O REILLY AUTOMOTIVE INC
Form DEF 14A
March 22, 2004

O'REILLY AUTO PARTS

March 22, 2004

Dear Shareholder:

You are cordially invited to attend the 2004 Annual Meeting of Shareholders of O'Reilly Automotive, Inc. to be held at the University Plaza Convention Center, Arizona Room, 333 John Q. Hammons Parkway, Springfield, Missouri on Tuesday, May 4, 2004, at 10:00 a.m. local time.

Details of the business to be conducted at the Annual Meeting are given in the attached Notice of Annual Meeting and Proxy Statement.

In addition to the specific matters to be acted upon, there will be a report on the progress of the Company and an opportunity for questions of general interest to the shareholders.

It is important that your shares be represented at the meeting. Whether or not you plan to attend in person, please complete, sign, date and return the enclosed proxy card in the envelope provided at your earliest convenience or vote via telephone or Internet using the instructions on the proxy card. If you attend the meeting, you may vote your shares in person even though you have previously signed and returned your proxy.

In order to assist us in preparing for the Annual Meeting, please let us know if you plan to attend by contacting Tricia Headley, our Corporate Secretary, at 233 South Patterson, Springfield, Missouri 65802, (417) 874-7161.

We look forward to seeing you at the Annual Meeting.

David E. O'Reilly
Co-Chairman of the Board and
Chief Executive Officer

Larry P. O'Reilly
Co-Chairman of the Board

O'REILLY AUTOMOTIVE, INC.
233 South Patterson
Springfield, Missouri 65802

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To be held on May 4, 2004

Springfield, Missouri
March 22, 2004

The Annual Meeting of Shareholders of O'Reilly Automotive, Inc. (the Company), will be held on Tuesday, May 4, 2004, at 10:00 a.m., local time, at the University Plaza Convention Center, 333 John Q. Hammons Parkway, Springfield, Missouri 65806, for the following purposes:

(1) To elect three Class II Directors, each to serve for a three year term; and

(2) To ratify the appointment of Ernst & Young LLP as independent auditors for the fiscal year ending December 31, 2004; and

(3) To ratify the appointment of John Murphy and Ronald Rashkow as Class I Directors; and

(4) To transact such other business as may properly come before the meeting or any adjournments thereof.

The Board of Directors has fixed the close of business on February 27, 2004, as the record date for the determination of shareholders entitled to notice of and to vote at the Annual Meeting and any adjournments or postponements. A list of all shareholders entitled to vote at the Annual Meeting, arranged in alphabetical order and showing the address of and number of shares held by each shareholder, will be available during usual business hours at the principal office of the Company at 233 South Patterson, Springfield, Missouri 65802, to be examined by any shareholder for any purpose reasonably related to the Annual Meeting for 10 days prior to the date thereof. The list will also be available for examination throughout the conduct of the meeting.

Your vote is important to ensure a quorum at the meeting. Even if you own only a few shares, and whether or not you expect to be present at the meeting, we request you to mark, date, sign and mail the enclosed proxy card in the postage-paid envelope provided or vote your shares by telephone or Internet as directed on the enclosed proxy card. Telephone and Internet voting facilities for stockholders of record will be available 24 hours a day, and will close on Monday, May 3, 2004, at 11:59 p.m. Eastern Standard Time.

A copy of the Company's Annual Shareholders' Report for fiscal year 2003 accompanies this notice.

By Order of the Board of Directors,

Tricia Headley
Secretary

O'REILLY AUTOMOTIVE, INC.

233 South Patterson
Springfield, Missouri 65802

PROXY STATEMENT

The enclosed proxy is solicited by the Board of Directors of O'Reilly Automotive, Inc. (the Company), for use at the Annual Meeting of the Company's

shareholders to be held at the University Plaza Convention Center, 333 John Q. Hammons Parkway, Springfield, Missouri 65806, on Tuesday, May 4, 2004, at 10:00 a.m., local time, and at any adjournments thereof. Whether or not you expect to attend the meeting in person, please return your executed proxy in the enclosed envelope or vote via telephone or Internet using the instructions on the proxy and the shares represented thereby will be voted in accordance with your wishes. This Proxy Statement and the accompanying proxy card are first being mailed to shareholders on or about March 22, 2004.

Solicitation of proxies is being made by the Company and will be made primarily by mail. The cost of solicitation of proxies will be made by us and will also include reimbursement paid to brokerage firms and others for their reasonable out of pocket expenses of forwarding solicitation materials to their principals.

REVOCABILITY OF PROXY

If, after sending in your proxy, you decide to vote in person or desire to revoke your proxy for any other reason, you may do so by notifying the Secretary of the Company in writing at the principal office of the Company of such revocation at any time prior to the voting of the proxy.

RECORD DATE

Shareholders of record at the close of business on February 27, 2004, will be entitled to vote at the Annual Meeting.

ACTION TO BE TAKEN UNDER PROXY

All properly executed proxies received by the Board of Directors pursuant to this solicitation will be voted in accordance with the shareholders' directions specified in the proxy. If no such directions have been specified by marking the appropriate squares in the accompanying proxy card, the shares will be voted by the persons named in the enclosed proxy card as follows:

(1) FOR the election of Lawrence P. O'Reilly, Rosalie O'Reilly-Wooten and Joe C. Greene, named herein as nominees for Class II Directors of the Company, to hold office until the annual meeting of the Company's shareholders in 2007 and until his or her successor has been duly elected and qualified; and

(2) FOR the proposal to ratify the selection of Ernst & Young LLP as our independent auditors for the fiscal year ending December 31, 2004; and

(3) FOR the proposal to ratify John Murphy and Ronald Rashkow as Class I Directors; and

(4) According to their judgement on the transaction of such other business as may properly come before the meeting or any postponements or adjournments thereof.

The nominees have not indicated that he or she would be unable or unwilling to serve as a Director. However, should any nominee become unable or unwilling to serve for any reason, it is intended that the persons named in the proxy will vote for the election of such other persons in their stead as may be designated by the Board of Directors. The Board of Directors is not aware of any reason that might cause any nominee to be unavailable to serve as a Director.

VOTING SECURITIES AND VOTING RIGHTS

On February 27, 2004, there were 54,674,483 shares of Common Stock outstanding, which constitute all of the outstanding shares of the voting capital stock of the Company. Each share of Common Stock is entitled to one vote on all matters to come before the Annual Meeting, including the election of Directors.

A majority of the outstanding shares entitled to vote at the Annual Meeting, represented in person or by proxy, will constitute a quorum at the meeting. The affirmative vote of a majority of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote is required to elect each person nominated for Director. Shares present at the meeting but which abstain or are represented by proxies that are marked "WITHHOLD AUTHORITY" with respect to the election of any person to serve on the Board of Directors will be considered in determining whether the requisite number of affirmative votes are cast on such matter. Accordingly, such proxies will have the same effect as a vote against the nominee as to which such abstention or direction applies. Shares not present at the meeting will not affect the election of Directors. Broker non-votes will not be treated as shares represented at the meeting with respect to the election of Directors, and therefore will have no effect.

The vote required for the other proposals described in this Proxy Statement and for any other matter properly brought before the meeting will be the affirmative vote of the majority of the shares of Common Stock present in person or represented by proxy at the Annual Meeting and entitled to vote on the proposal unless Missouri law or the Company's Restated Articles of Incorporation or By-laws require a greater vote. Shares present at the meeting that abstain (including proxies that deny discretionary authority on any matters properly brought before the meeting) will be counted as shares present and entitled to vote and will have the same effect as a vote against any such matter. Broker non-votes will not be treated as shares represented at the meeting as to such matter(s) voted on and therefore will have no effect.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth information as of February 27, 2004, with respect to each person (other than management) known to the Company to be the beneficial owner of more than five percent (5%) of our outstanding shares of Common Stock. Unless otherwise indicated, the Company believes that the beneficial owners set forth in the following table have sole voting and investment power.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent Of Class
Wasatch Advisors, Inc. 150 Social Hall Avenue Salt Lake City, Utah 84111	6,803,250 (1)	12.4%
T. Rowe Price Associates, Inc. 100 E. Pratt Street Baltimore, Maryland 21202	5,017,400 (2)	9.2%

SECURITY OWNERSHIP OF DIRECTORS AND MANAGEMENT

The following table sets forth, as of February 27, 2004, the beneficial ownership of each current Director (including the nominee for Director), each of the executive officers named in the Summary Compensation Table set forth herein, and the executive officers and Directors as a group, of the outstanding Common Stock. Unless otherwise indicated, the Company believes that the beneficial owners set forth in the following table have sole voting and investment power.

Name	Amount and Nature of Beneficial Ownership(a)	Percent of Class
Charles H. O'Reilly, Jr. (b)	857,420	1.6%
David E. O'Reilly (c)	2,421,783	4.4%
Lawrence P. O'Reilly (d)	805,380	1.5%
Rosalie O'Reilly-Wooten (e)	1,314,749	2.4%
Ted F. Wise (f)	220,124	*
Greg Henslee (g)	94,163	*
Jay D. Burchfield (h)	44,000	*
Joe C. Greene (i)	44,400	*
Paul Lederer (j)	47,500	*
James R. Batten (k)	30,896	*
John Murphy	-	*
Ronald Rashkow	-	*
Jeff Shaw (l)	147,784	*
Michael Swearengin (m)	33,881	*
All Directors and executive officers as a group (14 persons)(n)	6,062,080	11.1%

*less than 1%

3

(j) The stated number of shares includes 17,500 shares directly owned by Paul Lederer and 30,000 shares subject to currently exercisable options.

(k) The stated number of shares includes 278 shares directly owned by Jim Batten, 2,934 shares held in the O'Reilly Employee Savings Plus Plan with SunTrust Bank as Trustee, 434 shares awarded by the Company's Performance Incentive Plan and 27,250 shares subject to currently exercisable options.

(l) The stated number of shares includes 7,245 shares directly owned by Jeff Shaw, 78 shares held in the O'Reilly Employee Stock Purchase Plan, 1,132 shares held in the O'Reilly Employee Savings Plus Plan with SunTrust Bank as Trustee, 329 shares awarded by the Company's Performance Incentive Plan and 139,000 shares subject to currently exercisable options.

(m) The stated number of shares includes 1,660 directly shares owned by Michael Swearengin, 118 shares held in the O'Reilly Employee Stock Purchase Plan,

2,867 shares held in the O'Reilly Employee Savings Plus Plan with SunTrust Bank as Trustee, 236 shares awarded by the Company's Performance Incentive Plan and 29,000 shares subject to currently exercisable options.

(n) Includes currently exercisable options to purchase a total of 602,000 shares held by the Company's Directors and executive officers as a group.

PROPOSAL 1-ELECTION OF CLASS II DIRECTORS

Information About The Nominees And Directors Continuing in Office

The Company's Amended and Restated By-laws and Restated Articles of Incorporation, currently provide for three classes of Directors, each class serving for a three-year term expiring one year after expiration of the term of the preceding class, so that the term of one class will expire each year. The terms of the current Class III and Class I Directors expire in 2005 and 2006, respectively. The Board of Directors has nominated Lawrence P. O'Reilly, Rosalie O'Reilly-Wooten and Joe C. Greene, who are current Class II Directors, for a term expiring at the Company's annual shareholders meeting in 2007.

The following table lists the principal occupation for at least the last five years of each of the nominee and the present Directors continuing in office, his or her present positions and offices with the Company, the year in which he or she first was elected or appointed a Director (each serving continuously since first elected or appointed unless otherwise stated), his or her age and his or her directorships in any company with a class of securities registered pursuant to Sections 12 or 15(d) of the Securities Exchange Act of 1934, as amended, or in any company registered as an investment company under the Investment Company Act of 1940 (as specifically noted).

Name	Age	Principal Occupation
		Nominees for Director - Class II (To Be Elected to Serve a Three-Year Term Expiring in 2007)
Lawrence P. O'Reilly	57	Co-Chairman of the Board since August 1999; retired from Company management, February 2003; Chief Operating Offic March 1993 to February 2003; President from March 1993 to 1999; Vice President of the Company from 1975 to March 1993
Rosalie O'Reilly-Wooten	62	Retired from active Company management, February 2002. Ex Vice President of the Company from March 1993 to February 2

Name	Age	Principal Occupation
Joe C. Greene	67	Partner at the law firm of Husch & Eppenberger, LLC, m partner of the Springfield, Missouri firm of Greene &

		LLP, from 1975 to 2002, Director of Bass Pro, Inc., Dire Ozarks Coca-Cola Bottling Co., Chairman of Missouri Spor of Fame, Executive Secretary of Missouri Golf Associati Director of Commerce Bank, N.A. in Springfield, Missour Greene has been engaged in the private practice of law f than 40 years.

