

CHEESECAKE FACTORY INC

Form 10-K

February 28, 2013

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended January 1, 2013

or

- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 0-20574

THE CHEESECAKE FACTORY INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

**26901 Malibu Hills Road
Calabasas Hills, California**

(Address of principal executive offices)

51-0340466

(I.R.S. Employer
Identification No.)

91301

(Zip Code)

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Registrant's telephone number, including area code: **(818) 871-3000**

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

Title of each class	Name of each exchange on which registered
Common Stock, par value \$.01 per share	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)
Preferred Stock Purchase Rights	(Currently attached to and trading with the Common Stock)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

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The aggregate market value of the voting stock held by non-affiliates of the registrant as of the last business day of the second fiscal quarter, July 3, 2012, was \$1,606,358,417 (based on the last reported sales on The NASDAQ Stock Market on that date).

As of February 13, 2013, 52,663,795 shares of the registrant's Common Stock, \$.01 par value per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference information from the registrant's proxy statement for the annual meeting of stockholders to be held on May 30, 2013.

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PART I

Forward-Looking Statements

Certain information included in this Form 10-K and other materials filed or to be filed by us with the Securities and Exchange Commission (SEC), as well as information included in oral or written statements made by us or on our behalf, may contain forward-looking statements about our current and expected performance trends, growth plans, business goals and other matters. These statements may be contained in our filings with the SEC, in our press releases, in other written communications, and in oral statements made by or with the approval of one of our authorized officers. Words or phrases such as believe, plan, will likely result, expect, intend, will continue, is anticipated, estimate, could, would, should, and similar expressions are intended to identify forward-looking statements. These statements, and any other statements that are not historical facts, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as codified in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Acts).

In connection with the safe harbor provisions of the Acts, we have identified and are disclosing important factors, risks and uncertainties that could cause our actual results to differ materially from those projected in forward-looking statements made by us, or on our behalf (see Item 1A Risk Factors). These cautionary statements are to be used as a reference in connection with any forward-looking statements. The factors, risks and uncertainties identified in these cautionary statements are in addition to those contained in any other cautionary statements, written or oral, which may be made or otherwise addressed in connection with a forward-looking statement or contained in any of our subsequent filings with the SEC. Because of these factors, risks and uncertainties, we caution against placing undue reliance on forward-looking statements. Although we believe that the assumptions underlying forward-looking statements are reasonable, any of the assumptions could be incorrect, and there can be no assurance that forward-looking statements will prove to be accurate. Forward-looking statements speak only as of the date on which they are made. Except as may be required by law, we do not undertake any obligation to modify or revise any forward-looking statement to take into account or otherwise reflect subsequent events or circumstances arising after the date that the forward-looking statement was made.

ITEM 1. BUSINESS

General

Our business operations originated in 1972 when Oscar and Evelyn Overton founded a small bakery in the Los Angeles area. Their son, David Overton, our Chairman of the Board and Chief Executive Officer, led the creation and opening in 1978 of the first The Cheesecake Factory restaurant in Beverly Hills, California. In 1992, the company was incorporated in Delaware as The Cheesecake Factory Incorporated (referred to herein as the Company or as we, us and our) to consolidate the restaurant and bakery businesses of its predecessors operating under The Cheesecake Factory® mark. Our executive offices are located at 26901 Malibu Hills Road, Calabasas Hills, California 91301, and our telephone number is (818) 871-3000.

As of February 28, 2013, we operated 177 company-owned upscale, casual dining, full-service restaurants: 162 under The Cheesecake Factory® mark, 14 under the Grand Lux Cafe® mark and one under the RockSugar Pan Asian Kitchen® mark. In fiscal 2011, we announced our initial expansion plans outside of the United States, entering into an exclusive licensing agreement to build and operate The Cheesecake Factory

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restaurants in the Middle East. Our licensee opened its first three locations during fiscal 2012. In February 2013, we entered into an exclusive licensing agreement to build and operate The Cheesecake Factory restaurants in Latin America.

We also operate two bakery production facilities whose primary role is to provide cheesecakes and other baked goods to our company-owned and licensed restaurants. In addition, we leverage our brand identity with consumers and profitably utilize our bakery production capacity through sales to external customers. Restaurant sales represented 96% of our revenues in fiscal 2012, 2011 and 2010.

We maintain a website at www.thecheesecakefactory.com. On our website, we make available at no charge our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, all amendments to those reports, and our proxy statements, as soon as reasonably practicable after these materials are filed with or furnished to the SEC. Our filings are also available on the SEC's website at www.sec.gov. The contents of our website are not incorporated by reference into this Form 10-K.

Throughout this report, we use the term "restaurants" to include The Cheesecake Factory, Grand Lux Cafe and RockSugar Pan Asian Kitchen, unless otherwise noted. For segment information, see Note 15 of Notes to Consolidated Financial Statements in Part IV, Item 15.

