Texas Roadhouse, Inc.
Form 10-K
February 22, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 K

(Mark One)

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

For the fiscal year ended December 25, 2018
OR

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

For the transition period from to
Commission File Number 000 50972

Texas Roadhouse, Inc.

(Exact name of registrant specified in its charter)

Delaware	20 1083890
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

6040 Dutchmans Lane

Louisville, Kentucky 40205

(Address of principal executive offices) (Zip Code)

(502) 426 9984

(Registrant’s telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered

Common Stock, par value $0.001 per share	Nasdaq Global Select Market

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10 K or any amendment to the Form 10 K. .

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

Large accelerated filer	Accelerated filer	Non accelerated filer	Smaller reporting company
			Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting stock held by non affiliates of the registrant as of the last day of the second fiscal quarter ended June 26, 2018 was $4,573,063,062 based on the closing stock price of $67.97. Shares of voting stock held by each officer and director have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. The market value calculation was determined using the closing stock price of our common stock on the Nasdaq Global Select Market.

The number of shares of common stock outstanding were 71,688,113 on February 13, 2019.

Portions of the registrant's definitive Proxy Statement for the registrant's 2019 Annual Meeting of Stockholders, which is expected to be filed pursuant to Regulation 14A within 120 days of the registrant's fiscal year ended December 25, 2018, are incorporated by reference into Part III of the Form 10 K. With the exception of the portions of the Proxy Statement expressly incorporated by reference, such document shall not be deemed filed with this Form 10 K.

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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10 K contains statements about future events and expectations that constitute forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward looking statements are based on our beliefs, assumptions and expectations of our future financial and operating performance and growth plans, taking into account the information currently available to us. These statements are not statements of historical fact. Forward looking statements involve risks and uncertainties that may cause our actual results to differ materially from the expectations of future results we express or imply in any forward looking statements. In addition to the other factors discussed under "Risk Factors" elsewhere in this report, factors that could contribute to these differences include, but are not limited to:

- our ability to raise capital in the future;
- our ability to successfully execute our growth strategies;
- our ability to successfully open new restaurants, acquire franchise restaurants and/or execute other strategic transactions;
- our ability to increase and/or maintain sales and profits at our existing restaurants;
- our ability to integrate the franchise or other restaurants which we acquire or develop;
- the continued service of key management personnel;
- health concerns about our food products;
- our ability to attract, motivate and retain qualified employees;
- the impact of federal, state or local government laws and regulations relating to our employees and the sale of food and alcoholic beverages;
- the impact of litigation, including remedial actions, payment of damages and expenses and negative publicity;
- the cost of our principal food products;
- labor shortages or increased labor costs, such as health care, market wage levels and workers' compensation insurance costs;
- inflationary increases in the costs of construction and/or real estate;
- changes in consumer preferences and demographic trends;
- the impact of initiatives by competitors and increased competition generally;
- our ability to successfully expand into new and existing domestic and international markets;
- risks associated with partnering in markets with franchisees or other investment partners with whom we have no prior history and whose interests may not align with ours;
- risks associated with developing and successfully operating new concepts;
- security breaches of confidential customer information in connection with our electronic processing of credit and debit card transactions or the failure of our information technology systems;
- the rate of growth of general and administrative expenses associated with building a strengthened corporate infrastructure to support our initiatives;
- negative publicity regarding food safety, health concerns and other food or beverage related matters, including the integrity of our or our suppliers' food processing;

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- our franchisees' adherence to the terms of the franchise agreement;
- potential fluctuation in our quarterly operating results due to seasonality and other factors;
- supply and delivery shortages or interruptions;
- our ability to adequately protect our intellectual property;
- volatility of actuarially determined self-insurance losses and loss estimates;
- adoption of new, or changes in existing, accounting policies and practices;
- changes in and/or interpretations of federal and state tax laws;
- adverse weather conditions which impact guest traffic at our restaurants; and
- unfavorable general economic conditions in the markets in which we operate that adversely affect consumer spending.

The words "believe," "may," "should," "anticipate," "estimate," "expect," "intend," "objective," "seek," "plan," "strive," "goal," "projects," "forecasts," "will" or similar words or, in each case, their negative or other variations or comparable terminology, identify forward looking statements. We qualify any forward looking statements entirely by these cautionary factors.

Other risks, uncertainties and factors, including those discussed under "Risk Factors," or those currently deemed immaterial or unknown, could cause our actual results to differ materially from those projected in any forward looking statements we make.

We assume no obligation to publicly update or revise these forward looking statements for any reason, or to update the reasons actual results could differ materially from those anticipated in these forward looking statements, even if new information becomes available in the future.

PART I

ITEM 1—BUSINESS

Texas Roadhouse, Inc. (the "Company") was incorporated under the laws of the state of Delaware in 2004. The principal executive office is located in Louisville, Kentucky.

General Development of Business

The Company is a growing restaurant company operating predominately in the casual dining segment. Our founder, chairman and chief executive officer, W. Kent Taylor, started the business in 1993 with the opening of the first Texas Roadhouse restaurant in Clarksville, Indiana. Since then, we have grown to 582 restaurants in 49 states and nine foreign countries. Our mission statement is "Legendary Food, Legendary Service®." Our operating strategy is designed to position each of our restaurants as the local hometown favorite for a broad segment of consumers seeking high quality, affordable meals served with friendly, attentive service. As of December 25, 2018, we owned and operated 491 restaurants and franchised an additional 69 domestic restaurants and 22 international restaurants.

Financial Information about Operating Segments

We consider our restaurant and franchising operations as similar and have aggregated them into a single reportable segment. The majority of the restaurants operate in the U.S. within the casual dining segment of the restaurant industry, providing similar products to similar customers, and possessing similar pricing structures, resulting in similar long term expected financial performance characteristics. Each of our 491 company restaurants is considered an operating segment.

Narrative Description of Business

Of the 491 restaurants we owned and operated at the end of 2018, we operated 464 as Texas Roadhouse restaurants and 25 as Bubba's 33 restaurants. In addition, we operated two restaurants outside of the casual dining segment. In 2019, we plan to open 25 to 30 company restaurants. While the majority of our restaurant growth in 2019 will be Texas Roadhouse restaurants, we currently expect to open as many as four Bubba's 33 restaurants. Throughout this report, we use the term "restaurants" to include Texas Roadhouse and Bubba's 33, unless otherwise noted.

Texas Roadhouse is a moderately priced, full service, casual dining restaurant concept offering an assortment of specially seasoned and aged steaks hand cut daily on the premises and cooked to order over open grills. In addition to steaks, we also offer our guests a selection of ribs, seafood, chicken, pork chops, pulled pork and vegetable plates, and an assortment of hamburgers, salads and sandwiches. The majority of our entrées include two made from scratch side items, and we offer all our guests a free unlimited supply of roasted in shell peanuts and fresh baked yeast rolls.

Bubba's 33 is a family-friendly, sports restaurant concept featuring scratch-made food, ice cold beer and signature drinks. Our menu features burgers, pizza and wings as well as a wide variety of appetizers, sandwiches and dinner entrées. Our first Bubba's 33 restaurant opened in May 2013 in Fayetteville, North Carolina.

The operating strategy that underlies the growth of our concepts is built on the following key components:

· Offering high quality, freshly prepared food. We place a great deal of emphasis on providing our guests with high quality, freshly prepared food. As part of our process, we have developed proprietary recipes to provide consistency in quality and taste throughout all restaurants. We expect a management level employee to inspect every entrée before it leaves the kitchen to confirm it matches the guest's order and meets our standards for quality, appearance and presentation. In addition, we employ a team of product coaches whose function is to provide continual, hands on training and education to our kitchen staff for the purpose of promoting consistent adherence to recipes, food preparation procedures, food safety standards, food appearance, freshness and portion size. At our Texas Roadhouse restaurants, we hand cut all but one of our assortment of steaks and make our sides from scratch.

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- Offering performance based manager compensation. We offer a performance based compensation program to our individual restaurant managers and multi restaurant operators, who are called "managing partners" and "market partners," respectively. Each of these partners earns a base salary plus a performance bonus, which represents a percentage of each of their respective restaurant's pre tax income. By providing our partners with a significant stake in the success of our restaurants, we believe that we are able to attract and retain talented, experienced and highly motivated managing and market partners.
- Focusing on dinner. In a high percentage of our restaurants, we limit our operating hours to dinner only during the weekdays with approximately one half of our restaurants offering lunch on Friday. By focusing on dinner, our restaurant teams have to prepare for and manage only one shift per day during the week. We believe this allows our restaurant teams to offer higher quality, more consistent food and service to our guests.
- Offering attractive price points. We offer our food and beverages at moderate price points that we believe are as low as or lower than those offered by many of our competitors. Within each menu category, we offer a choice of several price points with the goal of fulfilling each guest's budget and value expectations. For example, at our Texas Roadhouse restaurants, our steak entrées, which include the choice of two side items, generally range from $10.99 for our 6 ounce Sirloin to $26.99 for our 23 ounce Porterhouse T Bone. The per guest average check for the Texas Roadhouse restaurants we owned and operated in 2018 was $17.09. Per guest average check represents restaurant sales divided by the number of guests served. We consider each sale of an entrée to be a single guest served. Our per guest average check is higher as a result of our weekday dinner only focus. At our Bubba's 33 restaurants, our entrées range from $9.79 for our Classic Cheeseburger to $19.99 for our 16 inch Meaty Meaty pizza.
- Creating a fun and comfortable atmosphere with a focus on high quality service. We believe the service quality and atmosphere we establish in our restaurants is a key component for fostering repeat business. We focus on keeping our table to server ratios low to allow our servers to truly focus on their guests and serve their needs in a personal, individualized manner. Our Texas Roadhouse restaurants feature a rustic southwestern lodge décor accentuated with hand painted murals, neon signs, and southwestern prints, rugs and artifacts. Additionally, we offer jukeboxes, which continuously play upbeat country hits. Our Bubba's 33 restaurants feature walls lined with televisions playing sports events and music videos and are decorated with sports jerseys, neon signs and other local flair.

Unit Prototype and Economics

We design our restaurant prototypes to provide a relaxed atmosphere for our guests, while also focusing on restaurant level returns over time. Our current prototypical Texas Roadhouse restaurants consist of a freestanding building with approximately 7,200 to 7,500 square feet of space constructed on sites of approximately 1.7 to 2.0 acres or retail pad sites, with seating of approximately 58 to 68 tables for a total of 270 to 300 guests, including 18 bar seats, and parking for approximately 160 vehicles either on site or in combination with some form of off site cross parking arrangement. Our current prototypes are adaptable to in line and end cap locations and/or spaces within an enclosed mall or a shopping center. Our prototypical Bubba's 33 restaurant remains under development as we continue to open additional restaurants. We expect most future Bubba's 33 restaurants to range between approximately 7,200 and 7,600 square feet depending on the location with seating for approximately 270 guests.

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As of December 25, 2018, we leased 348 properties and owned 143 properties. Our 2018 average unit volume for all Texas Roadhouse company restaurants open before June 27, 2017 was $5.2 million. The time required for a new Texas Roadhouse restaurant to reach a steady level of cash flow is approximately three to six months. For 2018, the average capital investment, including pre opening expenses and a capitalized rent factor, for the 23 Texas Roadhouse company restaurants opened during the year was approximately $5.2 million, broken down as follows:

	Average Cost	Low	High
Land(1)	$ 1,330,000	$ 600,000	$ 2,070,000
Building(2)	2,045,000	1,540,000	2,920,000
Furniture and Equipment	1,195,000	1,110,000	1,285,000
Pre-opening costs	600,000	445,000	955,000
Other(3)	30,000	—	550,000
Total	$ 5,200,000		

(1) Represents 10x's initial base rent in the event the land is leased or the average cost for land acquisitions.
(2) Includes site work costs.
(3) Primarily liquor licensing costs, where applicable. This cost varies based on the licensing requirements in each state.

Our average capital investment for the Texas Roadhouse restaurants opened in 2018, 2017 and 2016 was $5.2 million, $5.3 million and $5.0 million, respectively. We expect our average capital investment for restaurants to be opened in 2019 to be approximately $5.5 million. The increase in our estimated 2019 average capital investment is due to the purchase of land and the related site improvement costs at more locations.

Our average capital investment for the Bubba's 33 restaurants opened in 2018, 2017 and 2016 was $7.1 million, $6.1 million and $6.5 million, respectively. The increase in our 2018 average capital investment for our Bubba's 33 restaurants was primarily due to higher costs at one urban site in New Jersey as well as higher rent and pre-opening costs. Excluding this site, the average capital investment would have been $6.5 million. We expect our average capital investment for restaurants to be opened in 2019 to be approximately $6.5 million. We continue to evaluate our Bubba's 33 prototypical asset design.

We remain focused on driving sales and managing restaurant investment costs in order to maintain our restaurant development in the future. Our capital investment (including cash and non cash costs) for new restaurants varies significantly depending on a number of factors including, but not limited to: the square footage, layout, scope of required site work, type of construction labor (union or non union), local permitting requirements, our ability to negotiate with landowners and/or landlords, cost of liquor and other licenses and hook up fees and geographical location.

Site Selection

We continue to refine our site selection process. In analyzing each prospective site, our real estate team, as well as our restaurant market partners, devotes significant time and resources to the evaluation of local market demographics, population density, household income levels and site specific characteristics such as visibility, accessibility, traffic generators, proximity of other retail activities and competitors, traffic counts and parking. We work actively with experienced real estate brokers in target markets to select high quality sites and to maintain and regularly update our database of potential sites. We typically require three to six months to locate, approve and control a restaurant site and typically six to 12 additional months to obtain necessary permits. Upon receipt of permits, we require approximately four to five months to construct, equip and open a restaurant.

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Existing Restaurant Locations

As of December 25, 2018, we had 491 company restaurants and 91 franchise restaurants in 49 states and nine foreign countries as shown in the chart below.

	Number of Restaurants		
	Company	Franchise	Total
Alabama	8	—	8
Alaska	2	—	2
Arizona	18	—	18
Arkansas	5	—	5
California	4	7	11
Colorado	16	1	17
Connecticut	5	—	5
Delaware	2	2	4
Florida	34	—	34
Georgia	9	6	15
Idaho	5	—	5
Illinois	15	—	15
Indiana	20	8	28
Iowa	9	—	9
Kansas	6	1	7
Kentucky	12	2	14
Louisiana	9	1	10
Maine	3	—	3
Maryland	8	6	14
Massachusetts	10	1	11
Michigan	14	3	17
Minnesota	4	—	4
Mississippi	3	—	3
Missouri	16	—	16
Montana	—	1	1
Nebraska	3	1	4
Nevada	2	—	2
New Hampshire	3	—	3
New Jersey	9	—	9
New Mexico	5	—	5
New York	19	—	19
North Carolina	19	—	19
North Dakota	2	1	3
Ohio	31	2	33
Oklahoma	7	—	7
Oregon	2	—	2
Pennsylvania	24	6	30
Rhode Island	3	—	3
South Carolina	2	6	8
South Dakota	2	—	2
Tennessee	14	2	16

Texas	67	5	72
Utah	9	1	10
Vermont	1	—	1
Virginia	15	—	15
Washington	1	—	1
West Virginia	2	3	5
Wisconsin	10	3	13
Wyoming	2	—	2
Total domestic restaurants	491	69	560
Bahrain	—	1	1
China	—	1	1
Kuwait	—	3	3
Mexico	—	1	1
Philippines	—	2	2
Qatar	—	2	2
Saudi Arabia	—	3	3
Taiwan	—	3	3
United Arab Emirates	—	6	6
Total international restaurants	—	22	22
Total system-wide restaurants	491	91	582

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Food

Menu. Our restaurants offer a wide variety of menu items at attractive prices that are designed to appeal to a broad range of consumer tastes. At Texas Roadhouse restaurants, our dinner entrée prices generally range from $8.99 to $26.99. We offer a broad assortment of specially seasoned and aged steaks, all cooked over open grills and all but one hand cut daily on the premises. We also offer our guests a selection of ribs, seafood, chicken, pork chops, pulled pork and vegetable plates, and an assortment of hamburgers, salads and sandwiches. Entrée prices include unlimited peanuts, fresh baked yeast rolls and most include the choice of two made from scratch sides. Other menu items include specialty appetizers such as the "Cactus Blossom®" and "Rattlesnake Bites®". We also provide a "12 & Under" menu for children that includes a selection of smaller-sized entrées served with one side item and a beverage at prices generally between $3.99 and $8.99. At Bubba's 33 restaurants, our menu prices, excluding appetizers, generally range from $9.79 to $19.99. We offer a broad assortment of wings, burgers, pizzas, salads and sandwiches. In addition, we also offer our guests a selection of chicken, beef and seafood entrées. Our Bubba's 33 restaurants also offer an extensive selection of draft beer. We provide a "12 & Under" menu for children at our Bubba's 33 restaurants that includes a selection of items, including a beverage, at prices generally between $3.99 and $5.99.

Most of our restaurants feature a full bar that offers an extensive selection of draft and bottled beer, major brands of liquor and wine as well as made in-house margaritas. Managing partners are encouraged to tailor their beer selection to include regional and local brands. Alcoholic beverages at our Texas Roadhouse restaurants accounted for 10.7% of restaurant sales in fiscal 2018.

We strive to maintain a consistent menu at our restaurants over time. We continually review our menu to consider enhancements to existing menu items or the introduction of new items. We change our menu only after guest feedback and an extensive study of the operational and economic implications. To maintain our high levels of food quality and service, we generally remove one menu item for every new menu item introduced to facilitate our ability to execute high quality meals on a focused range of menu items.

Food Quality and Safety. We are committed to serving a varied menu of high quality, great tasting food items with an emphasis on freshness. We have developed proprietary recipes to promote consistency in quality and taste throughout all restaurants and provide a unique flavor experience to our guests. At each domestic Texas Roadhouse restaurant, a trained meat cutter hand cuts our steaks and other restaurant employees prepare our side items and yeast rolls from scratch in the restaurants daily. At both Texas Roadhouse and Bubba's 33 restaurants, we assign individual kitchen employees to the preparation of designated food items in order to focus on quality, consistency, speed and food safety. Additionally, we expect a management level employee to inspect every entrée before it leaves the kitchen to confirm it matches the guest's order and meets our standards for quality, appearance and presentation.

We employ a team of product coaches whose function is to provide continual, hands on training and education to the kitchen staff in our restaurants for the purpose of reinforcing food quality, recipe consistency, food preparation procedures, food safety and sanitation standards, food appearance, freshness and portion size. The product coach team supports substantially all restaurants system wide.

Food safety is of utmost importance to us. We currently utilize several programs to help facilitate adherence to proper food preparation procedures and food safety standards including our daily taste and temperature procedures. We have a food team whose function, in conjunction with our product coaches, is to develop, enforce and maintain programs designed to promote compliance with food safety guidelines. As a requirement of our quality assurance process, primary food items purchased from qualified vendors have been inspected by reputable, outside inspection services confirming that the vendor is compliant with United States Food and Drug Administration ("FDA") and United States Department of Agriculture ("USDA") guidelines.

We perform food safety and sanitation audits on our restaurants each year and these results are reviewed by various members of operations and management. To maximize adherence to food safety protocols, we have incorporated HACCP (Hazard Analysis Critical Control Points) principles and critical procedures (such as hand washing) in each recipe. In addition, most of our product coaches and food team members have obtained or are in the process of obtaining their Certified Professional-Food Safety designation from the National Environmental Health Association.

Purchasing. Our purchasing philosophy is designed to supply fresh, quality products to the restaurants at competitive prices while maximizing operating efficiencies. We negotiate directly with suppliers for substantially all food and beverage products to maximize quality and freshness and obtain competitive prices.

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Food and supplies are ordered by and shipped directly to the domestic restaurants. Most food products used in the operation of our restaurants are distributed to individual restaurants through an independent national distribution company. We strive to qualify more than one supplier for all key food items and believe that beef of comparable quality as well as all other essential food and beverage products are available, upon short notice, from alternative qualified suppliers.

Service

Service Quality. We believe that guest satisfaction and our ability to continually evaluate and improve the guest experience at each of our restaurants is important to our success. We employ a team of service coaches whose function is to provide consistent, hands on training and education to our managers and service staff in our restaurants for the purpose of reinforcing service quality and consistency, staff attitude and team work and manage interaction in the dining room. The service coach team supports substantially all restaurants system-wide.

Guest Satisfaction. Through the use of guest surveys, our websites, "texasroadhouse.com" and "bubbas33.com," a toll free guest response telephone line, emails, letters, social media, and personal interaction in the restaurant, we receive valuable feedback from guests. Additionally, we employ an outside service to administer a "Secret Shopper" program whereby trained individuals periodically dine and comprehensively evaluate the guest experience at each of our domestic restaurants. Particular attention is given to food, beverage and service quality, cleanliness, staff attitude and teamwork, and manager visibility and interaction. The resulting reports are used for follow up training and providing feedback to both staff and management. We continue to evaluate and implement processes relating to guest satisfaction, including reducing guest wait times and improving host interaction with the guest.

Atmosphere. The atmosphere of our restaurants is intended to appeal to broad segments of the population including children, families, couples, adults and business persons. Substantially all Texas Roadhouse restaurants are of our prototype design, reflecting a rustic southwestern lodge atmosphere. The interiors feature pine and stained concrete floors and are decorated with hand painted murals, neon signs, southwestern prints, rugs and artifacts. The restaurants contain jukeboxes that continuously play upbeat country hits. Guests may also view a display baking area, where our fresh baked yeast rolls are prepared, and a meat cooler displaying fresh cut steaks. While waiting for a table, guests can enjoy complimentary roasted in shell peanuts and upon being seated at a table, guests can enjoy fresh baked yeast rolls along with roasted in shell peanuts. Our Bubba's 33 restaurants feature walls lined with televisions playing a variety of sports events and music videos and are decorated with sports jerseys, neon signs and other local flair.

People

Management Personnel. Each of our restaurants is generally staffed with one managing partner, one kitchen manager, one service manager and one or more additional assistant managers. Managing partners are single restaurant operators who have primary responsibility for the day to day operations of the entire restaurant. Kitchen managers have primary responsibility for managing operations relating to our food preparation and food quality, and service managers have primary responsibility for managing our service quality and guest experiences. The assistant managers support our kitchen and service managers; these managers are collectively responsible for the operations of the restaurant in the absence of a managing partner. All managers are responsible for maintaining our standards of quality and performance. We use market partners to oversee the operation of our restaurants. Generally, each market partner may oversee as many as 8 to 15 managing partners and their respective management teams. Market partners are also responsible for the hiring and development of each restaurant's management team and assisting in the site selection process. Through regular visits to the restaurants, the market partners facilitate adherence to all aspects of our concepts, strategies and standards of quality. To further facilitate adherence to our standards of quality and to maximize uniform execution throughout the system, we employ product coaches and service coaches who regularly visit the restaurants to assist in training of both new and existing employees and to grade food and service quality. The attentive service and high quality food, which results from each restaurant having a managing partner, at least two to three managers and the hands on assistance of a product coach and a service coach, are critical to our success.

Training and Development. All restaurant employees are required to complete varying degrees of training before and during employment. Our comprehensive training program emphasizes our operating strategy, procedures and standards and is conducted individually at our restaurants or in groups in Louisville, Kentucky.

Our managing and market partners are generally required to have significant experience in the full service restaurant industry and are generally hired at a minimum of nine to 12 months before their placement in a new or

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existing restaurant to allow time to fully train in all aspects of restaurant operations. All managing partners, kitchen and service managers and other management employees are required to complete an extensive training program of up to 20 weeks, which includes training for every position in the restaurant. Trainees are validated at pre determined points during their training by a market partner, managing partner, product coach and service coach.

A number of our restaurants have been certified as training centers by our training department. This certification confirms that the training center adheres to established operating procedures and guidelines. Additionally, most restaurants are staffed with training coordinators responsible for ongoing daily training needs.

For new restaurant openings, a full team of designated trainers, each specializing in a specific restaurant position, is deployed to the restaurant at least 10 days before opening. Formal employee training begins seven days before opening and follows a uniform, comprehensive training course as directed by a service coach.

Marketing

Our marketing strategy aims to promote our brands while retaining a localized focus. We strive to increase comparable restaurant sales by increasing the frequency of visits by our current guests and attracting new guests to our restaurants and also by communicating and promoting our brands' food quality, the guest experience and value. We accomplish these objectives through three major initiatives.

Local Restaurant Marketing. Given our strategy to be a neighborhood destination, local restaurant marketing is integral in developing brand awareness in each market. Managing partners are encouraged to participate in creative community based marketing. We also engage in a variety of promotional activities, such as contributing time, money and complimentary meals to charitable, civic and cultural programs. We employ marketing coordinators at the restaurant and market level to develop and execute the majority of the local marketing strategies.

In restaurant Marketing. A significant portion of our marketing fund is spent communicating with our guests inside our restaurants through point of purchase materials. We believe special promotions such as Valentine's Day and Mother's Day drive notable repeat business. Our eight week holiday gift card campaign is one of our most impactful promotions.

Advertising. Our restaurants do not rely on national advertising to promote the brand. Earned media on a local level is a critical part of our strategy that features our products and people. Our restaurants use a permission based email loyalty program, as well as social media and digital marketing, to promote the brand and engage with our guests. Our approach to media aligns with our focus on local store marketing and community involvement.

Restaurant Franchise Arrangements

Franchise Restaurants. As of December 25, 2018, we had 25 franchisees that operated 91 Texas Roadhouse restaurants in 22 states and nine foreign countries. Domestically, franchise rights are granted for specific restaurants only, as we have not granted any rights to develop a territory in the United States. We are currently not accepting new domestic franchisees. Approximately 75% of our franchise restaurants are operated by nine franchisees and no franchisee operates more than 15 restaurants.

Our standard domestic franchise agreement has a term of 10 years with two renewal options for an additional five years each if certain conditions are satisfied. Our current form of domestic franchise agreement generally requires the franchisee to pay a royalty fee of 4.0% of gross sales. We may, at our discretion, waive or reduce the royalty fee on a temporary or permanent basis. "Gross sales" means the total selling price of all services and products related to the restaurant. Gross sales do not include:

- employee discounts or other discounts;
- tips or gratuities paid directly to employees by guests;
- any federal, state, municipal or other sales, value added or retailer's excise taxes; or
- adjustments for net returns on salable goods and discounts allowed to guests on sales.

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Domestic franchisees are currently required to pay 0.3% of gross sales to a national marketing fund for system wide promotions and related marketing efforts. We have the ability under our agreements to increase the required marketing fund contribution up to 2.5% of gross sales. We may also charge a marketing fee of 0.5% of gross sales, which we may use for market research and to develop system wide promotional and marketing materials. A franchisee's total required marketing contribution or spending will not be more than 3.0% of gross sales.

Our standard domestic franchise agreement gives us the right, but not the obligation, to compel a franchisee to transfer its assets to us in exchange for shares of our stock, or to convert its equity interests into shares of our stock. The amount of shares that a franchisee would receive is based on a formula that is included in the franchise agreement.

We have entered into area development and franchise agreements for the development and operation of Texas Roadhouse restaurants in several foreign countries. We currently have signed franchise and/or development agreements in nine countries in the Middle East as well as Taiwan, the Philippines, Mexico, China and South Korea. As of December 25, 2018, we had 15 restaurants open in five countries in the Middle East, three restaurants open in Taiwan, two in the Philippines, one in Mexico and one in China for a total of 22 restaurants in nine foreign countries. For the existing international agreements, the franchisee is required to pay us a franchise fee for each restaurant to be opened, royalties on the gross sales of each restaurant and a development fee for our grant of development rights in the named countries. We anticipate that the specific business terms of any future franchise agreement for international restaurants might vary significantly from the standard terms of our domestic agreements and from the terms of existing international agreements, depending on the territory to be franchised and the extent of franchisor provided services to each franchisee.

Any of our franchise agreements, whether domestic or international, may be terminated if the franchisee defaults in the performance of any of its obligations under the development or franchise agreement, including its obligations to develop the territory or operate its restaurants in accordance with our standards and specifications. A franchise agreement may also be terminated if a franchisee becomes insolvent, fails to make its required payments, creates a threat to the public health or safety, ceases to operate the restaurant, or misuses the Texas Roadhouse trademarks.