Directors Continuing in Office-Class III
(Terms Expiring in 2005)

David E. O'Reilly	54	Co-Chairman of the Board since August 1999; Chief Ex Officer since March 1993; President from March 1993 to 1999; Vice-President of the Company from 1975 to March 1993
Jay D. Burchfield	57	Director of The Beer Company since January 2003; Presi Oklahoma City Bakery, Inc. since January 1999; Chairman Board and Director of Trust Company of the Ozarks since 1998; Director of Quest Capital Alliance, since Januar Director of The Primary Care Network since January 1998; C of the Board and Director of City Bancorp since January Chairman of the Board and CEO of Boatmen's National Oklahoma from January 1996 to January 1997; Chairman, Pr and CEO of Boatmens' Bank of Southern Missouri from April January 1996. Mr. Burchfield's career has spanned more years in the banking industry.
Paul R. Lederer	64	Retired October 1998; Executive Vice President of Wo Aftermarket of Federal-Mogul Corporation February 1998 to 1998; President and Chief Operating Officer of Fel-Pr November 1994 to February 1998, when it was acqui Federal-Mogul Corporation; presently a Director of the fo companies: MAXIMUS, Vita Food Corp., R & B, Inc., and Tra Inc. Mr. Lederer had been a Director of the Company fro 1993 to July 1997 and was appointed again as a Director in

Directors Continuing in Office-Class I
(Term Expiring in 2006)

Charles H. O'Reilly, Jr.	64	Vice-Chairman of the Board since August 1999. Retired from company management, February 2002. Chairman of the Boa March 1993 to August 1999; President and Chief Executive of the Company from 1975 to March 1993.

Name	Age	Principal Occupation
John Murphy	53	Executive Vice President and Chief Financial Officer of A Corporation, 1998 to present. Executive Vice Pre Administration/Chief Financial Officer/Corporate Secret North American Stainless, Inc. 1994 to 1997.
Ronald Rashkow	63	Mr. Rashkow is presently a director of Factory 2-U Stores, and on the advisory board of Hilco Trading Co., Inc., MLC and Milton's Baking Company. Mr. Rashkow was formerly

executive officer and director of Handy Andy Home Impr
Centers and founding principal of Chapman Partners, LLC.

The Board of Directors recommends a vote "FOR" the Class II nominees.

INFORMATION CONCERNING BOARD OF DIRECTORS

Determination of Director Independence

Rules of the Nasdaq Stock Market require that a majority of the Board of Directors be "independent," as defined in Nasdaq marketplace Rule 4200 (a)(15). Under the Nasdaq rule, a director is independent if he or she is not an officer or employee of the Company and does not have any relationship with the Company which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The Board reviewed the independence of its directors under the new Nasdaq rules. During this review, the Board considered transactions and relationships between each director or any member of his or her family and the Company. The Board has determined that Messrs. Murphy, Lederer, Rashkow, Burchfield and Greene are independent under Nasdaq Rule 4200(a)(15).

Family Relationships

Charles H. O'Reilly, Jr., Rosalie O'Reilly-Wooten, Lawrence P. O'Reilly and David E. O'Reilly are all children of Charles H. O'Reilly, Sr., Co-Founder of the Company.

Lead Director

The Corporate Governance/Nominating Committee nominated and the Board of Directors approved such nomination for Paul Lederer to serve in the capacity as Lead Director of the Board of Directors.

Board and Committee Meetings; Corporate Governance

During fiscal year 2003, four meetings of the Board of Directors were held. During such year, each Director attended 75% or more of the aggregate of (i) the total number of meetings of the Board of Directors held during the period for which he or she has served as a Director, and (ii) the total number of meetings held by all committees of the Board of Directors on which he or she served during the period for which he or she served.

The Board of Directors has three standing committees, the Audit Committee, the Compensation Committee and the Corporate Governance/Nominating Committee. Each of these committees is comprised solely of independent directors in accordance with the Nasdaq Stock Market Listing Qualifications. Charters for each committee are available on the Company's website at www.oreillyauto.com, and can be obtained free of charge at the Company's address appearing on the first page of this proxy statement by written request to the attention of the Secretary or by telephone at (417) 862-2674.

The Audit Committee currently consists of Messrs. Murphy (Chairman), Lederer and Rashkow. The Board had determined that each member of the Audit Committee is "independent" pursuant to the Nasdaq Marketplace Rule 4200, as well as the independence requirements for audit committee members under Rule 10A-3 promulgated under the Securities Exchange Act of 1934. In addition, the Board

has determined that Mr. Murphy, a member of the Audit Committee, is qualified as an audit committee financial expert as that term is defined in the rules of the Securities and Exchange Commission. The Audit Committee recommends the engagement of independent auditors, confers with the external auditors regarding the adequacy of our financial controls and fiscal policy, and directs changes to financial policies or procedures as appropriate. During fiscal year 2003, six Audit Committee meetings were held.

The Compensation Committee consists of Messrs. Burchfield (Chairman), Lederer and Rashkow. The purpose of the Compensation Committee is to act on behalf of the Board of Directors with respect to the establishment and administration of the policies which govern the annual compensation of the Company's executive officers. The Compensation Committee also administers the Company's stock option and other benefit plans. During fiscal year 2003, two Compensation Committee meetings were held.

The Corporate Governance/Nominating Committee consists of Messrs. Greene (Chairman), Murphy and Burchfield. The principal purpose of the committee is: (1) to establish criteria for the selection of directors and to recommend to the Board the nominees for Director in connection with the Company's annual meeting of stockholders; (2) to take a leadership role in shaping the Company's corporate governance policies and to issue and implement the Corporate Governance Principles of the Company; (3) to develop and coordinate annual evaluations of the Board, its committees and its members; and (4) to adhere to all legal standards required by the Securities and Exchange Commission and The Nasdaq National Market. The Corporate Governance/Nominating Committee functions pursuant to a written charter, a copy of which was attached as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2003. During fiscal year 2003, one Corporate Governance/Nominating Committee meeting was held. The Company's corporate governance principles may be viewed at www.oreillyauto.com.

A shareholder who desires to nominate one or more persons for election as directors shall deliver Timely Notice (as defined in Section 12, Article II of the Company's Bylaws) of the shareholder's intent to make such nomination or nominations, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the corporation. Such notice shall set forth: (a) the name and address of record of the shareholder who intends to make the nomination; (b) the class and number of shares of the capital stock that are beneficially owned by the shareholder on the date of such notice; (c) the name, age, business and residential addresses, and principal occupation or employment of each proposed nominee; (d) a description of all arrangements or understandings between the shareholder and each nominee, and other arrangements or understandings known to the shareholder, pursuant to which the nomination or nominations are to be made by the shareholder; (e) any other information regarding each proposed nominee that would be required to be included in a proxy statement filed with the Securities and Exchange Commission; and (f) the written consent of each proposed nominee to being so named and to serve as a director of the corporation. The presiding officer of a meeting may, if the facts warrant, determine at the meeting that a nomination was not made in accordance with the foregoing procedure, and if he should make that determination, he shall so declare at the meeting, and the defective nomination shall be disregarded.

The established criteria for persons to be nominated for election to the Board and its committees, taking into account the composition of the Board as a whole, at a minimum, includes (a) a candidate's qualification as "independent" under the federal securities laws and the rules and regulations of the SEC and Nasdaq applicable to the Board and each of its committees; (b) depth and breadth

of experience within the Company's industry and otherwise; (c) outside time commitments; (d) special areas of expertise; (e) accounting and finance knowledge; (f) business judgment; (g) leadership ability; (h) experience in developing and assessing business strategies; (i) corporate governance expertise; (j) risk management skills; and (k) for incumbent members of the Board, the past performance of the incumbent director.

Compensation of Directors

In 2003, the Company paid an annual fee of $10,000 to each non-employee Director, plus $500 per Board meeting attended. Beginning in 2004, the Company will pay an annual fee of $20,000, plus $2,000 per Board meeting to each non-employee Director, in order to maintain competitive compensation. The Company also reimburses Directors for out-of-pocket expenses incurred in connection with their attendance at Board and Committee meetings. Directors' fees of $36,000 were paid during 2003.

The Company also maintains a Directors' Stock Option Plan, providing for an automatic annual grant (on April 22 or the first business day thereafter) to each director who is not an employee of the Company of a non-qualified stock option to purchase 2,500 shares of Common Stock at a per share exercise price equal to the fair market value of the Common Stock on the date the option is granted. Director stock options expire immediately upon the date on which the optionee ceases to be a director for any reason or seven years after the date on which the option is granted, whichever first occurs. Each of the Company's three non-employee directors in 2003 were granted options during the year to purchase 10,000 shares of Common Stock under the Company's Directors' Stock Option Plan at an exercise price of $29.20 per share. Prior to January 1, 2004, each non-employee director was granted the option to acquire 10,000 shares of Common Stock.

EXECUTIVE COMPENSATION

The following information is given for the fiscal years ended December 31, 2003, 2002 and 2001, concerning annual and long-term compensation for services rendered to the Company and its subsidiaries for the Company's Chief Executive Officer and each of the Company's four other most highly compensated executive officers (other than the Chief Executive Officer) during fiscal year 2003.

Summary Compensation Table

		Annual Compensation			Long Term Compensation Awards		
Name and Principal Position	Year	Salary ($)(a)	Bonus ($)	Other ($)(b)	Restricted Stock Awards ($)(c)	Securities Underlying Options(#)(d)	All C sat
David E. O'Reilly	2003	750,000	281,500	-	-	75,000	1
Co-Chairman of the	2002	350,000	350,000	-	-	-	1
Board and Chief	2001	330,000	330,000	-	-	30,000	
Ted F. Wise	2003	410,000	102,500	-	-	41,000	1
Co-President	2002	264,000	131,000	-	-	-	1
	2001	247,500	122,500	-	-	30,000	

Greg Henslee	2003	410,000	102,500	-	-	41,000
Co-President	2002	247,000	123,000	-	-	-
	2001	207,500	102,500	-	-	30,000
Jim Batten	2003	190,000	47,500	-	-	19,000
Executive	2002	134,800	35,200	22,614	11,319	-
Vice-President of Finance and Chief Financial Officer	2001	128,000	32,000	23,468	11,732	25,000
Jeff Shaw	2003	127,500	-	17,000	8,500	15,000
Senior Vice-	2002	120,000	-	17,586	8,793	-
President of Store Operations and Sales	2001	112,000	-	16,412	8,206	20,000

Information as to Stock Options

The following table provides certain information concerning grants of options to purchase Common Stock made during the 2003 fiscal year to the named executive officers. All stock options that were granted before and including May 6, 2003, were granted pursuant to the Company's 1993 Stock Option Plan. All stock options that were granted on or after May 7, 2003, were granted pursuant to the Company's 2003 Stock Option Plan.

Option Grants in Last Fiscal Year

Individual Grants					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation For Option Term	
Name	Number of Securities Underlying Options Granted(#)	% of Total Options Granted to Employees in 2003	Exercise Price Per Share($)	Expiration Date	5% ($)	10%($)
David E. O'Reilly	75,000 (1)	7.1%	23.55	02/13/12	1,110,750	2,814,750
Ted F. Wise	41,000 (1)	3.9%	23.55	02/13/12	607,210	1,538,730
Greg Henslee	41,000 (1)	3.9%	23.55	02/13/12	607,210	1,538,730
James Batten	19,000 (1)	1.8%	23.55	02/13/12	281,390	713,070
Jeff Shaw	15,000 (1)	1.4%	38.52	12/31/13	363,450	920,865

Aggregated Option Exercises in Last Fiscal Year
and Fiscal Year-End Option Values

Number of

Value of Unexe

Name	Number of Securities Underlying Options Exercised (#)	Value Realized ($)	Unexercised Options At FY-End(#) Exercisable/ Unexercisable	In-The-Mon Options at FY-End ($)(Exercisabl Unexercisab
David E. O'Reilly	-	-	143,750 / 71,250	2,903,163 / 7
Ted F. Wise	-	-	75,250 / 45,750	1,196,978 / 6
Greg Henslee	-	-	77,750 / 45,750	2,871,468 / 1
James R. Batten	7,500	181,875	27,250 / 26,750	394,398 / 3
Jeff Shaw	1,000	31,131	139,000 / 25,000	3,333,240 / 1

Employment Arrangements with Executive Officers

The Company entered into a written employment agreement effective January 1, 1993, with David E. O'Reilly. Such agreement provides for Mr. O'Reilly to be employed by the Company for a minimum period of three years and automatically renews for each calendar year thereafter. As compensation for services rendered to the Company, the agreement provides for Mr. O'Reilly to receive (i) a base annual salary adjusted annually, and (ii) a bonus, the amount of which is determined by reference to such criteria as may be established by the Compensation Committee.

Mr. O'Reilly's employment may be terminated by the Company for cause (as defined in the agreement) or without cause. If Mr. O'Reilly's employment is terminated for cause or if Mr. O'Reilly resigns, his salary and bonus rights will cease on the date of such termination or resignation. If the Company terminates Mr. O'Reilly without cause, all compensation payments will continue through the remainder of the agreement's term. Pursuant to his agreement, Mr. O'Reilly has agreed for so long as he is receiving payments thereunder to refrain from disclosing information confidential to the Company or engaging, directly or indirectly, in any automotive parts distribution, manufacturing or sales business in the states in which the Company operates without prior written consent of the Company.