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The Cheesecake Factory Restaurant Concept

The Cheesecake Factory restaurants provide a distinctive, high quality dining experience at moderate prices by offering an extensive, innovative and evolving menu in an upscale casual, high energy setting with attentive, efficient and friendly service. As a result, The Cheesecake Factory restaurants appeal to a diverse guest base across a broad demographic range. Our extensive menu enables us to compete for substantially all dining preferences and occasions, from the key lunch and dinner day parts to the mid-afternoon and late-night day parts, which are traditionally weaker times for most casual dining restaurants. The Cheesecake Factory restaurants are open seven days a week for lunch and dinner, as well as Sunday brunch. Most of our restaurants offer a full-service bar where our entire menu is served. Our alcoholic beverage sales represented approximately 13% of The Cheesecake Factory restaurant sales for fiscal 2012, 2011 and 2010.

The Cheesecake Factory menu features over 200 items in addition to items presented on supplemental menus, such as our Skinnylicious™ menu, which offers over 50 innovative items at 590 calories or less. Menu offerings include appetizers, pizza, seafood, steaks, chicken, burgers, specialty items, pastas, salads, sandwiches, omelettes and desserts, including approximately 50 varieties of cheesecake and other quality baked desserts. Examples of menu offerings include Chicken Madeira, Cajun Jambalaya Pasta, Thai Lettuce Wraps, Avocado Eggrolls and Bang-Bang Chicken and Shrimp. In contrast to many chain restaurant operations, substantially all of our menu items, except those desserts manufactured at our bakery production facilities, are prepared from scratch daily at our restaurants with high quality, fresh ingredients using innovative and proprietary recipes. We consider the extensive selection of items on our menu to be an important factor in the differentiation of our restaurants from our competitors.

One of our competitive strengths is our ability to anticipate consumer dining and taste preferences and adapt our menu to the latest trends in food consumption. We regularly update our ingredients and cooking methods, as well as create new menu items, to improve the quality and consistency of our food and keep our menu relevant to consumers. We review our entire menu twice a year for guest appeal and pricing. All new menu items are tested and selected based on uniqueness, anticipated sales popularity, preparation technique and profitability.

Our ability to create, promote and attractively display our unique line of desserts is also important to the competitive positioning and financial success of our restaurants. Our brand identity and reputation for offering high quality desserts results in a significant level of dessert sales, approximately 15% for fiscal 2012, 2011 and 2010 of The Cheesecake Factory restaurant sales.

We place significant emphasis on the unique, contemporary interior design and decor of our restaurants, which creates a high-energy ambiance in a casual setting. Our concept requires a higher investment per square foot of restaurant space than is typical for the casual dining industry.

However, each of our restaurants has historically generated annual sales per square foot that are also typically higher than our competitors. Our stylish restaurant design and decor contribute to the distinctive dining experience enjoyed by our guests. Each restaurant features large, open dining areas and a contemporary kitchen design. The table and seating layouts of our restaurants are flexible, permitting tables and seats to be easily rearranged to accommodate large groups or parties, thus permitting more effective utilization of seating capacity. Outdoor patio seating, available at approximately 90% of our restaurants, allows for additional guest capacity, as weather permits, at a comparatively low occupancy cost per seat.

Grand Lux Cafe Concept

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Grand Lux Cafe is an upscale casual dining concept that offers globally-inspired, artisan cuisine with an ambiance of modern sophistication. Using fresh ingredients prepared with world class cooking techniques, the menu at Grand Lux Cafe offers classic American dishes and international favorites, including appetizers, pasta, seafood, steaks, chicken, burgers, salads, specialty items and desserts. Examples of menu offerings include our Crispy Caramel Chicken, Cedar Planked BBQ Salmon and Shrimp Scampi. A full-service bar, as well as an onsite bakery which produces a signature selection of made-to-order desserts, are also elements of this concept. Our Grand Lux Cafe restaurants are open seven days a week for lunch and dinner. Our location in the Venetian Resort-Hotel-Casino in Las Vegas, Nevada is open 24 hours a day and its sister location in the Palazzo Resort-Hotel-Casino is open 20 hours a day. Both locations also offer a breakfast menu. All Grand Lux Cafe locations offer a weekend brunch. Each of our restaurants offers a full-service bar where our entire menu is served. Our alcoholic beverage sales represented approximately 17% of Grand Lux Cafe sales for fiscal 2012, 2011 and 2010. We review our entire menu twice a year for guest appeal and pricing. All new menu items are tested and selected based on uniqueness, anticipated sales popularity, preparation technique and profitability.

