by operating activities consisted primarily of net earnings adjusted for non-cash expenses, including a decrease in deferred tax liabilities, and a decrease in income taxes receivable, partially offset by an increase in prepaid expenses. The decrease in deferred tax liabilities was primarily due to unwinding bonus depreciation. The decrease in income taxes receivable was primarily due to the timing of tax payments and the increase in prepaid expenses was primarily due to the timing of rent payments.

For the six months ended June 26, 2016 and June 28, 2015 , net cash used in investing activities was $74.5 million and $114.5 million , respectively. Investing activities included purchases of property and equipment related to the additional company-owned restaurants and restaurants under construction in both periods as well as the acquisition of 1 franchised restaurant in 2016 and 16 franchised restaurants in 2015. During the first six months of 2016 and 2015 , we opened or purchased 14 and 28 restaurants, respectively. In 2016 , we expect capital expenditures of approximately $82.9 million for the cost of approximately 40 new or relocated company-owned Buffalo Wild Wings restaurants, $15.5 million for technology improvements on our restaurant and corporate systems, and $68.1 million for capital expenditures at our existing restaurants. In the first six months of 2015 , we purchased $12.3 million of marketable securities and received proceeds of $14.2 million for sales of marketable securities.

For the six months ended June 26, 2016 and June 28, 2015 , net cash used in financing activities was $72.4 million and $5.8 million , respectively. Net cash used in financing activities for 2016 was primarily due to repayments of our line of credit of $263.3 million and repurchases of our common stock of $100.0 million , partially offset by proceeds from our line of credit of $286.9 million and short-term borrowings from our national advertising and gift card funds of $12.3 million . We expect to repurchase at least $150 million worth of Buffalo Wild Wing's shares in 2016. Additional cash used in financing activities was due to tax payments for restricted stock units of $9.2 million , partially offset by proceeds from the issuance of common stock of $2.0 million . Net cash used in financing activities for 2015 resulted from tax payments for restricted stock units of $7.6 million , partially offset by proceeds from the issuance of common stock of $1.6 million and the excess tax benefit from stock issuance of $0.3 million . No additional funding from the issuance of common stock (other than from the exercise of options and purchase of stock under the employee stock purchase plan) is anticipated for the remainder of 2016 .

Our liquidity is impacted by minimum cash payment commitments resulting from lease obligations for our restaurants and our corporate office. Initial lease terms are generally 10 to 15 years with renewal options and generally require us to pay a proportionate share of real estate taxes, insurance, common area maintenance, and other operating costs. Some restaurant leases provide for contingent rental payments based on sales thresholds.

The following table presents a summary of our contractual obligations and commitments as of June 26, 2016 :

		Payments Due By Period (in thousands)			
	Total	**Less than One year**	**1-3 years**	**3-5 years**	**After 5 years**
Operating lease obligations	$ 715,608	82,573	155,714	129,679	347,642
Capital lease obligations	48,788	4,964	10,069	10,024	23,731
Deemed landlord financing obligations	8,454	819	1,662	1,694	4,279
Commitments for restaurants under development	62,241	2,703	9,088	9,219	41,231
Revolving credit facility	58,059	—	58,059	—	—
Other commitments	9,900	1,900	4,000	4,000	—
Total	$ 903,050	92,959	238,592	154,616	416,883

We believe the cash flows from our operating activities will be sufficient to fund our operations and building commitments and meet our obligations for the foreseeable future. Depending on the size of the transaction, acquisitions or investments and share repurchases would generally be funded from cash balances or using our revolving credit facility. Our future cash outflows related to income tax uncertainties amounted to $1,514 as of June 26, 2016 . These amounts are excluded from the contractual obligations table due to the high degree of uncertainty regarding the timing of these liabilities.

Off-Balance Sheet Arrangements

As of June 26, 2016 , we had no off-balance sheet arrangements or transactions.

Risk Factors/Forward-Looking Statements

The foregoing discussion and other statements in this report contain various “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (“the Exchange Act”). Forward-looking statements are based on current expectations or beliefs concerning future events. Such statements can be identified by the use of terminology such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “could,” “possible,” “plan,” “project,” “will,” “forecast” and similar words or expressions. Our forward-looking statements generally relate to our growth strategy, financial results, sales efforts, franchise expectations, restaurant openings and related expense, and cash requirements. Although we believe there is reasonable basis for the forward-looking statements, our actual results could be materially different. While it is not possible to foresee all of the factors that may cause actual results to differ from our forward-looking statements, such factors include, among others, the risk factors that follow (all of which are discussed in greater detail in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended December 27, 2015). Investors are cautioned that all forward-looking statements involve risks and uncertainties and speak only as of the date on which they are made, and we do not undertake any obligation to update any forward-looking statement.