The Company has also entered into written retirement agreements with David E. O'Reilly, Lawrence P. O'Reilly, Charles H. O'Reilly, Jr. and Rosalie O'Reilly-Wooten. Such agreements, as amended and which are in substantially identical form, provide for each of the foregoing executive officers to be employed as a consultant upon retirement, for a period of ten years at a yearly salary of $125,000, adjusted annually three percent for inflation and payable in equal monthly payments. The agreements also provide for each officer to receive medical benefits, death and disability benefits, as well as the use of a car.

Lawrence P. O'Reilly, Charles H. O'Reilly, Jr. and Rosalie O'Reilly-Wooten have retired from the Company and currently receive payments under the retirement agreements.

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee is now an officer or an employee of the Company or any of its subsidiaries or has been at any time an officer or an employee of the Company or any of its subsidiaries.

Compensation Committee Report

Notwithstanding anything to the contrary set forth in any of the Company's previous filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might be incorporated by reference in future filings, including this Proxy Statement, in whole or in part, the following Compensation Committee Report shall not be incorporated into any such filings.

General

The Compensation Committee of the Board of Directors is responsible for recommending to the Board of Directors a compensation package and specific compensation levels for the executive officers of the Company. Additionally, the Compensation Committee establishes policies and guidelines for other benefit programs and administers the award of stock options under the Company's 2003 Employee Stock Option Plan. The Compensation Committee is composed of three independent members of the Board of Directors.

Policy

The Compensation Committee's policy, with respect to executive compensation, is to provide the executive officers of the Company with a total compensation package which is competitive and equitable and which encourages and rewards performance based in part upon the Company's performance in terms of increases in share value. The key components of the Company's compensation package for its executive officers are base salary, annual cash bonuses and long-term, stock-based incentives.

Base Salary

The annual base salary of each executive officer is set to bring them in line with base compensation then being paid by the Company's competitors for executive management, based upon the Compensation Committee's review of, among other things, compensation data for comparable companies and positions. The Compensation Committee believes that the Company's principal competitors for executive management are not necessarily the same companies that would be included in a peer group compiled for purposes of comparing shareholder returns. Consequently, the companies that are reviewed for such compensation purposes may not be the same as the companies comprising The Nasdaq Retail Trade Stock Price Index included in this Proxy Statement. The base salaries of the executive officers were increased in 2003 to reflect increases in the Consumer Price Index from 2002 to 2003, increases in responsibilities due to the Company's growth and to align executive compensation with comparable companies and positions.

Bonuses

The Compensation Committee has established a bonus plan for the Chief Executive Officer and Co-Chairman of the Board, the Co-Presidents and the Chief Financial Officer of the Company based upon objective criteria. Under this bonus plan, these executive officers of the Company each will receive a bonus based upon a percentage of their respective base salary for the attainment of certain performance goals for the Company. Such performance goals are designed to address multiple facets of financial performance, including sales performance, operating income performance, financial returns and various balance sheet measures. Actual Company performance in each of these areas is compared to the targets pre-determined by the Compensation Committee, in order to determine the bonus amount achieved by each executive officer.

The bonuses to be awarded to all other officers of the Company are based

upon each officer's contribution, responsibility and performance during the year, and are thus subjective in nature. In formulating its recommendation for the bonuses of other officers of the Company, the Compensation Committee considers, among other things, the evaluation from the Chief Executive Officer of the Company with regard to the contribution, responsibility and performance of each officer and his views on the appropriate compensation level of each executive officer.

Long-Term Incentives

The only long-term incentive currently offered for senior executives by the Company is stock option awards. Stock options may be awarded to the Chief Executive Officer, the other individual executive officers and upper and middle managers by the Board of Directors, based upon, in the case of the Chief Executive Officer and other executive officers, the recommendation of the Compensation Committee.

It is the stock option program which links rewards to the achievement of long-term corporate performance. In determining whether and how many options should be granted, the Compensation Committee may consider the responsibilities and seniority of each of the executive officers, as well as the financial performance of the Company and other factors as it deems appropriate, consistent with the Company's compensation policies.

The Chief Executive Officer and Co-Chairman of the Board, the Co-Presidents and the Chief Financial Officer of the Company receive option grants annually in an amount equal to 10% of their respective base salary. However, the Compensation Committee has not established specific target awards governing the receipt, timing or size of option grants to other individuals. Thus, determinations with respect to the granting of these stock options are subjective in nature.

CEO Compensation

The base salary of David E. O'Reilly, the Chief Executive Officer of the Company, was established under his employment agreement dated January 1, 1993, and the criterion to be achieved for his bonus was determined by the Compensation Committee in February 2003, based upon a percentage of his base salary for the attainment of certain performance goals for the Company. This cash bonus will paid to the Chief Executive Officer during 2004. The cash bonus to be earned by the Chief Executive Officer in 2004 will be based upon performance goals to be determined by the Compensation Committee.

Respectfully submitted,

THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS OF O'REILLY AUTOMOTIVE, INC.

Jay D. Burchfield
Chairman of the Compensation Committee

Paul Lederer
Member of the Compensation Committee

Ronald Rashkow
Member of the Compensation Committee

Audit Committee Report

The Audit Committee functions pursuant to a written charter, a copy of which was attached as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2003. The Audit Committee's Charter was most recently revised and approved by the Board of Directors on May 6, 2003. In connection with the December 31, 2003, financial statements, the Audit Committee has:

- reviewed and discussed with management the Company's audited financial statements as of and for the year ended December 31, 2003; and
- discussed with the Company's independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended, by the Auditing Standards Board of American Institute of Certified Public Accountants; and
- received and reviewed the written disclosures and the letter from the Company's independent auditors required by Independence Standard No. 1, Independence Discussions with Audit Committees, as amended, by the Independence Standards Board, and have discussed with the auditors their independence.

Based on the reviews and discussions referred to above, the Audit Committee has recommended to the Board of Directors that the audited financial statements referred to above be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

THE AUDIT COMMITTEE OF THE
BOARD OF DIRECTORS OF
O'REILLY AUTOMOTIVE, INC.

John Murphy
Chairman of the Audit Committee

Paul Lederer
Member of the Audit Committee

Ronald Rashkow
Member of the Audit Committee

Transactions with Insiders and Others

Seventy of the Company's stores are leased from one of two real estate investment partnerships and a limited liability corporation formed by the O'Reilly family. David E. O'Reilly, Lawrence P. O'Reilly, Charles H. O'Reilly, Jr. and Rosalie O'Reilly-Wooten, their spouses, children and grandchildren each hold a beneficial interest in such partnerships or the limited liability company. Leases with affiliated parties generally provide for payment of a fixed base rent, payment of certain tax, insurance and maintenance expenses, and an original term of six years, subject to one or more renewals at the Company's option. The Company has entered into separate master lease agreements with each of the affiliated real estate investment partnerships and the limited liability company for the occupancy of the stores covered thereby. The master lease agreements with the real estate investment partnerships expire on December 2004. The term of the master lease with the limited liability company expires on December 31, 2013. The total aggregate rent payments paid by the Company to the partnerships and the limited liability company was $3,238,000 in fiscal 2003. The Company believes that the terms and conditions of the transactions with affiliates described above were no less favorable to the Company than those that would have been available to the Company in comparable transactions with

unaffiliated parties.

Performance Graph

Set forth below is a line graph comparing the annual percentage change in the cumulative total shareholder return of a $100 investment on December 31, 1998, in the Company's Common Stock against The Nasdaq Stock Market Total Return Index and The Nasdaq Retail Trade Stocks Total Return Index, assuming reinvestment of all dividends.

Measurement Period (Fiscal Year Covered)	O'Reilly Automotive, Inc.	Nasdaq U.S. Stock Market	Nasdaq Retail Trade Stocks
12/98	100	100	100
12/99	91	185	88
12/00	113	112	54
12/01	154	89	74
12/02	107	61	63
12/03	163	92	88

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers and Directors, and persons who own more than 10% of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Such individuals are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file. Based on the Company's review of the copies of such forms furnished to it and written representations with respect to the timely filing of all reports required to be filed, the Company believes that such persons complied with all Section 16(a) filing requirements applicable to them with respect to transactions during fiscal 2003 with the following exceptions: Charlie O'Reilly made direct sells of the Company's stock on September 28, 2001, June 28, 2002 and July 1, 2002 that were not reported until February 16, 2004; Larry O'Reilly made direct sells of the Company's stock on August 14, 2003 and August 15, 2003, that were not reported until February 16, 2004; David O'Reilly, Ted Wise, Greg Henslee and James R. Batten were awarded stock options on February 13, 2003, that were not reported until April 24, 2003.

PROPOSAL 2 - RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS

The Audit Committee of the Board of Directors has selected Ernst & Young LLP as our independent auditors for the year ending December 31, 2004, and has further directed that management submit the selection of independent auditors for ratification by the shareholders at the annual meeting. Ernst & Young LLP has audited our financial statements since 1993. Representatives of Ernst & Young LLP are expected to be present at the annual meeting. They will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Neither our Bylaws nor our other governing documents or law require shareholder ratification of the selection of Ernst & Young LLP as our independent auditors. However, the Audit Committee is submitting the selection of Ernst & Young LLP to the stockholders for ratification as a matter of good corporate practice. If the shareholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of different independent auditors at any time during the year if the Audit Committee determines that such a change would be in the best interests of the Company and our stockholders.

Fees Paid to Independent Auditors

The following is a summary of fees billed by Ernst & Young LLP for audit and other professional services during the year ended December 31:

	2003	2002
Audit Fees: Consists of fees and expenses billed for the audit of O'Reilly's consolidated financial statements for such year and for the review of O'Reilly's quarterly reports on Form 10-Q..................	$ 267,247	$ 212,000
Audit-Related Fees: Consists of fees and expenses billed for the annual audit of the Company's employee benefit plan, consultations regarding restructuring of the Company's synthetic lease arrangement and assistance in documenting internal control policies and procedures over financial reporting.................................	88,382	8,500
Tax Fees: Consists of fees and expenses billed for tax advisory services, including compliance and planning..................................	93,808	323,500
All Other Fees..	$ --	$ --
Total Fees..	$ 449,437	$ 544,000

The Audit Committee has adopted a policy that requires advance approval of all audit, audit-related, tax services, and other services performed by the independent auditor. The policy provides for pre-approval by the Audit Committee of specifically defined audit and non-audit services. Unless the specific service has been previously approved with respect to that year, the Audit Committee must approve the permitted service before the independent auditor is engaged to perform it. The Audit Committee has delegated to the Chairman of the Audit Committee authority to approve permitted services, provided that the Chairman reports any decisions to the Committee at its next scheduled meeting.

The Audit Committee, after review and discussion with Ernst & Young LLP of the preceding information, determined that the provision of these services was compatible with maintaining Ernst & Young LLP's independence.

Ratification of Independent Auditors

The affirmative vote of the holders of a majority of the votes attached to the shares present in person or represented by proxy and entitled to vote at the annual meeting will be required to ratify the selection of Ernst & Young LLP.

The Board of Directors recommends that you vote "FOR" the proposal to ratify the selection of Ernst & Young LLP as our independent auditors for the year ending December 31, 2004.

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PROPOSAL 3 - RATIFICATION OF THE APPOINTMENT OF JOHN MURPHY AND RONALD RASHKOW AS CLASS I DIRECTORS

The Board of Directors, in its written consent dated December 19, 2003, appointed John Murphy and Ronald Rashkow to serve as Class I Directors, effective as of December 19, 2003, to stand until the terms of the Class I Directors expire in 2006. The addition of Mr. Murphy and Mr. Rashkow brings the total number of independent directors to five, of nine total directors, resulting in a majority of independent directors. The two additional independent directors were appointed in order for the Company to comply with the new NASDAQ Stock Market Listing Qualifications.

Mr. Murphy and Mr. Rashkow were appointed to the Board of Directors in accordance with provisions of the Company's Bylaws, granting such authority to the Board of Directors.

The Corporate Governance/Nominating Committee nominated Mr. Murphy and Mr. Rashkow upon the completion of an extensive search process. The criteria established by the Company's Corporate Governance/Nominating Committee Charter were utilized to evaluate prospective directors.

The Board of Directors recommends that you vote "FOR" the proposal to ratify the appointment of John Murphy and Ronald Rashkow as Class I Directors.

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ANNUAL SHAREHOLDERS' REPORT

The Annual Shareholders' Report of the Company for fiscal 2003 containing, among other things, audited consolidated financial statements of the Company, accompanies this Proxy Statement.