During the past few years, we gained valuable insight into the Grand Lux Cafe concept, including the types of markets in which it performs well, how guests perceive the concept based on its design and décor, and the appropriate size of future units. We refined Grand Lux Cafe's architectural design and layout to incorporate this knowledge and to position the concept as we believe appropriate for potential future growth. In fiscal 2012, we opened a newly designed Grand Lux Cafe in Cherry Hill, New Jersey and are currently in discussions with landlords for potential sites. Based on these discussions, we would expect at least one new Grand Lux Cafe to open in fiscal 2014.

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Also in fiscal 2012, we made the business decision to discontinue operations in three of our Grand Lux Cafe restaurants, each of which was previously fully impaired, because they were not delivering the necessary sales volumes to drive our required returns. (See Item 1A Risk Factors If we are unable to successfully expand and operate our Grand Lux Cafe and RockSugar Pan Asian Kitchen brands in accordance with our strategic plan, our long-term revenue and earnings per share targets may be negatively impacted.)

RockSugar Pan Asian Kitchen Concept

RockSugar Pan Asian Kitchen is a unique concept featuring a Southeast Asian menu in an upscale casual dining setting. The unique décor of the restaurant features design elements true to the restaurant's Southeast Asian branding. RockSugar Pan Asian Kitchen showcases the cuisines of Thailand, Vietnam, Malaysia, Singapore, Indonesia and India with approximately 80 dishes served Asian family-style to create an atmosphere that encourages sharing and conversation. Examples of menu offerings include Shaking Beef, Thai Basil Cashew Chicken, Roasted Thai Chilean Sea Bass and Crispy Samosas. RockSugar Pan Asian Kitchen also features a full-service bar with an extensive wine list and exotic cocktails, as well as an onsite bakery where we create freshly-made desserts that infuse traditional French flair into nearly a dozen Asian-influenced items. We currently operate one RockSugar Pan Asian Kitchen restaurant in Los Angeles, California and continue to evaluate the concept's potential for future growth. (See Item 1A Risk Factors If we are unable to successfully expand and operate our Grand Lux Cafe and RockSugar Pan Asian Kitchen brands in accordance with our strategic plan, our long-term revenue and earnings per share targets may be negatively impacted.)

Competitive Positioning

The restaurant industry is highly competitive with respect to menu and food quality, service, location, décor and value. We compete directly and indirectly with national and regional restaurant casual dining chains, as well as locally-owned restaurants, for guest traffic. We also compete with other restaurants and retail establishments for quality site locations and qualified personnel to operate our restaurants. In addition, we face competition from quick-service restaurants and grocery stores that have increased the quality and variety of their product offerings in response to consumer demand. Many of our competitors have significantly greater financial and operational resources and larger economies of scale than we do. (See Item 1A Risk Factors Competition in the restaurant industry in general, and specifically within the upscale casual segment of the restaurant industry, may adversely affect guest traffic at our restaurants.)

The restaurant industry is comprised of multiple segments, including fine dining, casual dining and quick-service. Casual dining can be sub-divided further into upscale casual, core casual and fast casual dining. Our restaurants operate in the upscale casual dining segment, which is differentiated by freshly prepared and innovative food, flavorful recipes with creative presentations, unique restaurant layouts, eye-catching design elements and more personalized service. Upscale casual dining is positioned above core casual dining, with standards that are closer to fine dining. We believe that we are a leader in upscale casual dining, given our high average sales per square foot and per restaurant.

The key elements that drive our total guest experience and position us favorably from a competitive standpoint include the following:

Award-Winning, Extensive and Innovative Menu, Bar and Bakery Programs. Our restaurants offer one of the broadest menus in casual dining and feature a wide array of flavors with portions designed for sharing. Substantially all of our menu items, except the desserts manufactured at our bakery production facilities, are prepared fresh daily at each restaurant using high quality ingredients based on innovative and proprietary

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recipes. We generally update our menus twice each year to respond to evolving consumer dining preferences and needs, as well as food trends and changes in consumers eating habits. These menu updates keep our concepts relevant to consumers. Our bakery production facilities produce over 70 varieties of cheesecake and other baked desserts for our restaurants and third-party bakery customers using high quality dairy and other ingredients. We periodically introduce new and innovative cheesecakes and other baked desserts as part of our menu enhancements and for our external customers.

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Commitment to Excellent Service and Hospitality through the Selection, Training and Retention of High Quality Staff Members. Our mission is to create an environment where absolute guest satisfaction is our highest priority. We strive to consistently exceed the expectations of our guests in all aspects of their experience in our restaurants. One of the most important aspects of delivering dependable, quality service is experienced staff members who can execute our concepts according to our high standards. Our recruitment, selection, training and retention programs are among the most comprehensive in the restaurant industry, enabling us to attract and retain qualified staff members who are motivated to consistently provide excellence in guest hospitality. By providing extensive training, our goal is to encourage our staff members to develop a sense of personal commitment to our core values and culture of excellence in restauranting and guest hospitality. (See Restaurant Operations and Management below.)

