TEXAS ROADHOUSE ANNUAL REPORT 2019

DEAR PARTNERS,

AS A FORMER TRACK ATHLETE, I STILL HAVE DREAMS OF MY HIGH SCHOOL TRACK COACH, DICK BELMEAR, YELLING, "FINISH STRONG, TAYLOR, FINISH STRONG!" IN TRACK, FINISHING STRONG WAS ALL ABOUT YOUR TRAINING, FOCUS, COMMITMENT, AND STAMINA.

Those qualities are also what it takes to finish strong in the restaurant industry year after year. I am proud to say that, thanks to our operators and support teams, 2019 was another strong year. The fourth quarter of 2019 represented our 40th consecutive quarter of positive comparable restaurant sales growth. To consistently grow sales and traffic for a decade is truly amazing, and it speaks to the quality of our people and their commitment to Texas Roadhouse.

We finished 2019 with comparable restaurant sales up 4.7% for company restaurants. As a result, our average unit volumes increased to $5.6 million. A decade earlier, our average unit volumes were $3.7 million, so over a 10-year period our operators drove nearly $2 million more per unit on average, which is phenomenal.

Our revenue increased 12.2% to $2.8 billion and diluted earnings per share increased 11.9% to $2.46. Ten years ago, our revenue was just $900 million, which shows our strategy of focusing on the fundamentals has helped drive revenue.

On the new store opening front, we opened 19 Texas Roadhouse company restaurants and nine franchise restaurants, primarily in international markets. We also opened three Bubba's 33 restaurants.

We ended the year with a total of 611 stores – 484 Texas Roadhouse company restaurants, 28 Bubba's 33 company restaurants, two Jaggers company restaurants, and 97 Texas Roadhouse franchise restaurants, including 28 international restaurants.

We intend to open a restaurant on Joint Base Lewis-McChord in the state of Washington later this year. This represents our third location on a military base, along with Camp Humphrey's in South Korea and Fort Bliss in Texas. We are proud to be one of the only full-service restaurants on these bases and even prouder that we were selected because of requests from the soldiers.

As a result of our traffic growth, we continue to expand our restaurants through bumpouts and in some cases relocating existing restaurants, so we can serve more guests. We relocated four restaurants in 2019 and have up to five relocations scheduled for 2020. With most relocations, we gain additional parking, more seats, and often better lease terms. We also see about a 20% increase in sales with the newer unit.

We continue to remain committed to driving shareholder value. Our strong balance sheet and healthy cash flow enabled us to repurchase over 2.6 million shares in 2019, and we also increased our dividend by double digits for the seventh straight year.

Another lesson I learned from my coach that I have applied to business is the importance of recognizing great performance. At Texas Roadhouse, we do that in many ways. From our Managing Partner model to offering stock grants and annual recognition of strong performers, such as Managing Partner of the Year, Roadie of the Year, Meat Cutter of the Year, and many other awards, we believe it's important to spotlight high performers, such as Dwight Szabo and Bonnie Hubrich.

Dwight was named Managing Partner of the Year at our 2019 annual conference. He and his team grew sales 9.2% (nearly $650,000) and grew traffic by 6.8% with incredible efficiency. Dwight, who is a two-time finalist, grew profits by keeping a tight eye on costs and producing some of the best turnover numbers in the company. Dwight also earned the Legendary Service, Legendary Profits, and Legendary People awards at our annual conference.

Bonnie Hubrich was named our Roadie of the Year. She has been a true partner for the entire Support Center in her role as Executive Assistant to our Vice President of People and the People Department. She earned this honor because of her willingness to go above and beyond to support everyone who passes by her desk. Bonnie is a true role model of our core values and our culture.

Over the past 10 years, we have added over 220 Texas Roadhouse domestic stores, created two new concepts, and expanded our footprint to 10 foreign countries. We have done this because of our people. I have said it many times before, but we are first and foremost a people company that happens to serve steak. It's the people who make it happen every day, and it's the people who help us cross the finish line strong time and time again!

Kent

Kent Taylor
Founder, Chairman, CEO, and President
Texas Roadhouse, Inc.

SERVING OUR COMMUNITIES ACROSS AMERICA

Revised March 25, 2020

Partners,

We had no idea two months ago when we released earnings and drafted our Shareholder Letter that our nation and the world would be turned upside down due to the COVID-19/Coronavirus pandemic. There is no doubt that our industry has changed drastically and there is still much we do not know, which is why we have withdrawn our financial guidance for 2020.

But take note that there is also a lot that we do know. We know that we have the best operators in the world and when times are tough, they fight.

They fight to help feed America, whether it's in our restaurants, To-Go, Curbside, or Family Value Packs. Our goal is always to take care of our people, our guests, and the communities in which we live and work. That fighting spirit is why we have had 40 consecutive quarters of same store sales growth over the past 10 years.

In short, at Texas Roadhouse, where there is a will there is a way. During this ever-changing time, our Managing Partners have found phenomenal ways to feed their communities and keep the doors open.