FUTURE PROPOSALS OF SHAREHOLDERS

Shareholder proposals intended to be presented at the year 2005 Annual Meeting and included in the Company's proxy statement and form of proxy relating to that meeting pursuant to Rule 14a-8 under the Exchange Act must be received by the Company at the Company's principal executive offices by November 26, 2004. In order for shareholder proposals made outside of Rule 14a-8 under the Exchange Act to be considered "timely" within the meaning of Rule 14a-4(c) under the Exchange Act, the Company's Amended Bylaws require that such proposals must be submitted, not later than February 9, 2005, and not earlier than January 19, 2005.

OTHER BUSINESS

The Board of Directors knows of no business to be brought before the Annual Meeting other than as set forth above. If other matters properly come before the meeting, it is the intention of the persons named in the solicited proxy to vote the proxy on such matters in accordance with their judgment as to the best interests of the Company.

MISCELLANEOUS

The Company will pay the cost of soliciting proxies in the accompanying form. In addition to solicitation by use of the mails, certain officers and regular employees of the Company may solicit the return of proxies by telephone, telegram or personal interview and may request brokerage houses and custodians, nominees and fiduciaries to forward soliciting material to their principals and will agree to reimburse them for their reasonable out-of-pocket expenses.

Shareholders are urged to mark, sign, date and send in their proxies without delay or vote via telephone or Internet using the instructions on the proxy card.

COMMUNICATION WITH THE BOARD OF DIRECTORS

A shareholder who wishes to communicate with our Board of Directors, specific individual directors or the independent directors as a group, may do so by directing a written request addressed to such director(s) in care of the Corporate Secretary at the address appearing on the first page of this proxy statement or via e-mail through our website at www.oreillyauto.com. Such communication will be directed to the intended director, group of directors or the entire Board, as the case may be.

HOUSEHOLDING OF MATERIALS

In some instances, only one copy of this Proxy Statement or Annual Report is being delivered to multiple shareholders, sharing an address, unless the Company has received instructions from one or more of the shareholders to continue to deliver multiple copies. We will deliver promptly upon oral or written request a separate copy of the Proxy Statement or Annual Report, as applicable, to any shareholder at your address. If you wish to receive a separate copy of the Proxy Statement or Annual Report, you may call us at (417) 862-6708, or send a written request to O'Reilly Automotive, Inc., 233 South Patterson, Springfield, Missouri 65802, Attention: Secretary. Alternatively, shareholders sharing an address who now receive multiple copies of the Proxy Statement or Annual Report may request delivery of a single copy, also by calling us at the number or writing to us at the address listed above.

ADDITIONAL INFORMATION

Additional information regarding the Company can be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2003, filed by the Company with the Securities and Exchange Commission.

A copy of the Company's Annual Report on Form 10-K for fiscal year (as filed with the Securities and Exchange Commission), including financial statements and financial statement schedule (excluding exhibits), is available to shareholders without charge, upon written request to O'Reilly Automotive, Inc., 233 South Patterson, Springfield, Missouri 65802, Attention: Secretary.

By Order of the Board of Directors

Tricia Headley
Secretary

Springfield, Missouri
March 22, 2004

APPENDIX A

O'REILLY AUTO PARTS

You are cordially invited to attend the Annual Meeting of Shareholders of O'Reilly Automotive, Inc., to be held at the University Plaza Convention Center, 333 John Q. Hammons Parkway, Springfield, Missouri on Tuesday, May 4, 2004, at 10:00 a.m. Central Time.

2003 HIGHLIGHTS

* 11th Consecutive Year of Record Revenues and Earnings
* 15.2% Increase in Sales to $1.51 Billion
* 7.8% Comparable Store Product Sales
* 128 New Stores Opened
* Reduced Outstanding Indebtedness by $69.3 Million
* Net Income of $100.1 Million

PROXY

O'REILLY AUTOMOTIVE, INC.
Annual Meeting of Shareholders - Tuesday, May 4, 2004

(THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS)

The undersigned hereby appoints David E. O'Reilly, Lawrence P. O'Reilly and Charles H. O'Reilly, Jr., and each of them, as proxies, with full power of substitution, and hereby authorizes them to represent and vote as the undersigned designates, all shares of Common Stock of O'Reilly Automotive, Inc., a Missouri corporation (the Company), held by the undersigned on February 27, 2004, at the Annual Meeting of Shareholders (the Annual Meeting) to be held on May 4, 2004, at 10:00 a.m. Central Time in Springfield, Missouri or at any adjournment or postponement thereof, upon the matters set forth on the reverse side of this card, all in accordance with and as more fully described in the accompanying Notice of Annual Meeting of Shareholders and Proxy Statement, receipt of which is hereby acknowledged.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED SHAREHOLDER. IF NO DIRECTION IS GIVEN, THIS PROXY WILL BE VOTED "FOR" THE ACTIONS OR PROPOSALS.

O'REILLY AUTO PARTS

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M.Eastern Time, May 3, 2004. Have your proxy card in hand when you access the web site. You will be prompted to enter your 12-digit Control Number which is located below to obtain your records and to create an electronic voting instruction form.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time, May 3, 2004. Have your proxy card in hand when you call.You will be prompted to enter your 12-digit Control Number which is located below and then follow the simple instructions the Vote Voice provides you.

VOTE BY MAIL

Mark, sign and date your proxy card and return in the postage-paid envelope we have provided or return to O'Reilly Automotive, Inc.,c/o ADP,51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:
KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

O'REILLY AUTOMOTIVE, INC.

The Board of Directors recommends a vote FOR the following actions or proposals (as described in the accompanying Proxy Statement).

Election of Directors

	For All	Withhold All	For All Except	To withhol mark "For nominee's
1. Proposal to elect Class II Directors (three-year term).				
01) Joe C. Greene	___	___	___	___________
02) Lawrence P. O'Reilly				

03) Rosalie O'Reilly-Wooten

Vote on Proposal	For	Against	Abstain
2. Ratification of apppointment of Ernst & Young as independent auditors.	___	___	___
3. Ratification of two new Class I Directors (terms to expire in 2006):			
A) John Murphy	___	___	___
B) Ronald Rashkow			

In their discretion, the proxies are authorized to vote upon such other business as may properly come before the Annual Meeting.

Please sign exactly as name(s) appear hereon. When shares are held by joint tenants, both should sign. When signing as an attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by president or other authorized officer. If a partnership, please sign in partnership name by authorized person.

Signature [PLEASE SIGN WITHIN BOX]	Date	Signature (Joint Owners)	Date
________________________________	_____	_______________________	_____

ze:1.0pt;">

72,255

72,911

Deemed landlord financing liability

91,973

87,841

Other noncurrent liabilities

55,087

51,305

Commitments and contingencies (Note 4)

Stockholders equity:

Preferred stock, $.01 par value, 5,000,000 shares authorized; none issued

Common stock, $.01 par value, 250,000,000 shares authorized; 93,901,866 and 93,126,667 issued at June 28, 2016 and December 29, 2015, respectively

939

931

Additional paid-in capital

742,041

710,242

Retained earnings

1,193,914

1,140,788

Treasury stock, 45,622,532 and 44,064,322 shares at cost at June 28, 2016 and December 29, 2015, respectively

(1,340,052

)

(1,263,422

)

Total stockholders equity

596,842

588,539

Total liabilities and stockholders equity

$

1,204,318

$	1,233,346

See the accompanying notes to the condensed consolidated financial statements.

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THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

	Thirteen Weeks Ended June 28, 2016	Thirteen Weeks Ended June 30, 2015	Twenty-Six Weeks Ended June 28, 2016	Twenty-Six Weeks Ended June 30, 2015
Revenues	$ 558,862	$ 529,107	$ 1,112,555	$ 1,047,080
Costs and expenses:				
Cost of sales	126,933	126,623	257,706	253,235
Labor expenses	185,211	168,495	370,869	339,664
Other operating costs and expenses	131,980	123,675	261,537	247,110
General and administrative expenses	35,785	35,345	71,122	68,420
Depreciation and amortization expenses	21,461	21,158	42,925	42,335
Preopening costs	2,302	4,058	4,612	5,509
Total costs and expenses	503,672	479,354	1,008,771	956,273
Income from operations	55,190	49,753	103,784	90,807
Interest and other expense, net	(2,181)	(1,432)	(4,485)	(3,327)
Income before income taxes	53,009	48,321	99,299	87,480
Income tax provision	14,424	13,597	26,760	24,333
Net income	$ 38,585	$ 34,724	$ 72,539	$ 63,147
Net income per share:				
Basic	$ 0.80	$ 0.72	$ 1.50	$ 1.29
Diluted	$ 0.78	$ 0.69	$ 1.46	$ 1.25
Weighted average shares outstanding:				
Basic	48,232	48,451	48,375	48,838
Diluted	49,598	50,262	49,814	50,681
Cash dividends declared per common share	$ 0.20	$ 0.165	$ 0.40	$ 0.33

See the accompanying notes to the condensed consolidated financial statements.

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THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(In thousands)

(Unaudited)

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance, December 29, 2015	93,127	$ 931	$ 710,242	$ 1,140,788	$ (1,263,422)	$ 588,539
Net income				72,539		72,539
Cash dividends declared				(19,413)		(19,413)
Tax impact of stock options exercised, net of cancellations			6,559			6,559
Stock-based compensation			11,453			11,453
Common stock issued under stock-based compensation plans	775	8	13,787			13,795
Treasury stock purchases					(76,630)	(76,630)
Balance, June 28, 2016	93,902	$ 939	$ 742,041	$ 1,193,914	$ (1,340,052)	$ 596,842

See the accompanying notes to the condensed consolidated financial statements.

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THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Twenty-Six Weeks Ended June 28, 2016	Twenty-Six Weeks Ended June 30, 2015
Cash flows from operating activities:		
Net income	$ 72,539	$ 63,147
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization expenses	42,925	42,335
Deferred income taxes	1,213	1,146
Stock-based compensation	11,304	9,677
Tax impact of stock options exercised, net of cancellations	6,559	7,838
Excess tax benefit related to stock options exercised	(6,635)	(7,826)
Other	1,342	1,346
Changes in assets and liabilities:		
Accounts receivable	(309)	6,359
Other receivables	45,508	28,914
Inventories	(561)	(3,211)
Prepaid expenses	4,152	(8,389)
Other assets	(1,071)	(6,010)
Accounts payable	(5,992)	(8,562)
Income taxes receivable/payable	14,398	11,466
Other accrued expenses	(33,586)	(17,264)
Cash provided by operating activities	151,786	120,966
Cash flows from investing activities:		
Additions to property and equipment	(40,208)	(59,473)
Additions to intangible assets	(924)	(948)
Cash used in investing activities	(41,132)	(60,421)
Cash flows from financing activities:		
Deemed landlord financing proceeds	2,673	
Deemed landlord financing payments	(1,780)	(1,497)
Borrowings on credit facility		25,000
Proceeds from exercise of stock options	13,795	16,892
Excess tax benefit related to stock options exercised	6,635	7,826
Cash dividends paid	(19,583)	(16,438)
Treasury stock purchases	(76,630)	(84,197)
Payment for future treasury stock purchases under accelerated stock repurchase agreement		(4,601)
Cash used in financing activities	(74,890)	(57,015)
Net change in cash and cash equivalents	35,764	3,530
Cash and cash equivalents at beginning of period	43,854	58,018
Cash and cash equivalents at end of period	$ 79,618	$ 61,548
Supplemental disclosures:		
Interest paid	$ 3,055	$ 2,988
Income taxes paid, net of refunds	$ 5,034	$ 3,850
Construction payable	$ 10,294	$ 13,531

See the accompanying notes to the condensed consolidated financial statements.

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THE CHEESECAKE FACTORY INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation and Significant Accounting Policies

The accompanying condensed consolidated financial statements include the accounts of The Cheesecake Factory Incorporated and its wholly owned subsidiaries (referred to herein collectively as the Company, we, us and our) prepared in accordance with accounting principles generall accepted in the United States of America (GAAP) and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The unaudited financial statements presented herein include all material adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for the fair statement of the financial condition, results of operations and cash flows for the period. However, these results are not necessarily indicative of results for any other interim period or for the full fiscal year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted pursuant to the rules of the Securities and Exchange Commission (SEC). The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2015 filed with the SEC on February 25, 2016.

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions for the reporting periods covered by the financial statements. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent liabilities. Actual results could differ from these estimates.

We utilize a 52/53-week fiscal year ending on the Tuesday closest to December 31 for financial reporting purposes. Fiscal year 2016 consists of 53 weeks and will end on January 3, 2017. Fiscal 2015, which ended on December 29, 2015, was a 52-week year.

Impairment of Long-Lived Assets and Lease Terminations

We assess the potential impairment of our long-lived assets whenever events or changes in circumstances indicate the carrying value of the assets or asset group may not be recoverable. Factors considered include, but are not limited to, significant underperformance relative to historical or projected future operating results, significant changes in the manner in which an asset is being used, an expectation that an asset will be disposed of significantly before the end of its previously estimated useful life and significant negative industry or economic trends. We regularly review restaurants that are cash flow negative for the previous four quarters and those that are being considered for closure or relocation to determine if impairment testing is warranted. At any given time, we may be monitoring a small number of locations, and future impairment charges could be required if individual restaurant performance does not improve.