Franchise Compliance Assurance. We have various systems in place to promote compliance with our systems and standards, both during the development and operation of franchise restaurants. We actively work with our franchisees to support successful franchise operations as well as compliance with the Texas Roadhouse standards and procedures. During the restaurant development phase, we consent to the selection of restaurant sites and make available copies of our prototype building plans to franchisees. In addition, we ensure that the building design is in compliance with our standards. We provide training to the managing partner and up to three other managers of a franchisee's first restaurant. We also provide trainers to assist in the opening of every domestic franchise restaurant; we provide trainers to assist our international franchisees in the opening of their restaurants until such time as they develop an approved restaurant opening training program. Finally, on an ongoing basis, we conduct reviews on all franchise restaurants to determine their level of effectiveness in executing our concept at a variety of operational levels. Our franchisees are required to follow the same standards and procedures regarding equipment and food purchases, preparation and safety procedures as we maintain in our company restaurants. Reviews are conducted by seasoned operations teams and focus on key areas including health, safety and execution proficiency.

Management Services. We provide management services to 24 of the franchise restaurants in which we and/or our executive officers have an ownership interest and six additional franchise restaurants in which neither we nor our founder have an ownership interest. Such management services include accounting, operational supervision, human resources, training, and food, beverage and equipment consulting for which we receive monthly fees of up to 2.5% of gross sales. We also make available to these restaurants certain legal services, restaurant employees and employee benefits on a pass through cost basis. We receive a monthly fee from eight franchise restaurants in which we have an ownership interest and 16 franchise restaurants in which neither we nor our founder have an ownership interest for providing payroll and accounting services.

Information Technology

All of our company restaurants utilize computerized management information systems, which are designed to improve operating efficiencies, provide restaurant and Support Center management with timely access to financial and operating data and reduce administrative time and expense. With our current information systems, we have the ability to query, report and analyze this intelligent data on a daily, weekly, period, quarterly and year to date basis and beyond, on a company wide, regional or individual restaurant basis. Together, this enables us to closely monitor sales, food and beverage costs and labor and operating expenses at each of our restaurants. We have a number of systems and reports

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that provide comparative information that enables both restaurant and Support Center management to supervise the financial and operational performance of our restaurants and to recognize and understand trends in the business. Our accounting department uses a standard, integrated system to prepare monthly profit and loss statements, which provides a detailed analysis of sales and costs. These monthly profit and loss statements are compared both to the restaurant prepared reports and to prior periods. Restaurant hardware and software support for all of our restaurants is provided and coordinated from the restaurant Support Center in Louisville, Kentucky. Currently, we utilize cable, digital subscriber lines (DSL) or T 1 technology at the restaurant level, which serves as a high speed, secure communication link between the restaurants and our Support Center as well as our credit and gift card processors. We guard against business interruption by maintaining a disaster recovery plan, which includes storing critical business information off site, maintaining a redundant data center, testing the disaster recovery plan and providing on site power backup.

We accept credit cards and gift cards as payment at our restaurants. We have systems and processes in place that focus on the protection of our guests' credit card information and other private information that we are required to protect, such as our employees' personal information. Our systems have been carefully designed and configured to safeguard against data loss or compromise. We submit our systems to regular audit and review, including the requirements of Payment Card Industry Data Security Standards. We also periodically scan our networks to assess vulnerability. See Risk Factors in Item 1A of this Form 10-K for a discussion of risks associated with breaches of security related to confidential guest and/or employee information.

We believe that our current systems and practice of implementing regular updates will position us well to support current needs and future growth. Information systems projects are prioritized based on strategic, financial, regulatory and other business advantage criteria.

Competition

Competition in the restaurant industry is intense. We compete with well-established food service companies on the basis of taste, quality and price of the food offered, service, atmosphere, location, take-out and delivery options and overall dining experience. Our competitors include a large and diverse group of restaurant chains and individual restaurants that range from independent local operators that have opened restaurants in various markets to well capitalized national restaurant companies. We also face competition from meal kit delivery services as well as the supermarket industry. In addition, improving product offerings of fast casual and quick service restaurants, together with negative economic conditions could cause consumers to choose less expensive alternatives. Although we believe that we compete favorably with respect to each of the above factors, other restaurants and retail establishments compete for the same casual dining guests, quality site locations and restaurant level employees as we do. We expect intense competition to continue in all of these areas.

Trademarks

Our registered trademarks and service marks include, among others, our trade names and our logo and proprietary rights related to certain core menu offerings. We have registered all of our significant marks for our restaurants with the United States Patent and Trademark Office. We have registered or have registrations pending for our most significant trademarks and service marks in 50 foreign jurisdictions. To better protect our brand, we have also registered various Internet domain names. We believe that our trademarks, service marks and other proprietary rights have significant value and are important to our brand building efforts and the marketing of our restaurant concepts.

Government Regulation

We are subject to a variety of federal, state, local and international laws affecting our business. For a discussion of the risks and potential impact on our business of a failure by us to comply with applicable laws and regulations, see Item 1A, Risk Factors.

Each of our restaurants is subject to permitting and licensing requirements and regulations by a number of government authorities, which may include, among others, alcoholic beverage control, health and safety, sanitation, labor, zoning and public safety agencies in the state and/or municipality in which each restaurant is located. The development and operation of restaurants depends on selecting and acquiring suitable sites, which are subject to zoning, land use, environmental, traffic and other regulations. In addition to domestic regulations, our international business exposes us to additional regulations, including antitrust and tax requirements, anti-boycott legislation, import/export and customs regulations and other international trade regulations, the USA Patriot Act and the Foreign Corrupt Practices Act.

We are subject to laws and regulations relating to the preparation and sale of food, including regulations regarding product safety, nutritional content and menu labeling. We are or may become subject to laws and regulations requiring disclosure of calorie, fat, trans-fat, salt and allergen content. On May 7, 2018, new federal regulations went into effect under the Patient Protection and Affordable Care Act of 2010 ("PPACA") requiring new menu nutritional labeling requirements. This new federal law supersedes previous food and menu nutritional labeling requirements adopted by state and local jurisdictions. However, future regulatory action may occur as a result of the current political environment which could result in changes in the federal nutritional disclosure requirements.

In 2018, the sale of alcoholic beverages accounted for 10.7% of our Texas Roadhouse restaurant sales. In order to serve alcoholic beverages in our restaurants, we must comply with alcoholic beverage control regulations which require each of our restaurants to apply to a state authority, and, in certain locations, county or municipal authorities, for a license or permit to sell alcoholic beverages on the premises. These licenses or permits must be renewed annually and may be revoked or suspended for cause at any time. Alcoholic beverage control regulations affect numerous aspects of restaurant operations, including minimum age of patrons and employees, hours of operation, advertising, training, wholesale purchasing, inventory control and handling, storage and dispensing of alcoholic beverages. State and local authorities in many jurisdictions routinely monitor compliance with alcoholic beverage laws. The failure of a restaurant to obtain or retain these licenses or permits would have a material adverse effect on the restaurant's operations. We are also subject in certain states to "dram shop" statutes, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. Consistent with industry standards, we carry liquor liability coverage as part of our existing comprehensive general liability insurance as well as excess umbrella coverage.

Our restaurant operations are also subject to federal and state labor laws governing such matters as minimum and tipped wage requirements, overtime pay, health benefits, unemployment taxes, workers' compensation, work eligibility requirements, working conditions, safety standards, and hiring and employment practices. We have many restaurants located in states or municipalities where the minimum and/or tipped wage is greater than the federal minimum and/or tipped wage. In 2016, the Department of Labor published changes related to the Fair Labor Standards Act ("FLSA") which resulted in changes to the threshold for overtime pay. The changes were scheduled to go into effect on December 1, 2016, however, in late November 2016, a federal judge blocked the implementation. Despite the injunction, we implemented the changes to our overtime policies as originally planned. We have implemented the provisions of the PPACA as it relates to health care reform and related rules and regulations and continue to monitor the impact of this law on our business. We anticipate that additional legislation increasing minimum and/or tipped wage standards will be enacted in future periods and in other jurisdictions. Further regulatory action may occur as a result of the current political environment which could result in changes to healthcare eligibility, design and cost structure.

A significant number of our hourly restaurant personnel receive tips as part of their compensation and are paid at or above a minimum wage rate after giving effect to applicable tips. We rely on our employees to accurately disclose the full amount of their tip income. We base our FICA tax reporting on the disclosures provided to us by such tipped employees.

Our facilities must comply with the applicable requirements of the Americans with Disabilities Act of 1990 ("ADA") and related state accessibility statutes. Under the ADA and related state laws, we must provide equivalent service to disabled persons and make reasonable accommodation for their employment. In addition, when constructing or undertaking remodeling of our restaurants, we must make those facilities accessible.

We are subject to laws relating to information security, privacy, cashless payments and consumer credit protection and fraud. An increasing number of governments and industry groups worldwide have established data privacy laws and standards for the protection of personal information, including social security numbers, financial information (including credit card numbers), and health information.

Seasonality

Our business is also subject to minor seasonal fluctuations. Historically, sales in most of our restaurants have been higher during the winter months of each year. Holidays, changes in weather, severe weather and similar conditions may impact sales volumes seasonally in some operating regions. As a result, our quarterly operating results and comparable restaurant sales may fluctuate as a result of seasonality. Accordingly, results for any one quarter are not necessarily

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indicative of results to be expected for any other quarter or for any year and comparable restaurant sales for any particular future period may decrease.

Employees

As of December 25, 2018, we employed approximately 64,900 people. This amount includes 648 executive and administrative personnel and 2,361 restaurant management personnel, while the remainder were hourly restaurant personnel. Many of our hourly restaurant employees work part time. None of our employees are covered by a collective bargaining agreement.

Executive Officers of the Company

Set forth below are the name, age, position and a brief account of the business experience of each of our executive officers:

Name	Age	Position
W. Kent Taylor	63	Chairman and Chief Executive Officer
Scott M. Colosi	54	President
Celia P. Catlett	42	General Counsel and Corporate Secretary
S. Chris Jacobsen	53	Chief Marketing Officer
Tonya R. Robinson	50	Chief Financial Officer
Douglas W. Thompson	55	Chief Operating Officer

W. Kent Taylor. Mr. Taylor founded Texas Roadhouse in 1993. He resumed his role as Chief Executive Officer in August 2011, a position he held between May 2000 and October 2004. He was named Chairman of the Company and Board in October 2004. Before his founding of our concept, Mr. Taylor founded and co owned Buckhead Bar and Grill in Louisville, Kentucky. Mr. Taylor has over 35 years of experience in the restaurant industry.

Scott M. Colosi. Mr. Colosi was appointed President in August 2011. Previously, Mr. Colosi served as our Chief Financial Officer from September 2002 to August 2011 and from January 2015 to May 2018. From 1992 until September 2002, Mr. Colosi was employed by YUM! Brands, Inc., owner of the KFC, Pizza Hut and Taco Bell brands. During this time, Mr. Colosi served in various financial positions and, immediately prior to joining us, was Director of Investor Relations. Mr. Colosi has over 25 years of experience in the restaurant industry.

Celia P. Catlett. Ms. Catlett was appointed General Counsel in November 2013. She joined Texas Roadhouse in May 2005 and served as Associate General Counsel from July 2010 until her appointment as General Counsel. She has served as Corporate Secretary since 2011. Prior to joining us, Ms. Catlett practiced law in New York City. Ms. Catlett has over 15 years of legal experience, including more than 10 years of experience in the restaurant industry.

S. Chris Jacobsen. Mr. Jacobsen was appointed Chief Marketing Officer in February 2016. Mr. Jacobsen joined Texas Roadhouse in January 2003 and has served as Vice President of Marketing since 2011. Prior to joining us, Mr. Jacobsen was employed by Papa John's International and Waffle House, Inc. where he held various senior level marketing positions. He has over 20 years of restaurant industry experience.

Tonya R. Robinson. Ms. Robinson was appointed Chief Financial Officer in May 2018. She joined Texas Roadhouse in December 1998, during which time she has held the positions of Controller, Director of Financial Reporting and Vice President of Finance and Investor Relations. Ms. Robinson has over 20 years of restaurant industry experience.

Douglas W. Thompson. Mr. Thompson was appointed Chief Operating Officer in August 2018. He joined Texas Roadhouse in 2002 as a Market Partner and has served as our Vice President of Operations since 2015. Before joining the company, Mr. Thompson was a single and multi-unit operator with both Outback Steakhouse, Inc. and Bennigan's Restaurants. Mr. Thompson has over 30 years of restaurant industry experience.

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Website Access to Reports

We make our Annual Report on Form 10 K, Quarterly Reports on Form 10 Q, Current Reports on Form 8 K, and amendments to those reports, filed or furnished pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934, available, free of charge on or through our Internet website, www.texasroadhouse.com, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC"). The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

ITEM 1A. RISK FACTORS

From time to time, in periodic reports and oral statements and in this Annual Report on Form 10 K, we present statements about future events and expectations that constitute forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward looking statements are based on our beliefs, assumptions and expectations of our future financial and operating performance and growth plans, taking into account the information currently available to us. These statements are not statements of historical fact. Forward looking statements involve risks and uncertainties that may cause our actual results to differ materially from the expectations of future results we express or imply in any forward looking statements.

Careful consideration should be given to the risks described below. If any of the risks and uncertainties described in the cautionary factors described below actually occurs, our business, financial condition and results of operations, and the trading price of our common stock could be materially and adversely affected. Moreover, we operate in a very competitive and rapidly changing environment. New factors emerge from time to time and it is not possible to predict the impact of all these factors on our business, financial condition or results of operations.

Risks Related to our Growth and Operating Strategy

If we fail to manage our growth effectively, it could harm our business.

Failure to manage our growth effectively could harm our business. We have grown significantly since our inception and intend to continue growing in the future. Our objective is to grow our business and increase stockholder value by (1) expanding our base of company restaurants (and, to a lesser extent, franchise restaurants) that are profitable and (2) increasing sales and profits at existing restaurants. While both these methods of achieving our objective are important to us, historically the most significant means of achieving our objective has been through opening new restaurants and operating these restaurants on a profitable basis. As we open and operate more restaurants, our rate of expansion relative to the size of our existing restaurant base will decline, which may make it increasingly difficult to achieve levels of sales and profitability growth that we have seen in the past. In addition, our existing restaurant management systems, financial and management controls and information systems may not be adequate to support our planned expansion. Our ability to manage our growth effectively will require us to continue to enhance these systems, procedures and controls and to locate, hire, train and retain management and operating personnel. We also place a lot of importance on our culture, which we believe has been an important contributor to our success. As we grow, we may have difficulty maintaining our culture or adapting it sufficiently to meet the needs of our operations. We cannot assure you that we will be able to respond on a timely basis to all of the changing demands that our planned expansion will impose on management and on our existing infrastructure. If we are unable to manage our growth effectively, our business and operating results could be materially adversely impacted.

Our growth strategy, which primarily depends on our ability to open new restaurants that are profitable, is subject to many factors, some of which are beyond our control.

We cannot assure you that we will be able to open new restaurants in accordance with our expansion plans. We have experienced delays in opening some of our restaurants in the past and may experience delays in the future. Delays or failures in opening new restaurants could materially adversely affect our growth strategy. One of our biggest challenges in executing our growth strategy is locating and securing an adequate supply of suitable new restaurant sites. Competition for suitable restaurant sites in our target markets is intense. Our ability to open new restaurants will also depend on numerous other factors, some of which are beyond our control, including, but not limited to, the following:

- our ability to find sufficient suitable locations for new restaurant sites;

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- our ability to hire, train and retain qualified operating personnel, especially market partners and managing partners;
- our ability to negotiate suitable purchase or lease terms;
- the availability of construction materials and labor;
- our ability to control construction and development costs of new restaurants;
- our ability to secure required governmental approvals and permits in a timely manner, or at all;
- the delay or cancellation of new site development by developers and landlords;
- our ability to secure liquor licenses;
- general economic conditions;
- the cost and availability of capital to fund construction costs and pre opening expenses; and
- the impact of inclement weather, natural disasters and other calamities.

Once opened, we anticipate that our new restaurants will generally take several months to reach planned operating levels due to start up inefficiencies typically associated with new restaurants. We cannot assure you that any restaurant we open will be profitable or obtain operating results similar to those of our existing restaurants. Some of our new restaurants will be located in areas where we have little or no meaningful experience. Restaurants opened in new markets may open at lower average weekly sales volume than restaurants opened in existing markets and may have higher restaurant level operating expense ratios than in existing markets. Sales at restaurants opened in new markets may take longer to reach average unit volume, if at all, thereby affecting our overall profitability. Our ability to operate new restaurants profitably will depend on numerous factors, including those discussed below impacting our average unit volume and comparable restaurant sales growth, some of which are beyond our control, including, but not limited to, the following:

- competition, either from our competitors in the restaurant industry or our own restaurants;
- consumer acceptance of our restaurants in new domestic or international markets;
- changes in consumer tastes and/or discretionary spending patterns;
- lack of market awareness of our brands;
- the ability of the market partner and the managing partner to execute our business strategy at the new restaurant;
- general economic conditions which can affect restaurant traffic, local labor costs, and prices we pay for the food products and other supplies we use;
- changes in government regulation;
- road construction and other factors limiting access to the restaurant; and
- the impact of inclement weather, natural disasters and other calamities.

Our failure to successfully open new restaurants that are profitable in accordance with our growth strategy could harm our business and future prospects. In addition, our inability to open new restaurants and provide growth opportunities for our employees could result in the loss of qualified personnel which could harm our business and future prospects.

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You should not rely on past changes in our average unit volume or our comparable restaurant sales growth as an indication of our future results of operations because they may fluctuate significantly.

A number of factors have historically affected, and will continue to affect, our average unit volume and comparable restaurant sales growth, including, among other factors:

- consumer awareness and understanding of our brands;
- our ability to execute our business strategy effectively;
- unusual initial sales performance by new restaurants;
- competition, either from our competitors in the restaurant industry or our own restaurants;
- the impact of inclement weather, natural disasters and other calamities;
- consumer trends and seasonality;
- our ability to increase menu prices without adversely impacting guest traffic counts or per person average check growth;
- introduction of new menu items;
- negative publicity regarding food safety, health concerns, quality of service, and other food or beverage related matters, including the integrity of our or our suppliers' food processing;
- general economic conditions, which can affect restaurant traffic, local labor costs and prices we pay for the food products and other supplies we use; and
- effects of actual or threatened terrorist attacks.

Our average unit volume and comparable restaurant sales growth may not increase at rates achieved in the past, which may affect our sales growth and will continue to be a critical factor affecting our profitability. In addition, changes in our average unit volume and comparable restaurant sales growth could cause the price of our common stock to fluctuate substantially.

The development of new restaurant concepts may not contribute to our growth.

The development of new restaurant concepts may not be as successful as our experience in the development of the Texas Roadhouse concept. In May 2013, we launched a new concept, Bubba's 33, a family-friendly, sports restaurant, which currently has lower brand awareness and less operating experience than most Texas Roadhouse restaurants and a higher initial investment cost. As a result, the development of the Bubba's 33 concept may not contribute to our average unit volume growth and/or profitability in a meaningful way. As of December 25, 2018, we have expanded the concept to 25 restaurants and expect to open as many as four additional locations in 2019. However, we can provide no assurance that new units will be accepted in the markets targeted for the expansion of this concept or that we will be able to achieve our targeted returns when opening new locations. In the future, we may determine not to move forward with any further expansion of Bubba's 33 or other concepts. These decisions could limit our overall long-term growth. Additionally, expansion of Bubba's 33 or other concepts might divert our management's attention from other business concerns and could have an adverse impact on our core Texas Roadhouse business.

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Our expansion into international markets may present increased economic, political, regulatory and other risks.

As of December 25, 2018, our operations include 22 Texas Roadhouse franchise restaurants in nine countries outside the United States, and we expect to have further international expansion in the future. The entrance into international markets may not be as successful as our experience in the development of the Texas Roadhouse concept domestically or any success we have had in international restaurants. In addition, operating in international markets may require significant resources and management attention and will subject us to regulatory, economic, and political risks that are different from and incremental to those in the United States. In addition to the risks that we face in the United States, our international operations involve risks that could adversely affect our business, including:

- the need to adapt our brand for specific cultural and language differences;
- new and different sources of competition;
- the ability to identify appropriate business partners;
- difficulties and costs associated with staffing and managing foreign operations;
- difficulties in adapting and sourcing product specifications for international restaurant locations;
- fluctuations in currency exchange rates, which could impact revenues and expenses of our international operations and expose us to foreign currency exchange rate risk;
- difficulties in complying with local laws, regulations, and customs in foreign jurisdictions;
- unexpected changes in regulatory requirements;
- political or social unrest, economic instability and destabilization of a region;
- effects of actual or threatened terrorist attacks;
- compliance with U.S. laws such as the Foreign Corrupt Practices Act, and similar laws in foreign jurisdictions;
- differences in enforceability and registration of intellectual property and contract rights;
- adverse tax consequences;
- profit repatriation and other restrictions on the transfer of funds; and
- different and more stringent user protection, data protection, privacy and other laws.

Our failure to manage any of these risks successfully could harm our future international operations and our overall business and results of our operations.

We are also subject to governmental regulations throughout the world impacting the way we do business with our international franchisees. These include antitrust and tax requirements, anti boycott regulations, import/export/customs, tariffs and other international trade regulations, the USA Patriot Act and the Foreign Corrupt Practices Act. Failure to comply with any such legal requirements could subject us to monetary liabilities and other sanctions, which could adversely impact our business and financial performance.

Acquisition of existing restaurants from our domestic franchisees and other strategic initiatives may have unanticipated consequences that could harm our business and our financial condition.

We plan to opportunistically acquire existing restaurants from our domestic franchisees over time. Additionally, from time to time, we evaluate potential mergers, acquisitions, joint ventures or other strategic initiatives to acquire or develop additional concepts. To successfully execute any acquisition or development strategy, we will need to identify suitable acquisition or development candidates, negotiate acceptable acquisition or development terms and obtain appropriate financing.

Any acquisition or future development that we pursue, including the on-going development of new concepts, whether or not successfully completed, may involve risks, including:

- material adverse effects on our operating results, particularly in the fiscal quarters immediately following the acquisition or development as the restaurants are integrated into our operations;
- risks associated with entering into new domestic or international markets or conducting operations where we have no or limited prior experience;
- risks inherent in accurately assessing the value, future growth potential, strengths, weaknesses, contingent and other liabilities and potential profitability of acquisition candidates, and our ability to achieve projected economic and operating synergies; and
- the diversion of management's attention from other business concerns.

Future acquisitions of existing restaurants from our franchisees or other strategic partners, which may be accomplished through a cash purchase transaction, the issuance of shares of common stock or a combination of both, could have a dilutive impact on holders of our common stock, and result in the incurrence of debt and contingent liabilities and impairment charges related to goodwill and other tangible and intangible assets, any of which could harm our business and financial condition.

Approximately 14% of our company restaurants are located in Texas and, as a result, we are sensitive to economic and other trends and developments in that state.

As of December 25, 2018, we operated a total of 67 company restaurants in Texas. As a result, we are particularly susceptible to adverse trends and economic conditions in this state, including its labor market. In addition, given our geographic concentration in this state, negative publicity regarding any of our restaurants in Texas could have a material adverse effect on our business and operations, as could other occurrences in Texas such as local strikes, energy shortages or extreme fluctuations in energy prices, droughts, earthquakes, fires or other natural disasters.

Changes in consumer preferences and discretionary spending could adversely affect our business.

Our success depends, in part, upon the popularity of our food products. Continued social concerns or shifts in consumer preferences away from our restaurants or cuisine, particularly beef, would harm our business. Also, our success depends to a significant extent on discretionary consumer spending, which is influenced by general economic conditions and the availability of discretionary income. Accordingly, we may experience declines in sales during economic downturns or during periods of uncertainty. Any material decline in the amount of discretionary spending could have a material adverse effect on our business, results of operations, financial condition or liquidity.

Our quarterly operating results may fluctuate significantly and could fall below the expectations of securities analysts and investors due to a number of factors, some of which are beyond our control, resulting in a decline in our stock price.

Our quarterly operating results may fluctuate significantly because of several factors, including:

- the timing of new restaurant openings and related expenses;
- restaurant operating costs for our newly opened restaurants, which are often materially greater during the first several months of operation than thereafter;
- labor availability and costs for hourly and management personnel including mandated changes in federal and/or state minimum and tipped wage rates, overtime regulations, state unemployment taxes, or health benefits;

- profitability of our restaurants, particularly in new markets;
- changes in interest rates;

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- the impact of litigation, including negative publicity;
- increases and decreases in average unit volume and comparable restaurant sales growth;
- impairment of long lived assets, including goodwill, and any loss on restaurant relocations or closures;
- general economic conditions which can affect restaurant traffic, local labor costs, and prices we pay for the food products and other supplies we use;
- negative publicity regarding food safety, health concerns and other food and beverage related matters, including the integrity of our or our suppliers' food processing;
- negative publicity relating to the consumption of beef or other products we serve;
- changes in consumer preferences and competitive conditions;
- expansion to new domestic and/or international markets;
- adverse weather conditions which impact guest traffic at our restaurants;
- increases in infrastructure costs;
- adoption of new, or changes in existing, accounting policies or practices;
- changes in and/or interpretations of federal and state tax laws;
- actual self-insurance claims varying from actuarial estimates;
- fluctuations in commodity prices;
- competitive actions; and
- the impact of inclement weather, natural disasters and other calamities.

Our business is also subject to minor seasonal fluctuations. Historically, sales in most of our restaurants have been higher during the winter months of each year. Holidays, changes in weather, severe weather and similar conditions may impact sales volumes seasonally in some operating regions. As a result, our quarterly operating results and comparable restaurant sales may fluctuate as a result of seasonality. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year and comparable restaurant sales for any particular future period may decrease. In the future, operating results may fall below the expectations of securities analysts and investors. In that event, the price of our common stock could decrease.

Risks Related to the Restaurant Industry

Changes in food and supply costs could adversely affect our results of operations.

Our profitability depends in part on our ability to anticipate and react to changes in food and supply costs. Any increase in food prices, particularly proteins, could adversely affect our operating results. In addition, we are susceptible to increases in food costs as a result of factors beyond our control, such as food supply constrictions, weather conditions, food safety concerns, product recalls, global market and trade conditions, and government regulations. We cannot predict whether we will be able to anticipate and react to changing food costs by adjusting our purchasing practices and menu prices, and a failure to do so could adversely affect our operating results. Extreme and/or long term increases in commodity prices could adversely affect our future results, especially if we are unable, primarily due to competitive reasons, to increase menu prices. Additionally, if there is a time lag between the increasing commodity prices and our ability to increase menu prices or if we believe the commodity price increase to be short in duration and we choose not to pass on the cost increases, our short-term results could be negatively affected. Also, if we adjust pricing there is no assurance that we will realize the full benefit of any adjustment due to changes in our guests' menu item selections and guest traffic.

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We currently purchase the majority of our beef from three beef suppliers under annual contracts. While we maintain relationships with additional suppliers, if any of these vendors were unable to fulfill its obligations under its contracts, we could encounter supply shortages and incur higher costs to secure adequate supplies, either of which would harm our business.

Our business could be adversely affected by increased labor costs or labor shortages.

Labor is a primary component in the cost of operating our business. We devote significant resources to recruiting and training our restaurant managers and hourly employees. Increased labor costs due to competition, unionization, increased minimum and tipped wages, changes in overtime pay, state unemployment rates or employee benefits costs, or otherwise would adversely impact our operating expenses.

Increased competition for qualified employees caused by a shortage in the labor pool exerts upward pressure on wages paid to attract and retain such personnel, resulting in higher labor costs, together with greater recruitment and training expense. We could suffer from significant indirect costs, including restaurant disruptions due to management or hourly labor turnover and potential delays in new restaurant openings. A shortage in the labor pool could also cause our restaurants to be required to operate with reduced staff which could negatively impact our ability to provide adequate service levels to our guests resulting in adverse guest reactions and a possible reduction in guest traffic counts.