- Unfavorable publicity could harm our business.
- Fluctuations in chicken wing prices could impact our operating income.
- If we are unable to identify and obtain suitable new restaurant sites and successfully open new restaurants, our revenue growth rate and profits may be reduced.
- A security failure in our information technology systems could expose us to potential liability and loss of revenues.
- Shortages or interruptions in the availability and delivery of food and other supplies may increase costs or reduce revenues.
- Wage and hour litigation could negatively impact our performance

- Changes in employment laws or regulations could harm our performance.
- Investments in new or emerging brands may not be successful.
- Our restaurants may not achieve market acceptance in the new domestic and international geographic regions we enter.
- New restaurants added to our existing markets may take sales from existing restaurants.
- Failure of our internal control over financial reporting could harm our business and financial results.
- If the material weaknesses we have identified in our internal control over financial reporting persist or if we fail to establish and maintain effective internal control over financial reporting, our ability to accurately report our financial results could be adversely affected.
- Economic conditions could have a material adverse impact on our landlords or other tenants in retail centers in which we or our franchisees are located, which in turn could negatively affect our financial results.
- An impairment in the carrying value of our goodwill or other intangible assets could adversely affect our financial condition and consolidated results of operations.
- We may experience higher-than-anticipated costs associated with the opening of new restaurants or with the closing, relocating, and remodeling of existing restaurants, which may adversely affect our results of operations.
- We may be dependent on franchisees and their success.
- We could face liability from or as a result of our franchisees.
- We may be unable to compete effectively in the restaurant industry.
- Our success depends substantially on the value of our brands and our reputation for offering guests a compelling guest experience.
- Our inability to successfully and sufficiently raise menu prices could result in a decline in profitability.
- Our quarterly operating results may fluctuate due to the timing of special events and other factors, including the recognition of impairment losses.
- We may not be able to attract and retain qualified Team Members and key executives to operate and manage our business.
- We may not be able to obtain and maintain licenses and permits necessary to operate our restaurants.
- The sale of alcoholic beverages at our restaurants subjects us to additional regulations and potential liability.
- Changes in consumer preferences or discretionary consumer spending could harm our performance.
- A regional or global health pandemic could severely affect our business.
- The acquisition of existing restaurants from our franchisees or other acquisitions may have unanticipated consequences that could harm our business and our financial condition.
- There is volatility in our stock price.
- We may be subject to increased labor and insurance costs or current insurance may not provide adequate levels of coverage.
- We are dependent on information technology and any material failure of that technology could impair our ability to efficiently operate our business.
- If we are unable to maintain our rights to use key technologies of third parties, our business may be harmed.
- We may not be able to protect our trademarks, service marks or trade secrets.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk related to our cash balances held in foreign countries. Changes in interest rates affect the investment income we earn on our cash balances and, therefore, impact our cash flows and results of operations. We also have investment securities, which are held to generate returns that seek to offset changes in liabilities related to the equity market risk of our deferred compensation arrangements.

Interest Rates

We are exposed to interest rate risk on the outstanding borrowings on our revolving credit facility. As of June 26, 2016 , we had an outstanding balance of $58.1 million under the facility. As of June 26, 2016 , we deem our interest rate risk to be immaterial.

Inflation

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

Commodity Price Risk

Many of the food products purchased by us are affected by weather, production, availability, and other factors outside our control. We believe that almost all of our food and supplies are available from several sources, which helps to control food product and supply risks. We negotiate directly with independent suppliers for our supply of food and other products. Domestically, we have a distribution contract with McLane Company, Inc. that covers food, paper, and non-food products. We have minimum purchase requirements with some of our vendors, but the terms of the contracts and nature of the products are such that our purchase requirements do not create a market risk. One of the primary food products used by company-owned and franchised Buffalo Wild Wings restaurants is chicken wings. We work to counteract the effect of the volatility of chicken wing prices, which can significantly change our cost of sales and cash flow, with the introduction of new menu items, effective marketing promotions, focused efforts on food costs and waste, and menu price increases. We also explore purchasing strategies to reduce the severity of cost increases and fluctuations. Chicken wings accounted for approximately 26.6% and 25.4% of our cost of sales in the second quarters of 2016 and 2015 , respectively, with a quarterly average price per pound of $1.94 and $1.79 , respectively. If the monthly average wing price exceeds an upper threshold or falls below a lower threshold set in the contract, we split the impact with our suppliers, reducing our risk related to wing price fluctuations.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of June 26, 2016 , management conducted an evaluation, with the participation of our Chief Executive Officer and our principal financial officer, of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). As a result of the material weaknesses in internal control over financial reporting identified and described in Item 9A of our Annual Report on Form 10-K for the fiscal year ended December 27, 2015, our disclosure controls and procedures were not effective as of June 26, 2016 .

Notwithstanding the identified material weaknesses, management has concluded that the consolidated financial statements included in this Annual Report on Form 10-Q fairly represent in all material respects our financial condition, results of operations and cash flows at and for the periods presented in accordance with U.S. GAAP.