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (FASB) issued guidance affecting all entities that issue share-based payment awards to their employees. This update covers such areas as the recognition of excess tax benefits and deficiencies, the classification of those excess tax benefits on the statement of cash flows, an accounting policy election for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification and the classification of those taxes paid on the statement of cash flows. This update is effective for annual and interim periods beginning after December 15, 2016, which will require us to adopt these provisions in the first quarter of fiscal 2017. This guidance will be applied either prospectively, retrospectively or using a modified retrospective transition method, depending on the area covered in this update. Early adoption is permitted. We have not yet selected a transition date nor have we determined the effect of the standard on our condensed consolidated financial statements.

In February 2016, the FASB issued guidance that requires a lessee to recognize on the balance sheet a liability to make lease payments and a corresponding right-of-use asset. The standard also requires certain qualitative and quantitative disclosures about the amount, timing and uncertainty of cash flows arising from leases. This update is effective for annual and interim periods beginning after December 15, 2018, which will require us to adopt these provisions in the first quarter of fiscal 2019 using a modified retrospective approach. Early adoption is permitted. We have not yet selected a transition date nor have we determined the effect of the standard on our condensed consolidated financial statements.

In July 2015, the FASB issued guidance that requires inventory within the scope of the standard to be measured at the lower of cost or net realizable value. Previous guidance required inventory to be measured at the lower of cost or market (where market was defined as replacement cost, with a ceiling of net realizable value and floor of net realizable value less a normal profit margin). The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. We expect the adoption of this guidance to have no material impact on our condensed consolidated financial statements.

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In April 2015, the FASB issued guidance regarding a customer s accounting for fees paid in a cloud computing arrangement. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. This guidance is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. Our adoption of this guidance in the first quarter of fiscal 2016 had no impact on our condensed consolidated financial statements.

In April 2015, the FASB issued updated guidance intended to simplify, and provide consistency to, the presentation of debt issuance costs. The new standard requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. In August 2015, the FASB provided additional guidance for presentation of debt issuance costs related to line-of-credit arrangements. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. Our adoption of this guidance in the first quarter of fiscal 2016 had no impact on our condensed consolidated financial statements.

In February 2015, the FASB issued updated guidance that changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. Our adoption of this guidance in the first quarter of fiscal 2016 had no impact on our condensed consolidated financial statements.

In June 2014, the FASB issued updated guidance intended to eliminate the diversity in practice regarding share-based payment awards that include terms which provide for a performance target that affects vesting being achieved after the requisite service period. The new standard requires that a performance target which affects vesting and could be achieved after the requisite service period be treated as a performance condition that affects vesting and should not be reflected in estimating the grant-date fair value. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. Our adoption of this guidance in the first quarter of fiscal 2016 had no impact on our condensed consolidated financial statements.

In May 2014, the FASB issued accounting guidance that provides a comprehensive new revenue recognition model that will supersede most of the existing revenue recognition requirements and require entities to recognize revenue at an amount that reflects the consideration to which a company expects to be entitled in exchange for transferring goods or services to a customer. In August 2015, the FASB deferred the effective date of this standard by one year with early adoption permitted no earlier than the original effective date. The guidance is now effective for us beginning in the first quarter of fiscal 2018. In March and April 2016, the FASB provided additional guidance related to implementation. This standard is not expected to have a material impact on our condensed consolidated financial statements.

2. Inventories

Inventories consisted of (in thousands):

	June 28, 2016	**December 29, 2015**

Restaurant food and supplies	$	15,318	$	16,127
Bakery finished goods and work in progress		13,480		12,104
Bakery raw materials and supplies		5,773		5,779
Total	$	34,571	$	34,010

3. Long-Term Debt

On December 22, 2015, we entered into a new loan agreement (Facility) which amended and restated in its entirety our prior loan agreement dated October 16, 2013. This Facility, which matures on December 22, 2020, provides us with revolving loan commitments totaling $200 million, of which $50 million may be used for issuances of letters of credit. Availability under the Facility is reduced by outstanding letters of credit, which are used to support our self-insurance programs. The Facility contains a commitment increase feature that could provide for an additional $100 million in available credit upon our request and subject to the lenders electing to increase their commitments or by means of the addition of new lenders. Our obligations under the Facility are unsecured. Certain of our material subsidiaries have guaranteed our obligations under the Facility. At June 28, 2016, we had net availability for borrowings of $178.2 million, based on a zero outstanding debt balance and $21.8 million in standby letters of credit. We did not withdraw or repay any amounts under this Facility during the first half of fiscal 2016.

We are subject to certain financial covenants under the Facility requiring us to maintain (i) a maximum Net Adjusted Leverage Ratio of 4.0, comprised of debt plus eight times rent minus unrestricted cash and cash equivalents in excess of $25 million divided by EBITDAR (trailing 12-month earnings before interest, taxes, depreciation, amortization, noncash stock option expense, rent and permitted acquisition costs) and (ii) a trailing 12-month minimum EBITDAR to interest and rental expense ratio (EBITDAR Ratio) of 1.9. Our Net Adjusted Leverage and EBITDAR Ratios were 2.4 and 3.0, respectively, at June 28, 2016, and we were in compliance with the financial covenants in effect at that date. The Facility also limits cash distributions with respect to our equity interests, such as cash dividends and share repurchases, based on the Net Adjusted Leverage Ratio.

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Borrowings under the Facility bear interest, at our option, at a rate equal to either (i) the Adjusted LIBO Rate plus a margin ranging from 1.00% to 1.75% based on our Net Adjusted Leverage Ratio or (ii) the sum of (a) the highest of (1) the rate of interest publicly announced by JP Morgan Chase Bank as its prime rate in effect, (2) the greater of the Federal Funds Effective Rate or the Overnight Bank Funding Rate, in either case plus 0.5%, and (3) the one-month Adjusted LIBO Rate plus 1.0%, plus (b) a margin ranging from 0.00% to 0.75% based on our Net Adjusted Leverage Ratio. Under the Facility, we paid certain customary loan origination fees and will pay a fee on the unused portion of the Facility ranging from 0.125% to 0.25% also based on our Net Adjusted Leverage Ratio.

4. Commitments and Contingencies

On April 11, 2013, a former restaurant hourly employee filed a class action lawsuit in the California Superior Court, Placer County, alleging that the Company violated the California Labor Code and California Business and Professions Code, by requiring employees to purchase uniforms for work (Sikora v. The Cheesecake Factory Restaurants, Inc., et al; Case No SCV0032820). A similar lawsuit covering a different time period was also filed in Placer County (Reed v. The Cheesecake Factory Restaurants, Inc. et al; Case No. SCV27073). By stipulation the parties agreed to transfer the Reed and Sikora cases to Los Angeles County. Both cases were subsequently coordinated together in Los Angeles County by order of the Judicial Council. On November 15, 2013, the Company filed a motion to enforce judgment and to preclude the prosecution of certain claims under the California Private Attorney General Act (PAGA) and California Business and Professions Code Section 17200. On March 11, 2015, the court granted the Company s motion in Case No. SCV0032820. The parties participated in voluntary mediation on June 25, 2015 and have executed a memorandum of understanding with respect to the terms of settlement, which is subject to court approval and is intended to be a full and final resolution of the actions. On January 29, 2016, the court granted the parties Motion for Preliminary Approval of Class Action Settlement for Case Nos. SCV0032820 and SCV27073. On June 10, 2016, the court entered the order and judgment granting final approval of the class action settlement. Based on the current status of this matter, we have reserved an immaterial amount in anticipation of settlement.

On November 26, 2014, a former restaurant hourly employee filed a class action lawsuit in the San Diego County Superior Court, alleging that the Company violated the California Labor Code and California Business and Professions Code, by failing to pay overtime, to permit required rest breaks and to provide accurate wage statements, among other claims (Masters v. The Cheesecake Factory Restaurants, Inc., et al; Case No 37-2014-00040278). By stipulation, the parties agreed to transfer Case No. 37-2014-00040278 to the Orange County Superior Court. On March 2, 2015, Case No. 37-2014-00040278 was officially transferred and assigned a new Case No. 30-2015-00775529 in the Orange County Superior Court. On June 27, 2016, we gave notice to the court that Case Nos. CIV1504091 and BC603620 described below may be related. The lawsuit seeks unspecified amounts of fees, penalties and other monetary payments on behalf of the Plaintiff and other purported class members. We intend to vigorously defend this action. Based on the current status of this matter, we have not reserved for any potential future payments.

On May 28, 2015, a group of current and former restaurant hourly employees filed a class action lawsuit in the U.S. District Court for the Eastern District of New York, alleging that the Company violated the Fair Labor Standards Act and New York Labor Code, by requiring employees to purchase uniforms for work and violated the State of New York s minimum wage and overtime provisions (Guglielmo v. The Cheesecake Factory Restaurants, Inc., et al; Case No 2:15-CV-03117). On September 8, 2015, the Company filed its response to the complaint, requesting the court to compel arbitration against opt-in plaintiffs with valid arbitration agreements. On July 21, 2016, the court issued an order confirming the agreement of the parties to dismiss all class claims with prejudice and to allow the case to proceed as a collective action at a limited number of the Company s restaurants in the State of New York. The plaintiffs are seeking unspecified amounts of penalties and other monetary payments. We intend to vigorously defend this action. Based upon the current status of this matter, we have not reserved for any potential future payments.

On November 10, 2015, a current restaurant hourly employee filed a class action lawsuit in the Marin County Superior Court alleging that the Company failed to provide complete and accurate wage statements as set forth in the California Labor Code. On January 26, 2016, the plaintiff

filed a First Amended Complaint. The lawsuit seeks unspecified penalties under PAGA in addition to other monetary payments (Brown v. The Cheesecake Factory Restaurants, Inc.; Case No. CIV1504091). On April 18, 2016, the court granted our motion to compel individual arbitration of plaintiff s wage statement claim and stayed the PAGA claim until completion of the individual arbitration. On June 28, 2016, we gave notice to the court that Case Nos. 30-2015-00775529 and BC603620 may be related. We intend to vigorously defend against this action. Based upon the current status of this matter, we have not reserved for any potential future payments.

On December 10, 2015, a former restaurant management employee filed a class action lawsuit in the Los Angeles County Superior Court alleging that the Company improperly classified its managerial employees, failed to pay overtime, and failed to provide accurate wage statements, in addition to other claims. The lawsuit seeks unspecified penalties under PAGA in addition to other monetary payments (Tagalogon v. The Cheesecake Factory Restaurants, Inc., Case No. BC603620). On March 23, 2016, the parties issued their joint status conference statement at which time we gave notice to the court that Case Nos. 30-2015-00775529 and CIV1504091 may be related. On April 29, 2016, the Company filed its response to the complaint. We intend to vigorously defend against this action. Based upon the current status of this matter, we have not reserved for any potential future payments.

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On April 24, 2016, a class action lawsuit was filed in the United States District Court for the Eastern District of New York alleging that the Company violated the New York deceptive business practices statute by improperly calculating suggested gratuities on split payment checks. The lawsuit seeks unspecified penalties in addition to other monetary payments. On June 8, 2016, the Company informed the court that it intends to file a motion to dismiss the complaint. We intend to vigorously defend against this action. Based upon the current status of this matter, we have not reserved for any potential future payments.

Within the ordinary course of our business, we are subject to private lawsuits, government audits, administrative proceedings and other claims. These matters typically involve claims from customers, staff members and others related to operational and employment issues common to the foodservice industry. A number of these claims may exist at any given time, and some of the claims may be pled as class actions. From time to time, we are also involved in lawsuits with respect to infringements of, or challenges to, our registered trademarks and other intellectual property, both domestically and abroad. We could be affected by adverse publicity and litigation costs resulting from such allegations, regardless of whether they are valid or whether we are legally determined to be liable. At this time, we believe that the final disposition of any pending lawsuits, audits, proceedings and claims will not have a material adverse effect individually or in the aggregate on our financial position, results of operations or liquidity. It is possible, however, that our future results of operations for a particular quarter or fiscal year could be impacted by changes in circumstances relating to lawsuits, audits, proceedings or claims.

5. Stockholders Equity

On April 21, 2016, our Board of Directors (Board) declared a quarterly cash dividend of $0.20 per share that was paid on May 24, 2016 to the stockholders of record at the close of business on May 11, 2016. Future decisions to pay, increase or decrease dividends are at the discretion of the Board and will be dependent on our operating performance, financial condition, capital expenditure requirements and such other factors that the Board considers relevant.

As of June 28, 2016, our Board had authorized the repurchase of up to 48.5 million shares of our common stock. Under this authorization, we cumulatively repurchased 45.6 million shares at a total cost of $1,340.1 million through June 28, 2016, including 0.5 million shares at a cost of $26.6 million during the second quarter of fiscal 2016. Repurchased common stock is reflected as a reduction of stockholders equity. Our share repurchases have included repurchases under Rule 10b5-1 plans adopted from time to time by our Board in furtherance of its repurchase authorization. Repurchases made during the second quarter of fiscal 2016 were made under a Rule 10b5-1 plan that was adopted by our Board on November 3, 2015 and is effective from January 4, 2016 through June 30, 2016. On April 21, 2016, our Board approved the adoption of a 10b5-1 Plan, which will be effective from July 1, 2016 through December 30, 2016.