They rolled up their sleeves and literally converted their sit-down restaurants into a To-Go/Curbside model in just a matter of days. It is nothing short of amazing that our operators overhauled their restaurants to go from less than 10% of their sales through To-Go a few weeks ago to nearly 100% of their sales through Curbside, To-Go, and Carryout because their dining rooms are temporarily closed. Some created single drive-thrus, some have double drive-thrus, most created Family Value Packs, and some even sold bulk food where there were community shortages and allowed by the state.

They all had different strategies, but what they all have in common is their commitment to serving their communities and not giving up.

That's what owner/operators do. I have never been prouder in my life of our team of people who are working around the clock to keep feeding America. I am confident that when you have the best people and give them the freedom to operate, then they will not only survive, they will thrive. Thank you for your trust and support of Texas Roadhouse!

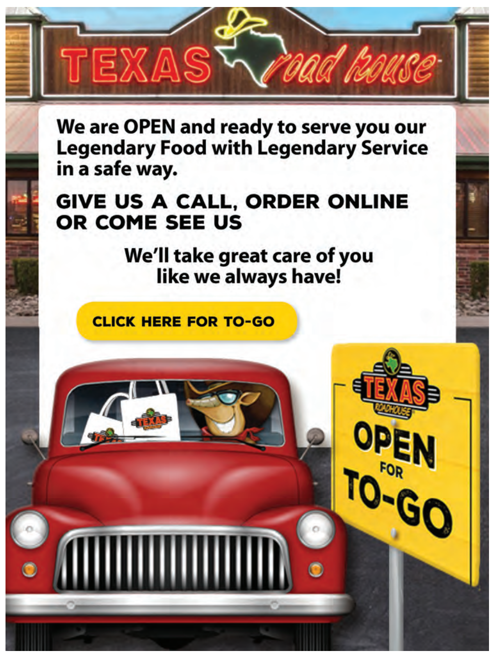
Kent

TO-GO AND CURBSIDE MARKETING MATERIALS

BANNERS

FAMILY VALUE PACK MENUS

NATIONAL EMAILS



SIGNAGE

SOCIAL MEDIA IMAGES

April 3, 2020

To our Shareholders:

You are cordially invited to attend the 2020 Annual Meeting of Shareholders of Texas Roadhouse, Inc. on Thursday, May 14, 2020. The meeting will be held at the Texas Roadhouse Support Center located at 6040 Dutchmans Lane, Louisville, Kentucky at 9:00 a.m. eastern daylight time.

The official Notice of Annual Meeting, Proxy Statement and Proxy Card are enclosed with this letter.

Please take the time to read carefully each of the proposals for shareholder action described in the accompanying proxy materials. Whether or not you plan to attend, you can ensure that your shares are represented at the meeting by promptly completing, signing and dating your proxy card and returning it in the enclosed postage-paid envelope. Shareholders of record can also vote by touch-tone telephone from the United States, using the toll-free number on the proxy card, or by the Internet, using the instructions on the proxy card. If you attend the meeting, then you may revoke your proxy and vote your shares in person.

Your interest and participation in the affairs of the Company are greatly appreciated. Thank you for your continued support.

Sincerely,

W Kent Taylor

W. Kent Taylor
Chairman, Chief Executive Officer, President

TEXAS ROADHOUSE, INC.

6040 Dutchmans Lane
Louisville, Kentucky 40205

NOTICE OF 2020 ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 14, 2020

To the Shareholders:

The 2020 Annual Meeting of Shareholders (the "Annual Meeting") of Texas Roadhouse, Inc. (the "Company") will be held at the Texas Roadhouse Support Center located at 6040 Dutchmans Lane, Louisville, Kentucky on Thursday, May 14, 2020 at 9:00 a.m. eastern daylight time.

At the Annual Meeting, you will be asked to:

- elect five directors to the Board of Directors, each for a term of one year;
- ratify the appointment of KPMG LLP as the Company's independent auditors;
- hold an advisory vote on executive compensation; and
- transact such other business as may properly come before the meeting.

A Proxy Statement describing matters to be considered at the Annual Meeting is attached to this notice. Only shareholders of record at the close of business on March 16, 2020 are entitled to receive notice of and to vote at the Annual Meeting.

By Order of the Board of Directors,

Christopher C. Colson
Corporate Secretary

Louisville, Kentucky
April 3, 2020

IMPORTANT

WHETHER OR NOT YOU EXPECT TO BE PRESENT AT THE ANNUAL MEETING, PLEASE SUBMIT YOUR VOTE USING ONE OF THE VOTING METHODS DESCRIBED IN THE ATTACHED MATERIALS. IF YOU ATTEND THE ANNUAL MEETING, THEN YOU MAY REVOKE YOUR PROXY AND VOTE YOUR SHARES IN PERSON.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE 2020 ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 14, 2020: Our Annual Report containing our Proxy Statement related to our 2020 Annual Meeting of Shareholders and Form 10-K for the fiscal year ended on December 31, 2019 is available on our website at *www.texasroadhouse.com* in the Investors section.