High Quality, High Profile Restaurant Locations and Flexible Site Layouts. We target restaurant sites in high quality, high profile locations with a balanced mix of residences and businesses, including shopping and entertainment outlets. We have the flexibility to design our restaurants to accommodate a wide array of urban and suburban site layouts, including multi-level locations. We utilize a variety of restaurant design sizes ranging from 7,000 to 17,000 interior square feet. In the future, we expect the majority of our new restaurants to vary from 8,000 to 10,000 interior square feet, selected appropriately for each market and specific site, and to deliver at or above our required return on investment.

Distinctive Restaurant Design and Decor and Outdoor Seating. Our restaurants' distinctive contemporary design and decor create a high energy, non-chain image and upscale ambiance in a casual setting. Our restaurant design has evolved over time to remain current while retaining a similar look and feel to our existing restaurants. We apply high standards to the maintenance of our restaurants to keep them in like new condition.

Value Proposition. We believe our The Cheesecake Factory and Grand Lux Cafe restaurants are recognized by consumers for offering value with freshly prepared menu items across a broad array of price points and generous food portions at moderate prices. Over the past several years, we introduced new menu items and categories at our restaurants, such as Skinnylicious™, further enhancing the variety and price point offerings to our guests. The average check for each The Cheesecake Factory restaurant guest, including beverages and desserts, was approximately \$19.30, \$19.10 and \$18.90 for fiscal 2012, 2011 and 2010, respectively. The average check per restaurant guest at Grand Lux Cafe was approximately \$19.60, \$19.30 and \$19.10 for fiscal 2012, 2011 and 2010, respectively.

The primary role of our bakery operations is to produce innovative, high quality cheesecakes and other baked desserts for sale at our restaurants and those of our international licensees, which is important to our competitive positioning. Vertical integration of this vital part of our brand gives us control over the creativity and quality of our desserts and is also more profitable than buying from a third party. The desserts we sell through our retail and foodservice channels are strongly positioned based on brand recognition, creativity and quality. However, due to the premium nature of our products, we do not compete solely on price.

Domestic Expansion

We believe the viability of The Cheesecake Factory concept has been successfully demonstrated in a variety of layouts (single or multi-level, from 7,000 to 17,000 interior square feet), site locations (i.e., urban or suburban shopping malls, lifestyle centers, retail strip centers, office complexes and entertainment centers either freestanding or in-line) and trade areas across the United States. Accordingly, we intend to continue developing The Cheesecake Factory restaurants in high quality, high profile locations that meet our rigorous site standards. We currently expect that we could grow the concept to 300 restaurants over time. We have the flexibility in our restaurant designs to penetrate a wide variety of markets across varying population densities in both existing and new markets. (See New Restaurant Site Selection and Development below.)

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In addition to expanding The Cheesecake Factory concept, we plan to selectively pursue other opportunities to leverage the competitive strengths of our restaurant operations, including the expansion of the Grand Lux Cafe concept based on the newly designed format discussed in the Grand Lux Cafe Concept section above, as well as the potential to expand RockSugar Pan Asian Kitchen and develop or acquire new restaurant concepts.

We opened eight, seven and three new restaurants in fiscal 2012, 2011 and 2010, respectively, including one Grand Lux Cafe in 2012. The average interior square footage for these restaurants was 9,000, 8,400 and 9,300, respectively. During fiscal 2012, we discontinued operations upon lease expiration in one The Cheesecake Factory restaurant. As some of our earlier leases begin to expire, we may use that as an opportunity to improve the unit economics of our restaurants in certain trade areas. (See Item 1A Risk Factors If we are unable to renew our restaurant leases on similar terms and conditions, or at all, or to optimize the locations of our restaurants in certain trade areas, our business and financial performance could be harmed.) In addition, in fiscal 2012, we made the business decision to discontinue operations in three of our Grand Lux Cafe restaurants as of the end of March 2013 because they were not delivering the necessary sales volumes to drive our required returns.

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From the beginning of the recession in 2008 through 2012, the number of sites we would consider appropriate for our restaurants was below historical levels due to a variety of factors, principally the lack of new development by landlords. We are now seeing a greater number of potential sites that meet our criteria, primarily in existing mall renovations or expansions. We expect to open as many as eight to ten The Cheesecake Factory restaurants in fiscal 2013. This includes the relocation of two or three existing restaurants, as we take the opportunity to optimize where our restaurants are located in certain trade areas. It is difficult for us to precisely predict the timing of our new restaurant openings due to many factors that are outside of our control (see New Restaurant Site Selection and Development below). We continually look for additional sites that meet our standards and are negotiating leases for potential future locations. (See Item 1A Risk Factors Our ability to secure an adequate number of high quality sites for new restaurants openings in the future could affect our ability to achieve our revenue and earnings per share growth targets which could negatively affect our stock price.)