We have many restaurants located in states or municipalities where the minimum and/or tipped wage is greater than the federal minimum and/or tipped wage. We anticipate that additional legislation increasing minimum and/or tipped wage standards will be enacted in future periods and in other jurisdictions. In 2016, the Department of Labor published changes related to the Fair Labor Standards Act ("FLSA") which resulted in changes to the threshold for overtime pay. The changes were scheduled to go into effect on December 1, 2016, however, in late November 2016, a federal judge blocked the implementation. Despite the injunction, we implemented the changes to our overtime policy as originally defined by the Department of Labor. We implemented the provisions of the Patient Protection and Affordable Care Act of 2010 ("PPACA") as it relates to health care reform and related rules and regulations and continue to monitor the impact of this law on our business. Further regulatory action may occur as a result of the current political environment which could result in changes to healthcare eligibility, design and cost structure. Any increases in minimum or tipped wages or increases in employee benefits costs will result in higher labor costs.

Our operating margin will be adversely affected to the extent that we are unable or are unwilling to offset any increase in these labor costs through higher prices on our products. Our distributors and suppliers also may be affected by higher minimum wage and benefit standards which could result in higher costs for goods and services supplied to us. Our success depends on our ability to attract, motivate and retain qualified employees to keep pace with our growth strategy. If we are unable to do so, our results of operations may also be adversely affected.

Our objective to increase sales and profits at existing restaurants could be adversely affected by macroeconomic conditions.

During 2019 and beyond, the U.S. and global economies could suffer from a downturn in economic activity. Recessionary economic cycles, higher interest rates, higher fuel and other energy costs, inflation, increases in commodity prices, higher levels of unemployment, higher consumer debt levels, higher tax rates and other changes in tax laws or other economic factors that may affect consumer spending or buying habits could adversely affect the demand for our products. As in the past, we could experience reduced guest traffic or we may be unable or unwilling to increase the prices we can charge for our products to offset higher costs or fewer transactions, either of which could reduce our sales and profit margins. Also, landlords or other tenants in the shopping centers in which some of our restaurants are located may experience difficulty as a result of macroeconomic trends or cease to operate, which could in turn negatively affect guest traffic at our restaurants. All of these factors could have a material adverse impact on our business, results of operations, financial condition or liquidity.

Our success depends on our ability to compete with many food service businesses.

The restaurant industry is intensely competitive. We compete with many well established food service companies on the basis of taste, quality and price of products offered, guest service, atmosphere, location, take-out and delivery options and overall guest experience. Our competitors include a large and diverse group of restaurant chains and individual restaurants that range from independent local operators that have opened restaurants in various markets to well capitalized national restaurant companies. We also face competition from meal kit delivery services as well as the

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supermarket industry. In addition, improving product offerings of fast casual and quick service restaurants, together with negative economic conditions could cause consumers to choose less expensive alternatives. Many of our competitors or potential competitors have substantially greater financial and other resources than we do, which may allow them to react to changes in pricing, marketing and the casual dining segment of the restaurant industry better than we can. As our competitors expand their operations, we expect competition to intensify. We also compete with other restaurant chains and other retail establishments for quality site locations and employees.

The food service industry is affected by litigation and publicity concerning food quality, health and other issues, which can cause guests to avoid our restaurants and result in significant liabilities or litigation costs.

Food service businesses can be adversely affected by litigation and complaints from guests, consumer groups or government authorities resulting from food quality, illness, injury or other health concerns or operating issues stemming from one restaurant or a limited number of restaurants. Adverse publicity about these allegations may negatively affect us, regardless of whether the allegations are true, by discouraging guests from eating at our restaurants. We could also incur significant liabilities if a lawsuit or claim results in a decision against us or litigation costs regardless of the result.

Our business could be adversely affected by our inability to respond to or effectively manage social media.

Given the marked increase in the use of social media platforms along with smart phones in recent years, individuals have access to a broad audience of consumers and other interested persons. The availability of information on social media platforms is virtually immediate as is its impact. Many social media platforms immediately publish the content their subscribers and participants post, often without filters or checks on the accuracy of the content posted. Information concerning our company may be posted on such platforms at any time. Information posted may be adverse to our interests or may be inaccurate, each of which may harm our business. The harm may be immediate without affording us an opportunity for redress or correction. These factors could have a material adverse effect on our business.

As part of our marketing strategy, we utilize social media platforms to promote our brands and attract and retain guests. Our strategy may not be successful, resulting in expenses incurred without improvement in guest traffic or brand relevance. In addition, a variety of risks are associated with the use of social media, including improper disclosure of proprietary information, negative comments about us, exposure of personally identifiable information, fraud, or dissemination of false information. The inappropriate use of social media vehicles by our guests or employees could increase our costs, lead to litigation or result in negative publicity that could damage our reputation and adversely affect our results of operations.

Health and social concerns relating to the consumption of beef or other food products could affect consumer preferences and could negatively impact our results of operations.

Like other restaurant chains, consumer preferences could be affected by health concerns about the consumption of beef, the key ingredient in many of our menu items, or negative publicity concerning food quality and food safety, including food-borne illnesses. In addition, consumer preferences may be impacted by current and future menu-labeling requirements. A number of jurisdictions around the U.S. have adopted regulations requiring that chain restaurants include calorie information on their menu boards or make other nutritional information available. In May 2018, new federal disclosure requirements went into effect under PPACA requiring new menu nutritional labeling requirements. However, future regulatory action may occur as a result of the current political environment which could result in changes in the federal nutritional disclosure requirements. We cannot make any assurances regarding our ability to effectively respond to changes in consumer health perceptions and to adapt our menu offerings to trends in eating habits. The imposition of menu labeling laws could have an adverse effect on our results of operations and financial position, as well as the restaurant industry in general. The labeling requirements and any negative publicity concerning any of the food products we serve may adversely affect demand for our food and could result in a decrease in guest traffic to our restaurants. If we react to the labeling requirements or negative publicity by changing our concept or our menu offerings or their ingredients, we may lose guests who do not prefer the new concept or products, and we may not be able to attract sufficient new guests to produce the revenue needed to make our restaurants profitable. In addition, we may have different or additional competitors for our intended guests as a result of a change in our concept and may not be able to compete successfully against those competitors. A decrease in guest traffic to our restaurants as a result of these health concerns or negative publicity or as a result of a change in our menu or concept could materially harm our business.

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Food safety and food borne illness concerns may have an adverse effect on our business by reducing demand and increasing costs.

Food safety is a top priority, and we dedicate substantial resources to help our guests enjoy safe, quality food products. However, food borne illnesses and food safety issues occur in the food industry from time to time. Any report or publicity, whether true or not, linking us to instances of food borne illness or other food safety issues, including food tampering or contamination, could adversely affect our brands and reputation as well as our revenue and profits. In addition, instances of food borne illness, food tampering or food contamination occurring solely at restaurants of our competitors could result in negative publicity about the food service industry generally and adversely impact our revenue and profits.

Furthermore, our reliance on third party food suppliers and distributors increases the risk that food borne illness incidents could be caused by factors outside of our control and that multiple locations would be affected rather than a single restaurant. We cannot assure that all food items are properly maintained during transport throughout the supply chain and that our employees will identify all products that may be spoiled and should not be used in our restaurants. If our guests become ill from food borne illnesses, we could be forced to temporarily close some restaurants. Furthermore, any instances of food contamination, whether or not at our restaurants, could subject us or our suppliers to a food recall.

The United States and other countries have experienced, or may experience in the future, outbreaks of viruses, such as Hepatitis A, Norovirus, Ebola, Avian Flu, SARS and H1N1. To the extent that a virus is food borne, future outbreaks may adversely affect the price and availability of certain food products and cause our guests to eat less of a product. To the extent that a virus is transmitted by human to human contact, our employees or guests could become infected, or could choose, or be advised or required, to avoid gathering in public places, any one of which could adversely affect our business.

The possibility of future misstatement exists due to inherent limitations in our control systems, which could adversely affect our business.

We cannot be certain that our internal control over financial reporting and disclosure controls and procedures will prevent all possible error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of error or fraud, if any, in our company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake, which could have an adverse impact on our business.

We rely heavily on information technology, and any material failure, weakness or interruption could prevent us from effectively operating our business.

We rely heavily on information systems in all aspects of our operations, including point of sale systems, financial systems, marketing programs, cyber-security and various other processes and transactions. Our point-of-sale processing in our restaurants includes payment of obligations, collection of cash, credit and debit card transactions and other processes and procedures. Our ability to efficiently and effectively manage our business depends significantly on the reliability and capacity of these systems. As our business needs continue to evolve, these systems will require upgrading and maintenance over time, consequently requiring significant future commitments of resources and capital. The failure of these systems to operate effectively, maintenance problems, upgrading or transitioning to new platforms could result in delays in guest service and reduce efficiency in our operations.

We outsource certain business processes to third-party vendors that subject us to risks, including disruptions in business and increased costs.

Some business processes are currently outsourced to third parties. Such processes include information technology processes, gift card tracking, credit card authorization and processing, insurance claims processing, payroll tax filings, check payment processing, and other accounting processes. We also continue to evaluate our other business processes to determine if additional outsourcing is a viable option to accomplish our goals. We make a diligent effort to validate that all providers of outsourced services maintain customary internal controls, such as redundant processing facilities and adequate security frameworks to guard against breaches or data loss; however, there are no guarantees that failures will not occur. Failure of third parties to provide adequate services or internal controls over their processes could have an adverse effect on our results of operations, financial condition or ability to accomplish our financial and management reporting.

We may incur costs and adverse revenue consequences resulting from breaches of security related to confidential guest and/or employee information or the fraudulent use of credit cards.

The nature of our business involves the receipt and storage of information about our guests and employees. Hardware, software or other applications we develop and procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Unauthorized parties may also attempt to gain access to our systems and facilities through fraud, trickery or other forms of deceiving our employees or vendors. In addition, we accept electronic payment cards for payment in our restaurants. During 2018, approximately 79% of our transactions were by credit or debit cards, and such card usage could increase. Other retailers have experienced actual or potential security breaches in which credit and debit card along with employee information may have been stolen. We may in the future become subject to claims for purportedly fraudulent transactions arising out of alleged theft of guest and/or employee information, and we may also be subject to lawsuits or other proceedings relating to these types of incidents. Any such claim or proceeding could cause us to incur significant unplanned expenses in excess of our insurance coverage, which could have a material adverse impact on our financial condition and results of operations. Further, adverse publicity resulting from these allegations may result in material adverse revenue consequences for us and our restaurants.

In recent years, the payment card industry began to shift liability for certain transactions to retailers who are not able to accept Europay, Mastercard, and Visa ("EMV") chip card transactions. We are in the process of implementing EMV chip card technology. Until the implementation of EMV chip card technology is completed by us, we may be liable for costs incurred by payment card issuing banks and other third parties or subject to additional transaction fees, which could have an adverse effect on our business, financial condition and cash flows.

We may not be able to obtain and maintain licenses and permits necessary to operate our restaurants and compliance with governmental laws and regulations could adversely affect our operating results.

The restaurant industry is subject to various federal, state and local government regulations, including those relating to the sale of food and alcoholic beverages. Such regulations are subject to change from time to time, sometimes without notice to us. The failure to obtain and maintain these licenses, permits and approvals, including liquor licenses, could adversely affect our operating results. Difficulties or failure to obtain the required licenses and approvals could delay or result in our decision to cancel the opening of new restaurants. Local authorities may revoke, suspend or deny renewal of our liquor licenses if they determine that our conduct violates applicable regulations.

In addition to our having to comply with these licensing requirements, various federal and state labor laws govern our relationship with our employees and affect operating costs. These laws include minimum and tipped wage requirements, overtime pay, health benefits, unemployment taxes, workers' compensation, work eligibility requirements and working conditions. A number of factors could adversely affect our operating results, including:

- additional government imposed increases in minimum and/or tipped wages, overtime pay, paid leaves of absence, sick leave, and mandated health benefits;
- increased tax reporting and tax payment requirements for employees who receive gratuities;
- any failure of our employees to comply with laws and regulations governing citizenship or residency requirements resulting in disruption of our work force and adverse publicity;
- a reduction in the number of states that allow gratuities to be credited toward minimum wage requirements; and

· increased employee litigation including claims under federal and/or state wage and hour laws.

The federal Americans with Disabilities Act prohibits discrimination on the basis of disability in public accommodations and employment. Although our restaurants are designed to be accessible to the disabled, we could be required to make modifications to our restaurants to provide service to, or make reasonable accommodations, for disabled persons.

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Our failure or inability to enforce our trademarks or other proprietary rights could adversely affect our competitive position or the value of our brand.

We own certain common law trademark rights and a number of federal and international trademark and service mark registrations, including our trade names and logos, and proprietary rights relating to certain of our core menu offerings. We believe that our trademarks and other proprietary rights are important to our success and our competitive position. Therefore, we devote appropriate resources to the protection of our trademarks and proprietary rights. However, the protective actions that we take may not be enough to prevent unauthorized usage or imitation by others, which could harm our image, brand or competitive position and, if we commence litigation to enforce our rights, cause us to incur significant legal fees. Our inability to register or protect our marks and other propriety rights in foreign jurisdictions could adversely affect our competitive position in international markets.

We cannot assure you that third parties will not claim that our trademarks or menu offerings infringe upon their proprietary rights. Any such claim, whether or not it has merit, could be time consuming, result in costly litigation, cause delays in introducing new menu items in the future or require us to enter into royalty or licensing agreements. As a result, any such claim could have a material adverse effect on our business, results of operations, financial condition or liquidity.

We are subject to increasing legal complexity and could be party to litigation that could adversely affect us.

Increasing legal complexity will continue to affect our operations and results. We could be subject to legal proceedings that may adversely affect our business, including class actions, administrative proceedings, government investigations, employment and personal injury claims, claims alleging violations of federal and state laws regarding consumer, workplace and employment matters, wage and hour claims, discrimination and similar matters, landlord/tenant disputes, disputes with current and former suppliers, claims by current and former franchisees, and intellectual property claims (including claims that we infringed upon another party's trademarks, copyrights or patents). Inconsistent standards imposed by governmental authorities can adversely affect our business and increase our exposure to litigation which could result in significant judgments, including punitive and liquidated damages, and injunctive relief.

Occasionally, our guests file complaints or lawsuits against us alleging that we are responsible for an illness or injury they suffered as a result of a visit to our restaurants, or that we have problems with food quality or operations. In addition, we are subject to "dram shop" statutes. These statutes generally allow a person injured by an intoxicated person to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. Some litigation against restaurant chains has resulted in significant judgments, including punitive damages, under dram shop statutes. Because a plaintiff may seek punitive damages, which may not be covered by insurance, this type of action could have an adverse impact on our financial condition and results of operations.

Litigation involving our relationship with franchisees and the legal distinction between our franchisees and us for employment law purposes, if determined adversely, could increase costs, negatively impact the business prospects of our franchisees and subject us to incremental liability for their actions. We are also subject to the legal and compliance risks associated with privacy, data collection, protection and management, in particular as it relates to information we collect when we provide optional technology-related services to franchisees.

Our operating results could also be affected by the following:

- The relative level of our defense costs and nature and procedural status of pending proceedings;
-

The cost and other effects of settlements, judgments or consent decrees, which may require us to make disclosures or to take other actions that may affect perceptions of our brand and products;

- Adverse results of pending or future litigation, including litigation challenging the composition and preparation of our products, or the appropriateness or accuracy of our marketing or other communication practices; and
- The scope and terms of insurance or indemnification protections that we may have.

Regardless of whether any claims against us are valid or whether we are liable, claims may be expensive to defend and may divert time and money away from our operations and hurt our performance. A judgment significantly in excess of any applicable insurance coverage could materially adversely affect our financial condition or results of operations. Further, adverse publicity resulting from these claims may hurt our business.

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Our current insurance may not provide adequate levels of coverage against claims.

We currently maintain insurance customary for businesses of our size and type. However, there are types of losses we may incur that cannot be insured against or that we believe are not economically reasonable to insure. Such damages could have a material adverse effect on our business, results of operations and/or liquidity. In addition, we self insure a significant portion of expected losses under our health, workers' compensation, general liability, employment practices liability and property insurance programs. Unanticipated changes in the actuarial assumptions and management estimates underlying our reserves for these losses could result in materially different amounts of expense under these programs, which could have a material adverse effect on our financial condition, results of operations and liquidity.

Decreased cash flow from operations, or an inability to access credit could negatively affect our business initiatives or may result in our inability to execute our revenue, expense, and capital allocation strategies.

Our ability to fund our operating plans and to implement our capital allocation strategies depends on sufficient cash flow from operations and/or other financing, including the use of funding under our amended revolving credit facility. We also may seek access to the debt and/or equity capital markets. There can be no assurance, however, that these sources of financing will be available on terms favorable to us, or at all. Our capital allocation strategies include, but are not limited to, new restaurant development, payment of dividends, refurbishment or relocation of existing restaurants, repurchases of our common stock and franchise acquisitions. If we experience decreased cash flow from operations, our ability to fund our operations and planned initiatives, and to take advantage of growth opportunities, may be delayed or negatively affected. In addition, these disruptions or a negative effect on our revenues could affect our ability to borrow or comply with our covenants under our amended revolving credit facility. If we are unable to raise additional capital, our growth could be impeded.

Our existing credit facility limits our ability to incur additional debt.

The lenders' obligation to extend credit under our amended revolving credit facility depends on our maintaining certain financial covenants, including a minimum consolidated fixed charge coverage ratio of 2.00 to 1.00 and a maximum consolidated leverage ratio of 3.00 to 1.00. If we are unable to maintain these ratios, we would be unable to obtain additional financing under this amended revolving credit facility. The amended revolving credit facility permits us to incur additional secured or unsecured indebtedness outside the revolving credit facility, except for the incurrence of secured indebtedness that in the aggregate is equal to or greater than $125.0 million and 20% of our consolidated tangible net worth or circumstances where the incurrence of secured or unsecured indebtedness would prevent us from complying with our financial covenants. If we are unable to borrow additional capital, our growth could be impeded.

We may be required to record additional impairment charges in the future.

In accordance with accounting guidance as it relates to the impairment of long lived assets, we make certain estimates and projections with regard to company restaurant operations, as well as our overall performance in connection with our impairment analyses for long lived assets. When impairment triggers are deemed to exist for any company restaurant, the estimated undiscounted future cash flows for the restaurant are compared to its carrying value. If the carrying value exceeds the undiscounted cash flows, an impairment charge would be recorded equal to the difference between the carrying value and the estimated fair value.

We also review the value of our goodwill on an annual basis and when events or changes in circumstances indicate that the carrying value of goodwill or other intangible assets may exceed the fair value of such assets. The estimates of fair value are based upon the best information available as of the date of the assessment and incorporate management assumptions about expected future cash flows and contemplate other valuation measurements and techniques.

The estimates of fair value used in these analyses require the use of judgment, certain assumptions and estimates of future operating results. If actual results differ from our estimates or assumptions, additional impairment charges may be required in the future. If impairment charges are significant, our results of operations could be adversely affected.

Failure to retain the services of our key management personnel, or to successfully execute succession planning and attract additional qualified personnel could harm our business.

Our future success depends on the continued services and performance of our key management personnel. Our future performance will depend on our ability to motivate and retain these and other key officers and managers, particularly regional market partners, market partners and managing partners. Competition for these employees is

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intense. The loss of the services of members of our senior management team or other key officers or managers or the inability to attract additional qualified personnel as needed could materially harm our business. In addition, our business could suffer from the misconduct of any of our key personnel.

Our franchisees could take actions that could harm our business.

Our franchisees are contractually obligated to operate their restaurants in accordance with Texas Roadhouse standards. We also provide training and support to franchisees. However, most franchisees are independent third parties that we do not control, and these franchisees own, operate and oversee the daily operations of their restaurants. As a result, the ultimate success and quality of any franchise restaurant rests with the franchisee. If franchisees do not successfully operate restaurants in a manner consistent with our standards, the Texas Roadhouse image and reputation could be harmed, which in turn could adversely affect our business and operating results.

Risks Related to Our Corporate Structure, Our Stock Ownership and Our Common Stock

Provisions in our charter documents and Delaware law may delay or prevent our acquisition by a third party.

Our certificate of incorporation and by laws contain several provisions that may make it more difficult for a third party to acquire control of us without the approval of our Board of Directors. These provisions include, among other things, advance notice for raising business or making nominations at meetings and "blank check" preferred stock. Blank check preferred stock enables our Board of Directors, without approval of the stockholders, to designate and issue additional series of preferred stock with such dividend, liquidation, conversion, voting or other rights, including the right to issue convertible securities with no limitations on conversion, as our Board of Directors may determine. The issuance of blank check preferred stock may adversely affect the voting and other rights of the holders of our common stock as our Board of Directors may designate and issue preferred stock with terms that are senior to our common stock. These provisions may make it more difficult or expensive for a third party to acquire a majority of our outstanding common stock. These provisions also may delay, prevent or deter a merger, acquisition, tender offer, proxy contest or other transaction that might otherwise result in our stockholders receiving a premium over the market price for their common stock.

The Delaware General Corporation Law prohibits us from engaging in "business combinations" with "interested shareholders" (with some exceptions) unless such transaction is approved in a prescribed manner. The existence of this provision could have an anti takeover effect with respect to transactions not approved in advance by the Board of Directors, including discouraging attempts that might result in a premium over the market price for our common stock.

There can be no assurance that we will continue to pay dividends on our common stock.

Payment of cash dividends on our common stock is subject to compliance with applicable laws and depends on, among other things, our results of operations, financial condition, level of indebtedness, capital requirements, business prospects and other factors that our Board of Directors may deem relevant. Although we have paid dividends in the past, there can be no assurance that we will continue to pay any dividends in the future.

Our business could be negatively affected as a result of actions of activist stockholders, and such activism could impact the trading value of our common stock.

We value constructive input from our stockholders and the investment community. Our Board of Directors and management team are committed to acting in the best interests of all of our stockholders. There is no assurance that the actions taken by our Board of Directors and management in seeking to maintain constructive engagement with our stockholders will be successful.

Responding to actions by activist shareholders can be costly and time-consuming, disrupting our operations and diverting the attention of management and our employees. Such activities could interfere with our ability to execute our strategic plan. The perceived uncertainties as to our future direction also resulting from activist strategies could also affect the market price and volatility of our common stock.

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ITEM 1B—UNRESOLVED STAFF COMMENTS

None.

ITEM 2—PROPERTIES

Properties

Our Support Center is located in Louisville, Kentucky. We occupy this facility under a master lease with Paragon Centre Holdings, LLC, a limited liability company in which we have a minority ownership position. As of December 25, 2018, we leased 128,066 square feet. Our lease expires October 31, 2048 including all applicable extensions. Of the 491 company restaurants in operation as of December 25, 2018, we owned 143 locations and leased 348 locations, as shown in the following table.

State	Owned	Leased	Total
Alabama	3	5	8
Alaska	—	2	2
Arizona	6	12	18
Arkansas	—	5	5
California	1	3	4
Colorado	7	9	16
Connecticut	—	5	5
Delaware	1	1	2
Florida	7	27	34
Georgia	3	6	9
Idaho	1	4	5
Illinois	3	12	15
Indiana	12	8	20
Iowa	2	7	9
Kansas	2	4	6
Kentucky	4	8	12
Louisiana	2	7	9
Maine	—	3	3
Maryland	—	8	8
Massachusetts	1	9	10
Michigan	3	11	14
Minnesota	1	3	4
Mississippi	1	2	3
Missouri	2	14	16
Nebraska	1	2	3
Nevada	—	2	2
New Hampshire	2	1	3
New Jersey	—	9	9
New Mexico	1	4	5
New York	3	16	19
North Carolina	5	14	19

North Dakota	—	2	2
Ohio	12	19	31
Oklahoma	2	5	7
Oregon	—	2	2
Pennsylvania	3	21	24
Rhode Island	—	3	3
South Carolina	—	2	2
South Dakota	1	1	2
Tennessee	—	14	14
Texas	37	30	67
Utah	1	8	9
Vermont	—	1	1
Virginia	6	9	15
Washington	—	1	1
West Virginia	1	1	2
Wisconsin	4	6	10
Wyoming	2	—	2
Total	143	348	491

Additional information concerning our properties and leasing arrangements is included in note 2(p) and note 8 to the Consolidated Financial Statements appearing in Part II, Item 8 of this Annual Report on Form 10-K.

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ITEM 3—LEGAL PROCEEDINGS

Occasionally, we are a defendant in litigation arising in the ordinary course of our business, including "slip and fall" accidents, employment related claims, claims related to our service of alcohol, and claims from guests or employees alleging illness, injury or food quality, health or operational concerns. None of these types of litigation, most of which are covered by insurance, has had a material effect on us and, as of the date of this report, we are not party to any litigation that we believe could have a material adverse effect on our business.

ITEM 4—MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5—MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the Nasdaq Global Select Market under the symbol TXRH.

The number of holders of record of our common stock as of February 13, 2019 was 197.

On February 13, 2019, our Board of Directors authorized the payment of a cash dividend of $0.30 per share of common stock. This payment will be distributed on March 29, 2019, to shareholders of record at the close of business on March 13, 2019. In 2011, our Board of Directors declared our first quarterly dividend of $0.08 per share of common stock. We have consistently grown our per share dividend each year since that time and our long term strategy includes increasing our regular quarterly dividend amount over time. The declaration and payment of cash dividends on our common stock is at the discretion of our Board of Directors, and any decision to declare a dividend will be based on a number of factors including, but not limited to, earnings, financial condition, applicable covenants under our amended credit facility and other contractual restrictions, or other factors deemed relevant.

Unregistered Sales of Equity Securities

There were no equity securities sold by the Company during the period covered by this Annual Report on Form 10 K that were not registered under the Securities Act of 1933, as amended.

Issuer Repurchases of Securities

On May 22, 2014, our Board of Directors approved a stock repurchase program under which we may repurchase up to $100.0 million of our common stock. For the year ended December 25, 2018, we did not repurchase any shares of common stock. As of December 25, 2018, we had approximately $69.9 million remaining under our authorized repurchase program. This stock repurchase program has no expiration date and replaced a previous stock repurchase program which was approved on February 16, 2012. All repurchases to date under our stock repurchase program have been made through open market transactions. The timing and the amount of any repurchases will be determined by management under parameters established by our Board of Directors, based on an evaluation of our stock price, market conditions and other corporate considerations.

Since commencing our repurchase program in 2008, we have repurchased a total of 14,844,851 shares of common stock at a total cost of $216.6 million through December 25, 2018 under authorizations from our Board of Directors.

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Stock Performance Graph

The following graph sets forth cumulative total return experienced by holders of the Company's common stock compared to the cumulative total return of the Russell 3000 Restaurant Index and the Russell 3000 Index for the five year period ended December 24, 2018, the last trading day of our fiscal year. The graph assumes the values of the investment in our common stock and each index was $100 on December 31, 2013 and the reinvestment of all dividends paid during the period of the securities comprising the indices.

Note: The stock price performance shown on the graph below does not indicate future performance.

Comparison of Cumulative Total Return Since December 31, 2013

Among Texas Roadhouse, Inc., the Russell 3000 Index and the Russell 3000 Restaurant Index

	12/31/2013	12/30/2014	12/29/2015	12/27/2016	12/26/2017	12/24/2018
Texas Roadhouse, Inc.	$ 100.00	$ 121.51	$ 129.71	$ 178.27	$ 194.53	$ 204.35
Russell 3000	$ 100.00	$ 111.54	$ 110.66	$ 121.77	$ 143.19	$ 127.95
Russell 3000 Restaurant	$ 100.00	$ 104.92	$ 124.10	$ 129.02	$ 153.49	$ 153.74

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ITEM 6—SELECTED CONSOLIDATED FINANCIAL DATA

We derived the selected consolidated financial data as of and for the years 2018, 2017, 2016, 2015 and 2014 from our audited consolidated financial statements.

The Company utilizes a 52 or 53 week accounting period that typically ends on the last Tuesday in December. The Company utilizes a 13 or 14 week accounting period for quarterly reporting purposes. All of the fiscal years presented were 52 weeks in length. Our historical results are not necessarily indicative of our results for any future period.