Table of Contents

PROXY STATEMENT

2020 ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 14, 2020

TEXAS ROADHOUSE, INC.
6040 Dutchmans Lane
Louisville, Kentucky 40205

This proxy statement and accompanying proxy card are being furnished in connection with the solicitation of proxies by the board of directors (the "Board") of Texas Roadhouse, Inc., a Delaware corporation, to be voted at the 2020 Annual Meeting of Shareholders (the "Annual Meeting") and any adjournments thereof. In this proxy statement, references to the "Company," "we," "us" or "our" refer to Texas Roadhouse, Inc. This proxy statement and accompanying proxy card are first being mailed to shareholders on or about April 3, 2020.

The Annual Meeting will be held at the Texas Roadhouse Support Center located at 6040 Dutchmans Lane, Louisville, Kentucky on Thursday, May 14, 2020 at 9:00 a.m. eastern daylight time, for the purposes set forth in this proxy statement and the accompanying notice of the Annual Meeting.

SUMMARY OF MATTERS REQUIRING SHAREHOLDER ACTION

Proposal 1—Election of Directors

The affirmative vote of a plurality of the votes entitled to be cast by the holders of the Company's common stock present in person or represented by proxy is required to elect each nominee. Election by a plurality means that the director nominee with the most votes for the available slot is elected for that slot. You may vote "FOR" each nominee or you may "WITHHOLD AUTHORITY" to vote for each nominee. Unless you "WITHHOLD AUTHORITY" to vote for a nominee, your proxy will be voted "FOR" the election of the individuals nominated as directors.

Our Board has adopted a majority voting policy for uncontested director elections. Under this policy, any nominee who receives fewer "FOR" votes than "WITHHOLD" votes is required to offer his or her resignation. Our nominating and corporate governance committee would then consider the offer of resignation and make a recommendation to our independent directors as to the action to be taken with respect to the offer.

THE BOARD RECOMMENDS THAT YOU VOTE "FOR" THE NOMINEES.

Proposal 2—Ratification of Independent Auditors

The proposal to ratify the appointment of KPMG LLP as the Company's independent auditors for the fiscal year ending December 29, 2020 must be approved by the affirmative vote of a majority of the shares present (in person or by proxy) and entitled to vote. You may vote "FOR" or "AGAINST" the ratification, or you may "ABSTAIN" from voting on this proposal. A vote to "ABSTAIN" will have the same effect as a vote "AGAINST" this proposal.

THE BOARD RECOMMENDS THAT YOU VOTE "FOR" THIS PROPOSAL.

Proposal 3—Advisory Vote on Approval of Executive Compensation

The outcome of the advisory vote on whether to approve the executive compensation detailed in this proxy statement (including the Compensation Discussion and Analysis, the Executive Compensation section and the other related executive compensation tables and related discussions) will be determined by the affirmative vote of a majority of the shares present (in person or by proxy) and entitled to vote. You may vote "FOR" or "AGAINST" approval of the executive compensation, or you may "ABSTAIN" from voting on this proposal. A vote to "ABSTAIN" will have the same effect as a vote "AGAINST" approval of the executive compensation.

THE BOARD RECOMMENDS THAT YOU VOTE "FOR" THIS PROPOSAL.

Other Matters

As of the date of this proxy statement, the Board knows of no matters that will be presented for consideration at the Annual Meeting other than those matters discussed in this proxy statement. If any other matters should properly come before the Annual Meeting and call for a vote of shareholders, then validly executed proxies in the enclosed form returned to us will be voted in accordance with the recommendation of the Board, or, in the absence of such a recommendation, in accordance with the judgment of the proxy holders. Any such additional matter must be approved by an affirmative vote of a majority of the shares present (in person or by proxy) and entitled to vote at the Annual Meeting.

INFORMATION ABOUT PROXIES AND VOTING

Record Date and Voting Securities

The Board has fixed the record date (the "Record Date") for the Annual Meeting as the close of business on March 16, 2020. Only shareholders of record at the close of business on the Record Date will be entitled to vote at the Annual Meeting and at any adjournment or postponement thereof. At the close of business on the Record Date, there were outstanding 69,355,085 shares of common stock, each of which is entitled to one vote per share on all matters to be considered at the Annual Meeting.

The presence in person or by proxy of the holders of a majority of the shares of common stock will constitute a quorum for the transaction of business at the Annual Meeting. Shares of common stock represented by properly executed proxies received before the close of voting at the Annual Meeting will be voted as directed by such shareholders, unless revoked as described below.

Revocability of Proxies

A shareholder who completes and returns the proxy card that accompanies this proxy statement may revoke that proxy at any time before the closing of the polls at the Annual Meeting. A shareholder may revoke a proxy by voting at a later date by one of the methods described on the proxy card or by filing a written notice of revocation with, or by delivering a duly executed proxy bearing a later date to, the Corporate Secretary of the Company at the Company's main office address located at 6040 Dutchmans Lane, Louisville, Kentucky 40205 at any time before the Annual Meeting. Shareholders may also revoke proxies by delivering a duly executed proxy bearing a later date to the inspector of election at the Annual Meeting before the close of voting or by attending the Annual Meeting and voting in person. You may attend the Annual Meeting even though you have executed a proxy, but your presence at the Annual Meeting will not automatically revoke your proxy.