International Expansion

In 2011, we announced our initial expansion plans outside of the United States. We entered into an exclusive licensing agreement with a Kuwait-based company to build and operate The Cheesecake Factory restaurants in the Middle East. The agreement provides for the development of up to 22 restaurants in the United Arab Emirates, Kuwait, Bahrain, Qatar and the Kingdom of Saudi Arabia, with the opportunity to expand the agreement to include other markets in the Middle East, North Africa, Central and Eastern Europe, Russia and Turkey. This licensing agreement includes an initial development fee, site and design fees and ongoing royalties on our licensee's restaurant sales, as well as an agreement to supply bakery products branded under The Cheesecake Factory trademark to such restaurants. Our licensee opened its first three locations in fiscal 2012 and expects to open as many as three restaurants in fiscal 2013.

In February 2013, we entered into an exclusive licensing agreement with a restaurant operator in Latin America to build and operate The Cheesecake Factory restaurants. The agreement provides for the development of a minimum of 12 restaurants over an eight-year period throughout Mexico and Chile with the potential to expand the agreement to four other countries Argentina, Brazil, Colombia and Peru. This licensing agreement includes an initial development fee, site and design fees and ongoing royalties on our licensee's restaurant sales, as well as an agreement to supply bakery products branded under The Cheesecake Factory trademark to such restaurants. The first restaurant is expected to open in Mexico City by early fiscal 2014.

As we evaluate other international markets, we will consider opportunities to operate certain international locations ourselves and/or enter into licensing, joint venture or partnership arrangements with other established companies over time covering other international areas. We are extremely selective in our assessment of potential partners and licensees, focusing on well-capitalized companies that have established business infrastructures, expertise in multiple countries and experience in operating upscale casual dining restaurants. We look to associate with companies who will protect our brands and operate our concept in a high quality, consistent way.

For a discussion of certain risks related to our international expansion efforts, please see Item 1A Risk Factors We face a variety of risks related to our international expansion and global brand development efforts that could negatively affect our brand, require additional infrastructure to support, and expose us to additional liabilities under foreign laws.

New Restaurant Site Selection and Development

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We believe the locations of our restaurants are critical to our long-term success, and we devote significant time and resources to analyzing each prospective site. We consider many factors when assessing the suitability of a site, including demographics such as average household income, and historical and anticipated population growth. Since our restaurant concepts can be successfully executed within a variety of site locations and layouts, we are highly selective and flexible in choosing suitable locations. We focus on high quality, high profile sites and fit the appropriate restaurant size to each location. While our restaurants within each concept share common interior decor elements, the designs are customized for the specifics of each site, including the building type, square footage and layout of available space.

The relatively high sales productivity of our restaurants provides opportunities to obtain suitable and competitive leasing terms from landlords. Due to the flexible and customized nature of our restaurant operations and the complex design, construction and preopening processes for each new location, our lease negotiation and restaurant development time frames vary. The development and opening process usually ranges from six to eighteen months, depending largely on the availability of the leased space we intend to occupy, and can be subject to delays either due to factors outside of our control or to our selective timing of restaurant openings. (See Item 1A Risk Factors Our ability to secure an adequate number of high quality sites for new restaurants openings in the future could affect our ability to achieve our revenue and earnings per share growth targets.)

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Unit Economics

We believe that our ability to select suitable locations and operate successful, high quality restaurants results in the continuing popularity of our restaurant concepts with consumers. This popularity is reflected in our average sales per restaurant and per square foot, which are among the highest of any publicly-held restaurant company.

Average sales per restaurant open for the full year were approximately \$10.1 million, \$10.2 million (\$9.9 million on a 52 week basis) and \$9.8 million for fiscal 2012, 2011 and 2010, respectively. Since each of our restaurants has a customized layout and differs in size, an effective method to measure the unit economics of our concepts is by square foot. Average sales per productive square foot (defined as interior plus seasonally-adjusted patio square footage) for restaurants open for the full year were approximately \$887, \$885 (\$864 on a 52 week basis) and \$850 for fiscal 2012, 2011 and 2010, respectively.

We lease all of our restaurants and expend cash for leasehold improvements and furnishings, fixtures and equipment (FF&E) to build out our restaurant premises, which is targeted at an average of \$700 to \$800 per interior square foot for The Cheesecake Factory restaurants, excluding preopening costs. The construction costs to build out our restaurant premises vary geographically. Additionally, our investment cost per square foot also varies from restaurant to restaurant, depending on the complexity of our build-out, site conditions and labor conditions in the local market and the amount, if any, of construction contributions obtained from our landlords for structural additions and other leasehold improvements.