Our share repurchase authorization does not have an expiration date, does not require us to purchase a specific number of shares and may be modified, suspended or terminated at any time. Shares may be repurchased in the open market or through privately negotiated transactions at times and prices considered appropriate by us. Purchases in the open market are made in compliance with Rule 10b-18 under the Securities Exchange Act of 1934 (the Act). We make the determination to repurchase shares based on several factors, including an evaluation of current and future capital needs associated with new restaurant development, current and forecasted cash flows, including dividend payments, a review of our capital structure and cost of capital, our share price and current market conditions. The timing and number of shares repurchased are also subject to legal constraints and financial covenants under our Facility that limit share repurchases based on a defined ratio. (See Note 3 for further discussion of our long-term debt.) Our objectives with regard to share repurchases are to offset the dilution to our shares outstanding that results from equity compensation grants and to supplement our earnings per share growth.

6. Stock-Based Compensation

The following table presents information related to stock-based compensation (in thousands):

	Thirteen Weeks Ended June 28, 2016	Thirteen Weeks Ended June 30, 2015	Twenty-Six Weeks Ended June 28, 2016	Twenty-Six Weeks Ended June 30, 2015
Labor expenses	$ 1,708	$ 1,556	$ 2,964	$ 3,102
Other operating costs and expenses	75	64	125	137
General and administrative expenses	4,336	3,326	8,215	6,438
Total stock-based compensation	6,119	4,946	11,304	9,677
Income tax benefit	2,340	1,892	4,324	3,701
Total stock-based compensation, net of taxes	$ 3,779	$ 3,054	$ 6,980	$ 5,976
Capitalized stock-based compensation (1)	$ 76	$ 79	$ 149	$ 146

(1) It is our policy to capitalize the portion of stock-based compensation costs for our internal development and construction, legal, and facilities departments that relates to capitalizable activities such as the design and construction of new restaurants, remodeling existing locations, lease, intellectual property and liquor license acquisition activities and equipment installation. Capitalized stock-based compensation is included in property and equipment, net and other assets on the condensed consolidated balance sheets.

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Stock Options

We did not issue any stock options during the second quarters of fiscal 2016 or fiscal 2015. Stock option activity during the twenty-six weeks ended June 28, 2016 was as follows:

	Shares (In thousands)		Weighted Average Exercise Price (Per share)	Weighted Average Remaining Contractual Term (In years)		Aggregate Intrinsic Value(1) (In thousands)
Outstanding at December 29, 2015	3,066	$	30.00	3.6	$	52,416
Granted	225		50.26			
Exercised	(644)		21.41			
Forfeited or cancelled	(31)		40.96			
Outstanding at June 28, 2016	2,616	$	33.73	3.9	$	36,215
Exercisable at June 28, 2016	1,651	$	27.92	2.8	$	31,779

(1) Aggregate intrinsic value is calculated as the difference between our closing stock price at fiscal period end and the exercise price, multiplied by the number of in-the-money options and represents the pretax amount that would have been received by the option holders, had they all exercised their options on the fiscal period end date.

The total intrinsic value of options exercised during the thirteen and twenty-six weeks ended June 28, 2016 was $2.4 million and $18.6 million, respectively. The total intrinsic value of options exercised during the thirteen and twenty-six weeks ended June 30, 2015 was $13.0 million and $21.6 million, respectively. As of June 28, 2016, total unrecognized stock-based compensation expense related to unvested stock options was $10.0 million, which we expect to recognize over a weighted average period of approximately 2.9 years.

Restricted Shares and Restricted Share Units

Restricted share and restricted share unit activity during the twenty-six weeks ended June 28, 2016 was as follows:

	Shares (In thousands)		Weighted Average Fair Value (Per share)
Outstanding at December 29, 2015	1,891	$	41.31
Granted	316		49.95
Vested	(256)		33.92
Forfeited	(66)		41.79

Outstanding at June 28, 2016	1,885	$	43.70

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Fair value of our restricted shares and restricted share units is based on our closing stock price on the date of grant. The weighted average fair value at the grant date for restricted shares and restricted share units issued during the second quarters of fiscal 2016 and fiscal 2015 was $52.08 and $48.80, respectively. The fair value of shares that vested during the thirteen and twenty-six weeks ended June 28, 2016 was $0.3 million and $8.7 million, respectively. The fair value of shares that vested during the thirteen and twenty-six weeks ended June 30, 2015 was $0.6 million and $6.3 million, respectively. As of June 28, 2016, total unrecognized stock-based compensation expense related to unvested restricted shares and restricted share units was $43.9 million, which we expect to recognize over a weighted average period of approximately 2.8 years.

7. Net Income Per Share

At both June 28, 2016 and June 30, 2015, 1.8 million shares of restricted stock issued to employees were unvested and, therefore, excluded from the calculation of basic earnings per share for the fiscal quarters ended on those dates. Diluted net income per share includes the dilutive effect of outstanding equity awards, calculated using the treasury stock method. Assumed proceeds from the in-the-money options include the windfall tax benefits, net of shortfalls, calculated under the as-if method as prescribed by FASB Accounting Standards Codification (ASC) 718, Compensation Stock Option Compensation.

	Thirteen Weeks Ended June 28, 2016	Thirteen Weeks Ended June 30, 2015	Twenty-Six Weeks Ended June 28, 2016	Twenty-Six Weeks Ended June 30, 2015
	(In thousands, except per share data)			
Net income	$ 38,585	$ 34,724	$ 72,539	$ 63,147
Basic weighted average shares outstanding	48,232	48,451	48,375	48,838
Dilutive effect of equity awards	1,366	1,811	1,439	1,843
Diluted weighted average shares outstanding	49,598	50,262	49,814	50,681
Basic net income per share	$ 0.80	$ 0.72	$ 1.50	$ 1.29
Diluted net income per share	$ 0.78	$ 0.69	$ 1.46	$ 1.25

Shares of common stock equivalents of 0.9 million and 1.3 million for the thirteen and twenty-six weeks ended June 28, 2016, respectively, and 0.6 million and 1.1 million for the thirteen and twenty-six weeks ended June 30, 2015, respectively, were excluded from the diluted calculation due to their anti-dilutive effect.

8. Segment Information

For decision-making purposes, our management reviews discrete financial information for The Cheesecake Factory, Grand Lux Cafe and RockSugar Pan Asian Kitchen restaurants, our bakery division and our international licensing operations. Based on quantitative thresholds set forth in ASC 280, Segment Reporting, The Cheesecake Factory is our only business that meets the criteria of a reportable operating segment. Grand Lux Cafe, RockSugar Pan Asian Kitchen, bakery and international licensing are combined in Other. Unallocated corporate expenses, assets and capital expenditures are presented below as reconciling items to the amounts presented in the condensed consolidated financial statements.

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Segment information is presented below (in thousands):

	Thirteen Weeks Ended June 28, 2016	Thirteen Weeks Ended June 30, 2015	Twenty-Six Weeks Ended June 28, 2016	Twenty-Six Weeks Ended June 30, 2015
Revenues:				
The Cheesecake Factory restaurants	$ 511,918	$ 483,285	$ 1,018,234	$ 956,102
Other	46,944	45,822	94,321	90,978
Total	$ 558,862	$ 529,107	$ 1,112,555	$ 1,047,080
Income/(Loss) from operations:				
The Cheesecake Factory restaurants	$ 82,285	$ 77,292	$ 156,577	$ 143,993
Other	5,769	5,263	12,681	11,326
Corporate	(32,864)	(32,802)	(65,474)	(64,512)
Total	$ 55,190	$ 49,753	$ 103,784	$ 90,807
Depreciation and amortization:				
The Cheesecake Factory restaurants	$ 18,222	$ 17,638	$ 36,474	$ 35,306
Other	2,068	2,512	4,143	5,006
Corporate	1,171	1,008	2,308	2,023
Total	$ 21,461	$ 21,158	$ 42,925	$ 42,335
Capital expenditures:				
The Cheesecake Factory restaurants	$ 14,640	$ 25,398	$ 36,072	$ 42,220
Other	2,778	5,745	3,471	9,311
Corporate	349	4,179	665	7,942
Total	$ 17,767	$ 35,322	$ 40,208	$ 59,473

	June 28, 2016	December 29, 2015
Total assets:		
The Cheesecake Factory restaurants	$ 890,751	$ 934,606
Other	150,360	152,243
Corporate	163,207	146,497
Total	$ 1,204,318	$ 1,233,346

9. Subsequent Events

On July 21, 2016, our Board declared a quarterly cash dividend of $0.24 per share to be paid on August 23, 2016 to the stockholders of record at the close of business on August 10, 2016.

On July 21, 2016, our Board increased the authorization to repurchase our common stock by 7.5 million shares to 56 million shares. See Note 5 for further discussion of our repurchase authorization and methods.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

Certain information included in this Form 10-Q and other materials filed or to be filed by us with the 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 presently 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. Statements set forth in or incorporated into this report regarding our expectations for growth in company-owned and licensed locations, comparable sales, diluted net earnings per share, and operating margins, our intention to repurchase stock and pay dividends, and all other statements that are not historical facts, including without limitation, statements with respect to future financial condition, results of operations, plans, objectives, performance and business of The Cheesecake Factory Incorporated and its subsidiaries, as well as statements that are preceded by, followed by or that include words or phrases such as believe, plan, will likely result, expect, intend, will continue, is anticipated, estimate, proj could, would, should and similar expressions, 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). These statements are based on our current expectations and involve risks and uncertainties which may cause results to differ materially from those set forth in such statements.

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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 Part II, Item 1A of this report, Risk Factors, and Part I, Item 1A, Risk Factors, included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2015.) 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 currently reasonable, any of the assumptions could be incorrect or incomplete, 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, corrections in underlying assumptions, or changes in circumstances arising after the date that the forward-looking statement was made.

General

This discussion and analysis should be read in conjunction with our interim unaudited condensed consolidated financial statements and related notes included in this Form 10-Q in Part I, Item 1, and with the following items included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2015: the audited consolidated financial statements and related notes in Part IV, Item 15; the Risk Factors included in Part I, Item 1A; and the cautionary statements included throughout the report. The inclusion of supplementary analytical and related information herein may require us to make estimates and assumptions to enable us to fairly present, in all material respects, our analysis of trends and expectations with respect to our results of operations and financial position.

As of August 4, 2016, we operated 202 Company-owned restaurants 189 under The Cheesecake Factory® mark, 12 under the Grand Lux Cafe® mark and one under the RockSugar Pan Asian Kitchen® mark. Internationally, 12 The Cheesecake Factory branded restaurants operated in the Middle East, Mexico and China under licensing agreements, including the first location in China, which opened in June 2016. We also operated two bakery production facilities.

The Cheesecake Factory is an upscale casual dining concept that features more than 200 menu items including appetizers, pizza, seafood, steaks, chicken, burgers, small plates, pastas, salads, sandwiches, omelettes and desserts, including approximately 50 varieties of cheesecake and other quality baked desserts. Grand Lux Cafe and RockSugar Pan Asian Kitchen are also upscale, casual dining concepts offering approximately 150 and 75 menu items, respectively. In contrast to many chain restaurant operations, substantially all of our menu items, except those desserts manufactured at our bakery production facilities, are prepared daily at our restaurants with high quality, fresh ingredients using innovative and proprietary recipes. We believe The Cheesecake Factory and Grand Lux Cafe restaurants are recognized by consumers for offering value with a large variety of freshly prepared menu items across a broad array of price points and generous food portions at moderate prices. Our restaurants distinctive, contemporary design and decor create a high energy ambiance in a casual setting. Our restaurants typically range in size from 8,000 to 12,000 interior square feet, provide full liquor service and are open seven days a week for lunch and dinner, as well as Sunday brunch.

Overview

Our strategy is driven by our commitment to customer satisfaction and is focused primarily on menu innovation, service and operational execution to continue to differentiate ourselves from other restaurant concepts, as well as to drive competitively strong performance that is sustainable. Financially, we are focused on prudently managing expenses at our restaurants, bakery facilities and corporate support center, and

leveraging our size to make the best use of our purchasing power.

We are committed to allocating capital in a manner that we project will produce targeted returns at the unit level, in the form of fully capitalized cash return on investment, of approximately 20%. Returns are affected by the cost to build restaurants, the level of revenues that each restaurant can deliver and our ability to maximize the profitability of restaurants. Investing in new restaurant development that meets our return on investment criteria is expected to create value for our Company and supports achieving a Company-level return on invested capital of approximately 15%. It is our top capital allocation priority with a focus on opening our restaurant concepts in premier locations within both new and existing markets in the United States, and potentially new markets internationally.