Solicitation of Proxies

The cost of solicitation of proxies being solicited on behalf of the Board will be borne by us. In addition to solicitation by mail, proxies may be solicited personally, by telephone or other means by our directors, officers or employees, who receive no additional compensation for these solicitation activities. We will, upon request, reimburse brokerage houses and persons holding common stock in the names of their nominees for their reasonable out-of-pocket expenses in sending materials to their principals.

Other Voting Considerations

Broker Non-Votes. Under rules of the New York Stock Exchange, matters subject to shareholder vote are classified as "routine" or "non-routine." In the case of routine matters, brokers may vote shares held in "street name" in their discretion if they have not received voting instructions from the beneficial owner. In the case of non-routine matters, brokers may not vote shares unless they have received voting instructions from the beneficial owner ("broker non-votes"); therefore, it is important that you complete and return your proxy early so that your vote may be recorded.

The election of directors (Proposal 1) is a non-routine matter under the applicable rules so broker non-votes may occur. However, broker non-votes do not count as shares entitled to vote. Because the election is decided by a plurality of shares present (in person or by proxy) and entitled to vote at the Annual Meeting, and because our majority voting policy for directors only considers "FOR" votes and "WITHHOLD" votes, any broker non-votes will not affect the outcome of this proposal.

The ratification of the appointment of the Company's independent auditors (Proposal 2) is a routine matter under the applicable rules so broker non-votes should not occur. In addition, because this matter is routine and brokers may vote as stated above, the number of votes cast, plus the number of abstentions, on Proposal 2 will be used to establish whether a quorum is present.

The advisory vote on the approval of executive compensation (Proposal 3) and any other matters that may properly come before the Annual Meeting are also non-routine matters under the applicable rules so broker non-votes may occur. Because broker non-votes do not count as shares entitled to vote, they do not affect the outcome of the vote on Proposal 3.

Abstentions. Abstentions will be counted for purposes of calculating whether a quorum is present. The effect of an abstention on each proposal where "ABSTAIN" is a voting choice is discussed above.

Executed but Unmarked Proxies. If no instructions are given, then shares represented by properly executed but unmarked proxies will be voted in accordance with the recommendation of the Board, or, in the absence of such a recommendation, in accordance with the judgment of the proxy holders.

CORPORATE GOVERNANCE AND OUR BOARD

Director Summaries

Gregory N. Moore	*Business Experience:*
Director Since: 2005 ***Age:*** 70 ***Board Committees / Leadership:*** Audit Committee, Compensation Committee and Nominating & Corporate Governance Committee; Independent Lead director and International Liaison; Chairperson of Audit Committee and Nominating & Corporate Governance Committee ***Public Boards:*** None	Mr. Moore served as the Senior Vice President and Controller of Yum! Brands, Inc. until he retired in 2005. Yum! Brands is the worldwide parent company of Taco Bell, KFC and Pizza Hut. Prior to becoming Yum! Brands' Controller, Mr. Moore was the Vice President and General Auditor of Yum! Brands. Before that, he was with PepsiCo, Inc. and held the position of Vice President, Controller of Taco Bell and Controller of PepsiCo Wines & Spirits International, a division of PepsiCola International. Before joining PepsiCo, he was an Audit Manager with Arthur Young & Company in its New York, New York and Stamford, Connecticut offices. Mr. Moore is a certified public accountant in the States of New York and California. In July 2011, Mr. Moore joined the board of Newegg, Inc., a privately held on-line retailer specializing in computer and computer-related equipment, and serves as the chair of both the audit and compensation committees. Mr. Moore also serves on the board of EF&TRH Restaurants (HK) Holding Limited, a Texas Roadhouse, Inc. joint-venture in China. *Reason for Nomination:* Mr. Moore is being nominated as a non-employee director because of his extensive financial, accounting and international experience in the restaurant industry. As a result of these and other professional experiences, Mr. Moore possesses particular knowledge and experience that strengthens the Board's collective qualifications, skills and experience.

W. Kent Taylor	*Business Experience:*
Director Since: 2004 ***Age:*** 64 ***Board Committees / Leadership:*** Chairman of the Board; Company's Chairman, Chief Executive Officer, and President ***Public Boards:*** None	Mr. Taylor is our founder, Chairman, and Chief Executive Officer, a position he resumed in August 2011. Mr. Taylor previously served as Chief Executive Officer from 2000 until 2004, at which time Mr. Taylor became Chairman of the Company, an executive position. Additionally, Mr. Taylor assumed the position of President of the Company on June 24, 2019, a position he previously served as from 1993 until 2000. Before his founding of our concept in 1993, Mr. Taylor founded and co-owned Buckhead Bar and Grill in Louisville, Kentucky. Mr. Taylor previously served on the Board of Directors of Papa John's International, Inc. (Nasdaq: PZZA) from 2011 until 2018. *Reason for Nomination:* Mr. Taylor is being nominated as an employee director because of his chief executive experience, his knowledge of the restaurant industry and his intimate knowledge of the Company as its founder. As a result of these and other professional experiences, Mr. Taylor possesses particular knowledge and experience that strengthens the Board's collective qualifications, skills and experience.