In selecting sites for our restaurants, an important objective is to earn an appropriate return on investment. We measure returns using a fully-capitalized cash return on investment calculation by dividing restaurant-level cash flow (earnings before interest, taxes, depreciation and amortization, and rent expense) by our cash investment plus capitalized rent. We target an average return of between 18% and 20% for restaurants in our comparable sales base.

Our new restaurants typically open with initial sales volumes well in excess of their sustainable run-rate levels. This initial honeymoon effect usually results from grand opening publicity and other consumer awareness activities that generate higher than usual customer traffic for our concepts, particularly in new markets. During the three to six months following the opening of new restaurants, customer traffic generally settles into its normal pattern, resulting in sales volumes that gradually adjust downward to their sustainable run-rate level. Additionally, our new restaurants usually require a three to four month period after opening to reach their targeted restaurant-level margin due to cost of sales and labor inefficiencies commonly associated with new, highly complex casual dining restaurants such as ours.

Restaurant Operations and Management

Our ability to consistently and properly execute a complex menu made fresh daily in an upscale casual, high-volume dining environment is critical to our overall success. We employ detailed operating procedures, standards, controls, food line management systems, and cooking methods and processes to accommodate our extensive menu and to drive sales productivity. However, the successful day-to-day operation of our restaurants remains critically dependent on the ability, dedication and engagement of our general managers (GM), executive kitchen managers (EKM) and all other management and hourly staff members working at our restaurants. Competition among restaurant companies for qualified personnel remains high. (See Item 1A Risk Factors Our ability to effectively grow our business and revenues, including executing on

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our plans for international expansion, depends on our ability to successfully recruit and retain qualified restaurant management and operating personnel in an increasingly competitive market.)

We believe that the high average sales volumes and popularity of our restaurants allow us to attract and retain high quality, experienced restaurant-level management and other operational personnel. Each full-service restaurant is staffed with one GM, one EKM and average of six to ten additional kitchen and front-of-the-house managers, depending on the size and sales volume of each restaurant. Our GMs possess an average of over 10 years of experience with the Company. All newly-recruited restaurant management personnel complete an extensive training program during which they receive both classroom and on-the-job instruction in food quality, safety and preparation, guest service, alcoholic beverage service, liquor liability avoidance, financial management and cost controls, risk management, staff relations, and our core values and culture of guest hospitality. Managers continue their development by participating in and completing a variety of training and development activities to assess their skills and knowledge necessary for continued upward progression through our management levels.

Restaurant GMs report to an area director of operations who supervises the operations of seven to eight restaurants. In turn, each area director of operations reports to one of four regional vice presidents of restaurant operations. Our EKMs report to their GMs, but are also supervised by an area kitchen operations manager responsible for between seven and ten restaurants. Our restaurant field supervision organization also includes our chief operating officer, chief culinary officer, an operations services team and a performance development department who are collectively responsible for managing new restaurant openings and training for all operational managers and staff.

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To enable us to more effectively compete for and retain the highest quality restaurant management personnel, we offer an innovative and comprehensive compensation program for our restaurant GMs and EKMs. Each participant receives a competitive base salary and has the opportunity to earn a cash bonus based on quantitative restaurant performance metrics. GMs are also eligible to use a Company-leased vehicle. We also provide a longer-term, equity incentive program to our GMs and EKMs based on their extended service with us in their respective positions and their achievement of certain established performance objectives during that period. We believe that these awards encourage our GMs and EKMs to think and act as business owners, assist in long-term retention of restaurant management, and align our managers' interests with those of our stockholders. (See Item 1A Risk Factors. If we are unable to offer our management personnel long-term equity incentive compensation as part of their total compensation package, we may have difficulty retaining such personnel, which would adversely affect our operations and financial performance.)

Our restaurant GMs are responsible for selecting and training hourly staff members for their respective restaurants. Each restaurant is staffed, on average, with approximately 170 hourly staff members. We require each hourly staff member to participate in a formal training program for his or her respective position in the restaurant, under the supervision of other experienced staff members and restaurant management. We strive to foster enthusiasm and commitment in our staff members through daily staff meetings and dedicated time for training. We solicit their suggestions concerning restaurant operations and other aspects of our business through an annual engagement survey, general manager and workgroup meetings and other means.

Preopening Costs for New Restaurants

Due to the highly customized and operationally complex nature of our upscale, high volume concepts and the investment we make in properly training our staff to operate our restaurants, our preopening process is more extensive, time consuming and costly than that of most chain restaurant operations. Preopening costs for a typical The Cheesecake Factory restaurant in an established market average approximately \$1.2 million to \$1.4 million and include all costs to relocate and compensate restaurant management employees during the preopening period; costs to recruit and train hourly restaurant employees; and wages, travel and lodging costs for our opening training team and other support staff members. Also included in preopening costs are expenses for maintaining a roster of trained managers for pending openings; the associated temporary housing and other costs necessary to relocate managers in alignment with future restaurant opening and operating needs; and corporate travel and support activities. Preopening costs are generally higher for larger restaurants and initial entry into new markets. We usually incur the most significant portion of preopening costs within the two months immediately preceding and the month of a restaurant's opening. Preopening costs can fluctuate significantly from period to period, based on the number and timing of restaurant openings and the specific preopening costs incurred for each restaurant.