	Fiscal Year				
	2018	2017	2016	2015	2014
	(in thousands, except per share data)				
Consolidated Statements of Income:					
Revenue:					
Restaurant sales and other	$ 2,437,115	$ 2,203,017	$ 1,974,261	$ 1,791,446	$ 1,568,556
Franchise royalties and fees	20,334	16,514	16,453	15,922	13,592
Total revenue	2,457,449	2,219,531	1,990,714	1,807,368	1,582,148
Income from operations	187,789	186,206	171,900	144,565	130,449
Income before taxes	188,551	186,117	171,756	144,247	129,967
Provision for income taxes	24,257	48,581	51,183	42,986	38,990
Net income including noncontrolling interests	$ 164,294	$ 137,536	$ 120,573	$ 101,261	$ 90,977
Less: Net income attributable to noncontrolling interests	6,069	6,010	4,975	4,367	3,955
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	$ 158,225	$ 131,526	$ 115,598	$ 96,894	$ 87,022
Net income per common share:					
Basic	$ 2.21	$ 1.85	$ 1.64	$ 1.38	$ 1.25
Diluted	$ 2.20	$ 1.84	$ 1.63	$ 1.37	$ 1.23
Weighted average shares outstanding(1):					
Basic	71,467	70,989	70,396	70,032	69,719
Diluted	71,964	71,527	71,052	70,747	70,608
Cash dividends declared per share	$ 1.00	$ 0.84	$ 0.76	$ 0.68	$ 0.60

	Fiscal Year 2018	2017	2016	2015	2014
	($ in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 210,125	$ 150,918	$ 112,944	$ 59,334	$ 86,122
Total assets	1,469,276	1,330,623	1,179,971	1,032,706	943,142
Long-term debt and obligations under capital leases, net of current maturities	2,081	51,981	52,381	25,550	50,693
Total liabilities	508,568	479,232	421,729	355,524	328,186
Noncontrolling interests	15,139	12,312	8,016	7,520	7,064
Texas Roadhouse, Inc. and subsidiaries stockholders' equity(2)	$ 945,569	$ 839,079	$ 750,226	$ 669,662	$ 607,892
Selected Operating Data (unaudited):					
Restaurants:					
Company-Texas Roadhouse	464	440	413	392	368
Company-Bubba's 33	25	20	16	7	3
Company-Other	2	2	2	2	1
Franchise - Domestic	69	70	73	72	70
Franchise - International	22	17	13	10	9
Total	582	549	517	483	451
Company restaurant information:					
Store weeks	24,693	23,274	21,583	20,020	18,565
Comparable restaurant sales growth(3)	5.4 %	4.5 %	3.5 %	7.2 %	4.7 %
Texas Roadhouse restaurants only:					
Comparable restaurant sales growth(3)	5.4 %	4.5 %	3.6 %	7.2 %	4.7 %
Average unit volume(4)	$ 5,211	$ 4,973	$ 4,805	$ 4,664	$ 4,355
Net cash provided by operating activities	$ 352,868	$ 286,373	$ 257,065	$ 227,941	$ 191,713
Net cash used in investing activities	$ (158,145)	$ (178,156)	$ (164,738)	$ (173,203)	$ (124,240)
Net cash used in financing activities	$ (135,516)	$ (70,243)	$ (38,717)	$ (81,526)	$ (76,225)

(1) See note 12 to the Consolidated Financial Statements.

(2) See note 11 to the Consolidated Financial Statements.

(3) Comparable restaurant sales growth reflects the change in sales over the same period of the prior year for the comparable restaurant base. We define the comparable restaurant base to include those restaurants

open for a full 18 months before the beginning of the later fiscal period, excluding sales from restaurants closed during the period.

(4) Average unit volume represents the average annual restaurant sales from Texas Roadhouse company restaurants open for a full six months before the beginning of the period measured, excluding sales from restaurants closed during the period. Additionally, average unit volume of company restaurants for 2018, 2017, 2016, and 2014 in the table above was adjusted to reflect the restaurant sales of any acquired franchise restaurants.

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ITEM 7—MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion and analysis below for the Company should be read in conjunction with the consolidated financial statements and the notes to such financial statements (pages F 1 to F 29), "Forward looking Statements" (page 3) and Risk Factors set forth in Item 1A.

Our Company

Texas Roadhouse, Inc. is a growing restaurant company operating predominately in the casual dining segment. Our founder, chairman and chief executive officer, W. Kent Taylor, started the business in 1993 with the opening of the first Texas Roadhouse restaurant in Clarksville, Indiana. Since then, we have grown to 582 restaurants in 49 states and nine foreign countries. Our mission statement is "Legendary Food, Legendary Service®." Our operating strategy is designed to position each of our restaurants as the local hometown destination for a broad segment of consumers seeking high quality, affordable meals served with friendly, attentive service. As of December 25, 2018, our 582 restaurants included:

- 491 "company restaurants," of which 471 were wholly owned and 20 were majority owned. The results of operations of company restaurants are included in our consolidated statements of income and comprehensive income. The portion of income attributable to noncontrolling interests in company restaurants that are not wholly owned is reflected in the line item entitled "Net income attributable to noncontrolling interests" in our consolidated statements of income and comprehensive income. Of the 491 restaurants we owned and operated at the end of 2018, we operated 464 as Texas Roadhouse restaurants and operated 25 as Bubba's 33 restaurants. In addition, we operated two restaurants outside of the casual dining segment.
- 91 "franchise restaurants," 24 of which we have a 5.0% to 10.0% ownership interest. The income derived from our minority interests in these franchise restaurants is reported in the line item entitled "Equity income from investments in unconsolidated affiliates" in our consolidated statements of income and comprehensive income. Additionally, we provide various management services to these 24 franchise restaurants, as well as six additional franchise restaurants in which we have no ownership interest. All of the franchise restaurants operated as Texas Roadhouse restaurants. Of the 91 franchise restaurants, 69 were domestic restaurants and 22 were international restaurants.

We have contractual arrangements which grant us the right to acquire at pre determined formulas (i) the remaining equity interests in 18 of the 20 majority owned company restaurants and (ii) 66 of the 69 domestic franchise restaurants.

Throughout this report, we use the term "restaurants" to include Texas Roadhouse and Bubba's 33, unless otherwise noted.

Presentation of Financial and Operating Data

We operate on a fiscal year that typically ends on the last Tuesday in December. All of the fiscal years presented were 52 weeks in length. Fiscal year 2019 will be 53 weeks in length and, as such, the fourth quarter of fiscal 2019 will be 14 weeks in length.

As further noted in note 2 to the consolidated financial statements, we adopted Accounting Standards Codification 606, Revenue from Contracts with Customers as of the beginning of our 2018 fiscal year. As a result of this adoption, certain transactions that were previously recorded as expense are now classified as revenue. These include breakage income and third party gift card fees from our gift card program which are included in other sales and previously were included in other operating expense as well as certain fees received from our franchisees which are included in franchise royalties and fees and previously were a reduction of general and administrative expense. In addition, we reclassified certain amounts between restaurant operating costs and general and administrative expenses. None of the above mentioned reclassifications had an impact to income before taxes and the comparative financial information has not been restated for these reclassifications. The comparative impact of these reclassifications is further detailed below.

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Long term Strategies to Grow Earnings Per Share

Our long term strategies with respect to increasing net income and earnings per share, along with creating shareholder value, include the following:

Expanding Our Restaurant Base. We will continue to evaluate opportunities to develop restaurants in existing markets and in new domestic and international markets. Domestically, we will remain focused primarily on markets where we believe a significant demand for our restaurants exists because of population size, income levels and the presence of shopping and entertainment centers and a significant employment base. In recent years, we have relocated several existing locations which allows us to update them to our current prototypical design and/or to obtain more favorable lease terms. We continue to evaluate these opportunities particularly as it relates to older locations with strong sales. Our ability to expand our restaurant base is influenced by many factors beyond our control and, therefore, we may not be able to achieve our anticipated growth.

In 2018, we opened 28 company restaurants while our franchise partners opened five restaurants. We currently plan to open 25 to 30 company restaurants in 2019 including as many as four Bubba's 33 restaurants. In addition, we anticipate our existing franchise partners will open as many as eight Texas Roadhouse restaurants, primarily international, in 2019.

Our average capital investment for the 23 Texas Roadhouse restaurants opened during 2018, including pre opening expenses and a capitalized rent factor, was $5.2 million. We expect our average capital investment for Texas Roadhouse restaurants opening in 2019 to be approximately $5.5 million. The increase in our estimated 2019 average capital investment is due to the purchase of land and the related site improvement costs at more locations. For 2018, the average capital investment, including pre-opening expenses and a capitalized rent factor, for the five Bubba's 33 restaurants opened during the year was $7.1 million. This includes higher costs at one urban site in New Jersey. Excluding this site, the average capital investment would have been $6.5 million. We expect our average capital investment for Bubba's 33 restaurants opening in 2019 to be approximately $6.5 million. We continue to evaluate our Bubba's 33 prototypical asset design.

We remain focused on driving sales and managing restaurant investment costs in order to maintain our restaurant development in the future. Our capital investment (including cash and non cash costs) for new restaurants varies significantly depending on a number of factors including, but not limited to: the square footage, layout, scope of any required site work, type of construction labor, local permitting requirements, our ability to negotiate with landlords, cost of liquor and other licenses and hook up fees and geographical location.

We have entered into area development and franchise agreements for the development and operation of Texas Roadhouse restaurants in several foreign countries. We currently have signed franchise and/or development agreements in nine countries in the Middle East as well as Taiwan, the Philippines, Mexico, China and South Korea. As of December 25, 2018, we had 15 restaurants open in five countries in the Middle East, three restaurants open in Taiwan, two in the Philippines, one in Mexico and one in China for a total of 22 restaurants in nine foreign countries. For the existing international agreements, the franchisee is required to pay us a franchise fee for each restaurant to be opened, royalties on the gross sales of each restaurant and a development fee for our grant of development rights in the named countries. We anticipate that the specific business terms of any future franchise agreement for international restaurants might vary significantly from the standard terms of our domestic agreements and from the terms of existing international agreements, depending on the territory to be franchised and the extent of franchisor provided services to each franchisee.

Maintaining and/or Improving Restaurant Level Profitability. We plan to maintain, or possibly increase, restaurant level profitability (restaurant margin) through a combination of increased comparable restaurant sales and operating cost management. Restaurant margin is not a U.S. generally accepted accounting principle ("GAAP") measure and should not be considered in isolation, or as an alternative from income from operations. See further discussion of restaurant margin below. In general, we continue to balance the impacts of inflationary pressures with our value positioning as we remain focused on our long term success. This may create a challenge in terms of maintaining and/or increasing restaurant margin, as a percentage of restaurant and other sales, in any given year, depending on the level of inflation we experience. In addition to restaurant margin, as a percentage of restaurant and other sales, we also focus on the growth of restaurant margin dollars per store week as a measure of restaurant level-profitability. In terms of driving higher comparable restaurant sales, we remain focused on encouraging repeat visits by our guests and attracting new guests through our continued commitment to operational standards relating to food and service quality. To attract new guests

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and increase the frequency of visits of our existing guests, we also continue to drive various localized marketing programs, focus on speed of service and increase throughput by adding seats and parking at certain restaurants.

Leveraging Our Scalable Infrastructure. To support our growth, we continue to make investments in our infrastructure. Over the past several years, we have made significant investments in our infrastructure, including information and accounting systems, real estate, human resources, legal, marketing, international and restaurant operations, including the development of new concepts. In addition, in 2018 we increased our number of regional market partners and regional support teams. Our goal is for general and administrative costs to increase at a slower growth rate than our revenue. Whether we are able to leverage our infrastructure in future years will depend, in part, on our new restaurant openings, our comparable restaurant sales growth rate going forward and the level of investment we continue to make in our infrastructure.

Returning Capital to Shareholders. We continue to pay dividends and evaluate opportunities to return capital to our shareholders through repurchases of common stock. In 2011, our Board of Directors declared our first quarterly dividend of $0.08 per share of common stock. We have consistently grown our per share dividend each year since that time and our long term strategy includes increasing our regular quarterly dividend amount over time. On February 13, 2019, our Board of Directors declared a quarterly dividend of $0.30 per share of common stock. The declaration and payment of cash dividends on our common stock is at the discretion of our Board of Directors, and any decision to declare a dividend will be based on a number of factors, including, but not limited to, earnings, financial condition, applicable covenants under our amended credit facility, other contractual restrictions and other factors deemed relevant.

In 2008, our Board of Directors approved our first stock repurchase program. Since then, we have paid $216.6 million through our authorized stock repurchase programs to repurchase 14,844,851 shares of our common stock at an average price per share of $14.59. On May 22, 2014, our Board of Directors approved a stock repurchase program under which we may repurchase up to $100.0 million of our common stock. This stock repurchase program has no expiration date and replaced a previous stock repurchase program which was approved on February 16, 2012. All repurchases to date have been made through open market transactions. As of December 25, 2018, $69.9 million remains authorized for stock repurchases.

Key Operating Personnel

Key management personnel who have a significant impact on the performance of our restaurants include kitchen managers, service managers, assistant managers, managing partners and market partners. Managing partners are single restaurant operators who have primary responsibility for the day-to-day operations of the entire restaurant. Kitchen managers have primary responsibility for managing operations relating to our food preparation and food quality, and service managers have primary responsibility for managing our service quality and guest experiences. The assistant managers support our kitchen and service managers; these managers are collectively responsible for the operations of the restaurant in the absence of a managing partner. All managers are responsible for maintaining our standards of quality and performance. We use market partners to oversee the operation of our restaurants. Generally, each market partner may oversee as many as 8 to 15 managing partners and their respective management teams. Market partners are also responsible for the hiring and development of each restaurant's management team and assist in the site selection process for new restaurants. Through regular visits to the restaurants, the market partners facilitate adherence to all aspects of our concepts, strategies and standards of quality.

Managing partners and market partners are required, as a condition of employment, to sign a multi year employment agreement. The annual compensation of our managing partners and market partners includes a base salary plus a percentage of the pre tax income of the restaurant(s) they operate or supervise. Managing partners and market partners are eligible to participate in our equity incentive plan and are generally required to make deposits of $25,000 and

$50,000, respectively. Generally, the deposits are refunded after five years of service.

Key Measures We Use To Evaluate Our Company

Key measures we use to evaluate and assess our business include the following:

Number of Restaurant Openings. Number of restaurant openings reflects the number of restaurants opened during a particular fiscal period. For company restaurant openings, we incur pre opening costs, which are defined below, before the restaurant opens. Typically, new Texas Roadhouse restaurants open with an initial start up period of higher than normalized sales volumes, which decrease to a steady level approximately three to six months after opening. However,

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although sales volumes are generally higher, so are initial costs, resulting in restaurant margins that are generally lower during the start up period of operation and increase to a steady level approximately three to six months after opening.

Comparable Restaurant Sales Growth. Comparable restaurant sales growth reflects the change in sales for company restaurants over the same period of the prior year for the comparable restaurant base. We define the comparable restaurant base to include those restaurants open for a full 18 months before the beginning of the period measured excluding restaurants closed during the period. Comparable restaurant sales growth can be impacted by changes in guest traffic counts or by changes in the per person average check amount. Menu price changes and the mix of menu items sold can affect the per person average check amount.

Average Unit Volume. Average unit volume represents the average annual restaurant and other sales for company restaurants open for a full six months before the beginning of the period measured excluding sales on restaurants closed during the period. Historically, average unit volume growth is less than comparable restaurant sales growth which indicates that newer restaurants are operating with sales levels lower than the company average. At times, average unit volume growth may be more than comparable restaurant sales growth which indicates that newer restaurants are operating with sales levels higher than the company average.

Store Weeks. Store weeks represent the number of weeks that our company restaurants were open during the reporting period.

Restaurant Margin. Restaurant margin (in dollars and as a percentage of restaurant and other sales) represents restaurant and other sales less restaurant-level operating costs, including cost of sales, labor, rent and other operating costs. Restaurant margin is not a measurement determined in accordance with GAAP and should not be considered in isolation, or as an alternative, to income from operations. This non-GAAP measure is not indicative of overall company performance and profitability in that this measure does not accrue directly to the benefit of shareholders due to the nature of the costs excluded. Restaurant margin is widely regarded as a useful metric by which to evaluate restaurant-level operating efficiency and performance. In calculating restaurant margin, we exclude certain non-restaurant-level costs that support operations, including pre-opening and general and administrative expenses, but do not have a direct impact on restaurant-level operational efficiency and performance. We also exclude depreciation and amortization expense, substantially all of which relates to restaurant-level assets, as it represents a non-cash charge for the investment in our restaurants. We also exclude impairment and closure expense as we believe this provides a clearer perspective of the Company's ongoing operating performance and a more useful comparison to prior period results. Restaurant margin as presented may not be comparable to other similarly titled measures of other companies in our industry. A reconciliation of income from operations to restaurant margin is included in the Results of Operations section below.

Other Key Definitions

Restaurant and Other Sales. Restaurant sales include gross food and beverage sales, net of promotions and discounts, for all company restaurants. Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from restaurant sales in the consolidated statements of income and comprehensive income. Beginning in 2018, with the adoption of new revenue recognition accounting guidance, other sales include the amortization of fees associated with our third party gift card sales net of the amortization of gift card breakage income which had previously been recorded in restaurant other operating expense. These amounts are amortized over a period consistent with the historic redemption pattern of the associated gift cards.

Franchise Royalties and Fees. Franchise royalties consist of royalties, as defined in our franchise agreement, paid to us by our domestic and international franchisees. Domestic and/or international franchisees also typically pay an initial franchise fee and/or development fee for each new restaurant or territory. The terms of the international agreements may vary significantly from our domestic agreements. Beginning in 2018, with the adoption of new revenue recognition accounting guidance, franchise royalties and fees include certain fees which had previously been recorded as a reduction of general and administrative expenses. These include advertising fees paid by domestic franchisees to our system-wide marketing and advertising fund and management fees paid by certain domestic franchisees for supervisory and administrative services that we perform.

Restaurant Cost of Sales. Restaurant cost of sales consists of food and beverage costs of which approximately half relates to beef costs.

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Restaurant Labor Expenses. Restaurant labor expenses include all direct and indirect labor costs incurred in operations except for profit sharing incentive compensation expenses earned by our restaurant managing partners and market partners. These profit sharing expenses are reflected in restaurant other operating expenses. Restaurant labor expenses also include share based compensation expense related to restaurant level employees.

Restaurant Rent Expense. Restaurant rent expense includes all rent, except pre opening rent, associated with the leasing of real estate and includes base, percentage and straight line rent expense.

Restaurant Other Operating Expenses. Restaurant other operating expenses consist of all other restaurant level operating costs, the major components of which are utilities, supplies, local store advertising, repairs and maintenance, equipment rent, property taxes, credit card fees, and general liability insurance. Profit sharing incentive compensation expenses earned by our restaurant managing partners and market partners are also included in restaurant other operating expenses.

Pre opening Expenses. Pre opening expenses, which are charged to operations as incurred, consist of expenses incurred before the opening of a new restaurant and are comprised principally of opening team and training compensation and benefits, travel expenses, rent, food, beverage and other initial supplies and expenses. On average, over 70% of total pre opening costs incurred per restaurant opening relate to the hiring and training of employees. Pre opening costs vary by location depending on a number of factors, including the size and physical layout of each location; the number of management and hourly employees required to operate each restaurant; the availability of qualified restaurant staff members; the cost of travel and lodging for different geographic areas; the timing of the restaurant opening; and the extent of unexpected delays, if any, in obtaining final licenses and permits to open the restaurants.

Depreciation and Amortization Expenses. Depreciation and amortization expenses ("D&A") include the depreciation of fixed assets and amortization of intangibles with definite lives, substantially all of which relates to restaurant level assets.

Impairment and Closure Costs. Impairment and closure costs include any impairment of long lived assets, including goodwill, and expenses associated with the closure of a restaurant. Closure costs also include any gains or losses associated with a relocated restaurant or the sale of a closed restaurant and/or assets held for sale as well as lease costs associated with closed or relocated restaurants.

General and Administrative Expenses. General and administrative expenses ("G&A") are comprised of expenses associated with corporate and administrative functions that support development and restaurant operations and provide an infrastructure to support future growth including advertising costs incurred. G&A also includes legal fees, settlement charges and share based compensation expense related to executive officers, support center employees and market partners and the realized and unrealized holding gains and losses related to the investments in our deferred compensation plan.

Interest Expense, Net. Net interest expense includes the cost of our debt or financing obligations including the amortization of loan fees, reduced by interest income and capitalized interest. Interest income includes earnings on cash and cash equivalents.

Equity Income from Unconsolidated Affiliates. As of December 25, 2018, December 26, 2017 and December 27, 2016, we owned a 5.0% to 10.0% equity interest in 24 franchise restaurants. Additionally, as of December 25, 2018, December 26, 2017 and December 27, 2016, we owned a 40% equity interest in four non Texas Roadhouse restaurants as part of a joint venture agreement with a casual dining restaurant operator in China. Equity income from unconsolidated affiliates represents our percentage share of net income earned by these unconsolidated affiliates.

Net Income Attributable to Noncontrolling Interests. Net income attributable to noncontrolling interests represents the portion of income attributable to the other owners of the majority owned restaurants. Our consolidated subsidiaries at December 25, 2018, December 26, 2017 and December 27, 2016 included 20, 18 and 16 majority-owned restaurants, respectively, all of which were open.

2018 Financial Highlights

Total revenue increased $237.9 million or 10.7% to $2.5 billion in 2018 compared to $2.2 billion in 2017 primarily due to an increase in average unit volume driven by comparable restaurant sales growth combined with the opening of

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new restaurants. Store weeks and comparable restaurant sales increased 6.1% and 5.4%, respectively, at company restaurants in 2018.

Restaurant margin increased $17.8 million to $424.2 million in 2018 from $406.4 million in 2017 while restaurant margin, as a percentage of restaurant and other sales, decreased 104 basis points to 17.4% in 2018 compared to 18.4% in 2017. The decrease in restaurant margin, as a percentage of restaurant and other sales, was primarily due to higher labor costs as a result of higher average wage rates, current staffing initiatives to increase sales, and higher costs associated with health insurance and workers' compensation. The decrease was partially offset by the reclassification of certain amounts between restaurant operating costs and general and administrative expenses as noted above. These reclassifications increased restaurant margin by approximately 0.2%, as a percentage of restaurant and other sales and had no impact on income before taxes.

Net income increased $26.7 million or 20.3% to $158.2 million in 2018 compared to $131.5 million in 2017 primarily due to higher revenue and lower income tax expense partially offset by higher labor costs. In addition, we overlapped a pre-tax charge of $14.9 million ($9.2 million after-tax), or $0.13 per diluted share, in 2017 related to the settlement of a previously disclosed legal matter. Our income tax rate decreased to 12.9% from 26.1% in the prior year primarily due to the impact of new tax legislation. Diluted earnings per share increased 19.6% to $2.20 from $1.84 in the prior year.

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	Results of Operations Fiscal Year 2018		2017		2016	
	$	%	$	%	$	%
	(In thousands)					
Consolidated Statements of Income:						
Revenue:						
Restaurant and other sales	2,437,115	99.2	2,203,017	99.3	1,974,261	99.2
Franchise royalties and fees	20,334	0.8	16,514	0.7	16,453	0.8
Total revenue	2,457,449	100.0	2,219,531	100.0	1,990,714	100.0
Costs and expenses:						
(As a percentage of restaurant and other sales)						
Restaurant operating costs (excluding depreciation and amortization shown separately below):						
Cost of sales	795,300	32.6	721,550	32.8	669,203	33.9
Labor	793,384	32.6	687,545	31.2	590,256	29.9
Rent	48,791	2.0	44,807	2.0	40,580	2.1
Other operating	375,477	15.4	342,702	15.6	305,290	15.5
(As a percentage of total revenue)						
Pre-opening	19,051	0.8	19,274	0.9	19,547	1.0
Depreciation and amortization	101,216	4.1	93,499	4.2	82,964	4.2
Impairment and closure	278	NM	654	NM	179	NM
General and administrative	136,163	5.5	123,294	5.6	110,795	5.6
Total costs and expenses	2,269,660	92.4	2,033,325	91.6	1,818,814	91.4
Income from operations	187,789	7.6	186,206	8.4	171,900	8.6
Interest expense, net	591	0.0	1,577	0.1	1,255	0.1
Equity income from investments in unconsolidated affiliates	(1,353)	(0.1)	(1,488)	(0.1)	(1,111)	(0.1)
Income before taxes	188,551	7.7	186,117	8.4	171,756	8.6
Provision for income taxes	24,257	1.0	48,581	2.2	51,183	2.6
Net income including noncontrolling interests	164,294	6.7	137,536	6.2	120,573	6.1
Net income attributable to noncontrolling interests	6,069	0.2	6,010	0.3	4,975	0.2
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	158,225	6.4	131,526	5.9	115,598	5.8

NM – Not meaningful

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	Reconciliation of Income from Operations to Restaurant Margin		
	Fiscal Year Ended		
	2018	2017	2016
Income from operations	$ 187,789	$ 186,206	$ 171,900
Less:			
Franchise royalties and fees	20,334	16,514	16,453
Add:			
Pre-opening	19,051	19,274	19,547
Depreciation and amortization	101,216	93,499	82,964
Impairment and closure	278	654	179
General and administrative	136,163	123,294	110,795
Restaurant margin	$ 424,163	$ 406,413	$ 368,932
Restaurant margin $/store week	$ 17,177	$ 17,462	$ 17,094
Restaurant margin (as a percentage of restaurant and other sales)	17.4%	18.4%	18.7%

Restaurant Unit Activity

	Total	Texas Roadhouse	Bubba's 33	Other
Balance at December 29, 2015	483	474	7	2
Company openings	30	21	9	—
Franchise openings - Domestic	1	1	—	—
Franchise openings - International	3	3	—	—
Balance at December 27, 2016	517	499	16	2
Company openings	27	23	4	—
Franchise openings - Domestic	1	1	—	—
Franchise openings - International	4	4	—	—
Balance at December 26, 2017	549	527	20	2
Company openings	28	23	5	—
Franchise openings - Domestic	—	—	—	—
Franchise openings - International	5	5	—	—
Balance at December 25, 2018	582	555	25	2

	December 25, 2018	December 26, 2017	December 27, 2016
Company - Texas Roadhouse	464	440	413
Company - Bubba's 33	25	20	16
Company - Other	2	2	2

Franchise - Texas Roadhouse - U.S.	69	70	73
Franchise - Texas Roadhouse - International	22	17	13
Total	582	549	517

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Restaurant and Other Sales

Restaurant and other sales increased 10.6% in 2018 compared to 2017 and increased 11.6% in 2017 compared to 2016. The following table summarizes certain key drivers and/or attributes of restaurant sales at company restaurants for the periods presented. Company restaurant count activity is shown in the restaurant unit activity table above.

	2018		2017		2016	
Company Restaurants:						
Increase in store weeks	6.1	%	7.8	%	7.8	%
Increase in average unit volume	4.8	%	3.5	%	3.0	%
Other(1)	(0.1)	%	0.3	%	(0.6)	%
Total increase in restaurant sales	10.8	%	11.6	%	10.2	%
Other sales(2)	(0.2)	%	—	%	—	%
Total increase in restaurant and other sales	10.6	%	11.6	%	10.2	%
Store weeks	24,693		23,274		21,583	
Comparable restaurant sales growth	5.4	%	4.5	%	3.5	%
Texas Roadhouse restaurants only:						
Comparable restaurant sales growth	5.4	%	4.5	%	3.6	%
Average unit volume (in thousands)	$ 5,211		$ 4,973		$ 4,805	
Weekly sales by group:						
Comparable restaurants (408, 380 and 358 units, respectively)	100,810		96,572		92,875	
Average unit volume restaurants (21, 27 and 18 units, respectively)(3)	88,493		82,526		81,743	
Restaurants less than six months old (35, 33 and 37 units, respectively)	97,268		92,208		87,059	

(1) Includes the impact of the year over year change in sales volume of all non Texas Roadhouse restaurants, along with Texas Roadhouse restaurants open less than six months before the beginning of the period measured, and, if applicable, the impact of restaurants closed or acquired during the period.
(2) Other sales, for 2018, represent $14.2 million related to the amortization of third party gift card fees net of $9.0 million related to the amortization of gift card breakage income.
(3) Average unit volume restaurants include restaurants open a full six to 18 months before the beginning of the period measured.