Curtis A. Warfield	***Business Experience:***
Director Since: 2018 ***Age:*** 51 ***Board Committees / Leadership:*** Audit Committee, Compensation Committee and Nominating & Corporate Governance Committee ***Public Boards:*** None	Mr. Warfield is a certified public accountant and is currently the President and Chief Executive Officer of Windham Advisors LLC, a management and strategic advisory firm that offers innovative business solutions for companies in the healthcare, BPO (business process outsourcing) and insurance industries. He served as part of the senior leadership team of Anthem, Inc. one of the nation's largest health insurers with over $100 billion in revenues from 2017 to 2019. As a senior executive at HCA, the largest healthcare provider in the country, from 1997 to 2016 he served in a variety of roles. He began as the Chief Financial Officer of the Columbia Healthcare Network with a majority of his tenure serving as the Chief Executive Officer of NPAS, a healthcare services company. ***Reason for Nomination:*** Mr. Warfield is being nominated as a non-employee director because of his extensive financial and accounting experience, his executive management experience, and his information technology experience. As a result of these and other professional experiences, Mr. Warfield possesses particular knowledge and experience that strengthens the Board's collective qualifications, skills and experience.

Kathleen M. Widmer	***Business Experience:***
Director Since: 2013 ***Age:*** 58 ***Board Committees / Leadership:*** Compensation Committee and Nominating & Corporate Governance Committee ***Public Boards:*** None	Ms. Widmer is the Company Group Chairman for Consumer North America with Johnson & Johnson, a position she has held since December 2018. Prior to this position, she served as the President of the Johnson & Johnson Consumer OTC division, which provides healthcare solutions through well-known and trusted over-the-counter medicines and products, a position she held from August 2015. She was previously with Johnson & Johnson for 21 years, until 2009, where she held numerous positions, including serving as Vice President, Marketing, McNeil Consumer Healthcare. Prior to re-joining Johnson & Johnson, she served as Executive Vice President and Chief Marketing Officer at Elizabeth Arden, Inc. from 2009 to 2015, and was responsible for the global growth strategy and marketing execution of the Elizabeth Arden Brand. In 2017, she was appointed to the board of directors for the Wounded Warrior Project. She is a graduate of the U.S. Military Academy in West Point, N.Y. and served for five years as a U.S. Army officer. ***Reason for Nomination:*** Ms. Widmer is being nominated as a non-employee director because of her extensive marketing experience in the retail sector and her knowledge of the global retail industry. As a result of these and other professional experiences, Ms. Widmer possesses particular knowledge and experience that strengthens the Board's collective qualifications, skills and experience.

James R. Zarley	*Business Experience:*
Director Since: 2004 ***Age:*** 75 ***Board Committees / Leadership:*** Audit Committee, Compensation Committee and Nominating & Corporate Governance Committee; Chairperson of Compensation Committee ***Public Boards:*** None	Mr. Zarley has served as Chairman, Chief Executive Officer and Chairman of the Board of Conversant, a single-source provider of media, technology and services across major interactive marketing channels which previously operated under the name ValueClick, Inc., and was a member of Conversant's board of directors from 1999 until his retirement in 2014. Mr. Zarley shaped the company into a global leader in online marketing solutions. Prior to joining Conversant, Mr. Zarley was chief operating officer of Hiway Technologies, where he was a leading member of the management team that closed the merger with Verio in 1999. Prior to that, Mr. Zarley was Chairman and Chief Executive Officer of Best Internet until it merged with Hiway Technologies in 1998. Mr. Zarley also founded and later sold Quantech Information Services, now an ADP company. In addition, he spent 19 years at RCA in various senior management roles. Currently, he serves on the board of directors of several private companies.
	Reason for Nomination: Mr. Zarley is being nominated as a non-employee director because of his chief executive and information technology experience in a developing industry, his technology experience and his transactional experience. As a result of these and other professional experiences, Mr. Zarley possesses particular knowledge and experience that strengthens the Board's collective qualifications, skills and experience.

Meetings of the Board

The Board met on eight occasions and its standing committees (audit committee, compensation committee, and nominating and corporate governance committee) met on 24 occasions during our fiscal year ended December 31, 2019. Each incumbent director attended at least 75% of the aggregate number of meetings of the Board and its committees on which such director served during his or her period of service. In addition, the Company expects all members of the Board to attend the Annual Meeting. All incumbent directors attended the 2019 annual meeting. Four regular Board meetings are currently scheduled for the 2020 fiscal year. Executive sessions of non-employee directors, without management directors or employees present, are typically scheduled in conjunction with each regularly scheduled Board meeting. The role of each standing committee is more fully discussed below.

Leadership Structure of the Board and Role of the Board in Risk Oversight

Leadership Structure. The Board currently includes four independent directors and one employee director, and the positions of Chairman and Chief Executive Officer are occupied by the same individual. As noted above, Mr. Taylor was named Chairman of the Board in recognition of his founding and continuing leadership role in the Company and has held that position since 2004. Mr. Taylor also resumed the position of Chief Executive Officer in August 2011. Mr. Taylor previously served as Chief Executive Officer from 2000 until 2004. We believe that the Company and its shareholders are best served by having Mr. Taylor serve in both positions because he is the person most familiar with our unique culture, business model, and the challenges we face in the current macro-economic environment. Mr. Taylor's wealth of knowledge regarding Company operations and the industry in which we compete positions him to best identify matters for Board review and deliberation. Additionally, the combined role of Chairman and Chief Executive Officer unifies the Board with management. We believe that the Company can more effectively execute its current strategy and business plans to maximize shareholder value if our Chairman is also a member of the management team.