Preopening costs vary by location depending on a number of factors, including the proximity of our existing restaurants; the size and physical layout of each location; the number of management and hourly employees required to operate each restaurant; the availability of qualified restaurant staff members; the cost of travel and lodging for different metropolitan areas; the timing of the restaurant opening; and the extent of unexpected delays, if any, in obtaining final licenses and permits to open the restaurants, which may also depend on our landlords obtaining their licenses and permits and completing their construction activities.

Bakery Operations

We own and operate two bakery production facilities, one in Calabasas Hills, California, and one in Rocky Mount, North Carolina. Our facility in Calabasas Hills accommodates both production operations and corporate support personnel, while our facility in Rocky Mount houses production operations and a distribution center for our restaurants and customers located in the eastern United States. During fiscal 2012, we

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built out the remaining space in the Rocky Mount facility and installed additional bakery equipment, which added capacity to support the needs of our restaurants, our international licensees and our external customers. For future needs, we have additional space on our existing property that will accommodate expansion and, in December 2012, we exercised an option to acquire additional land adjacent to our current facility. This transaction is scheduled to close in the first quarter of 2013.

We produce approximately 70 varieties of cheesecake and other baked desserts based on proprietary recipes. Some of our most popular cheesecakes include the Original Cheesecake, Ultimate Red Velvet Cake Cheesecake™, Reese's® Peanut Butter Cup Chocolate Cake Cheesecake™, Hershey's® Chocolate Bar Cheesecake, Oreo® Dream Extreme Cheesecake, Fresh Banana Cream and Fresh Strawberry. Other popular baked desserts include Chocolate Tower Truffle Cake™, Carrot Cake, Black-Out Cake and Lemoncello Cream Torte.

The primary role of our bakery operations is to produce innovative, high quality cheesecakes and other baked desserts for sale at our restaurants and those of our international licensees. Dessert sales represented approximately 15% of our restaurant sales in fiscal 2012, 2011 and 2010 and are important to restaurant-level profitability. Vertical integration of this vital part of our brand gives us control over the creativity and quality of our desserts and is also more profitable than buying from a third party.

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We also leverage our brand identity and profitably utilize our bakery production capacity by selling cheesecakes and other baked products to other foodservice operators, retailers and distributors. Items produced for outside accounts are marketed under The Cheesecake Factory® trademark, The Dream Factory® trademark, The Cheesecake Factory Bakery® mark and other private labels. Current large-account customers include the leading national warehouse club operators, a national retail bookstore cafe, institutional foodservice distributors, supermarkets and other restaurant and foodservice operators. We sell baked goods internationally under both The Cheesecake Factory® and The Dream Factory® trademarks in twenty countries, including to all licensed The Cheesecake Factory® restaurants opened in the Middle East.

Purchasing and Distribution

We strive to obtain quality menu ingredients, bakery raw materials and other supplies and services for our operations from reliable sources at competitive prices. We continually research and evaluate various ingredients and products in an effort to maintain high quality levels, to be responsive to changing consumer tastes and to manage our costs. In order to maximize purchasing efficiencies and to provide the freshest ingredients for our menu items while obtaining the lowest possible prices for the required quality and consistency, each restaurant's management determines the quantities of food and supplies required and orders the items from local, regional and national suppliers on terms negotiated by our central purchasing staff. We strive to maintain restaurant-level inventories at a minimum dollar-value level in relation to sales due to the high concentration and relatively rapid turnover of the perishable produce, poultry, meat, fish and dairy commodities that we use in our operations, coupled with limited storage space at our restaurants.

Substantially all of our food and supplies are available from multiple qualified suppliers. Independent foodservice distributors, including the largest foodservice distributor in North America, deliver most items multiple times per week to our restaurants. We attempt to negotiate short-term and long-term agreements for our principal commodity, supply and equipment requirements, depending on market conditions and expected demand. However, we are currently unable to contract for extended periods of time for certain of our commodities such as fish and many dairy items (excluding cream cheese used in our bakery operations). Consequently, these commodities can be subject to unforeseen supply and cost fluctuations. (See Item 1A Risk Factors Increases in food costs, labor, and other supplies and services may have a material adverse impact on our financial performance.)