The increases in restaurant sales for all periods presented were primarily attributable to an increase in average unit volume driven by comparable restaurant sales growth combined with the opening of new restaurants. Comparable restaurant sales growth for all periods presented was due to an increase in our guest traffic counts and an increase in our per person average check as shown in the table below.

	2018		2017		2016	
Guest traffic counts	3.9	%	3.6	%	2.1	%
Per person average check	1.5	%	0.9	%	1.4	%
Comparable restaurant sales growth	5.4	%	4.5	%	3.5	%

The increase in our per person average check for the periods presented was primarily driven by menu price increases shown below, which were taken as a result of inflationary pressures, primarily commodities and/or labor.

	Menu Price Increases
Q4 2018	1.7%
Q1 2018	0.8%
Q4 2017	0.3%
Q2 2017	0.5%
Q4 2016	1.0%
Q4 2015	2.0%

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In all periods presented, average guest check may not have changed in line with the menu price increases implemented as guests shifted to other menu price items and/or purchased more or less beverages. In March 2019, we expect to implement a menu price increase of approximately 1.5%.

In 2019, we plan to open 25 to 30 company restaurants. While the majority of our restaurant growth in 2019 will be Texas Roadhouse restaurants, we currently expect to open as many as four Bubba's 33 restaurants. We have either begun construction or have sites under contract for purchase or lease for the majority of our expected 2019 openings.

Franchise Royalties and Fees

Franchise royalties and fees increased $3.8 million or 23.1% in 2018 compared to 2017 and increased $0.1 million or 0.4% in 2017 compared to 2016. Included in the increase in 2018 are reclassifications of approximately $2.6 million in conjunction with the implementation of new revenue recognition accounting guidance as previously described. An increase in average unit volume at domestic restaurants, driven by comparable restaurant sales growth, and the opening of new franchise restaurants also contributed to the increases in both periods. For both 2018 and 2017, the increases were partially offset by a decrease in average unit volume at international restaurants, driven by a decrease in comparable restaurant sales at those locations. For 2017, the increase was also partially offset by the loss of royalties associated with the acquisition of four franchise restaurants in Q1 2017. In 2018, franchise comparable restaurant sales increased 2.2% which included an increase in domestic franchise comparable restaurant sales of 4.3%. In 2017, franchise comparable restaurant sales increased 2.9% which included an increase in domestic franchise comparable restaurant sales of 4.2%. Franchise restaurant count activity is shown in the restaurant unit activity table above.

We anticipate our existing franchise partners will open as many as eight Texas Roadhouse restaurants, primarily international, in 2019.

Restaurant Cost of Sales

Restaurant cost of sales, as a percentage of restaurant and other sales, decreased to 32.6% in 2018 from 32.8% in 2017 and from 33.9% in 2016. The decrease in 2018 was primarily attributed to the benefit of menu pricing actions along with the reclassification of $5.4 million in conjunction with the implementation of new revenue recognition accounting guidance as previously described. The decrease was partially offset by commodity inflation of approximately 1.4% driven by higher food costs. The decrease in 2017 was primarily attributed to commodity deflation of 2.4% and menu pricing actions. Commodity deflation was driven by lower food costs, primarily beef. Recent menu pricing actions are summarized in our discussion of restaurant and other sales above.

For 2019, we currently expect commodity cost inflation of 1.0% to 2.0% with fixed price contracts for approximately half of our overall food costs and the remainder subject to fluctuating market prices.

Restaurant Labor Expenses

Restaurant labor expense, as a percentage of restaurant and other sales, increased to 32.6% in 2018 compared to 31.2% in 2017. This increase was primarily attributed to higher average wage rates and current staffing initiatives along with higher costs associated with health insurance and workers' compensation expense partially offset by the benefit from an increase in average unit volume.

Restaurant labor expense, as a percentage of restaurant and other sales, increased to 31.2% in 2017 compared to 29.9% in 2016. The increase was primarily attributed to higher average wage rates, current staffing initiatives to increase sales, and a change in our compensation structure, partially offset by the benefit from an increase in average unit volume.

In 2019, we anticipate our labor costs will be pressured by mid-single digit inflation due to ongoing labor market pressures, current staffing initiatives and increased investment in our people and increases in state-mandated minimum and tipped wage rates. These increases may or may not be offset by additional menu price adjustments or guest traffic growth.

Restaurant Rent Expense

Restaurant rent expense, as a percentage of restaurant and other sales, remained relatively unchanged at 2.0% in 2018 and 2017 and 2.1% in 2016. In all periods presented, higher rent expense, as a percentage of restaurant and other sales, at our newer restaurants was offset by the benefit from an increase in average unit volume.

Restaurant Other Operating Expenses

Restaurant other operating expense, as a percentage of restaurant and other sales, decreased to 15.4% in 2018 from 15.6% in 2017. The decrease was primarily attributed to reclassifications of $4.7 million in 2018 made in conjunction with the implementation of the new revenue recognition accounting guidance along with lower incentive compensation expense and the benefit from an increase in average unit volume. The decrease was partially offset by higher credit card fees.

Restaurant other operating expense, as a percentage of restaurant and other sales, increased to 15.6% in 2017 from 15.5% in 2016. The increase was primarily attributed to higher costs associated with credit card charges, general liability insurance and disaster claims as well as higher gift card fees net of breakage. These increases were partially offset by lower costs related to incentive compensation along with an increase in average unit volume. General liability insurance increased due to the reduction of costs recorded in the prior year from changes in our claims development history included in our quarterly actuarial reserve estimate. Disaster claims increased due to hurricane related damage and costs related to other uninsured events.

Restaurant Pre opening Expenses

Pre-opening expenses decreased to $19.1 million in 2018 from $19.3 million in 2017 and from $19.5 million in 2016. These changes are primarily due to the number of restaurant openings in a given year and the timing of restaurant openings. Pre opening costs will fluctuate from period to period based on the specific pre opening costs incurred for each restaurant, the number and timing of restaurant openings and the number and timing of restaurant managers hired.

Depreciation and Amortization Expenses ("D&A")

D&A, as a percentage of revenue, decreased to 4.1% in 2018 compared to 4.2% in 2017 and 2016. In all periods presented, the decrease in D&A is primarily due to the benefit from an increase in average unit volume partially offset by increased investment in short-lived assets, such as equipment at existing restaurants, and higher depreciation at new restaurants.

Impairment and Closure Costs

Impairment and closure costs were $0.3 million, $0.7 million and $0.2 million in 2018, 2017 and 2016, respectively. In all periods presented, the amounts recorded were closure costs primarily related to the relocations of Texas Roadhouse restaurants. See note 16 in the Consolidated Financial Statements for further discussion regarding closures and impairments recorded in 2018, 2017 and 2016.

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General and Administrative Expenses ("G&A")

G&A, as a percentage of total revenue, decreased to 5.5% in 2018 compared to 5.6% in 2017. The decrease was primarily due to a pre-tax charge of $14.9 million ($9.2 million after-tax), or $0.13 per diluted share, related to the settlement of a legal matter in 2017 and the benefit of an increase in average unit volume. This decrease was offset by higher incentive compensation costs, higher managing partner conference costs, and reclassifications of $7.4 million made in conjunction with the implementation of the new revenue recognition accounting guidance as previously described.

G&A, as a percentage of total revenue, remained flat at 5.6% in 2017 and 2016. The benefit from an increase in average unit volume and lower incentive and share-based compensation was offset by a pre-tax charge of $14.9 million ($9.2 million after-tax) related to the settlement of a legal matter in 2017. The impact of the legal charge was partially offset by a pre-tax charge recorded in 2016 of $7.3 million ($4.5 million after-tax) or $0.06 per diluted share, related to a separate legal matter.

We are currently subject to various claims and contingencies that arise from time to time in the ordinary course of business, including those related to litigation, business transactions, employee-related matters and taxes, among others. See note 13 to the Consolidated Financial Statements for further discussion of these matters.

Interest Expense, Net

Net interest expense decreased to $0.6 million in 2018 compared to $1.6 million in 2017. Net interest expense increased to $1.6 million in 2017 compared to $1.3 million in 2016. The decrease in 2018 was primarily driven by paying off our outstanding credit facility of $50.0 million in April 2018. The increase in 2017 is primarily due to higher interest rates.

Income Taxes

Our effective tax rate decreased to 12.9% in 2018 compared to 26.1% in 2017 primarily due to new tax legislation that was enacted in late 2017. As a result of the new tax legislation, significant tax changes were enacted including the reduction of the federal corporate tax rate from 35.0% to 21.0%. These changes were generally effective at the beginning of our 2018 fiscal year. See note 9 to the Consolidated Financial Statements for a reconciliation of the statutory federal income tax rate to our effective tax rate. For 2019, we expect the effective tax rate to be approximately 15%.

Our effective tax rate decreased to 26.1% in 2017 compared to 29.8% in 2016 primarily due to adoption of Accounting Standards Update 2016-9, Compensation – Stock Compensation and new tax legislation that was enacted in late 2017. As a result of the new guidance requirements, excess tax benefits and tax deficiencies from share-based compensation are recognized within the income tax provision. During 2017, we recognized $3.4 million, or $0.05 per share, as an income tax benefit related to the new guidance requirements. Also during 2017, as a result of the new tax legislation, we recognized $3.1 million, or $0.04 per share, as an income tax benefit related to the new tax legislation which includes an income tax benefit of approximately $3.8 million to revalue our deferred tax balances as of the enactment date and an income tax expense of approximately $0.7 million related to our foreign operations.

Liquidity and Capital Resources

The following table presents a summary of our net cash provided by (used in) operating, investing and financing activities (in thousands):

	Fiscal Year		
	2018	2017	2016
Net cash provided by operating activities	$ 352,868	$ 286,373	$ 257,065
Net cash used in investing activities	(158,145)	(178,156)	(164,738)
Net cash used in financing activities	(135,516)	(70,243)	(38,717)
Net increase in cash and cash equivalents	$ 59,207	$ 37,974	$ 53,610

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Net cash provided by operating activities was $352.9 million in 2018 compared to $286.4 million in 2017. The increase was primarily due to an increase in net income and non-cash items such as deferred income taxes, depreciation and amortization expense and share-based compensation expense along with an increase in working capital. The increase in net income was primarily driven by a decrease in income tax expense due to new tax legislation that was enacted in late 2017. The increase in working capital was primarily due to an increase in deferred revenue related to gift cards and an increase in accounts payable partially offset by an increase in prepaid income taxes.

Net cash provided by operating activities was $286.4 million in 2017 compared to $257.1 million in 2016. The increase was primarily due to an increase in net income and non-cash items such as depreciation and amortization expense along with an increase in working capital. The increase in net income was primarily driven by an increase in comparable restaurant sales at existing restaurants, the continued opening of new restaurants and lower commodity costs, primarily beef, partially offset by higher labor and general and administrative expenses. The increase in working capital was primarily due to an increase in cash flows related to a change in the timing of payments for accrued wages.

Our operations have not required significant working capital and, like many restaurant companies, we can operate with negative working capital. Sales are primarily for cash, and restaurant operations do not require significant inventories or receivables. In addition, we receive trade credit for the purchase of food, beverages and supplies, thereby reducing the need for incremental working capital to support growth.

Net cash used in investing activities was $158.1 million in 2018 compared to $178.2 million in 2017 and $164.7 million in 2016. The decrease in 2018 and increase in 2017 was primarily due to the acquisition of four franchise restaurants in Q1 2017 for an aggregate purchase price of $16.5 million.

We require capital principally for the development of new company restaurants, the refurbishment or relocation of existing restaurants and the acquisition of franchise restaurants, if any. We either lease our restaurant site locations under operating leases for periods of five to 30 years (including renewal periods) or purchase the land when appropriate. As of December 25, 2018, 143 of the 491 company restaurants have been developed on land which we own.

The following table presents a summary of capital expenditures (in thousands):

	2018	2017	2016
New company restaurants	$ 83,633	$ 104,819	$ 100,840
Refurbishment of existing restaurants	58,125	49,344	53,527
Relocation of existing restaurants	6,100	4,807	6,678
Capital expenditures related to support center office	8,122	2,658	3,693
Total capital expenditures	$ 155,980	$ 161,628	$ 164,738

Our future capital requirements will primarily depend on the number of new restaurants we open, the timing of those openings and the restaurant prototype developed in a given fiscal year. These requirements will include costs directly related to opening new restaurants and relocating existing restaurants and may also include costs necessary to ensure that our infrastructure is able to support a larger restaurant base. In 2019, we expect our capital expenditures to be approximately $210.0 million to $220.0 million, the majority of which will relate to planned restaurant openings, including 25 to 30 company restaurant openings in 2019, the relocation of existing company restaurants and capital expenditures related to the remodeling of our support center office. This amount excludes any cash used for franchise acquisitions. We intend to satisfy our capital requirements over the next 12 months with cash on hand, net cash provided by operating activities and, if needed, funds available under our amended credit facility. For 2019, we anticipate net cash provided by operating activities will exceed capital expenditures, which we currently plan to use to pay dividends, as approved by our Board of Directors and/or repurchase common stock.

Net cash used in financing activities was $135.5 million in 2018 compared to $70.2 million in 2017. The increase is primarily due to the $50.0 million repayment of our revolving credit facility in Q2 2018 along with an increase in dividends paid.

Net cash used in financing activities was $70.2 million in 2017 compared to $38.7 million in 2016. The increase is primarily due to borrowings on our amended revolving credit facility that occurred in Q1 2016 and an increase in dividends paid. These increases were partially offset by decreased spending on share repurchases, along with proceeds from noncontrolling interest contributions.

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On May 22, 2014, our Board of Directors approved a stock repurchase program under which it authorized us to repurchase up to $100.0 million of our common stock. This stock repurchase program has no expiration date and replaced a previous stock repurchase program which was approved on February 16, 2012. All repurchases to date under our stock repurchase program have been made through open market transactions. The timing and the amount of any repurchases will be determined by management under parameters established by our Board of Directors, based on an evaluation of our stock price, market conditions and other corporate considerations. During 2018, we made no share repurchases and had $69.9 million remaining under our authorized stock repurchase program as of December 25, 2018.

We paid cash dividends of $68.6 million in 2018. On December 6, 2018, our Board of Directors authorized the payment of a regular quarterly cash dividend of $0.25 per share of common stock to shareholders of record at the close of business on December 19, 2018. This payment was distributed on December 28, 2018. On February 13, 2019, our Board of Directors authorized the payment of a quarterly cash dividend of $0.30 per share of common stock. This payment will be distributed on March 29, 2019 to shareholders of record at the close of business on March 13, 2019. The increase in the dividend per share amount reflects the increase in our regular annual dividend rate from $1.00 per share in 2018 to $1.20 per share in 2019. The declaration and payment of cash dividends on our common stock is at the discretion of our Board of Directors, and any decision to declare a dividend will be based on a number of factors, including, but not limited to, earnings, financial condition, applicable covenants under our amended credit facility and other contractual restrictions, or other factors deemed relevant.

We paid distributions of $5.7 million to equity holders of 19 of our 20 majority-owned company restaurants in 2018. In 2017, we paid distributions of $5.2 million to equity holders of all of our 18 majority-owned restaurants.

On August 7, 2017, we entered into the Amended and Restated Credit Agreement (the "Amended Credit Agreement") with respect to our revolving credit facility with a syndicate of commercial lenders led by JP Morgan Chase Bank, N.A., PNC Bank, N.A., and Wells Fargo Bank, N.A. The amended revolving credit facility remains an unsecured, revolving credit agreement under which we may borrow up to $200.0 million with the option to increase the amended revolving credit facility by an additional $200.0 million subject to certain limitations. The Amended Credit Agreement extends the maturity date of our revolving credit facility until August 5, 2022.

The terms of the Amended Credit Agreement require us to pay interest on outstanding borrowings at the London Interbank Offered Rate ("LIBOR") plus a margin of 0.875% to 1.875% and to pay a commitment fee of 0.125% to 0.30% per year on any unused portion of the amended revolving credit facility, depending on our consolidated net leverage ratio, or the Alternate Base Rate, which is the highest of the issuing banks' prime lending rate, the Federal Reserve Bank of New York rate plus 0.50% or the Adjusted Eurodollar Rate for a one month interest period on such day plus 1.0%. The weighted average interest rate for the amended revolving credit facility at December 25, 2018 and December 26, 2017 was 3.81% and 2.37%, respectively. At December 25, 2018, we had $191.6 million of availability, net of $8.4 million of outstanding letters of credit.

The lenders' obligation to extend credit pursuant to the Amended Credit Agreement depends on us maintaining certain financial covenants, including a minimum consolidated fixed charge coverage ratio of 2.00 to 1.00 and a maximum consolidated leverage ratio of 3.00 to 1.00. The Amended Credit Agreement permits us to incur additional secured or unsecured indebtedness outside the amended revolving credit facility, except for the incurrence of secured indebtedness that in the aggregate is equal to or greater than $125.0 million and 20% of our consolidated tangible net worth. We were in compliance with all financial covenants as of December 25, 2018.

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Contractual Obligations

The following table summarizes the amount of payments due under specified contractual obligations as of December 25, 2018 (in thousands):

	Payments Due by Period				
	Total	Less than 1 year	1 - 3 Years	3 - 5 Years	More than 5 years
Obligation under capital lease	$ 2,081	$ —	$ —	—	2,081
Interest on capital lease	5,210	276	559	566	3,809
Operating lease obligations	927,330	50,030	99,499	100,091	677,710
Capital obligations	168,282	168,282	—	—	—
Total contractual obligations(1)	$ 1,102,903	$ 218,588	$ 100,058	$ 100,657	$ 683,600

(1) Excluded from this amount are certain immaterial items including unrecognized tax benefits under Accounting Standards Codification ("ASC") 740 as they are immaterial.

We have no material minimum purchase commitments with our vendors that extend beyond a year. See notes 5 and 8 to the Consolidated Financial Statements for details of contractual obligations.

Off Balance Sheet Arrangements

Except for operating leases (primarily restaurant leases), we do not have any off balance sheet arrangements.

Guarantees

As of December 25, 2018 and December 26, 2017, we are contingently liable for $14.8 million and $15.6 million, respectively, for seven leases, listed in the table below. These amounts represent the maximum potential liability of future payments under the guarantees. In the event of default, the indemnity and default clauses in our assignment agreements govern our ability to pursue and recover damages incurred. No material liabilities have been recorded as of December 25, 2018, as the likelihood of default was deemed to be less than probable and the fair value of the guarantees is not considered significant.

	Lease Assignment Date	Current Lease Term Expiration
Everett, Massachusetts (1)(2)	September 2002	February 2023
Longmont, Colorado (1)	October 2003	May 2029
Montgomeryville, Pennsylvania (1)	October 2004	March 2021
Fargo, North Dakota (1)(2)	February 2006	July 2021
Logan, Utah (1)	January 2009	August 2024
Irving, Texas (3)	December 2013	December 2019
Louisville, Kentucky (3)(4)	December 2013	November 2023

(1) Real estate lease agreements for restaurant locations which we entered into before granting franchise rights to those restaurants. We have subsequently assigned the leases to the franchisees, but remain contingently liable, under the terms of the lease, if the franchisee defaults.

(2) As discussed in note 19, these restaurants are owned, in whole or part, by certain officers, directors and 5%

shareholders of the Company.

(3) Leases associated with a restaurant concept which was sold. The leases were assigned to the acquirer, but we remain contingently liable under the terms of the lease if the acquirer defaults.

(4) We may be released from liability after the initial lease term expiration contingent upon certain conditions being met by the acquirer.

Critical Accounting Policies and Estimates

The above discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and disclosures of contingent assets and liabilities. Our significant accounting policies are described in note 2 to the accompanying consolidated financial statements. Critical accounting policies are those that we believe are most important to portraying our financial condition and results of operations and also require the greatest amount of subjective or complex judgments by management. Judgments or uncertainties regarding the application of these policies may result in materially different amounts being reported under different conditions or using different assumptions. We consider the following policies to be the most critical in understanding the judgments that are involved in preparing the consolidated financial statements.

Impairment of Long lived Assets. We evaluate long lived assets related to each restaurant to be held and used in the business, such as property and equipment and intangible assets subject to amortization, for impairment whenever events and circumstances indicate that the carrying amount of a restaurant may not be recoverable. When we evaluate restaurants, cash flows are the primary indicator of impairment. Recoverability of assets to be held and used is measured by comparison of the carrying amount of the restaurant to estimated undiscounted future cash flows expected to be generated by the restaurant. Under our policies, trailing 12 month cash flow results below $300,000 at the individual restaurant level signals a potential impairment. In our evaluation of restaurants that do not meet the cash flow threshold, we estimate future undiscounted cash flows from operating the restaurant over its estimated useful life, which can be a period of over 20 years. In the estimation of future cash flows, we consider the period of time the restaurant has been open, the trend of operations over such period and future periods and expectations for future sales growth. We limit assumptions about important factors such as trend of future operations and sales growth to those that are supportable based upon our plans for the restaurant and actual results at comparable restaurants. Both qualitative and quantitative information are considered when evaluating for potential impairments. As we assess the ongoing expected cash flows and carrying amounts of our long lived assets, these factors could cause us to realize a material impairment charge.

If assets are determined to be impaired, we measure the impairment charge by calculating the amount by which the asset carrying amount exceeds its estimated fair value. The determination of asset fair value is also subject to significant judgment. We generally measure estimated fair value by independent third party appraisal or discounting estimated future cash flows. When fair value is measured by discounting estimated future cash flows, the assumptions used are consistent with what we believe hypothetical market participants would use. We also use a discount rate that is commensurate with the risk inherent in the projected cash flows. If these assumptions change in the future, we may be required to record impairment charges for these assets.

At December 25, 2018, we had 16 restaurants whose trailing 12 month cash flows did not meet the $300,000 threshold. However, the future undiscounted cash flows from operating each of these restaurants over their remaining estimated useful lives exceeded their respective remaining carrying values and no assets were determined to be impaired.

See note 16 in the Consolidated Financial Statements for further discussion regarding closures and impairments recorded in 2018, 2017 and 2016, including the impairments of goodwill and other long lived assets.

Goodwill. Goodwill is tested annually for impairment, and is tested more frequently if events and circumstances indicate that the asset might be impaired. We have assigned goodwill to our reporting units, which we consider to be the individual restaurant level. An impairment loss is recognized to the extent that the carrying amount exceeds the implied fair value of goodwill. The determination of impairment consists of two steps. First, we determine the fair value of the reporting unit and compare it to its carrying amount. The fair value of the reporting unit may be based on several valuation approaches including capitalization of earnings, discounted cash flows, comparable public company market multiples and comparable acquisition market multiples. Second, if the carrying amount of the reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of the goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit, in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

The valuation approaches used to determine fair value are subject to key judgments and assumptions that are sensitive to change such as appropriate revenue growth rates, operating margins, weighted average cost of capital, and comparable company and acquisition market multiples. In estimating the fair value using the capitalization of earnings or discounted cash flows methods we consider the period of time the restaurant has been open, the trend of operations over such period and future periods, expectations of future sales growth and terminal value. Assumptions about important factors such as the trend of future operations and sales growth are limited to those that are supportable based upon the plans for the restaurant and actual results at comparable restaurants. When developing these key judgments and assumptions, we consider economic, operational and market conditions that could impact fair value. The judgments and assumptions used are consistent with what we believe hypothetical market participants would use. However, estimates are inherently uncertain and represent only our reasonable expectations regarding future developments. If the estimates used in performing the impairment test prove inaccurate, the fair value of the restaurants may ultimately prove to be significantly lower, thereby causing the carrying value to exceed the fair value and indicating impairment has occurred.

At December 25, 2018, we had 70 reporting units, primarily at the restaurant level, with allocated goodwill of $123.2 million. The average amount of goodwill associated with each reporting unit is $1.8 million with six reporting units having goodwill in excess of $4.0 million. We did not record any impairment charges as a result of our annual impairment analysis in 2018. We are not currently monitoring any restaurants for potential impairment. Since we determine the fair value of goodwill at the restaurant level, any significant decreases in cash flows at these restaurants or others could trigger an impairment charge in the future. The fair value of each of our reporting units was substantially in excess of their respective carrying values as of the 2018 goodwill impairment test. See note 16 in the Consolidated Financial Statements for further discussion regarding closures and impairments recorded in 2018, 2017 and 2016, including the impairments of goodwill and other long lived assets.

Effects of Inflation

We have not operated in a period of high general inflation for the last several years; however, we have experienced material increases in certain commodity costs, specifically beef, in the past. In addition, a significant number of our employees are paid at rates related to the federal and/or state minimum wage and, accordingly, increases in minimum wage have increased our labor costs for the last several years. We have increased menu prices and made other adjustments over the past few years, in an effort to offset increases in our restaurant and operating costs resulting from inflation. Whether we are able and/or choose to continue to offset the effects of inflation will determine to what extent, if any, inflation affects our restaurant profitability in future periods.

ITEM 7A—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in interest rates on debt and changes in commodity prices. Our exposure to interest rate fluctuations is limited to our outstanding bank debt. The terms of the amended revolving credit facility require us to pay interest on outstanding borrowings at London Interbank Offering Rate ("LIBOR") plus a margin of 0.875% to 1.875%, depending on our leverage ratio, or the Alternate Base Rate, which is the highest of the issuing bank's prime lending rate, the Federal Funds rate plus 0.50% or the Adjusted Eurodollar Rate for a one month interest period on such day plus 1.0%. As of December 25, 2018, we had no outstanding borrowings under our revolving credit facility, which bears interest at approximately 87.5 to 187.5 basis points (depending on our leverage ratios) over LIBOR. As of December 25, 2018, we had no outstanding borrowings under our revolving credit facility.

In an effort to secure high quality, low cost ingredients used in the products sold in our restaurants, we employ various purchasing and pricing contract techniques. When purchasing certain types of commodities, we may be subject to prevailing market conditions resulting in unpredictable price volatility. For certain commodities, we may also enter into contracts for terms of one year or less that are either fixed price agreements or fixed volume agreements where the price is negotiated with reference to fluctuating market prices. We currently do not use financial instruments to hedge commodity prices, but we will continue to evaluate their effectiveness. Extreme and/or long term increases in commodity prices could adversely affect our future results, especially if we are unable, primarily due to competitive reasons, to increase menu prices. Additionally, if there is a time lag between the increasing commodity prices and our ability to increase menu prices or if we believe the commodity price increase to be short in duration and we choose not to pass on the cost increases, our short term financial results could be negatively affected.

We are subject to business risk as our beef supply is highly dependent upon three vendors. If these vendors were unable to fulfill their obligations under their contracts, we may encounter supply shortages and incur higher costs to secure adequate supplies, any of which would harm our business.

ITEM 8—FINANCIAL STATEMENTS AND SUPPLEMENTARY FINANCIAL DATA

See Index to Consolidated Financial Statements at Item 15.

ITEM 9—CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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ITEM 9A—CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to, and as defined in, Rules 13a 15(e) and 15d 15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on the evaluation, performed under the supervision and with the participation of our management, including the Chief Executive Officer (the "CEO") and the Chief Financial Officer (the "CFO"), our management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective as of December 25, 2018.

Changes in internal control

During the fourth quarter of 2018, there were no changes with respect to our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management’s Report on Internal Control over Financial Reporting

Under Section 404 of the Sarbanes Oxley Act of 2002, our management is required to assess the effectiveness of the Company’s internal control over financial reporting as of the end of each fiscal year and report, based on that assessment, whether the Company’s internal control over financial reporting is effective.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Exchange Act Rule 13a 15(f), internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Therefore, internal control over financial reporting determined to be effective can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

Under the supervision and with the participation of our management, including our CEO and CFO, we assessed the effectiveness of the Company’s internal control over financial reporting as of the end of the period covered by this report. In this assessment, the Company applied criteria based on the "Internal Control—Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. These criteria are in the areas of control environment, risk assessment, control activities, information and communication, and monitoring. The Company’s assessment included documenting, evaluating and testing the design and operating effectiveness of its internal control over financial reporting. Based upon this evaluation, our management concluded that our internal control over financial reporting was effective as of December 25, 2018.