While the Board considers all of its members equally responsible and accountable for oversight and guidance of its activities, they also have designated a Lead Independent director, who is elected annually by a majority of the Board. Mr. Moore currently serves as the Lead Independent director. The responsibility and authority of the Lead Independent director are delineated in our Corporate Governance Guidelines, which can be found on the Company's website at *www.texasroadhouse.com* but include, without limitation:

(i) providing leadership to the Board in any situation where the Chairman is not present;

(ii) presiding at all executive sessions of the Board and advising the Chairman and Chief Executive Officer on any decisions arising from such executive sessions;

(iii) approving in advance agendas and schedules for Board meetings and the information that is to be provided to the other directors;

(iv) upon request by any major shareholders, being available for consultations and direct communication;

(v) regularly meeting with the Chairman and serving as a liaison between the Chairman and the other independent directors;

(vi) overseeing the Board's annual self-assessment process; and

(vii) calling any additional Board meetings as needed.

Risk Oversight. The Board is responsible for overseeing the Company's risk management strategies, including the Company's implementation of appropriate processes to administer day-to-day risk management. The Board is informed about risk management matters as part of its role in the general oversight and approval of corporate matters. The Board gives clear guidance to the Company's management on the risks it believes face the Company, such as the matters disclosed as risk factors in the Company's Annual Report on Form 10-K. Furthermore, the Board has delegated certain risk management responsibilities to its audit committee and compensation committee.

Through the audit committee's charter, the Board has authorized the audit committee to oversee the Company's risk assessment and risk management policies. The audit committee, in fulfilling its oversight responsibilities, regularly and comprehensively reviews specific risk matters which have been identified by management. The Company's internal auditors regularly report directly to the audit committee on the results of internal audits, the scope and frequency of which are based on comprehensive risk assessments which have been approved by the audit committee. Additionally, a risk committee comprised of Company management regularly updates the audit committee on the results of its risk management activities, which are based on the Company's prioritized risk overview that is updated at least annually and reviewed with the audit committee. The audit committee is routinely advised of operational, financial, legal, and cybersecurity risks both during and outside of regularly scheduled meetings, and the audit committee reviews and monitors specific activities to manage these risks, such as insurance plans, hedging strategies and internal controls (as and if applicable).

Through the compensation committee's charter, the Board has authorized the compensation committee to oversee the compensation programs for the Company's executive officers and non-employee directors on the Board. The compensation committee, in fulfilling its oversight responsibilities, designs the compensation packages applicable to the Company's executive officers and Board members. The compensation committee also consults with management on the payments of bonuses and grants of stock awards to key employees.

The audit committee and the compensation committee jointly perform an annual risk assessment of our compensation programs for all employees to determine whether these programs encourage unnecessary or excessive risk taking. In conducting this review, each of our compensation programs is evaluated on a number of criteria aimed at identifying any incentive programs that deviate from our risk management objectives. Based on this review in 2019, both the audit committee and the compensation committee concluded that we have the right combination of rewards and incentives to drive company performance, without encouraging unnecessary or excessive risk taking by our employees. Specifically, the audit and compensation committees identified the following components of our compensation programs that mitigate the likelihood of excessive risk taking to meet performance targets: equity incentive compensation in the form of restricted stock units; long term contracts and a financial buy-in requirement for restaurant management; a guaranteed base salary within our support center management personnel; minimums and maximums on profit sharing compensation within our support center management personnel; robust internal controls; operational focus on top line sales growth; and, a business model which focuses on a strong balance sheet, relatively low debt, prudent growth, and sustainable long-term profitability.

The Board's oversight roles, including the roles of the audit committee and the compensation committee, combined with the leadership structure of the Board to include Company management, allow the Board to effectively administer risk management policies while also effectively and efficiently addressing Company objectives.

Strategic Planning and Initiatives. The Board also plays an instrumental oversight role in the strategic planning and initiatives of the Company. As a part of this role, the Board has periodic strategic planning sessions with management to ensure that the Company and the Board are aligned on the long-term goals and initiatives of the Company. Additionally, the Board conducts periodic asset management reviews of the Company's assets to ensure that the Board and the management of the Company are in agreement on how the Company is managing its asset portfolio. Finally, the Board provides direct oversight over certain other strategic initiatives or transactions implemented by the Company, including franchise acquisitions and the Company's share repurchase activities.

Sustainability Initiatives. Both the Board and the Company take great pride in our environmental, social and governance efforts—specifically our sustainability program and our appreciation for and commitment to our employees and for the community. Our commitment is evident from our long history of dedication to corporate citizenship and the manner in which we often consider sustainability as part of our decision-making process. In furtherance of the foregoing, the Board reviews the Company's sustainability initiatives as a part of their oversight role of the Company's business strategy and risk management. In particular, the Board receives periodic updates, at least annually, of the Company's sustainability initiatives from management. Additionally, the Company includes a sustainability update in the Company's Annual Report.