Going forward, our domestic revenue growth (comprised of our annual unit growth and comparable sales growth), combined with international growth, a robust share repurchase program and our dividend provide a framework with high visibility and one that supports our financial objective of mid-teens growth in total return to shareholders. We define our total returns as earnings per share growth plus our dividend yield. The following are the key performance levers that we believe will contribute to achieving these goals:

- *Growing Overall Revenue.* Our overall revenue growth is primarily driven by revenue from new restaurant openings, increases in comparable restaurant sales, royalties and bakery sales from additional licensed international locations and potential development or acquisition of other growth vehicles. Changes in comparable restaurant sales come from variations in customer traffic, as well as in check average. Our strategy is to grow customer traffic by (1) continuing to offer innovative, high quality menu items that offer customers a wide range of options in terms of flavor, price and value and (2) focusing on service and hospitality with the goal of delivering an exceptional customer experience. We are continuing our efforts on a number of initiatives intended to help us make incremental progress towards growing customer traffic, including redesigning our server training, building on the success of our gift card program, implementing a technology for mobile payment in our restaurants and piloting delivery service through a third party vendor. Check average is impacted by menu price increases and/or changes in menu mix. Our philosophy with regard to menu pricing is to use price increases to help offset key operating cost increases in a manner that balances protecting both our margins and customer traffic levels.

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- *Increasing Our Operating Margins (Income from Operations Expressed as a Percentage of Revenues).* Operating margins are subject to fluctuations in commodity costs, labor expenses, restaurant-level occupancy expenses, general and administrative expenses (G&A) and preopening expenses. Our objective is to gradually increase our operating margins and return to peak levels by capturing fixed cost leverage primarily from growth in international royalties, as well as increases in comparable restaurant sales. Maximizing our purchasing power as our business grows and operating our restaurants as productively as possible should help offset cost inflation, thereby supporting our margin expansion goal.

By efficiently scaling our restaurant and bakery support infrastructure and improving our internal processes, we work toward growing G&A expenses at a slower rate than revenue growth over the long term, which also should contribute to operating margin expansion. However, G&A as a percentage of revenues may vary from quarter to quarter and may increase on a year-over-year comparative basis in the near term.

- *Dividends and Share Repurchases.* We have historically generated a significant amount of free cash flow, which we define as cash flow from operations less capital expenditures. We utilize substantially all of our free cash flow plus proceeds received from employee stock option exercises for dividends and share repurchases, the latter of which offsets dilution from our equity compensation program and supports our earnings per share growth.

Results of Operations

The following table sets forth, for the periods indicated, information from our condensed consolidated statements of income expressed as percentages of revenues. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for any other interim period or for the full fiscal year.

	Thirteen Weeks Ended June 28, 2016	Thirteen Weeks Ended June 30, 2015	Twenty-Six Weeks Ended June 28, 2016	Twenty-Six Weeks Ended June 30, 2015
Revenues	100.0%	100.0%	100.0%	100.0%
Costs and expenses:				
Cost of sales	22.7	23.9	23.2	24.2
Labor expenses	33.2	31.8	33.3	32.5
Other operating costs and expenses	23.6	23.4	23.5	23.6
General and administrative expenses	6.4	6.7	6.4	6.5
Depreciation and amortization expenses	3.8	4.0	3.9	4.0
Preopening costs	0.4	0.8	0.4	0.5
Total costs and expenses	90.1	90.6	90.7	91.3
Income from operations	9.9	9.4	9.3	8.7
Interest and other expense, net	(0.4)	(0.3)	(0.4)	(0.3)
Income before income taxes	9.5	9.1	8.9	8.4
Income tax provision	2.6	2.5	2.4	2.4
Net income	6.9%	6.6%	6.5%	6.0%

Thirteen Weeks Ended June 28, 2016 Compared to Thirteen Weeks Ended June 30, 2015

Revenues

Revenues increased 5.6% to $558.9 million for the thirteen weeks ended June 28, 2016 compared to $529.1 million for the thirteen weeks ended June 30, 2015.

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Comparable sales at The Cheesecake Factory restaurants increased by 0.3%, or $1.5 million, from the second quarter of fiscal 2015, driven by average check growth of 3.0% (based on increases of 2.9% in menu pricing and 0.1% in mix), partially offset by a decrease in customer traffic of 2.7%. We implemented effective menu price increases of approximately 1.4% and 1.5% during the first quarter of fiscal 2016 and the third quarter of fiscal 2015, respectively. Total operating weeks at The Cheesecake Factory restaurants increased 6.0% to 2,448 for the thirteen weeks ended June 28, 2016 compared to the comparable prior year period. The Cheesecake Factory average sales per restaurant operating week were $209,100 in the second quarter of fiscal 2016 compared to $209,200 in the second quarter of fiscal 2015.

Comparable sales at our Grand Lux Cafe restaurants increased by 2.2% from the prior year second quarter driven by average check growth, partially offset by a decline in customer traffic. We implemented effective menu price increases of approximately 1.0% and 1.1% during the second quarter of fiscal 2016 and the fourth quarter of fiscal 2015, respectively.

Restaurants become eligible to enter our comparable sales base in their 19th month of operation. At June 28, 2016, there were 12 The Cheesecake Factory restaurants and one Grand Lux Cafe not yet in our comparable sales base. International licensed locations and restaurants that are no longer in operation, including those which we have relocated, are excluded from our comparable sales calculations. Factors outside of our control, such as macroeconomic conditions, weather patterns, timing of holidays, competition and other factors, including those referenced in Part I, Item lA, Risk Factors, of our Annual Report on Form 10-K for the year ended December 29, 2015, can impact comparable sales.

We generally update and reprint our menus twice a year. As part of these menu updates, we evaluate the need for price increases based on those operating cost increases of which we are aware or that we can reasonably expect. While menu price increases can contribute to higher comparable restaurant sales in addition to offsetting margin pressure, we carefully consider all potential price increases in light of the extent to which we believe they will impact guest traffic.

External bakery sales were $11.8 million for the second quarter of fiscal year 2016 compared to $12.7 million in the comparable prior year period.

Cost of Sales

Cost of sales consists of food, beverage, retail and bakery production supply costs incurred in conjunction with our restaurant and bakery revenues, and excludes depreciation, which is captured separately in depreciation and amortization expenses. As a percentage of revenues, cost of sales was 22.7% for the second quarter of fiscal 2016 compared to 23.9% for the comparable period of fiscal 2015, primarily driven by lower seafood, grocery and poultry costs, as well as a benefit from a higher mix of restaurant sales as compared to bakery sales.

Our restaurant menus are among the most diversified in the foodservice industry and, accordingly, are not overly dependent on a few select commodities. Changes in costs for one commodity sometimes can be offset by cost changes in other commodity categories. The principal commodity categories for our restaurants include general grocery items, dairy, produce, seafood, poultry, meat and bread.

We negotiate short-term and long-term agreements for some of our principal commodity, supply and equipment requirements, such as cream cheese, depending on market conditions and expected demand. Historically, we were unable to contract directly for extended periods of time for certain of our commodities such as some produce, wild-caught fresh fish and certain dairy items. During fiscal 2015, we began entering into longer-term fixed pricing agreements for additional dairy items and continue to evaluate the possibility of entering into similar arrangements for other commodities. We also periodically evaluate hedging vehicles, such as direct financial instruments, to assist us in managing our risk and variability in these categories. Although these vehicles and markets may be available to us, we may choose not to enter into contracts due to pricing volatility, excessive risk premiums, hedge inefficiencies or other factors. Additionally, the cost of commodities subject to government regulation, such as dairy and corn, can be even more susceptible to price fluctuation.

As has been our past practice, we will carefully consider opportunities to introduce new menu items and implement selected menu price increases to help offset any expected cost increases for key commodities and other goods and services utilized by our operations. For new restaurants, cost of sales will typically be higher for a period of time after opening until our management team becomes more accustomed to predicting, managing and servicing the sales volumes at the new restaurants.

Labor Expenses

As a percentage of revenues, labor expenses, which include restaurant-level labor costs and bakery direct production labor, including associated fringe benefits, were 33.2% and 31.8% in the second quarters of fiscal 2016 and 2015, respectively. This variance was driven primarily by higher hourly wage rates, as well as increased paid time off costs and timing of payroll taxes.

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Other Operating Costs and Expenses

Other operating costs and expenses consist of restaurant-level occupancy expenses (rent, common area expenses, insurance, licenses, taxes and utilities), other operating expenses (excluding food costs and labor expenses, which are reported separately) and bakery production overhead and distribution expenses. As a percentage of revenues, other operating costs and expenses were 23.6% and 23.4% for the thirteen weeks ended June 28, 2016 and June 30, 2015, respectively. This variance was primarily related to timing of repairs and marketing costs and an increase in credit card fees, partially offset by lower electricity and natural gas costs and favorability in general liability insurance expenses.

General and Administrative Expenses

General and administrative (G&A) expenses consist of the restaurant management recruiting and training program, as well as the restaurant field supervision, corporate support and bakery administrative organizations. As a percentage of revenues, G&A expenses were 6.4% and 6.7% for the second quarters of fiscal 2016 and 2015, respectively. This variance was primarily driven by reduced legal expenses due to the accrual for a settlement of a legal claim in the second quarter of fiscal 2015. This decrease was partially offset by higher stock-based compensation expense in the second quarter of fiscal 2016 versus the comparable prior year period.

Depreciation and Amortization Expenses

As a percentage of revenues, depreciation and amortization expenses were 3.8% and 4.0% for the thirteen weeks ended June 28, 2016 and the comparable period of last year, respectively. This decrease was primarily due to benefits from extending the depreciable life of restaurant assets in conjunction with recently extended/renewed leases and from certain restaurant assets being fully depreciated.

Preopening Costs

Preopening costs were $2.3 million for the thirteen weeks ended June 28, 2016 compared to $4.1 million in the comparable period of the prior year. We opened one The Cheesecake Factory restaurant in the second quarter of fiscal 2016 compared to two The Cheesecake Factory restaurants and one Grand Lux Cafe in the comparable prior year period. Preopening costs 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 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 openings and operating needs, and corporate travel and support activities. 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.

Interest and Other Expense, Net

Interest and other expense, net increased to $2.2 million for the second quarter of fiscal 2016 compared to $1.4 million for the comparable period last year. This variance was due primarily to an increase in interest expense associated with landlord construction allowances deemed to be financings in accordance with accounting guidance of $1.4 million and $0.8 million in the second quarters of fiscal 2016 and 2015, respectively.

Income Tax Provision

Our effective income tax rate was 27.2% for the second quarter of fiscal 2016 compared to 28.1% for the comparable prior year period. This decrease is primarily due to lower state taxes in proportion to pretax income and less non-deductible compensation expense resulting from fewer non-performance-based restricted stock lapses in fiscal 2016 than in fiscal 2015.

Twenty-Six Weeks Ended June 28, 2016 Compared to Twenty-Six Weeks Ended June 30, 2015

Revenues

Revenues increased 6.3% to $1,112.6 million for the twenty-six weeks ended June 28, 2016 compared to $1,047.1 million for the twenty-six weeks ended June 30, 2015.

Comparable sales at The Cheesecake Factory restaurants increased by 1.0%, or $9.5 million, from the first half of fiscal 2015, driven by average check growth of 2.6% (based on an increase of 2.8% in menu pricing and a 0.2% negative change in mix), partially offset by a decrease in customer traffic of 1.6%. We implemented effective menu price increases of approximately 1.4% and 1.5% during the first quarter of fiscal 2016 and the third quarter of fiscal 2015, respectively. Total operating weeks at The Cheesecake Factory restaurants increased 5.9% to 4,884 for the twenty-six weeks ended June 28, 2016 compared to the comparable prior year period. The Cheesecake Factory average sales per restaurant operating week increased 0.5% to $208,500 in the first half of fiscal 2016 compared to $207,400 in the first half of fiscal 2015.

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Comparable sales at our Grand Lux Cafe restaurants increased by 2.7% from the first half of fiscal 2015 driven by an increase in both average check and customer traffic.

External bakery sales were $23.1 million for the first half of fiscal 2016 compared to $24.9 million in the comparable prior year period.

Cost of Sales

As a percentage of revenues, cost of sales was 23.2% for the first half of fiscal 2016 compared to 24.2% for the comparable period of fiscal 2015, primarily driven by lower seafood, grocery and poultry costs, as well as a benefit from a higher mix of restaurant sales as compared to bakery sales.

Labor Expenses

As a percentage of revenues, labor expenses were 33.3% and 32.5% in the first half of fiscal 2016 and 2015, respectively. This variance was driven primarily by higher hourly wage rates, as well as from increased paid time off costs and timing of payroll taxes.

Other Operating Costs and Expenses

As a percentage of revenues, other operating costs and expenses were 23.5% and 23.6% for the twenty-six weeks ended June 28, 2016 and June 30, 2015, respectively. This variance was primarily related to lower electricity and natural gas costs and favorability in general liability insurance expenses, partially offset by timing of marketing costs and an increase in credit card fees.