KPMG LLP, the independent registered public accounting firm that audited our Consolidated Financial Statements included in the Annual Report on Form 10 K, has also audited the effectiveness of the Company’s internal control over financial reporting as of December 25, 2018 as stated in their report at F 2.

ITEM 9B—OTHER INFORMATION

None.

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PART III

ITEM 10—DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding our directors is incorporated herein by reference to the information set forth under "Election of Directors" in our Definitive Proxy Statement to be dated approximately April 12, 2019.

Information regarding our executive officers has been included in Part I of this Annual Report under the caption "Executive Officers of the Company."

Information regarding our corporate governance is incorporated herein by reference to the information set forth in our Definitive Proxy Statement to be dated approximately April 12, 2019.

ITEM 11—EXECUTIVE COMPENSATION

Incorporated by reference from our Definitive Proxy Statement to be dated approximately April 12, 2019.

ITEM 12—SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Incorporated by reference from our Definitive Proxy Statement to be dated approximately April 12, 2019.

Equity Compensation Plans

As of December 25, 2018, shares of common stock authorized for issuance under our equity compensation plans are summarized in the following table. See note 14 to the Consolidated Financial Statements for a description of the plans.

Plan Category	Shares to Be Issued Upon Vest Date (1)	Shares Available for Future Grants
Plans approved by stockholders	914,945	3,673,461
Plans not approved by stockholders	—	—
Total	914,945	3,673,461

(1) Total number of shares includes 824,495 restricted stock units and 90,000 performance stock units. Shares in this column are excluded from The Shares Available for Future Grants column. See note 14 to the Consolidated Financial Statements.

ITEM 13—CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Incorporated by reference from our Definitive Proxy Statement to be dated approximately April 12, 2019.

ITEM 14—PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated by reference from our Definitive Proxy Statement to be dated approximately April 12, 2019.

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PART IV

ITEM 15—EXHIBITS, FINANCIAL STATEMENT SCHEDULES

1.Consolidated Financial Statements

2.Financial Statement Schedules

Omitted due to inapplicability or because required information is shown in our Consolidated Financial Statements or notes thereto.

3.Exhibits

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Quarterly Report on Form 10-Q for the period ended June 28, 2016) (File No. 000- 50972)
3.2	Bylaws of Registrant (incorporated by reference to Exhibit 3.3 to the Registration Statement on Form S 1 of Registrant (File No. 333 115259))
4.1	Registration Rights Agreement, dated as of May 7, 2004, among Registrant and others (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S 1 of Registrant (File No. 333 115259))
10.1*	Texas Roadhouse, Inc. 2004 Equity Incentive Plan (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S 8 of Registrant (File No. 333 121241))
10.2	Form of Director and Executive Officer Indemnification Agreement (incorporated by reference to Exhibit 10.9 to the Registration Statement on Form S 1 of Registrant (File No. 333 115259))
10.3	Form of Limited Partnership Agreement and Operating Agreement for certain company managed Texas Roadhouse restaurants, including schedule of the owners of such restaurants and the aggregate interests held by directors, executive officers and 5% stockholders who are parties to such an agreement (incorporated by reference to Exhibit 10.10 to the Registration Statement on Form S 1 of Registrant (File No. 333 115259))
10.6	Form of Franchise Agreement and Preliminary Agreement for a Texas Roadhouse restaurant franchise, including schedule of directors, executive officers and 5% stockholders which have entered into either agreement (incorporated by reference to Exhibit 10.14 to the Registration Statement on Form S 1 of Registrant (File No. 333 115259))
10.7	

	Schedule of the owners of company managed Texas Roadhouse restaurants and the aggregate interests held by directors, executive officers and 5% stockholders who are parties to Limited Partnership Agreements and Operating Agreements as of December 25, 2018 the form of which is set forth in Exhibit 10.3 of this Form 10 K
10.8	Schedule of the directors, executive officers and 5% stockholders which have entered into Franchise Agreements or Preliminary Agreements for a Texas Roadhouse Franchise as of December 25, 2018 the form of which is set forth in Exhibit 10.6 of this Form 10 K
10.11	Amended and Restated Lease Agreement (Two Paragon Centre) dated January 1, 2006 between Paragon Centre Holdings, LLC and Texas Roadhouse Holdings LLC (incorporated by reference to Exhibit 10.17 of Registrant's Quarterly Report on Form 10 Q for the quarter ended June 27, 2006) (File No. 000 50972)

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Exhibit No.	Description
10.12	First Amendment to Amended and Restated Lease Agreement (Two Paragon Centre) dated December 18, 2006 between Paragon Centre Holdings LLC and Texas Roadhouse Holdings LLC (incorporated by reference to Exhibit 10.21 of Registrant's Annual Report on Form 10 K for the year ended December 26, 2006) (File No. 000 50972)
10.13	Second Amendment to Amended and Restated Lease Agreement (Two Paragon Centre) dated May 10, 2007 between Paragon Centre Holdings, LLC and Texas Roadhouse Holdings, LLC (incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10 Q for the quarter ended June 26, 2007) (File No. 000 50972)
10.14	Third Amendment to Amended and Restated Lease Agreement (Two Paragon Centre) dated September 7, 2007 between Paragon Centre Holdings, LLC and Texas Roadhouse Holdings, LLC (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10 Q for the quarter ended September 25, 2007) (File No. 000 50972)
10.15	Fourth Amendment dated July 22, 2009, and Fifth Amendment dated November 15, 2013, to Amended and Restated Lease Agreement (Two Paragon Centre) between Paragon Centre Holdings, LLC and Texas Roadhouse Holdings, LLC (incorporated by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the year ended December 30, 2014 (File No. 000-50972))
10.16*	Form of Restricted Stock Unit Award Agreement under the 2004 Equity Incentive Plan (incorporated by reference to Exhibit 10.19 of Registrant's Annual Report on Form 10 K for the year ended December 25, 2007 (File No. 000 50972))
10.17*	Form of First Amendment to Restricted Stock Unit Award Agreement under the 2004 Equity Incentive Plan with non management directors (incorporated by reference to Exhibit 10.20 of Registrant's Annual Report on Form 10 K for the year ended December 30, 2008 (File No. 000 50972))
10.18*	Amendment to Texas Roadhouse, Inc. 2004 Equity Incentive Plan (incorporated by reference to Exhibit 10.21 of Registrant's Annual Report on Form 10 K for the year ended December 30, 2008 (File No. 000 50972))
10.19*	Texas Roadhouse, Inc. 2013 Long Term Incentive Plan (incorporated by reference from Appendix A to the Texas Roadhouse, Inc. Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 5, 2013 (File No. 000 50972))
10.20*	Form of Restricted Stock Unit Award under the Texas Roadhouse, Inc. 2013 Long Term Incentive Plan (incorporated by reference to Exhibit 10.2 of Registrant's Quarterly Report on Form 10 Q for the quarter ended June 25, 2013 (File No. 000 50972))
10.21*	Texas Roadhouse, Inc. Cash Bonus Plan for cash incentive awards granted pursuant to the Texas Roadhouse, Inc. 2013 Long Term Incentive Plan (incorporated by reference to Exhibit 10.3 of Registrant's Quarterly Report on Form 10 Q for the quarter ended June 25, 2013 (File No. 000 50972))
10.22*	Employment Agreement between the Registrant and W. Kent Taylor, entered into as of January 8, 2015 (incorporated by reference to Exhibit 10.35 to the Registrant's Annual Report on Form 10-K for the year ended December 30, 2014 (File No. 000-50972))
10.23*	Employment Agreement between the Registrant and Scott M. Colosi, entered into as of January 8, 2015 (incorporated by reference to Exhibit 10.36 to the Registrant's Annual Report on Form 10-K for the year ended December 30, 2014 (File No. 000-50972))
10.24*	Employment Agreement between the Registrant and Celia Catlett, entered into as of January 8, 2015 (incorporated by reference to Exhibit 10.38 to the Registrant's Annual Report on Form 10-K for the year ended December 30, 2014 (File No. 000-50972))
10.25*	Employment Agreement between the Registrant and W. Kent Taylor entered into as of December 26, 2017
10.26*	Employment Agreement between the Registrant and Scott M. Colosi entered into as of December 26, 2017 (incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K ended

	December 26, 2017 (File No. 000-50972))
10.27*	Employment Agreement between the Registrant and Celia Catlett entered into as of December 26, 2017 (incorporated by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K ended December 26, 2017 (File No. 000-50972))

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Exhibit No.	Description
10.28*	Employment Agreement between the Registrant and S. Chris Jacobsen entered into as of December 26, 2017 (incorporated by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K ended December 26, 2017 (File No. 000-50972))
10.29*	Form of Performance Stock Unit Award Agreement under the Texas Roadhouse, Inc. 2013 Long Term Incentive Plan (incorporated by reference to Exhibit 10.36 to the Registrant's Annual Report on Form 10-K for the year ended December 29, 2015 (File No. 000-50972))
10.30*	First Amendment to Employment Agreement between Texas Roadhouse Management Corp. and Scott M. Colosi entered into as of May 17, 2018 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated May 18, 2018 (File No. 000-50972))
10.31*	Employment Agreement between Texas Roadhouse Management Corp. and Tonya Robinson entered into as of May 18, 2018 (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 26, 2018 (File No. 000-50972))
10.32*	Employment Agreement between Texas Roadhouse Management Corp. and Doug Thompson entered into as of August 23, 2018 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 25, 2018 (File No. 000-50972))
10.33*	Amended and Restated Form of Restricted Stock Unit Award Agreement under the Texas Roadhouse, Inc. 2013 Long Term Incentive Plan for officers (incorporated by reference to Exhibit 10.40 to the Registrant's Annual Report on Form 10-K for the year ended December 30, 2014 (File No. 000-50972))
10.34*	Amended and Restated Form of Restricted Stock Unit Award Agreement under the Texas Roadhouse, Inc. 2013 Long Term Incentive Plan for non officers (incorporated by reference to Exhibit 10.41 to the Registrant's Annual Report on Form 10-K for the year ended December 30, 2014 (File No. 000-50972))
10.35*	Second Amended and Restated Deferred Compensation Plan of Texas Roadhouse Management Corp., as amended December 19, 2007 and December 31, 2008 (incorporated by reference to Exhibit 10.42 to the Registrant's Annual Report on Form 10-K for the year ended December 30, 2014 (File No. 000-50972))
10.36*	Third Amended and Restated Deferred Compensation Plan of Texas Roadhouse Management Corp., effective January 1, 2010 (incorporated by reference to Exhibit 10.43 to the Registrant's Annual Report on Form 10-K for the year ended December 30, 2014 (File No. 000-50972))
10.37	Lease Agreement dated December 11, 2012 between Paragon Centre Holdings, LLC and Texas Roadhouse Holdings LLC (incorporated by reference to Exhibit 10.42 to the Registrant's Annual Report on Form 10-K for the year ended December 29, 2015 (File No. 000-50972))
10.38	First Amendment to Lease Agreement dated January 10, 2013 between Paragon Centre Holdings, LLC and Texas Roadhouse Holdings LLC (incorporated by reference to Exhibit 10.43 to the Registrant's Annual Report on Form 10-K for the year ended December 29, 2015 (File No. 000-50972))
10.39	Second Amendment to Lease Agreement dated February 11, 2015 between Paragon Centre Holdings, LLC and Texas Roadhouse Holdings LLC (incorporated by reference to Exhibit 10.44 to the Registrant's Annual Report on Form 10-K for the year ended December 29, 2015 (File No. 000-50972))
10.38	Third Amendment to Lease Agreement dated January 26, 2016 between Paragon Centre Holdings, LLC and Texas Roadhouse Holdings LLC (incorporated by reference to Exhibit 10.45 to the Registrant's Annual Report on Form 10-K for the year ended December 29, 2015 (File No. 000-50972))
10.39*	Employment agreement between the Registrant and S. Chris Jacobsen, entered into as of February 11, 2016 (incorporated by reference to Exhibit 10.46 to the Registrant's Annual Report on Form 10-K for the year ended December 29, 2015 (File No. 000-50972))
10.40*	Form of Nonqualified Stock Option Agreement under Texas Roadhouse, Inc. 2013 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.47 to the Registrant's Annual Report on Form 10-K for the year ended December 29, 2015 (File No. 000-50972))
10.41	

	Fourth Amendment to Lease Agreement dated January 13, 2017 between Paragon Centre Holdings, LLC and Texas Roadhouse Holdings LLC (incorporated by reference to Exhibit 10.36 to the Registrant's Annual Report on Form 10-K for the year ended December 27, 2016 (File No. 000-50972))
10.42	Fifth Amendment to Lease Agreement dated November 2, 2017 between Paragon Centre Holdings, LLC and Texas Roadhouse Holdings LLC (incorporated by reference to Exhibit 10.41 to the Registrant's Annual Report on Form 10-K ended December 26, 2017 (File No. 000-50972))

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Exhibit No.	Description
10.43	Sixth Amendment to Lease Agreement dated June 27, 2018 between Paragon Centre Holdings, LLC and Texas Roadhouse Holdings LLC (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 26, 2018 (File No. 000-50972))
10.44	Master Lease Agreement dated October 26, 2018 between Paragon Centre Holdings, LLC and Texas Roadhouse Holdings LLC (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 25, 2018 (File No. 000-50972))
10.45	Consent Decree dated March 31, 2017, among Texas Roadhouse, Inc., Texas Roadhouse Holdings LLC, Texas Roadhouse Management Corp. and the EEOC (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated March 31, 2017 (File No. 000-50972))
10.46	Amended and Restated Credit Agreement dated as of August 7, 2017, by and among Texas Roadhouse Inc., and the lenders named therein and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated August 7, 2017 (File No. 000-50972))
10.47	Asset Purchase Agreement dated as of December 3, 2018 between Texas Roadhouse, Inc., Texas Roadhouse Holdings, LLC, Green Brothers Dining, Inc. and W. Kent Taylor and Maynard Investments, LLC.
21.1	List of Subsidiaries
23.1	Consent of KPMG LLP, Independent Registered Public Accounting Firm
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002
101	The following financial statements from the Texas Roadhouse, Inc. Annual Report on Form 10 K for the year ended December 25, 2018, filed February 22, 2019, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income and Comprehensive Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) the Notes to the Consolidated Financial Statements.

*Management contract or compensatory plan or arrangement required to be filed as an exhibit to Form 10 K.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TEXAS ROADHOUSE, INC.

By: /s/ W. Kent Taylor
W. Kent Taylor
Chairman of the Company, Chief Executive Officer, Director
Date: February 22, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Annual Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ W. Kent Taylor W. Kent Taylor	Chairman of the Company, Chief Executive Officer, Director (Principal Executive Officer)	February 22, 2019
/s/ Tonya R. Robinson Tonya R. Robinson	Chief Financial Officer (Principal Financial Officer) (Principal Accounting Officer)	February 22, 2019
/s/ Gregory N. Moore Gregory N. Moore	Director	February 22, 2019
/s/ Curtis A. Warfield Curtis A. Warfield	Director	February 22, 2019
/s/ Kathleen M. Widmer Kathleen M. Widmer	Director	February 22, 2019
/s/ James R. Zarley James R. Zarley	Director	February 22, 2019

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Texas Roadhouse, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Texas Roadhouse, Inc. and subsidiaries (the "Company") as of December 25, 2018 and December 26, 2017, the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the years in the three year period ended December 25, 2018, and the related notes (collectively, the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 25, 2018 and December 26, 2017, and the results of its operations and its cash flows for each of the years in the three year period ended December 25, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 25, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 22, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, effective December 27, 2017, the Company has changed its method of accounting for revenue from contracts with customers due to the adoption of Financial Accounting Standards Board Accounting Standard Codification Topic 606, Revenue from Contracts with Customers.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 1998.

Louisville, Kentucky
February 22, 2019

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Texas Roadhouse, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Texas Roadhouse, Inc. and subsidiaries' (the "Company") internal control over financial reporting as of December 25, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 25, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 25, 2018 and December 26, 2017, the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 25, 2018, and the related notes (collectively, the "consolidated financial statements"), and our report dated February 22, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Louisville, Kentucky
February 22, 2019

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Texas Roadhouse, Inc. and Subsidiaries

Consolidated Balance Sheets

(in thousands, except share and per share data)

	December 25, 2018	December 26, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 210,125	$ 150,918
Receivables, net of allowance for doubtful accounts of $34 at December 25, 2018 and $43 at December 26, 2017	92,114	76,496
Inventories, net	18,827	16,306
Prepaid income taxes	7,569	—
Prepaid expenses	16,384	13,361
Total current assets	345,019	257,081
Property and equipment, net of accumulated depreciation of $602,451 at December 25, 2018 and $527,710 at December 26, 2017	956,676	912,147
Goodwill	123,220	121,040
Intangible assets, net of accumulated amortization of $13,416 at December 25, 2018 and $12,675 at December 26, 2017	1,959	2,700
Other assets	42,402	37,655
Total assets	$ 1,469,276	$ 1,330,623
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 62,060	$ 57,579
Deferred revenue-gift cards	192,242	156,627
Accrued wages	34,159	29,678
Income taxes payable	—	2,494
Accrued taxes and licenses	24,631	21,997
Dividends payable	17,904	14,945
Other accrued liabilities	54,146	46,678
Total current liabilities	385,142	329,998
Long-term debt and obligation under capital lease, excluding current maturities	2,081	51,981
Restricted stock and other deposits	7,703	7,699
Deferred rent	48,079	42,141
Deferred tax liabilities, net	17,268	5,301
Other liabilities	48,295	42,112
Total liabilities	508,568	479,232
Texas Roadhouse, Inc. and subsidiaries stockholders' equity:		
Preferred stock ($0.001 par value, 1,000,000 shares authorized; no shares issued or outstanding)	—	—
Common stock ($0.001 par value, 100,000,000 shares authorized, 71,617,510 and 71,168,897 shares issued and outstanding at December 25, 2018 and December 26, 2017, respectively)	72	71

Additional paid-in-capital	257,388	236,548
Retained earnings	688,337	602,499
Accumulated other comprehensive loss	(228)	(39)
Total Texas Roadhouse, Inc. and subsidiaries stockholders' equity	945,569	839,079
Noncontrolling interests	15,139	12,312
Total equity	960,708	851,391
Total liabilities and equity	$ 1,469,276	$ 1,330,623

See accompanying notes to Consolidated Financial Statements.

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Texas Roadhouse, Inc. and Subsidiaries

Consolidated Statements of Income and Comprehensive Income

(in thousands, except per share data)

	Fiscal Year Ended		
	December 25, 2018	December 26, 2017	December 27, 2016
Revenue:			
Restaurant and other sales	$ 2,437,115	$ 2,203,017	$ 1,974,261
Franchise royalties and fees	20,334	16,514	16,453
Total revenue	2,457,449	2,219,531	1,990,714
Costs and expenses:			
Restaurant operating costs (excluding depreciation and amortization shown separately below):			
Cost of sales	795,300	721,550	669,203
Labor	793,384	687,545	590,256
Rent	48,791	44,807	40,580
Other operating	375,477	342,702	305,290
Pre-opening	19,051	19,274	19,547
Depreciation and amortization	101,216	93,499	82,964
Impairment and closure	278	654	179
General and administrative	136,163	123,294	110,795
Total costs and expenses	2,269,660	2,033,325	1,818,814
Income from operations	187,789	186,206	171,900
Interest expense, net	591	1,577	1,255
Equity income from investments in unconsolidated affiliates	(1,353)	(1,488)	(1,111)
Income before taxes	188,551	186,117	171,756
Provision for income taxes	24,257	48,581	51,183
Net income including noncontrolling interests	164,294	137,536	120,573
Less: Net income attributable to noncontrolling interests	6,069	6,010	4,975
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	$ 158,225	$ 131,526	$ 115,598
Other comprehensive (loss) income, net of tax:			
Unrealized gain on derivatives, net of tax of ($-), ($-) and ($18)	—	—	27
Foreign currency translation adjustment, net of tax of $53, ($97) and $70, respectively	(189)	155	(112)
Total other comprehensive (loss) income, net of tax	(189)	155	(85)
Total comprehensive income	$ 158,036	$ 131,681	$ 115,513
Net income per common share attributable to Texas Roadhouse, Inc. and subsidiaries:			
Basic	$ 2.21	$ 1.85	$ 1.64
Diluted	$ 2.20	$ 1.84	$ 1.63
Weighted average shares outstanding:			
Basic	71,467	70,989	70,396
Diluted	71,964	71,527	71,052

Cash dividends declared per share	$ 1.00	$ 0.84	$ 0.76

See accompanying notes to Consolidated Financial Statements.

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Texas Roadhouse, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

(tabular amounts in thousands, except share data)

	Shares	Par Value	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Texas Roadhouse, Inc. and Subsidiaries	Noncontrolling Interests	Total
Balance, December 29, 2015	70,091,203	$ 70	$ 201,023	$ 468,678	$ (109)	$ 669,662	$ 7,520	$ 677,182
Net income	—	—	—	115,598	—	115,598	4,975	120,573
Other comprehensive loss, net	—	—	—	—	(85)	(85)	—	(85)
Distributions to noncontrolling interest holders	—	—	—	—	—	—	(4,479)	(4,479)
Dividends declared ($0.76 per share)	—	—	—	(53,553)	—	(53,553)	—	(53,553)
Shares issued under share-based compensation plans including tax effects	879,042	1	5,958	—	—	5,959	—	5,959
Repurchase of shares of common stock	(114,700)	—	(4,110)	—	—	(4,110)	—	(4,110)
Indirect repurchase of shares for minimum tax withholdings	(235,808)	—	(9,312)	—	—	(9,312)	—	(9,312)
Share-based compensation	—	—	26,067	—	—	26,067	—	26,067
Balance, December 27, 2016	70,619,737	$ 71	$ 219,626	$ 530,723	$ (194)	$ 750,226	$ 8,016	$ 758,242
Net income	—	—	—	131,526	—	131,526	6,010	137,536
Other comprehensive income, net	—	—	—	—	155	155	—	155

Noncontrolling interests contribution	—	—	—	—	—	—	3,457	3,457
Distributions to noncontrolling interest holders	—	—	—	—	—	—	(5,171)	(5,171)
Dividends declared ($0.84 per share)	—	—	—	(59,681)	—	(59,681)	—	(59,681)
Shares issued under share-based compensation plans including tax effects	800,189	1	1,557	—	—	1,558	—	1,558
Indirect repurchase of shares for minimum tax withholdings	(251,029)	(1)	(11,638)	—	—	(11,639)	—	(11,639)
Cumulative effect of change in accounting principle	—	—	69	(69)	—	—	—	—
Share-based compensation	—	—	26,934	—		26,934	—	26,934
Balance, December 26, 2017	71,168,897	$ 71	$ 236,548	$ 602,499	$ (39)	$ 839,079	$ 12,312	$ 851,391
Net income	—	—	—	158,225	—	158,225	6,069	164,294
Other comprehensive loss, net	—	—	—	—	(189)	(189)	—	(189)
Noncontrolling interests contribution	—	—	—	—	—	—	2,551	2,551
Distributions to noncontrolling interest holders	—	—	—	—	—	—	(5,746)	(5,746)
Acquisition of noncontrolling interest	—	—	(75)	—	—	(75)	(47)	(122)
Contribution from executive officer	—	—	1,000	—	—	1,000	—	1,000
Dividends declared ($1.00 per share)	—	—	—	(71,509)	—	(71,509)	—	(71,509)
Shares issued under	684,804	1	(1)	—	—	—	—	—

share-based compensation plans including tax effects								
Indirect repurchase of shares for minimum tax withholdings	(236,191)	—	(14,067)	—	—	(14,067)	—	(14,067)
Cumulative effect of change in accounting principle	—	—	—	(878)	—	(878)	—	(878)
Share-based compensation	—	—	33,983	—	—	33,983	—	33,983
Balance, December 25, 2018	71,617,510	$ 72	$ 257,388	$ 688,337	$ (228)	$ 945,569	$ 15,139	$ 960,708

See accompanying notes to Consolidated Financial Statements.

Texas Roadhouse, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)

	December 25, 2018	December 26, 2017	December 27, 2016
Cash flows from operating activities:			
Net income including noncontrolling interests	$ 164,294	$ 137,536	$ 120,573
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	101,216	93,499	82,964
Deferred income taxes	12,319	(5,069)	5,994
Loss on disposition of assets	6,008	4,961	5,125
Impairment and closure costs	105	600	139
Contribution from executive officer	1,000	—	—
Equity income from investments in unconsolidated affiliates	(1,353)	(1,488)	(1,111)
Distributions of income received from investments in unconsolidated affiliates	656	1,424	1,901
Provision for doubtful accounts	(9)	10	27
Share-based compensation expense	33,983	26,934	26,067
Changes in operating working capital:			
Receivables	(15,597)	(20,379)	(10,733)
Inventories	(2,495)	(48)	(455)
Prepaid expenses	(3,023)	(1,211)	(855)
Other assets	(4,290)	(7,401)	(4,229)
Accounts payable	8,882	1,601	138
Deferred revenue—gift cards	35,519	26,678	28,284
Accrued wages	4,481	3,639	(10,194)
Excess tax benefits from share-based compensation	—	—	(3,291)
Prepaid income taxes and income taxes payable	(8,581)	3,448	2,300
Accrued taxes and licenses	2,634	2,299	919
Other accrued liabilities	7,569	5,148	3,326
Deferred rent	5,938	6,038	4,610
Other liabilities	3,612	8,154	5,566
Net cash provided by operating activities	352,868	286,373	257,065
Cash flows from investing activities:			
Capital expenditures—property and equipment	(155,980)	(161,628)	(164,738)
Acquisition of franchise restaurants, net of cash acquired	(2,165)	(16,528)	—
Net cash used in investing activities	(158,145)	(178,156)	(164,738)
Cash flows from financing activities:			
Proceeds from revolving credit facility, net	—	—	25,000
Debt issuance costs	—	(476)	—
Proceeds from noncontrolling interest contribution and other	2,551	3,457	—
Distributions to noncontrolling interest holders	(5,746)	(5,171)	(4,479)
Acquisition of noncontrolling interest	(122)	—	—

Repurchase of shares of common stock	—	—	(4,110)
Excess tax benefits from share-based compensation	—	—	3,291
Proceeds from restricted stock and other deposits, net	418	740	419
Indirect repurchase of shares for minimum tax withholdings	(14,067)	(11,639)	(9,312)
Principal payments on long-term debt and capital lease obligation	(50,000)	(558)	(145)
Proceeds from exercise of stock options	—	1,558	2,673
Dividends paid to shareholders	(68,550)	(58,154)	(52,054)
Net cash used in financing activities	(135,516)	(70,243)	(38,717)
Net increase in cash and cash equivalents	59,207	37,974	53,610
Cash and cash equivalents—beginning of period	150,918	112,944	59,334
Cash and cash equivalents—end of period	$ 210,125	$ 150,918	$ 112,944
Supplemental disclosures of cash flow information:			
Interest paid, net of amounts capitalized	$ 896	$ 1,216	$ 1,011
Income taxes paid	$ 20,519	$ 50,201	$ 42,890
Capital expenditures included in current liabilities	$ 7,332	$ 12,156	$ 2,781
Obligation under capital lease	$ —	$ —	$ 2,000

See accompanying notes to Consolidated Financial Statements.

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Texas Roadhouse, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Tabular amounts in thousands, except share and per share data)

(1) Description of Business

The accompanying Consolidated Financial Statements include the accounts of Texas Roadhouse, Inc. ("TRI"), our wholly owned subsidiaries and subsidiaries in which we have a controlling interest (collectively, the "Company," "we," "our" and/or "us") as of December 25, 2018 and December 26, 2017 and for each of the years in the three-year period ended December 25, 2018.

As of December 25, 2018, we owned and operated 491 restaurants and franchised an additional 91 restaurants in 49 states and nine foreign countries. Of the 491 company restaurants that were operating at December 25, 2018, 471 were wholly owned and 20 were majority owned. Of the 91 franchise restaurants, 69 were domestic and 22 were international restaurants.