Committees of the Board

The Board has three standing committees:

(i) the audit committee;

(ii) the compensation committee; and

(iii) the nominating and corporate governance committee.

The Board has adopted a written charter for each of these committees, which sets out the functions and responsibilities of each committee. The charters of these committees are available in their entirety on the Company's website, *www.texasroadhouse.com*. Please note, however, that the information contained on the website is not incorporated by reference in, nor considered to be a part of, this proxy statement.

The Board has also designated one of its members as an International Liaison, which is elected annually by a majority of the Board. Mr. Moore currently serves as the Board's International Liaison. The duties and responsibilities of International Liaison include, without limitation, (i) overseeing the Company's efforts in international expansion and reporting to the Board on those efforts, (ii) traveling with certain members of management to proposed international locations and markets (as needed) and to meet proposed international business partners where appropriate, (iii) meeting with the Company's compliance team regarding the required anti-bribery and corruption due diligence review on any proposed international business partner, and (iv) reviewing on behalf of the Board all new proposed international development or franchise agreements.

Audit Committee. As described in its charter, the primary purpose of the audit committee is to assist the Board in fulfilling its oversight responsibility relating to:

(i) the integrity of the Company's consolidated financial statements;

(ii) the Company's compliance with legal and regulatory requirements;

(iii) the independence and performance of the Company's internal and external auditors; and

(iv) the Company's internal controls and financial reporting practices.

The audit committee is also directly responsible for the following: (a) pre-approving all audit and permitted non-audit related services provided by our independent auditors, (b) the appointment, compensation, retention, and oversight of the Company's independent auditors, and (c) periodically evaluating whether or not the Company should rotate the independent auditors utilized by the Company. In connection with the audit committee's appointment of the Company's independent auditors, the audit committee evaluates the service level of the incumbent independent auditor on an annual basis, which includes criteria such as prior year quality of service, industry and technical expertise, independence, resource availability, and reasonableness and competitiveness of fees, as well as solicits the input of key management employees during its evaluation. The audit committee reviews all of the Company's earnings press releases and Quarterly and Annual Reports on Form 10-Q and Form 10-K, respectively, prior to filing with the Securities and Exchange Commission (the "SEC"). The audit committee is also responsible for producing an annual report on its activities for inclusion in this proxy statement. All of the members of the audit committee are "independent," as that term is defined in the listing standards under NASDAQ Marketplace Rule 5605(a)(2) and meet the criteria for independence under the Sarbanes-Oxley Act of 2002 and the rules adopted by the SEC. The audit committee is currently comprised of Messrs. Moore, Warfield, and Zarley. Mr. Moore chairs the audit committee. The Board evaluated the credentials of and designated Messrs. Moore and Warfield as audit committee financial experts. The audit committee met 14 times during fiscal year 2019, which were comprised of six regular meetings of the audit committee, and two meetings per quarter relating to the audit committee's review of the Company's filings with the SEC.

Compensation Committee. As described in its charter, the compensation committee:

(i) assists the Board in fulfilling its responsibilities relating to the design, administration and oversight of employee compensation programs and benefit plans of the Company's executive officers;

(ii) discharges the Board's duties relating to the compensation of the Company's executive officers and non-employee directors; and

(iii) reviews the performance of the Company's executive officers.

The compensation committee is also responsible for reviewing and discussing with management the "Compensation Discussion and Analysis" in this proxy statement and recommending its inclusion in this proxy statement to the Board. All of the members of the compensation committee are "independent" under all applicable rules, including the listing standards under NASDAQ Marketplace Rule 5605(a)(2) and the requirements of the SEC. The current members of the compensation committee are Ms. Widmer and Messrs. Moore, Warfield, and Zarley. Mr. Zarley currently chairs the compensation committee. The compensation committee met six times during fiscal year 2019.

Nominating and Corporate Governance Committee. As described in its charter, the nominating and corporate governance committee assists the Board in:

(i) identifying individuals qualified to become Board members and recommending nominees to the Board either to be presented at the annual meeting or to fill any vacancies;

(ii) considering and reporting periodically to the Board on matters relating to the identification, selection and qualification of director candidates;

(iii) developing and recommending to the Board a set of corporate governance principles; and

(iv) overseeing the evaluation of the Board, its committees, and its incumbent members.

The nominating and corporate governance committee routinely evaluates the size and composition of the Board and the variety of professional expertise represented by the Board members in relation to the Company's business. To assist in this process, the nominating and corporate governance committee has identified certain interpersonal skills and professional skills desirable for some and/or all of the directors on the Board. The interpersonal skills are personal attributes that each director should possess and include ethics and integrity, leadership skills, negotiation skills and crisis management skills. The professional skills are an assessment of governance and industry based skill areas which should be held collectively by the Board but not necessarily by each director and contain skills relating to (i) financial, risk and compliance skills, (ii) governance and management skills, and (iii) sector and industry specific skills. All of the members of the nominating and corporate governance committee are "independent" under all applicable rules, including the listing standards under NASDAQ Marketplace Rule 5605(a)(2) and the requirements of the SEC. The current members of the nominating and corporate governance committee are Ms. Widmer and Messrs. Moore, Warfield, and Zarley. Mr. Moore chairs the nominating and corporate governance committee. The nominating and corporate governance committee met four times during fiscal year 2019.