While we are committed to providing quality products and services to our guests, we also believe that we should strive to purchase products that are produced, grown, manufactured and/or transported in a manner that addresses the risk of slavery and human trafficking in our supply chain. One of the initial steps we are taking to address this issue is to formulate processes to evaluate and address the potential presence of this risk in our direct product supply chain, including processes for determining where we are most susceptible to such risks. Once completed, we intend to review our internal compliance on a periodic basis. To learn more about our supply chain practices, please visit the Supply Chain page on our website at www.thecheesecakefactory.com.

Information Technology

Our technology-enabled business solutions are designed to provide effective financial controls, cost management, improved effectiveness and enhanced guest service. Our business intelligence solution and data warehouse architecture provides corporate and restaurant management with information and insights into key operational metrics and performance indicators. This framework delivers enterprise reporting, dashboards and analytics and allows access to metrics such as quote and wait time accuracy, employee retention trends, and restaurant quality and service analyses. Our restaurant point of sale and back office systems provide information regarding daily sales, cash receipts, inventory, food and beverage costs, labor costs and other controllable operating expenses. Our comprehensive kitchen management system provides automated routing and cook line balancing and synchronizes order completion, ticket time and cook time data, promoting more efficient levels of labor and

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productivity without sacrificing quality. We leverage our recipe viewer system to ensure timely and accurate recipe updates and to provide instructional media content and detailed procedures enabling our staff to prepare our highly complex, diverse menu consistently across all locations. We continue to advance the capabilities in our front desk management system to improve our seating efficiency, enhance the accuracy of our wait time quotes and enrich our interaction with our guests.

Restaurant hardware and software support for all of our concepts is provided by both our internal support services team in Calabasas as well as a third-party vendor for remote and on-site restaurant support. Each restaurant has a secure T1 integrated with our high-speed wide area network to send and receive critical business data as well as to access web-based applications. To mitigate business interruptions, we maintain an internal data center which houses a majority of our infrastructure and computing assets but also leverage an external data center and infrastructure for many of our core and critical applications. We back up all of our systems on a nightly basis and store the backup tapes off-site with an external vaulting service.

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We continue to innovate and modernize our technology infrastructure to provide improved efficiency, capability, control and scalability. In fiscal 2012, we completed the deployment of our new restaurant back office system, which enhanced our supply chain management, preparation and production planning, forecasting and ordering capabilities. We believe our technology strategy positions us well to support our current needs and future growth.

For a discussion of the risks related to our use of computer networks and technology in the operation of our business, please see Item 1A Risk Factors. Information technology system failures or breaches of our network security could interrupt our operations and subject us to increased operating costs, as well as to litigation and other liabilities and additional risk factors related thereto.

Marketing and Advertising

We rely on our reputation, as well as our high profile locations, media interest and positive word of mouth, to retain and grow market share rather than using traditional paid advertising through television, radio or print, or using significant discounting to attract consumers. We utilize a social media and digital marketing strategy that allows us to interact regularly with our guests outside of our restaurants, including communication on Facebook® and Twitter®, as well as direct email to guests. Public relations is another important aspect of our marketing approach, and we frequently appear on local and national television for cooking demonstrations and other brand-building exposure such as National Cheesecake Day. We partner with several premiere third-party gift card retailers, contributing to our brand awareness and building gift card sales. We also attempt to build awareness and relationships with retailers located in the same developments, mall and local hotel concierges, neighborhood groups and others in the community. In addition, for restaurants opening in new markets, we strive to obtain local television, radio station and newspaper coverage in order to benefit from publicity at low or no cost. At times we also engage in marketing and advertising opportunities in local markets. Our international licensees are committed to opening each new restaurant with marketing that can comprise a mix of elements including print, billboards, digital and radio. Our licensee's initial openings in Dubai and Kuwait generated extensive media coverage throughout the Middle East.

Seasonality and Quarterly Results

While seasonal fluctuations do not generally have a material impact on our quarterly results, quarterly results can be significantly impacted by the number and timing of new restaurant openings and their associated preopening costs and operating inefficiencies. As a result of these factors, our financial results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

Food Safety and Quality Assurance

Our quality and food safety team oversees food safety, nutritional and regulatory compliance and helps ensure that our restaurants and bakeries provide safe, high quality food in a clean and safe environment. Our food safety systems are focused on preventing contamination and illness. Our systems adhere to government regulations and include comprehensive standards and training of our staff, as well as monthly audits. Our bakery facilities conduct daily food safety and good manufacturing practice audits and annual regulatory agency audits and food safety and quality systems certifications.

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In selecting suppliers, we look for key performance indicators relating to sanitation, operations and facility management, good manufacturing and agricultural practices, product protection, recovery and food security. In addition to measuring and testing food safety and security practices, we require all suppliers to have annual food safety and quality system audits, with higher frequency based on risk and performance levels. Our restaurants and bakery facilities also follow regulatory guidelines required for conducting and managing product recalls.

Government Regulation