As of December 26, 2017, we owned and operated 462 restaurants and franchised an additional 87 restaurants in 49 states and seven foreign countries. Of the 462 company restaurants that were operating at December 26, 2017, 444 were wholly owned and 18 were majority-owned. Of the 87 franchise restaurants, 70 were domestic and 17 were international restaurants.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

As of December 25, 2018 and December 26, 2017, we owned a 5.0% to 10.0% equity interest in 24 restaurants. Additionally, as of December 25, 2018 and December 26, 2017, we owned a 40% equity interest in four non-Texas Roadhouse restaurants as part of a joint venture agreement with a casual dining restaurant operator in China. The unconsolidated restaurants are accounted for using the equity method. Our investments in these unconsolidated affiliates are included in Other assets in our consolidated balance sheets, and we record our percentage share of net income earned by these unconsolidated affiliates in our consolidated statements of income and comprehensive income under Equity income from investments in unconsolidated affiliates. All significant intercompany balances and transactions for these unconsolidated restaurants as well as the entities whose accounts have been consolidated have been eliminated.

(b) Fiscal Year

We utilize a 52 or 53 week accounting period that typically ends on the last Tuesday in December. We utilize a 13 week accounting period for quarterly reporting purposes, except in years containing 53 weeks when the fourth quarter contains 14 weeks. Fiscal years 2018, 2017 and 2016 were 52 weeks in length.

(c) Cash and Cash Equivalents

We consider all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents also included receivables from credit card companies, which amounted to $34.1 million and $7.2 million at December 25, 2018 and December 26, 2017, respectively, because the balances are settled within two to three business days.

(d) Receivables

Receivables consist principally of amounts due from retail gift card providers, certain franchise restaurants for reimbursement of labor costs, pre opening and other expenses, and franchise restaurants for royalty fees.

Receivables are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. We determine the allowance based on historical write off experience. We review our allowance for doubtful accounts quarterly. Past due balances over 120 days and a specified amount are reviewed individually for collectability. Account balances are

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charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

(e) Inventories

Inventories, consisting principally of food, beverages and supplies, are valued at the lower of cost (first in, first out) or net realizable value.

(f) Pre opening Expenses

Pre opening expenses, which are charged to operations as incurred, consist of expenses incurred before the opening of a new restaurant and are comprised principally of opening team and training team compensation and benefits, travel expenses, rent, food, beverage and other initial supplies and expenses.

(g) Property and Equipment

Property and equipment are stated at cost. Expenditures for major renewals and betterments are capitalized while expenditures for maintenance and repairs are expensed as incurred. Depreciation is computed on property and equipment, including assets located on leased properties, over the shorter of the estimated useful lives of the related assets or the underlying lease term using the straight line method. In most cases, assets on leased properties are depreciated over a period of time which includes both the initial term of the lease and one or more option periods. See note 2(p) for further discussion of leases and leasehold improvements.

The estimated useful lives are:

Land improvements	10 - 25 years
Buildings and leasehold improvements	10 - 25 years
Furniture, fixtures and equipment	3 - 10 years

The cost of purchasing transferable liquor licenses through open markets in jurisdictions with a limited number of authorized liquor licenses are capitalized as indefinite-lived assets and included in Property and equipment, net.

Repairs and maintenance expense amounted to $29.7 million, $25.8 million and $22.4 million for the years ended December 25, 2018, December 26, 2017 and December 27, 2016, respectively. These costs are included in other operating costs in our consolidated statements of income and comprehensive income.

(h) Impairment of Goodwill

Goodwill represents the excess of cost over fair value of assets of businesses acquired. In accordance with the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350, Intangibles – Goodwill and Other ("ASC 350"), we perform tests to assess potential impairments at the end of each fiscal year or during the year if an event or other circumstance indicates that goodwill may be impaired. Our assessment is performed at the reporting unit level, which is at the individual restaurant level. In the first step of the review process, we compare the estimated fair value of the restaurant with its carrying value, including goodwill. If the estimated fair value of the restaurant exceeds its carrying amount, no further analysis is needed. If the estimated fair value of the restaurant is less than its carrying amount, the second step of the review process requires the calculation of the implied fair value of the goodwill by allocating the estimated fair value of the restaurant to all of the assets and liabilities of the restaurant as if it had been acquired in a business combination. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. If the carrying value of the goodwill associated with the restaurant exceeds the implied fair value of the goodwill, an impairment loss is recognized for that excess amount.

The valuation approaches used to determine fair value are subject to key judgments and assumptions that are sensitive to change such as judgments and assumptions about appropriate revenue growth rates, operating margins,

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weighted average cost of capital and comparable company and acquisition market multiples. In estimating the fair value using the capitalization of earnings method or discounted cash flows, we consider the period of time the restaurant has been open, the trend of operations over such period and future periods, expectations of future sales growth and terminal value. Assumptions about important factors such as the trend of future operations and sales growth are limited to those that are supportable based upon the plans for the restaurant and actual results at comparable restaurants. When developing these key judgments and assumptions, we consider economic, operational and market conditions that could impact fair value. The judgments and assumptions used are consistent with what we believe hypothetical market participants would use. However, estimates are inherently uncertain and represent only our reasonable expectations regarding future developments. If the estimates used in performing the impairment test prove inaccurate, the fair value of the restaurants may ultimately prove to be significantly lower, thereby causing the carrying value to exceed the fair value and indicating impairment has occurred.

In 2018, 2017 and 2016, as a result of our annual goodwill impairment analysis, we determined that there was no goodwill impairment. Refer to note 7 for additional information related to goodwill and intangible assets.

(i) Other Assets

Other assets consist primarily of deferred compensation plan assets, investments in unconsolidated affiliates, deposits and costs related to the issuance of debt. The debt issuance costs are being amortized to interest expense over the term of the related debt. For further discussion of the deferred compensation plan, see note 15.

(j) Impairment or Disposal of Long lived Assets

In accordance with ASC 360, Property, Plant and Equipment, long-lived assets related to each restaurant to be held and used in the business, such as property and equipment and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of a restaurant may not be recoverable. When we evaluate restaurants, cash flows are the primary indicator of impairment. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the restaurant to estimated undiscounted future cash flows expected to be generated by the restaurant. Under our policies, trailing 12-month cash flow results below $300,000 at the individual restaurant level signals potential impairment. In our evaluation of restaurants that do not meet the cash flow threshold, we estimate future undiscounted cash flows from operating the restaurant over its estimated useful life, which can be for a period of over 20 years. In the estimation of future cash flows, we consider the period of time the restaurant has been open, the trend of operations over such period and future periods and expectations of future sales growth. Assumptions about important factors such as the trend of future operations and sales growth are limited to those that are supportable based upon the plans for the restaurant and actual results at comparable restaurants. If the carrying amount of the restaurant exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by the amount by which the carrying amount exceeds the estimated fair value of the assets. We generally measure fair value by independent third party appraisal or discounting estimated future cash flows. When fair value is measured by discounting estimated future cash flows, the assumptions used are consistent with what we believe hypothetical market participants would use. We also use a discount rate that is commensurate with the risk inherent in the projected cash flows. The adjusted carrying amounts of assets to be held and used are depreciated over their remaining useful life. In 2018, 2017 and 2016, as a result of our impairment analysis, we determined that there was no impairment. For further discussion regarding closures and impairments recorded in 2018, 2017 and 2016 refer to note 16.

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(k) Insurance Reserves

We self insure a significant portion of expected losses under our health, workers' compensation, general liability, employment practices liability, and property insurance programs. We purchase insurance for individual claims that exceed the retention amounts listed below:

Employment practices liability/Class Action	$ 250,000 / $2,000,000
Workers compensation	$350,000
General liability	$500,000
Employee healthcare	$325,000

In addition, we purchase property insurance for claims that exceed $50,000 after an aggregate deductible of $250,000.

We record a liability for unresolved claims and for an estimate of incurred but not reported claims based on estimates provided by management, a third party administrator and/or actuary. The estimated liability is based on a number of assumptions and factors regarding economic conditions, the frequency and severity of claims and claim development history and settlement practices. Our assumptions are reviewed, monitored, and adjusted when warranted by changing circumstances.

(l) Segment Reporting

We consider our restaurant and franchising operations as similar and have aggregated them into a single reportable segment. The majority of the restaurants operate in the U.S. within the casual dining segment of the restaurant industry, providing similar products to similar customers. The restaurants also possess similar pricing structures, resulting in similar long term expected financial performance characteristics. As of December 25, 2018, we operated 491 restaurants, each as a single operating segment, and franchised an additional 91 restaurants. Revenue from external customers is derived principally from food and beverage sales. We do not rely on any major customers as a source of revenue.

(m) Revenue Recognition

We recognize revenue from restaurant sales when food and beverage products are sold. Deferred revenue primarily represents our liability for gift cards that have been sold, but not yet redeemed. When the gift cards are redeemed, we recognize restaurant sales and reduce deferred revenue. We also recognize revenue from our franchising of Texas Roadhouse restaurants. This includes franchise royalties, initial and upfront franchise fees, fees paid to our domestic marketing and advertising fund, and fees for supervisory and administrative services. For further discussion of revenue, see note 3.

(n) Income Taxes

We account for income taxes in accordance with ASC 740, Income Taxes, under which deferred assets and liabilities are recognized based upon anticipated future tax consequences attributable to differences between financial statement carrying values of assets and liabilities and their respective tax bases. We recognize both interest and penalties on unrecognized tax benefits as part of income tax expense. A valuation allowance is established to reduce the carrying value of deferred tax assets if it is considered more likely than not that such assets will not be realized. Any change in the valuation allowance would be charged to income in the period such determination was made.

(o) Advertising

We have a domestic system wide marketing and advertising fund. We maintain control of the marketing and advertising fund and, as such, have consolidated the fund's activity for the years ended December 25, 2018, December 26, 2017 and December 27, 2016. Domestic company and franchise restaurants are required to remit a

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designated portion of sales, currently 0.3%, to the advertising fund. Advertising contributions related to company restaurants are recorded as a component of other operating costs. Advertising contributions received from our franchisees are recorded as a component of franchise royalties and fees in our consolidated statements of income and comprehensive income.

Other costs related to local restaurant area marketing initiatives are included in other operating costs in our consolidated statements of income and comprehensive income. These costs and the company-owned restaurant contribution amounted to approximately $17.1 million, $14.5 million and $13.3 million for the years ended December 25, 2018, December 26, 2017 and December 27, 2016, respectively.

(p) Leases and Leasehold Improvements

We lease land and/or buildings for the majority of our restaurants under non cancelable lease agreements. Our land and/or building leases typically have initial terms ranging from 10 to 15 years, and certain renewal options for one or more five-year periods. We account for leases in accordance with ASC 840, Leases, and other related authoritative guidance. When determining the lease term, we include option periods for which failure to renew the lease imposes a penalty on us in such an amount that renewal appears, at the inception of the lease, to be reasonably assured. The primary penalty to which we are subject is the economic detriment associated with the existence of leasehold improvements which might become impaired if we choose not to continue the use of the leased property.

Certain of our operating leases contain predetermined fixed escalations of the minimum rent during the original term of the lease. For these leases, we recognize the related rent expense on a straight line basis over the lease term and record the difference between the amounts charged to operations and amounts paid as deferred rent. We may receive rent concessions or leasehold improvement incentives upon opening a restaurant that is subject to a lease which we consider when determining straight-line rent expense. We also may receive rent holidays, which would begin on the possession date and end when the lease commences, during which no cash rent payments are typically due under the terms of the lease. Rent holidays are included in the lease term when determining straight line rent expense.

Additionally, certain of our operating leases contain clauses that provide for additional contingent rent based on a percentage of sales greater than certain specified target amounts. We recognize contingent rent expense prior to the achievement of the specified target that triggers the contingent rent, provided achievement of the target is considered probable. This may result in some variability in rent expense as a percentage of sales over the term of the lease in restaurants where we pay contingent rent.

The judgment regarding the probable term for each restaurant property lease impacts the classification and accounting for a lease as capital or operating, the rent holiday and/or escalation in payments that are taken into consideration when calculating straight line rent and the term over which leasehold improvements for each restaurant are amortized. The material factor we consider when making this judgment is the total amount invested in the restaurant at the inception of the lease and whether management believes that renewal appears reasonably assured. While a different term may produce materially different amounts of depreciation, amortization and rent expense than reported, our historical lease renewal rates support the judgments made. We have not made any changes to the nature of the assumptions used to account for leases in any of the fiscal years presented in our consolidated financial statements.

Sale leasebacks are transactions through which assets (such as restaurant properties) are sold and subsequently leased back. The resulting leases generally qualify and are accounted for as operating leases. Financing leases are generally the product of a sale leaseback transaction that does not meet the criteria for sale leaseback accounting. The result of a financing lease is the retention of the "sold" assets within land, building and equipment with a financing lease obligation equal to the amount of proceeds received recorded as a component of other liabilities on our consolidated balance sheets.

Texas Roadhouse, Inc. and Subsidiaries

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(q) Use of Estimates

We have made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reporting of revenue and expenses during the period to prepare these consolidated financial statements in conformity with generally accepted accounting principles in the United States ("GAAP"). Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, goodwill, obligations related to insurance reserves, leases and leasehold improvements, legal reserves, gift card discounts and breakage and income taxes. Actual results could differ from those estimates.

(r) Comprehensive Income

ASC 220, Comprehensive Income, establishes standards for reporting and the presentation of comprehensive income and its components in a full set of financial statements. Comprehensive income consists of net income and other comprehensive income (loss) items that are excluded from net income under GAAP. Other comprehensive income (loss) consists of the effective unrealized portion of changes in fair value of cash flow hedges through January 2016 and foreign currency translation adjustments. The foreign currency translation adjustment included in comprehensive income on the consolidated statements of income and comprehensive income represents the unrealized impact of translating the financial statements of our foreign investment. This amount is not included in net income and would only be realized upon the disposition of the business.

(s) Fair Value of Financial Instruments

Fair value is defined as the price that we would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants on the measurement date. We use a three-tier fair value hierarchy based upon observable and non-observable inputs that prioritizes the information used to develop our assumptions regarding fair value. Fair value measurements are separately disclosed by level within the fair value hierarchy. Refer to note 15 for further discussion of fair value measurement.

(t) Derivative Instruments and Hedging Activities

We do not use derivative instruments for trading purposes. We account for derivatives and hedging activities in accordance with ASC 815, Derivatives and Hedging, which requires that all derivative instruments be recorded on the consolidated balance sheet at their respective fair values. The accounting for changes in the fair value of a derivative instrument is dependent upon whether the derivative has been designated and qualifies as part of a hedging relationship. We had a free standing derivative instrument that had been designated and qualified as a cash flow hedge that expired in January 2016.   For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings. There was no hedge ineffectiveness recognized during the years ended December 25, 2018, December 26, 2017 and December 27, 2016.

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Texas Roadhouse, Inc. and Subsidiaries

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(Tabular amounts in thousands, except share and per share data)

(u) Recent Accounting Pronouncements

Revenue Recognition

(ASC 606, Revenue from Contracts with Customers, "ASC 606")

On December 27, 2017, we adopted ASC 606, Revenue from Contracts with Customers. This ASC requires an entity to allocate the transaction price received from customers to each separate and distinct performance obligation and recognize revenue as these performance obligations are satisfied. This standard replaces most existing revenue recognition guidance in GAAP. The adoption of this standard did not have an impact on our recognition of sales from company restaurants or our recognition of continuing fees from franchisees, which are based on a percentage of franchise restaurant sales. As further detailed below, the adoption of this standard did have an impact on the recognition of initial franchise fees and upfront fees from international development agreements. In addition, certain transactions that were previously recorded as expense are now classified as revenue. We utilized the cumulative-effect method of adoption and recorded a $0.9 million reduction, net of tax, to retained earnings as of the first day of fiscal 2018 to reflect the change in the recognition pattern of initial franchise fees and upfront fees. The comparative financial information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The cumulative effects of the changes made to our consolidated balance sheet as of December 26, 2017 as a result of the adoption of ASC 606 were as follows:

	Balance at December 26, 2017	ASC 606 Adjustments	Balance at December 27, 2017
Liabilities			
Deferred tax liabilities, net	$ 5,301	$ (299)	$ 5,002
Other liabilities, non-current	42,112	1,177	43,289
Equity			
Retained earnings	$ 602,499	$ (878)	$ 601,621

Under ASC 606, because the services we provide related to initial franchise fees and upfront fees from international development agreements do not contain separate and distinct performance obligations from the franchise right, these fees will be recognized on a straight-line basis over the term of the associated franchise agreement. Under previous guidance, initial franchise fees were recognized when the related services had been provided, which was generally upon the opening of the restaurant, and upfront fees were recognized on a pro-rata basis as restaurants under the development agreement were opened. These fees will continue to be recorded as a component of franchise royalties and fees in our consolidated statements of income and comprehensive income. ASC 606 requires sales-based royalties to continue to be recognized as franchise restaurant sales occur.

In addition, certain transactions that were previously recorded as expense are now classified as revenue. These transactions include breakage income and third party gift card fees from our gift card program as well as accounting fees, supervision fees and advertising contributions received from our franchisees. Under ASC 606, breakage income and third party gift card fees are recorded as a component of restaurant and other sales in our consolidated statements of income and comprehensive income. Under previous guidance, these transactions were recorded as a component of other operating expense. Also under ASC 606, accounting fees, supervision fees and advertising contributions received from our franchisees are recorded as a component of franchise royalties and fees in our consolidated statements of income and comprehensive income. Under previous guidance, these transactions were recorded as a reduction of general and administrative expense. As noted above, we adopted ASC 606 as of the first day of fiscal 2018. The comparative financial information has not been restated and continues to be reported under the accounting standards in effect for those periods.

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The impact of adopting ASC 606 as compared to the previous revenue recognition guidance on our consolidated balance sheet and consolidated statements of income and comprehensive income was as follows:

	December 25, 2018		
	As Reported	Balances Without Adoption of ASC 606	Adoption Impact of ASC 606
Balance Sheet			
Liabilities			
Deferred tax liabilities, net	$ 17,268	$ 17,568	$ (300)
Other liabilities, non-current	48,295	47,114	1,181
Equity			
Retained earnings	$ 688,337	$ 689,218	$ (881)

	Fiscal Year Ended December 25, 2018		
	As Reported	Balances Without Adoption of ASC 606	Adoption Impact of ASC 606
Income Statement			
Revenue			
Restaurant and other sales	$ 2,437,115	$ 2,442,268	$ (5,153)
Franchise royalties and fees	20,334	17,990	2,344
Costs and expenses			
Other operating	375,477	380,630	(5,153)
General and administrative	136,163	133,815	2,348
Provision for income taxes	24,257	24,258	(1)
Net Income	$ 158,225	$ 158,228	$ (3)

Statement of Cash Flows

(Accounting Standards Update 2016-15, "ASU 2016-15")

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which adds and/or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. We adopted this guidance as of the beginning of our 2018 fiscal year. The adoption of this guidance did not have a material impact on our consolidated financial position, results of operations or cash flows.

Income Taxes

(Accounting Standards Update 2016-16, "ASU 2016-16")

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740), which addresses the income tax consequences of intra-entity transfers of assets other than inventory. Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This standard will require recognition of current and deferred income taxes resulting from an intra-entity transfer of an asset other than inventory when the transfer occurs. We adopted this guidance as of the beginning of our 2018 fiscal year. The adoption of this guidance did not have a material impact on our consolidated financial position, results of operations or cash flows.

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Compensation – Stock Compensation

(Accounting Standards Update 2017-09, "ASU 2017-09")

In May 2017, the FASB issued ASU 2017-09, Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting, which clarifies when a change in the terms or conditions of a share-based payment award must be accounted for as a modification. ASU 2017-09 requires modification accounting if the fair value, vesting condition or the classification of the award is not the same immediately before and after a change in the terms and conditions of the award. We adopted this guidance as of the beginning of our 2018 fiscal year. The adoption of this guidance did not have a material impact on our consolidated financial position, results of operations or cash flows.

Leases

(Accounting Standards Update 2016-02, "ASU 2016-02")

In February 2016, the FASB issued ASU 2016-02, Leases, which requires an entity to recognize a right-of-use asset and a lease liability for virtually all leases. This update also requires additional disclosures about the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 (our 2019 fiscal year). In March 2018, the FASB approved an amendment that allowed a modified retrospective approach and new required lease disclosures for all leases existing or entered into after either the beginning of the year of adoption or the earliest comparative period in the consolidated financial statements. We will adopt ASU 2016-02 using a modified retrospective approach as of the beginning of the year of adoption. As a result, the comparative financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before December 26, 2018. We will take advantage of the transition package of practical expedients permitted within the new standard which will allow us to carryforward the historical lease classification. We will also elect the practical expedient to not separate lease and non-lease components for all leases as well as the hindsight practical expedient. The election of the hindsight practical expedient will result in a change in lease terms for certain existing leases.

We estimate the adoption of this standard will result in the recognition of a right-of-use asset of approximately $470.0 million, net of deferred rent of $48.1 million, and a lease liability of $520.0 million as of December 26, 2018, our initial date of adoption. There will be no significant impact to our results of operations, cash flows, or the related notes. We do not believe this standard will have a significant impact on our liquidity. The standard will have no impact on our compliance with our financial covenants associated with our credit facility.

Financial Instruments

(Accounting Standards Update 2016-13, "ASU 2016-13")

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which requires measurement and recognition of expected versus incurred losses for financial assets held. ASU 2016-13 is effective for annual periods beginning after December 15, 2019 (our 2020 fiscal year), with early adoption permitted for annual periods beginning after December 15, 2018. We are currently assessing the impact of this new standard on our consolidated financial position, results of operations and cash flows.

Goodwill

(Accounting Standards Update 2017-04, "ASU 2017-04")

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which simplifies the accounting for goodwill impairment and is expected to reduce the cost and complexity of accounting for goodwill. ASU 2017-04 removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Instead, goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of the goodwill. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019 (our 2020 fiscal year) and will be applied on a prospective

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basis. Early adoption is permitted for interim and annual goodwill impairment tests performed on testing dates after January 1, 2017. We are currently assessing the impact of this new standard on our consolidated financial position, results of operations and cash flows.

Fair Value Measurement

(Accounting Standards Update 2018-13, "ASU 2018-13")

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement, which eliminates, modifies and adds disclosure requirements for fair value measurements. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019 (our 2020 fiscal year) and for interim periods within those years, with early adoption permitted. We are currently assessing the impact of this new standard on our consolidated financial statements.

(3) Revenue

The following table disaggregates our revenue by major source (in thousands):

	Fiscal Year Ended		
	December 25, 2018	December 26, 2017	December 27, 2016
Restaurant and other sales	$ 2,437,115	$ 2,203,017	$ 1,974,261
Franchise royalties	17,443	16,195	16,135
Franchise fees	2,891	319	318
Total revenue	$ 2,457,449	$ 2,219,531	$ 1,990,714

Restaurant sales include the sale of food and beverage products to our customers. We recognize this revenue when the products are sold.   All sales taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenue in the consolidated statements of income and comprehensive income.

Other sales include the amortization of gift card breakage and fees associated with third party gift card sales. We record deferred revenue for gift cards that have been sold but not yet redeemed. When the gift cards are redeemed, we recognize restaurant sales and reduce deferred revenue. For some of the gift cards that are sold, the likelihood of redemption is remote. When the likelihood of a gift card's redemption is determined to be remote, we record a breakage adjustment and reduce deferred revenue by the amount never expected to be redeemed. We use historic gift card redemption patterns to determine when the likelihood of a gift card's redemption becomes remote and have determined that approximately 4% of the value of the gift cards sold by our company and our third party retailers will never be redeemed. This breakage adjustment is recorded consistent with the historic redemption pattern of the associated gift card. In addition, we incur fees on all gift cards that are sold through third party retailers. These fees are also deferred and recorded consistent with the historic redemption pattern of the associated gift cards. For the year ended December 25, 2018, we recognized gift card fees, net of gift card breakage income, of approximately $5.2 million. Total deferred revenue related to our gift cards is included in deferred revenue-gift cards in our consolidated balance sheets and includes the full value of unredeemed gift cards less the amortized portion of the breakage rates and the unamortized portion of third party fees. As of December 25, 2018 and December 26, 2017, our deferred revenue balance related to gift cards was approximately $192.2 million and $156.6 million, respectively. This change was primarily due to the sale of additional gift cards partially offset by the redemption of gift cards. We recognized restaurant sales of approximately $108.7 million for the year ended December 25, 2018 related to the amount in deferred revenue as of December 26, 2017.

Franchise royalties include continuing fees received from our franchising of Texas Roadhouse restaurants. We execute franchise agreements for each franchise restaurant which sets out the terms of our arrangement with the franchisee. These agreements require the franchisee to pay ongoing royalties of generally 4.0% of gross sales from our domestic franchisees, along with royalties paid to us by our international franchisees. Franchise royalties are recognized

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as revenue as the corresponding franchise restaurant sales occur.

Franchise fees are all remaining fees from our franchisees including initial fees, upfront fees from international agreements, fees paid to our domestic marketing and advertising fund, and fees for supervisory and administrative services. Our franchise agreements typically require the franchisee to pay an initial, non-refundable fee. Subject to our approval and payment of a renewal fee, a franchisee may generally renew the franchise agreement upon its expiration. These initial fees and renewal fees are deferred and recognized over the term of the agreement. We also enter into area development agreements for the development of international Texas Roadhouse restaurants. Upfront fees from development agreements are deferred and recognized on a pro-rata basis over the term of the individual restaurant franchise agreement as restaurants under the development agreement are opened. Our domestic franchise agreement also requires our franchisees to remit 0.3% of sales to our system-wide marketing and advertising fund. These amounts are recognized as revenue as the corresponding franchise restaurant sales occur. Finally, we perform supervisory and administrative services for certain franchise restaurants for which we receive management fees, which are recognized as the services are performed. Total deferred revenue related to our franchise agreements is included in other liabilities in our consolidated balance sheets and was approximately $1.8 million as of December 25, 2018 and December 26, 2017. We recognized revenue of approximately $0.3 million for the year ended December 25, 2018 related to the amount in deferred revenue as of December 26, 2017.

(4) Acquisitions

On December 3, 2018, we acquired one franchise restaurant in Florida which was subsequently relocated. Pursuant to the terms of the acquisition agreement, we paid a total purchase price of $2.2 million, net of a $0.3 million charge to settle a pre-existing relationship. This transaction was accounted for using the purchase method as defined in ASC 805, Business Combinations. As a result of this acquisition, $2.2 million of goodwill was generated, which is not amortizable for book purposes, but is deductible for tax purposes.

The purchase price has been preliminarily allocated as follows:

Current assets	$ 42
Property and equipment	43
Goodwill	2,180
Current liabilities	(97)
	$ 2,168

On December 28, 2016, we acquired four franchise restaurants in Florida and Georgia. Pursuant to the terms of the acquisition agreements, we paid a total purchase price of $16.5 million, net of cash acquired. Two of the acquired restaurants are wholly-owned and the remaining two restaurants are majority-owned. For the two majority-owned restaurants, we received a noncontrolling interest contribution of $3.5 million.

These transactions were accounted for using the purchase method as defined in ASC 805. Based on a purchase price of $16.5 million, $4.5 million of goodwill was generated by the acquisition, which is not amortizable for book purposes, but is deductible for tax purposes.

The purchase price has been allocated as follows:

Current assets	$ 170
Property and equipment	12,281
Goodwill	4,469
Current liabilities	(392)
	$ 16,528

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These acquisitions are consistent with our long-term strategy to increase net income and earnings per share. Pro forma results of operations and revenue and earnings for the years ended December 25, 2018 and December 26, 2017 have not been presented because the effect of the acquisitions was not material to our consolidated financial position, results of operations or cash flows.

(5) Long term Debt and Obligation Under Capital Lease

Long term debt consisted of the following:

	December 25, 2018	December 26, 2017
Obligation under capital lease	$ 2,081	$ 1,990
Revolver	—	50,000
	2,081	51,990
Less current maturities	—	9
	$ 2,081	$ 51,981

During the year ended December 27, 2016, we amended an existing lease at one restaurant location to acquire additional square footage. As a result of this amendment, the lease qualified as a capital lease.