General and Administrative Expenses

As a percentage of revenues, G&A expenses were 6.4% and 6.5% for the first half of fiscal 2016 and 2015, respectively. This variance was primarily driven by reduced legal expenses due to the accrual for a settlement of a legal claim in the second quarter of fiscal 2015. This decrease was partially offset by higher stock-based compensation expense in the first half of fiscal 2016 versus the comparable prior year period.

Depreciation and Amortization Expenses

As a percentage of revenues, depreciation and amortization expenses were 3.9% and 4.0% for the twenty-six weeks ended June 28, 2016 and the comparable period of last year, respectively. This decrease was primarily due to benefits from extending the depreciable life of restaurant assets in conjunction with recently extended/renewed leases and from certain restaurant assets being fully depreciated.

Preopening Costs

Preopening costs were $4.6 million for the twenty-six weeks ended June 28, 2016 compared to $5.5 million in the comparable period of the prior year. We opened two The Cheesecake Factory restaurants in the first half of fiscal 2016 compared to two The Cheesecake Factory restaurants and one Grand Lux Cafe in the comparable prior year period.

Interest and Other Expense, Net

Interest and other expense, net increased to $4.5 million for the first half of fiscal 2016 compared to $3.3 million for the comparable period last year driven primarily by increased interest on our deemed landlord financing liability and higher expense on asset disposals. Interest expense included $2.8 million and $1.9 million in the first half of fiscal 2016 and 2015, respectively, associated with landlord construction allowances deemed to be financings in accordance with accounting guidance.

Income Tax Provision

Our effective income tax rate was 26.9% for the first half of fiscal 2016 compared to 27.8% for the comparable prior year period. This decrease is primarily due to lower state taxes in proportion to pretax income and less non-deductible compensation expense resulting from fewer non-performance-based restricted stock lapses in fiscal 2016 than in fiscal 2015.

Fiscal 2016 Outlook

For the third quarter of fiscal 2016, we estimate diluted earnings per share will be between $0.59 and $0.62 based on an assumed comparable restaurant sales increase of between 0.5% and 1.5% at The Cheesecake Factory restaurants. For fiscal year 2016, we estimate diluted earnings per share will be between $2.70 and $2.76 based on an assumed increase in comparable restaurant sales at The Cheesecake Factory restaurants of approximately 1.0%. We currently expect food cost inflation for fiscal 2016 to be about flat to fiscal 2015, as we anticipate higher prices in produce and dairy to be offset by lower seafood and grocery costs. We are assuming fiscal 2016 wage inflation of approximately 5%. We expect operating margins to be positive relative to fiscal 2015 and anticipate a fiscal 2016 effective income tax rate of approximately 27% to 28%. Fiscal 2016 is a 53-week year, and our estimates include an approximate impact from the additional week of between $0.05 and $0.08 in diluted net income per share.

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In fiscal 2016, we plan to open as many as eight new restaurants, including one Grand Lux Cafe. In addition to these Company-owned locations, we expect as many as four to five restaurants to open internationally under licensing agreements. We expect fiscal 2016 cash capital expenditures to range between $100 million and $110 million and anticipate utilizing substantially all of our free cash flow, plus proceeds received from employee stock option exercises, for dividends and share repurchases.

Liquidity and Capital Resources

The following table presents, for the periods indicated, a summary of our key cash flows from operating, investing and financing activities (in millions):

	Twenty-six Weeks Ended June 28, 2016		Twenty-six Weeks Ended June 30, 2015	
Cash provided by operating activities	$	151.8	$	121.0
Capital expenditures	$	(40.2)	$	(59.5)
Proceeds from exercise of stock options	$	13.8	$	16.9
Borrowings on credit facility	$		$	25.0
Purchase of treasury stock	$	(76.6)	$	(84.2)
Cash dividends paid	$	(19.6)	$	(16.4)

During the twenty-six weeks ended June 28, 2016, our cash and cash equivalents increased by $35.8 million to $79.6 million. This increase was primarily attributable to cash provided by operating activities and proceeds from exercises of employee stock options, partially offset by treasury stock purchases, capital expenditures and dividend payments.

For fiscal 2016, we currently estimate our cash outlays for capital expenditures to range between $100 million and $110 million, net of agreed-upon up-front cash landlord construction contributions and excluding $14.0 million of expected non-capitalizable preopening costs for new restaurants. The amount reflected as additions to property and equipment in the condensed consolidated statements of cash flows may vary from this estimate based on the accounting treatment of each lease. Our estimate for capital expenditures for fiscal 2016 contemplates a net outlay of $61 million to $67 million for as many as eight restaurants expected to be opened during fiscal 2016 and estimated construction-in-progress disbursements for anticipated early fiscal 2017 openings. Expected fiscal 2016 capital expenditures also include $30 million to $32 million for maintenance, enhancements and capacity additions to our existing restaurants and $9 million to $11 million for bakery and corporate infrastructure investments.

On December 22, 2015, we entered into a new loan agreement (Facility   ) which amended and restated in its entirety our prior loan agreement dated October 16, 2013. This Facility, which matures on December 22, 2020, provides us with revolving loan commitments totaling $200 million, of which $50 million may be used for issuances of letters of credit. Availability under the Facility is reduced by outstanding letters of credit, which are used to support our self-insurance programs. The Facility contains a commitment increase feature that could provide for an additional $100 million in available credit upon our request and subject to the lenders electing to increase their commitments or by means of the addition of new lenders. At June 28, 2016, we had net availability for borrowings of $178.2 million, based on a zero outstanding debt balance and $21.8 million in standby letters of credit. The Facility also limits cash distributions with respect to our equity interests, such as cash dividends and share repurchases, based on a defined ratio. We were in compliance with the financial covenants in effect at June 28, 2016. We did not withdraw or repay any amounts under this Facility during the first half of fiscal 2016. (See Note 3 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report for further discussion of our long-term debt.)

As of June 28, 2016, our Board had authorized the repurchase of up to 48.5 million shares of our common stock. Under this authorization, we cumulatively repurchased 45.6 million shares at a total cost of $1,340.1 million through June 28, 2016, including 0.5 million shares at a cost of $26.6 million during the second quarter of fiscal 2016. Our share repurchase authorization does not have an expiration date, does not require us to purchase a specific number of shares and may be modified, suspended or terminated at any time. We make the determination to repurchase shares based on several factors, including an evaluation of current and future capital needs associated with new restaurant development, current and forecasted cash flows, including dividend payments, a review of our capital structure and cost of capital, our share price and current market conditions. Our objectives with regard to share repurchases are to offset the dilution to our shares outstanding that results from equity compensation grants and to supplement our earnings per share growth. (See Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report for further discussion of our repurchase authorization and methods.)

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In July 2012, our Board approved the initiation of a cash dividend to our stockholders, which is subject to quarterly Board approval. Cash dividends have been declared during every quarter since initiation. Future decisions to pay or to increase or decrease dividends are at the discretion of the Board and will be dependent on our operating performance, financial condition, capital expenditure requirements and such other factors that the Board considers relevant.

Based on our current expansion objectives, we believe that during the upcoming 12 months our cash and cash equivalents, combined with expected cash flows provided by operations, available borrowings under our Facility and expected landlord construction contributions should be sufficient in the aggregate to finance our capital allocation strategy, including capital expenditures, share repurchases, repayment of borrowings on our Facility and cash dividends, and allow us to consider additional possible capital allocation strategies, such as the development or acquisition of other growth vehicles. We continue to plan to return substantially all of our free cash flow plus proceeds received from employee stock option exercises to stockholders in the form of dividends and share repurchases.

As of June 28, 2016, we had no financing transactions, arrangements or other relationships with any unconsolidated entities or related parties. Additionally, we had no financing arrangements involving synthetic leases or trading activities involving commodity contracts.

Recent Accounting Pronouncements

See Note 1 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report for a summary of new accounting standards.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The following discussion of market risks contains forward-looking statements. Actual results may differ materially from the following discussion based on general conditions in the commodity and financial markets.

We purchase food and other commodities for use in our operations, based on market prices established with our suppliers. Many of the commodities purchased by us can be subject to volatility due to market supply and demand factors outside of our control. We negotiate short-term and long-term agreements for some of our principal commodity, supply and equipment requirements, such as cream cheese, depending on market conditions and expected demand. Historically, we were unable to contract directly for extended periods of time for certain of our commodities such as some produce, wild-caught fresh fish and certain dairy items. During fiscal 2015, we began entering into longer-term fixed pricing agreements for additional dairy items and continue to evaluate the possibility of entering into similar agreements for other commodities. We also periodically evaluate hedging vehicles, such as direct financial instruments, to assist us in managing our risk and variability in these categories. Although these vehicles and markets may be available to us, we may choose not to enter into such contracts due to pricing volatility, excessive risk premiums, hedge inefficiencies or other factors. Where we have not contracted, commodities can be subject to unforeseen supply and cost fluctuations, which at times can be significant. Additionally, the cost of commodities subject to governmental regulation, such as dairy and corn, can be even more susceptible to price fluctuation than other products. We may have the ability to increase menu prices, or vary menu items, in response to food commodity price increases. We do not currently use financial instruments to hedge commodity prices, since our purchase arrangements with suppliers, to the extent that we can enter into such arrangements, help control the ultimate cost that we pay.

We are exposed to market risk from interest rate changes on our funded debt. This exposure relates to the component of the interest rate on our $200 million Facility that is indexed to market rates. We had no outstanding borrowings at June 28, 2016 and December 29, 2015, and therefore, had no exposure to interest rate fluctuations on funded debt at those dates. (See Note 3 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report for further discussion of our long-term debt.)

We are also subject to market risk related to our investments in variable life insurance contracts used to support our Executive Savings Plan, a non-qualified deferred compensation plan, to the extent these investments are not equivalent to the related liability. In addition, because changes in these investments are not taxable, the full impact of gains or losses directly affects net income. Based on balances at June 28, 2016 and December 29, 2015, a hypothetical 10% decline in the market value of our deferred compensation asset and related liability would not have impacted income before income taxes. However, net income would have declined by $1.8 million at June 28, 2016 and $1.6 million at December 29, 2015.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We have established and maintain disclosure controls and procedures that are designed to ensure that material information relating to the Company and our subsidiaries required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only a reasonable assurance of achieving the desired control objectives, and management was necessarily required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of June 28, 2016.

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Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the fiscal quarter ended June 28, 2016 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.

See Note 4 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report.

Item 1A. Risk Factors.

A description of the risk factors associated with our business is contained in Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended December 29, 2015 (Annual Report), and there have been no material changes thereto since the filing of our Annual Report. 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following provides information regarding our purchase of our common stock during the thirteen weeks ended June 28, 2016 (in thousands, except per share amounts):

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
March 30 May 3, 2016	276	$ 51.65	276	3,119
May 4 May 31, 2016	243	50.24	243	2,876
June 1 June 28, 2016	2	50.36	2	2,874
Total	521		521	

(1) The total number of shares purchased includes shares withheld upon vesting of restricted share awards to satisfy tax withholding obligations.

On July 21, 2016, our Board increased the authorization to repurchase our common stock by 7.5 million shares to 56 million shares. Under this and all previous authorizations, we have cumulatively repurchased 45.6 million shares at a total cost of $1,340.1 million through June 28, 2016, including 0.5 million shares of our common stock at a cost of $26.6 million during the second quarter of fiscal 2016. Our share repurchase authorization does not have an expiration date, does not require us to purchase a specific number of shares and may be modified, suspended or terminated at any time. (See Note 5 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report for further discussion of our repurchase authorization and methods.)

Our Facility limits cash distributions with respect to our equity interests, such as cash dividends and share repurchases, based on a defined ratio. (See Note 3 of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report for further discussion of our long-term debt.)

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Item 6. Exhibits

Exhibit No.	Item	Form	File Number	Incorporated by Reference from Exhibit Number	Filed with SEC
31.1	Rule 13a-14(a)/15d-14(a) Certification of the Principal Executive Officer				Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Principal Financial Officer				Filed herewith
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Principal Executive Officer				Filed herewith
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Principal Financial Officer				Filed herewith
101	XBRL (Extensible Business Reporting Language) The following materials from The Cheesecake Factory Incorporated s Quarterly Report on Form 10-Q for the quarter ended June 28, 2016, formatted in Extensive Business Reporting Language (XBRL), (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of comprehensive income, (iii) condensed consolidated statement of stockholders equity, (iv) condensed consolidated statements of cash flows, and (v) the notes to the condensed consolidated financial statements.				Filed herewith

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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: August 4, 2016

THE CHEESECAKE FACTORY INCORPORATED

By: /s/ DAVID OVERTON
David Overton
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

By: /s/ W. DOUGLAS BENN
W. Douglas Benn
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

By: /s/ CHERYL M. SLOMANN
Cheryl M. Slomann
Senior Vice President, Controller and Chief Accounting Officer
(Principal Accounting Officer)