Remediation Plan for Material Weaknesses in Internal Control over Financial Reporting

The Company is in the process of improving its policies and procedures relating to the recognition and measurement of new and modified lease transactions originated by the Company or acquired through business combinations. Management plans to enhance its internal controls by a) adding controls to ensure proper review of new and modified leases and the application of relevant accounting standards; b) strengthening the review and approval of manual journal entries; and c) adding resources to the conduct of risk assessment procedures and implementing necessary revisions to internal control over financial reporting, responsive to changes in the business.

The material weaknesses will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We believe this remediation will occur in fiscal 2016 and will strengthen our internal control over financial reporting and will prevent a reoccurrence of the material weaknesses described in Item 9A of our Annual Report on Form 10-K for the fiscal year ended December 27, 2015.

Changes in Internal Control over Financial Reporting

Other than the actions taken under "Remediation Plan for Material Weaknesses in Internal Control over Financial Reporting" discussed above, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during our most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In addition to the legal proceedings described in Note 11 to the consolidated financial statements included in Item 1 of Quarterly Report on Form 10-Q, we are occasionally a defendant in litigation arising in the ordinary course of our business, including claims arising from personal injuries, contract claims, wage and hour claims, franchise-related claims, dram shop claims, employment-related claims and claims from guests or employees alleging injury, illness or other food quality, health or operational concerns. To date, none of these types of litigation, most of which are typically covered by insurance, has had a material effect on us. We have insured and continue to insure against many of these types of claims. A judgment on any claim not covered by or in excess of our insurance coverage could adversely affect our financial condition or results of operations.

ITEM 2. ISSUER PURCHASES OF EQUITY SECURITIES

This table below provides information with respect to our purchases of shares of Buffalo Wild Wings common stock during the three months ended June 26, 2016 :

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan [a]	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan
March 28, 2016, through April 24, 2016	—	—	—	—
April 25, 2016, through May 22, 2016	548,402	$ 136.73	548,402	$ 75,019,451
May 23, 2016, through June 26, 2016	—	—	—	—
Total	548,402	$ 136.73	548,402	$ 75,019,451

[a] Shares were repurchased pursuant to the repurchase program announced on November 23, 2015. The program initially includes up to $200 million in authorized repurchases and has no expiration date. Shares repurchased under the program may be made through open market and privately negotiated transactions from time to time and in amounts that management deems appropriate. The amount and timing of share repurchases will depend upon market conditions and other corporate considerations.

ITEM 6. EXHIBITS

See the Exhibit Index following the signature page of this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date:	**July 29, 2016**	**BUFFALO WILD WINGS, INC.**	
		By:	/s/ Sally J. Smith
			Sally J. Smith, President and Chief Executive Officer (principal executive officer)
		By:	/s/ Jeffrey B. Sorum
			Jeffrey B. Sorum, Senior Vice President, Chief Accounting Officer (interim principal financial officer)

EXHIBIT INDEX

BUFFALO WILD WINGS, INC.
FORM 10-Q FOR QUARTER ENDED JUNE 26, 2016

Exhibit Number	Description
3.1	Restated Articles of Incorporation, as amended (Incorporated by reference to Exhibit 3.1 to our quarterly report on Form 10-Q for the fiscal quarter ended June 29, 2008, file no. 000-24743).
3.2	Amended and Restated Bylaws, as amended (Incorporated by reference to Exhibit 3.1 to our current report on Form 8-K filed May 27, 2009, file no. 000-24743).
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act.
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act.
32.2	Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act.
101	The following financial statements from the Company’s 10-Q for the fiscal quarter ended June 26, 2016, formatted in XBRL: (i) Consolidated Balance Sheet, (ii) Consolidated Statement of Earnings, (iii) Consolidated Statement of Comprehensive Income, (iv) Consolidated Statement of Cash Flows, and (v) Notes to Consolidated Financial Statements.

EXHIBIT 31.1

CERTIFICATION
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Sally J. Smith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Buffalo Wild Wings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: July 29, 2016

By: /s/ Sally J. Smith
Sally J. Smith
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Jeffrey B. Sorum, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Buffalo Wild Wings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 29, 2016

By: /s/ Jeffrey B. Sorum

Jeffrey B. Sorum
Principal Financial Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Buffalo Wild Wings, Inc. (the “Company”) on Form 10-Q for the quarter ended June 26, 2016 as filed with the Securities and Exchange Commission (the “Report”), I, Sally J. Smith, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 29, 2016

By: /s/ Sally J. Smith
Sally J. Smith
Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Buffalo Wild Wings, Inc. (the “Company”) on Form 10-Q for the quarter ended June 26, 2016 as filed with the Securities and Exchange Commission (the “Report”), I, Jeffrey B. Sorum, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 29, 2016

By: /s/ Jeffrey B. Sorum

Jeffrey B. Sorum
Principal Financial Officer