On August 7, 2017, we entered into the Amended and Restated Credit Agreement (the "Amended Credit Agreement") with respect to our revolving credit facility with a syndicate of commercial lenders led by JPMorgan Chase Bank, N.A., PNC Bank, N.A., and Wells Fargo Bank, N.A. The amended revolving credit facility remains an unsecured, revolving credit agreement under which we may borrow up to $200.0 million with the option to increase the amended revolving credit facility by an additional $200.0 million subject to certain limitations. The Amended Credit Agreement extends the maturity date of our revolving credit facility until August 5, 2022.

The terms of the Amended Credit Agreement require us to pay interest on outstanding borrowings at the London Interbank Offered Rate ("LIBOR") plus a margin of 0.875% to 1.875% and to pay a commitment fee of 0.125% to 0.30% per year on any unused portion of the amended revolving credit facility, in each case depending on our consolidated net leverage ratio, or the Alternate Base Rate, which is the highest of the issuing banks' prime lending rate, the Federal Reserve Bank of New York rate plus 0.50% or the Adjusted Eurodollar Rate for a one month interest period on such day plus 1.0%. The weighted-average interest rate for the amended revolving credit facility as of December 25, 2018 and December 26, 2017 was 3.81% and 2.37%, respectively. As of December 25, 2018, we had

$191.6 million of availability, net of $8.4 million of outstanding letters of credit.

The lenders' obligation to extend credit pursuant to the Amended Credit Agreement depends on us maintaining certain financial covenants, including a minimum consolidated fixed charge coverage ratio of 2.00 to 1.00 and a maximum consolidated leverage ratio of 3.00 to 1.00. The Amended Credit Agreement permits us to incur additional secured or unsecured indebtedness outside the amended revolving credit facility, except for the incurrence of secured indebtedness that in the aggregate is equal to or greater than $125.0 million and 20% of our consolidated tangible net worth. We were in compliance with all financial covenants as of December 25, 2018.

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(6) Property and Equipment, Net

Property and equipment were as follows:

	December 25, 2018	December 26, 2017
Land and improvements	$ 127,579	$ 124,126
Buildings and leasehold improvements	835,490	757,293
Furniture, fixtures and equipment	556,254	500,954
Construction in progress	28,975	47,457
Liquor licenses	10,829	10,027
	1,559,127	1,439,857
Accumulated depreciation and amortization	(602,451)	(527,710)
	$ 956,676	$ 912,147

The amount of interest capitalized in connection with restaurant construction was approximately $0.1 million, $0.4 million and $0.3 million for the years ended December 25, 2018, December 26, 2017 and December 27, 2016, respectively.

(7) Goodwill and Intangible Assets

The changes in the carrying amount of goodwill and intangible assets are as follows:

	Goodwill	Intangible Assets
Balance as of December 27, 2016 (1)	$ 116,571	$ 3,622
Additions	4,469	—
Amortization expense	—	(922)
Disposals and other, net	—	—
Impairment	—	—
Balance as of December 26, 2017	$ 121,040	$ 2,700
Additions	2,180	—
Amortization expense	—	(741)
Disposals and other, net	—	—
Impairment	—	—
Balance as of December 25, 2018	$ 123,220	$ 1,959

(1) Net of $4.8 million of accumulated goodwill impairment losses.

Intangible assets consist of reacquired franchise rights. The gross carrying amount and accumulated amortization of the intangible assets at December 25, 2018 were $15.4 million and $13.4 million, respectively. As of December 26, 2017, the gross carrying amount and accumulated amortization of the intangible assets was $15.4 million and $12.7 million. We amortize reacquired franchise rights on a straight-line basis over the remaining term of the franchise operating agreements, which varies by restaurant. Amortization expense for the next five years is expected to range from $0.2 million to $0.7 million. Refer to note 4 for discussion of the acquisitions completed for the years ended

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December 25, 2018 and December 26, 2017.

(8) Leases

The following is a schedule of future minimum lease payments required for operating leases that have remaining terms in excess of one year as of December 25, 2018:

	Operating Leases
2019	$ 50,030
2020	49,582
2021	49,917
2022	50,237
2023	49,854
Thereafter	677,710
Total	$ 927,330

Rent expense for operating leases consisted of the following:

	Fiscal Year Ended		
	December 25, 2018	December 26, 2017	December 27, 2016
Minimum rent—occupancy	$ 47,741	$ 43,621	$ 39,405
Contingent rent	1,050	1,186	1,175
Rent expense, occupancy	48,791	44,807	40,580
Minimum rent—equipment and other	6,176	5,087	4,379
Rent expense	$ 54,967	$ 49,894	$ 44,959

(9) Income Taxes

Components of our income tax provision for the years ended December 25, 2018, December 26, 2017 and December 27, 2016 are as follows:

	Fiscal Year Ended		
	December 25, 2018	December 26, 2017	December 27, 2016

Current:			
Federal	$ 2,934	$ 43,108	$ 36,201
State	8,794	10,233	8,786
Foreign	210	309	202
Total current	11,938	53,650	45,189
Deferred:			
Federal	11,909	(4,830)	5,364
State	410	(239)	630
Total deferred	12,319	(5,069)	5,994
Income tax provision	$ 24,257	$ 48,581	$ 51,183

Our pre-tax income is substantially derived from domestic restaurants.

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A reconciliation of the statutory federal income tax rate to our effective tax rate for December 25, 2018, December 26, 2017 and December 27, 2016 is as follows:

	Fiscal Year Ended					
	December 25, 2018		December 26, 2017		December 27, 2016	
Tax at statutory federal rate	21.0	%	35.0	%	35.0	%
State and local tax, net of federal benefit	3.6		3.3		3.4	
FICA tip tax credit	(9.6)		(7.0)		(6.8)	
Work opportunity tax credit	(1.5)		(0.9)		(0.8)	
Stock compensation	(1.4)		(1.8)		(0.1)	
Net income attributable to noncontrolling interests	(0.8)		(1.1)		(0.9)	
Officers compensation	1.7		0.1		0.1	
Tax reform	—		(1.7)		—	
Other	(0.1)		0.2		(0.1)	
Total	12.9	%	26.1	%	29.8	%

Our effective tax rate decreased to 12.9% in 2018 compared to 26.1% in 2017 primarily due to new tax legislation enacted in late 2017. As a result of the new tax legislation, significant tax changes were enacted including a reduction of the federal corporate tax rate from 35.0% to 21.0% and changes in the federal taxes paid on foreign sourced earnings.

Our effective tax rate decreased to 26.1% in 2017 compared to 29.8% in 2016 primarily due to the adoption of Accounting Standards Update 2016-09, Compensation – Stock Compensation ("ASU 2016-09") and new tax legislation that was enacted in late 2017. As a result of the new guidance requirements, excess tax benefits and tax deficiencies from share-based compensation are recognized within the income tax provision. During 2017, we recognized $3.4 million, or $0.05 per share, as an income tax benefit related to the new guidance requirements. Also during 2017, as a result of the new tax legislation, we recognized $3.1 million, or $0.04 per share, as an income tax benefit which includes an income tax benefit of approximately $3.8 million to revalue our deferred tax balances as of the enactment date and an income tax expense of approximately $0.7 million related to our foreign operations.

During the first quarter of 2017, we adopted ASU 2015-17, Balance Sheet Classification of Deferred Taxes, which required deferred tax assets and liabilities to be classified as noncurrent on our consolidated balance sheets. We adopted ASU 2015-17 on a prospective basis.

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Components of deferred tax liabilities, net are as follows:

	December 25, 2018	December 26, 2017
Deferred tax assets:		
Deferred revenue—gift cards	$ 12,851	$ 10,355
Insurance reserves	3,949	3,638
Other reserves	890	621
Share-based compensation	4,623	6,022
Deferred rent	12,179	10,338
Deferred compensation	8,483	6,737
Other assets	2,212	1,866
Total deferred tax asset	45,187	39,577
Deferred tax liabilities:		
Property and equipment	(50,513)	(35,430)
Goodwill and intangibles	(5,398)	(4,697)
Other liabilities	(6,544)	(4,751)
Total deferred tax liability	(62,455)	(44,878)
Net deferred tax liability	$ (17,268)	$ (5,301)

We have not provided any valuation allowance as we believe the realization of our deferred tax assets is more likely than not.

A reconciliation of the beginning and ending liability for unrecognized tax benefits, all of which would impact the effective tax rate if recognized, is as follows:

Balance at December 27, 2016	$ 511
Additions to tax positions related to prior years	36
Additions to tax positions related to current year	389
Reductions due to statute expiration	(2)
Reductions due to exam settlements	(128)
Balance at December 26, 2017	806
Additions to tax positions related to prior years	36
Additions to tax positions related to current year	754
Reductions due to statute expiration	(114)
Reductions due to exam settlement	—
Balance at December 25, 2018	$ 1,482

As of December 25, 2018 and December 26, 2017, the total amount of accrued penalties and interest related to uncertain tax provisions was not material.

All entities for which unrecognized tax benefits exist as of December 25, 2018 possess a December tax year-end. As a result, as of December 25, 2018, the tax years ended December 29, 2015, December 27, 2016 and December 26, 2017 remain subject to examination by all tax jurisdictions. As of December 25, 2018, no audits were in process by a tax jurisdiction that, if completed during the next twelve months, would be expected to result in a material change to our unrecognized tax benefits. Additionally, as of December 25, 2018, no event occurred that is likely to result in a significant increase or decrease in the unrecognized tax benefits through December 31, 2019.

(10) Preferred Stock

Our Board of Directors is authorized, without further vote or action by the holders of common stock, to issue from time to time up to an aggregate of 1,000,000 shares of preferred stock in one or more series. Each series of preferred stock will have the number of shares, designations, preferences, voting powers, qualifications and special or relative

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rights or privileges as shall be determined by the Board of Directors, which may include, but are not limited to, dividend rights, voting rights, redemption and sinking fund provisions, liquidation preferences, conversion rights and preemptive rights. There were no shares of preferred stock outstanding at December 25, 2018 and December 26, 2017.

(11) Stockholders' Equity

On May 22, 2014, our Board of Directors approved a stock repurchase program under which we may repurchase up to $100.0 million of our common stock. This stock repurchase program has no expiration date and replaced a previous stock repurchase program which was approved on February 16, 2012. All repurchases to date under our stock repurchase program have been made through open market transactions. The timing and the amount of any repurchases will be determined by management under parameters established by our Board of Directors, based on an evaluation of our stock price, market conditions and other corporate considerations.

We did not repurchase any shares of common stock during the years ended December 25, 2018 and December 26, 2017. For the year ended December 27, 2016, we paid approximately $4.1 million to repurchase 114,700 shares of our common stock, respectively. As of December 25, 2018, we had approximately $69.9 million remaining under our authorized stock repurchase program.

(12) Earnings Per Share

The share and net income per share data for all periods presented are based on the historical weighted average shares outstanding. The diluted earnings per share calculations show the effect of the weighted average restricted stock units and stock options outstanding from our equity incentive plans. Performance stock units ("PSUs") are not included in the diluted earnings per share calculation until the performance-based criteria have been met. See note 14 for further discussion of our equity incentive plans.

For the year ended December 25, 2018, there were no shares of nonvested stock that were outstanding but not included in the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect. For the years ended December 26, 2017 and December 27, 2016, there were 2,082 and two shares of nonvested stock, respectively, that were not included because they would have had an anti-dilutive effect.

The following table sets forth the calculation of earnings per share and weighted average shares outstanding (in thousands) as presented in the accompanying consolidated statements of income and comprehensive income:

	Fiscal Year Ended		
	December 25, 2018	December 26, 2017	December 27, 2016
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	$ 158,225	$ 131,526	$ 115,598
Basic EPS:			

Weighted-average common shares outstanding	71,467	70,989	70,396
Basic EPS	$ 2.21	$ 1.85	$ 1.64
Diluted EPS:			
Weighted-average common shares outstanding	71,467	70,989	70,396
Dilutive effect of stock options and nonvested stock	497	538	656
Shares-diluted	71,964	71,527	71,052
Diluted EPS	$ 2.20	$ 1.84	$ 1.63

(13) Commitments and Contingencies

The estimated cost of completing capital project commitments at December 25, 2018 and December 26, 2017 was approximately $168.3 million and $150.0 million, respectively.

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As of December 25, 2018 and December 26, 2017, we are contingently liable for $14.8 million and $15.6 million, respectively, for seven leases listed in the table below. These amounts represent the maximum potential liability of future payments under the guarantees. In the event of default, the indemnity and default clauses in our assignment agreements govern our ability to pursue and recover damages incurred. No material liabilities have been recorded as of December 25, 2018 as the likelihood of default was deemed to be less than probable and the fair value of the guarantees is not considered significant.

	Lease Assignment Date	Current Lease Term Expiration
Everett, Massachusetts (1)(2)	September 2002	February 2023
Longmont, Colorado (1)	October 2003	May 2029
Montgomeryville, Pennsylvania (1)	October 2004	March 2021
Fargo, North Dakota (1)(2)	February 2006	July 2021
Logan, Utah (1)	January 2009	August 2024
Irving, Texas (3)	December 2013	December 2019
Louisville, Kentucky (3)(4)	December 2013	November 2023

(1) Real estate lease agreements for restaurant locations which we entered into before granting franchise rights to those restaurants. We have subsequently assigned the leases to the franchisees, but remain contingently liable, under the terms of the lease, if the franchisee defaults.
(2) As discussed in note 19, these restaurants are owned, in whole or part, by certain officers, directors and 5% shareholders of the Company.
(3) Leases associated with restaurants which were sold. The leases were assigned to the acquirer, but we remain contingently liable under the terms of the lease if the acquirer defaults.
(4) We may be released from liability after the initial contractual lease term expiration contingent upon certain conditions being met by the acquirer.

During the year ended December 25, 2018, we bought most of our beef from three suppliers. Although there are a limited number of beef suppliers, we believe that other suppliers could provide a similar product on comparable terms. A change in suppliers, however, could cause supply shortages, higher costs to secure adequate supplies and a possible loss of sales, which would affect operating results adversely. We have no material minimum purchase commitments with our vendors that extend beyond a year.

We and the U.S. Equal Employment Opportunity Commission entered into a consent decree dated March 31, 2017 (the "Consent Decree") to settle the lawsuit styled Equal Employment Opportunity Commission v. Texas Roadhouse, Inc., Texas Roadhouse Holdings LLC and Texas Roadhouse Management Corp. in the United States District Court, District of Massachusetts, Civil Action Number 1:11-cv-11732 (the "Lawsuit"). The Consent Decree resolves the issues litigated in the Lawsuit. Under the Consent Decree, among other terms, we have established a fund of $12.0 million, from which awards of monetary relief, allocated as wages for tax purposes, may be made to eligible claimants in accordance with procedures set forth in the Consent Decree. For the year ended December 26, 2017, we recorded a pre-tax charge of $14.9 million ($9.2 million after-tax) related to the Lawsuit and Consent Decree which included costs associated with the legal settlement and legal fees associated with the defense of the case. For the year ended December 25, 2018, we recorded $1.5 million of claims administration costs. These amounts were recorded in general and administrative expense in our consolidated statements of income and comprehensive income. The pre-tax charge was recorded in general and administrative expense in our consolidated statements of income and comprehensive income.

On July 15, 2016, the Florida Circuit Court in Palm Beach County approved a settlement agreement styled Andrew Lovett and Semaj Miller, individually and on behalf of others, v. Texas Roadhouse Management Corp. (Case no. 50- 2016-CA-007714-MB-AO) resolving alleged violations of the Fair Labor Standards Act asserted on behalf of a purported nationwide class of current and former employees in exchange for a settlement payment not to exceed $9.5 million. For the year ended December 27, 2016, we recorded a charge of $7.3 million ($4.5 million after-tax) to

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cover the costs of the settlement including payments to opt-in members and class attorneys, as well as related settlement administration costs. The pre-tax charge was recorded in general and administrative expenses in our consolidated statements of income and comprehensive income.

Occasionally, we are a defendant in litigation arising in the ordinary course of business, including "slip and fall" accidents, employment related claims, claims related to our service of alcohol, and claims from guests or employees alleging illness, injury or food quality, health or operational concerns. None of these types of litigation, most of which are covered by insurance, has had a material effect on us and, as of the date of this report, we are not party to any litigation that we believe could have a material adverse effect on our business.

(14) Share based Compensation

On May 16, 2013, our stockholders approved the Texas Roadhouse, Inc. 2013 Long-Term Incentive Plan (the "Plan"). The Plan provides for the granting of incentive and non-qualified stock options to purchase shares of common stock, stock appreciation rights, and full value awards, including restricted stock, restricted stock units ("RSUs"), deferred stock units, performance stock and performance stock units ("PSUs"). This plan replaced the Texas Roadhouse, Inc. 2004 Equity Incentive Plan.

The following table summarizes the share based compensation recorded in the accompanying consolidated statements of income and comprehensive income:

	Fiscal Year Ended		
	December 25, 2018	December 26, 2017	December 27, 2016
Labor expense	$ 8,463	$ 7,171	$ 6,124
General and administrative expense	25,520	19,763	19,943
Total share-based compensation expense	$ 33,983	$ 26,934	$ 26,067

Effective December 28, 2016, we adopted ASU 2016-09 which amends and simplifies the accounting for stock compensation. As a result of the adoption of ASU 2016-09, we made a change in our accounting for forfeitures to record as they occur and, as a result, we recorded a $0.1 million cumulative-effect reduction to retained earnings in the year of adoption under the modified retrospective approach. We elected prospective transition for the requirement to classify excess tax benefits as an operating activity in the consolidated statement of cash flows. No prior periods have been adjusted As a result of this adoption, all excess tax benefits and tax deficiencies for restricted shares that vested or options exercised have been recognized within the income tax provision in the consolidated statements of income and comprehensive income for the years ended December 25, 2018 and December 26, 2017. See note 9 for further discussion.

Beginning in 2008, we changed the method by which we provide share-based compensation to our employees by granting RSUs as a form of share-based compensation. Prior to 2008, we issued stock options as share-based compensation to our employees. Beginning in 2015, we began granting PSUs to certain of our executives. An RSU is the conditional right to receive one share of common stock upon satisfaction of the vesting requirement. A PSU is the conditional right to receive one share of common stock upon meeting a performance obligation along with the satisfaction of the vesting requirement. In 2017, all remaining unexercised stock options expired leaving only RSUs and

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PSUs outstanding. Share based compensation activity by type of grant as of December 25, 2018 and changes during the period then ended are presented below.

Summary Details for RSUs

	Shares	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 26, 2017	949,991	$ 43.62		
Granted	439,259	60.79		
Forfeited	(35,077)	47.66		
Vested	(529,228)	42.20		
Outstanding at December 25, 2018	824,945	$ 53.51	1.3	$ 46,870

As of December 25, 2018, with respect to unvested RSUs, there was $22.0 million of unrecognized compensation cost that is expected to be recognized over a weighted-average period of 1.3 years. The vesting terms of the RSUs range from approximately 1.0 to 5.0 years. The total intrinsic value of RSUs vested during the years ended December 25, 2018, December 26, 2017 and December 27, 2016 was $32.1 million, $23.4 million and $21.5 million, respectively. The excess tax benefit associated with vested RSUs for the years ended December 25, 2018 and December 26, 2017 was $1.9 million and $1.6 million, respectively, which was recognized in the income tax provision. The excess tax benefit associated with vested RSUs for the year ended December 27, 2016 was $1.5 million which was recorded in additional paid-in-capital in the consolidated balance sheets.

Summary Details for PSUs

	Shares	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 26, 2017	205,000	$ 46.16		
Granted	—	—		
Incremental Performance Shares (1)	40,576	39.88		
Forfeited	—	—		
Vested	(155,576)	39.88		
Outstanding at December 25, 2018	90,000	$ 54.18	0.1	$ 5,113

(1) Additional shares from the November 2016 PSU grant that vested in January 2018 due to exceeding the initial 100% target.

Beginning in 2015, we granted PSUs to certain of our executives subject to a one-year vesting and the achievement of certain earnings targets, which determine the number of units to vest at the end of the vesting period. Share-based compensation is recognized for the number of units expected to vest at the end of the period and is expensed beginning on the grant date and through the performance period. For each grant, PSUs vest after meeting the performance and service conditions. The total intrinsic value of PSUs vested during the years ended December 25, 2018, December 26, 2017 and December 27, 2016 was $8.9 million, $8.6 million and $5.0 million, respectively.

On January 8, 2019, 142,169 shares vested related to the December 2017 PSU grant and are expected to be distributed during the 13 weeks ending March 26, 2019. This included 90,000 granted shares and 52,169 incremental shares due to the grant exceeding the initial 100% target. As of December 25, 2018, with respect to unvested PSUs, there was $0.3 million of unrecognized compensation cost that is expected to be recognized over a weighted-average period of 0.1 year. The excess tax benefit associated with vested PSUs for the years ended December 25, 2018 and December 26, 2017 was $0.7 million and $0.8 million, respectively, which was recognized within the income tax provision.

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Summary Details for Stock Options

No stock options were granted or vested during the fiscal years ended December 25, 2018, December 26, 2017 and December 27, 2016. The total intrinsic value of options exercised during the years ended December 26, 2017 and December 27, 2016 was $4.0 million and $6.3 million, respectively.

For the years ended December 26, 2017 and December 27, 2016, cash received before tax withholdings from options exercised was $1.6 million and $2.7 million, respectively. The excess tax benefit for the year ended December 26, 2017 was $1.0 million which was recognized within the income tax provision. The excess tax benefit for the year ended December 27, 2016 was $1.8 million which was recorded in additional paid-in-capital in the consolidated balance sheets.

(15) Fair Value Measurement

ASC 820, Fair Value Measurements and Disclosures ("ASC 820"), establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 establishes a three level hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs in measuring fair value. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date.

Level 1	Inputs based on quoted prices in active markets for identical assets.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the assets, either directly or indirectly.
Level 3	Inputs that are unobservable for the asset.

There were no transfers among levels within the fair value hierarchy during the year ended December 25, 2018.

The following table presents the fair values for our financial assets and liabilities measured on a recurring basis:

	Fair Value Measurements		
	Level	December 25, 2018	December 26, 2017
Deferred compensation plan—assets	1	$ 31,632	$ 28,754
Deferred compensation plan—liabilities	1	(31,721)	(28,829)

The Second Amended and Restated Deferred Compensation Plan of Texas Roadhouse Management Corp., as amended, (the "Deferred Compensation Plan") is a nonqualified deferred compensation plan which allows highly compensated employees to defer receipt of a portion of their compensation and contribute such amounts to one or more investment funds held in a rabbi trust. We report the accounts of the rabbi trust in other assets and the corresponding liability in other liabilities in our consolidated financial statements. These investments are considered trading securities and are reported at fair value based on quoted market prices. The realized and unrealized holding gains and losses related to these investments, as well as the offsetting compensation expense, are recorded in general and administrative expense in the consolidated statements of income and comprehensive income.

At December 25, 2018 and December 26, 2017, the fair values of cash and cash equivalents, accounts receivable and accounts payable approximated their carrying values based on the short-term nature of these instruments. The fair value of our amended revolving credit facility at December 26, 2017 approximated its carrying value since it is a variable rate credit facility (Level 2).

(16) Impairment and Closure Costs

We recorded closure costs of $0.3 million, $0.7 million and $0.2 million for the years ended December 25, 2018, December 26, 2017 and December 27, 2016, respectively, related to costs associated with the relocation of restaurants.

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(17) Derivative and Hedging Activities

We enter into derivative instruments for risk management purposes only, including derivatives designated as hedging instruments under FASB ASC 815, Derivatives and Hedging ("ASC 815"). We use interest rate-related derivative instruments to manage our exposure to fluctuations of interest rates. By using these instruments, we expose ourselves, from time to time, to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk for us. We attempt to minimize the credit risk by entering into transactions with high-quality counterparties whose credit rating is evaluated on a quarterly basis. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. We attempt to minimize market risk by establishing and monitoring parameters that limit the types and degree of market risk that may be taken.

The following table summarizes the effect of our interest rate swaps in the consolidated statements of income and comprehensive income for the years ended December 25, 2018, December 26, 2017 and December 27, 2016, respectively:

	December 25, 2018	December 26, 2017	December 27, 2016
Gain recognized in AOCI, net of tax (effective portion) (1)	$ —	$ —	$ 27
Loss reclassified from AOCI to income (effective portion) (1)	$ —	$ —	$ 45

(1) The fiscal year ended December 27, 2016 included the effect of one interest rate swap which expired on January 7, 2016.

The loss reclassified from AOCI to income was recognized in interest expense on our consolidated statements of income and comprehensive income. For each of the years ended December 25, 2018, December 26, 2017 and December 27, 2016, we did not recognize any gain or loss due to hedge ineffectiveness related to the derivative instruments in the consolidated statements of income and comprehensive income.

(18) Accumulated Other Comprehensive Loss

The components of the changes in accumulated other comprehensive loss for the years ended December 25, 2018 and December 26, 2017, all of which related to foreign currency translation adjustments, were as follows:

	Accumulated Other Comprehensive Loss
Balance as of December 27, 2016	(194)
Other comprehensive loss	252
Income taxes	(97)

Balance as of December 26, 2017	$	(39)
Other comprehensive loss		(242)
Income taxes		53
Balance as of December 25, 2018	$	(228)

(19) Related Party Transactions

As of December 25, 2018, we had nine franchise restaurants and one majority-owned company restaurant owned in whole or part by certain of our officers, directors and 5% stockholders of the Company. As of December 26, 2017 and December 27, 2016, we had 10 franchise restaurants owned in whole or part by certain of our officers, directors and 5% stockholders of the Company. These franchise entities paid us fees of $2.1 million, $2.1 million and $2.0 million for the years ended December 25, 2018, December 26, 2017 and December 27, 2016, respectively. As discussed in note 13, we are contingently liable on leases which are related to two of these restaurants.

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On December 3, 2018, we acquired one franchise restaurant owned in part by our founder. This entity paid us fees of $0.1 million for the year ended December 25, 2018. See note 4 for further discussion of this acquisition.

In addition, in 2018, our founder made a personal contribution of $1.0 million to cover a portion of the planned expenses incurred as part of the annual managing partner conference which marked our 25th anniversary. This amount was recorded as general and administrative expense on the consolidated statements of income and comprehensive income and as additional paid-in-capital on the consolidated statements of stockholders' equity.

(20) Selected Quarterly Financial Data (unaudited)

	2018				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenue	$ 627,705	$ 629,237	$ 594,595	$ 605,912	$ 2,457,449
Total costs and expenses	$ 562,834	$ 574,970	$ 559,151	$ 572,705	$ 2,269,660
Income from operations	$ 64,871	$ 54,267	$ 35,444	$ 33,207	$ 187,789
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	$ 54,541	$ 44,227	$ 29,125	$ 30,332	$ 158,225
Basic earnings per common share	$ 0.76	$ 0.62	$ 0.41	$ 0.42	$ 2.21
Diluted earnings per common share	$ 0.76	$ 0.62	$ 0.40	$ 0.42	$ 2.20
Cash dividends declared per share	$ 0.25	$ 0.25	$ 0.25	$ 0.25	$ 1.00

	2017				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenue	$ 567,686	$ 566,262	$ 540,507	$ 545,076	$ 2,219,531
Total costs and expenses	$ 518,664	$ 512,048	$ 494,996	$ 507,617	$ 2,033,325
Income from operations	$ 49,022	$ 54,214	$ 45,511	$ 37,459	$ 186,206
Net income attributable to Texas Roadhouse, Inc. and subsidiaries (a)	$ 34,313	$ 37,581	$ 31,014	$ 28,618	$ 131,526
Basic earnings per common share (a)	$ 0.48	$ 0.53	$ 0.44	$ 0.40	$ 1.85
Diluted earnings per common share (a)	$ 0.48	$ 0.53	$ 0.43	$ 0.40	$ 1.84
Cash dividends declared per share	$ 0.21	$ 0.21	$ 0.21	$ 0.21	$ 0.84

(a) The first quarter of 2017 includes an after-tax charge of $9.2 million, or $0.13 per basic and diluted share, related to the settlement of a legal matter. See note 13 for further discussion. The fourth quarter of 2017 includes an income tax benefit of $3.1 million, or $0.04 per basic and diluted share, related to the enactment of new income tax legislation. See note 9 for further discussion.