Policy Regarding Consideration of Candidates for Director

Shareholder recommendations for Board membership should include, at a minimum, the name of the candidate, age, contact information, present principal occupation or employment, qualifications and skills, background, last five years' employment and business experience, a description of current or previous service as director of any corporation or organization, other relevant biographical information, and the nominee's consent to service on the Board. A shareholder nominee will be requested to complete a detailed questionnaire in the form that current non-employee directors and executive officers of the Company complete.

The nominating and corporate governance committee may consider such other factors as it may deem are in the best interest of the Company and its shareholders. The Board has adopted corporate governance guidelines which provide that, if and when the Board determines that it is necessary or desirable to add or replace a director, the nominating and corporate governance committee will seek diverse candidates, taking into account diversity in all respects (including gender, race, age, board service, background, education, skill set, and financial acumen, along with knowledge and experience in areas that are relevant to the Company's business), when forming the nominee pool. The nominating and corporate governance committee has reviewed the process used in the selection of director candidates and concluded that the pool contained a diverse group of candidates. The manner in which the nominating and corporate governance committee evaluates a potential nominee will not differ based on whether the nominee is recommended by a shareholder of the Company.

The Company currently retains a corporate recruiter to assist in identifying candidates for open positions at the Company. Upon request, this recruiter also assists in identifying and evaluating candidates for director, but the Company does not pay an additional fee for this service.

Compensation of Directors

As further discussed in the "Compensation Discussion and Analysis," the compensation committee engaged Willis Towers Watson as an independent compensation consultant in 2017 to advise the compensation committee on the compensation for our executive officers and non-employee directors. Specifically, the compensation committee asked the compensation consultant to provide market data, review the design of the compensation packages for our executive officers and non-employee directors, and provide guidance on cash and equity compensation for our executive officers and non-employee directors, including, without limitation, the issuance of restricted stock units to our non-employee directors and executive officers as more particularly described in this proxy statement. Similar to our compensation philosophy for our executive officers, we believe that issuing restricted stock units to our non-employee directors aligns their interests with those of our shareholders. Specifically, since the bulk of each non-employee director's compensation lies in the value of the restricted stock units granted, the non-employee directors are motivated to continually improve the Company's performance in the hope that the performance will be reflected by the stock price on the vesting date of their restricted stock units. Moreover, we believe that the restricted stock unit awards drive director alignment with maximizing shareholder value because the value of the restricted stock units varies in response to investor sentiment regarding overall Company performance at the time of vesting.

As described more fully below, the following table summarizes the total compensation earned for fiscal year 2019 for each of the non-employee directors.

2019 Director Compensation Table

Name	Fees Earned or Paid in Cash ($)	Grant Date Fair Value of Stock Awards ($)(1)	Total ($)
Gregory N. Moore	113,500(2)	346,416	459,916
James F. Parker(3)	4,833(4)	293,835	298,668
Curtis A. Warfield	51,500	284,556	336,056
Kathleen M. Widmer	39,500	275,277	314,777
James R. Zarley	59,306(4)	293,771	353,077

(1) The non-employee directors were granted the following restricted stock units on January 8, 2019, each of which vest over a one year period and were outstanding on December 31, 2019 (other than as more particularly described in footnote (3) below):

(i) each director received a base grant of 4,250 restricted stock units;

(ii) the Lead Independent director for the Board received a grant of 500 restricted stock units;

(iii) the chairperson of the audit committee received a grant of 350 restricted stock units;

(iv) the chairperson of the compensation committee received a grant of 150 restricted stock units;

(v) the chairperson of the nominating and corporate governance committee received a grant of 150 restricted stock units;

(vi) each director serving on the audit committee received a grant of 150 restricted stock units;

(vii) each director serving on the compensation committee received a grant of 100 restricted stock units; and

(viii) each director serving on the nominating and corporate governance committee received a grant of 100 restricted stock units.

In addition to the foregoing, Mr. Zarley received a grant of 143 restricted stock units on February 13, 2019 relating to his partial year service as the chairperson of the compensation committee, which vest concurrently with the restricted stock units granted in the immediately preceding paragraph.

For the restricted stock units described in this footnote (1), fair value is equal to the closing price of the Company's common stock on the trading day immediately preceding the date of the grant, which was $61.86 for the grants to the non-employee directors on January 8, 2019 and $64.44 for the additional grant to Mr. Zarley on February 13, 2019. The amounts listed above represent the grant date fair value determined in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 ("ASC 718") of restricted stock units granted under the Company's 2013 Long-Term Incentive Plan. Detailed information under ASC 718 is set forth in Note 14 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019. No other equity awards were granted to the non-employee directors during the period of time covered by this table nor were any outstanding at the end of the 2019 fiscal year. The Company cautions that the amounts reported in the Director Compensation Table for these awards may not represent the amounts that the non-employee directors will actually realize from the awards. Whether, and to what extent, a non-employee director realizes value will depend on fluctuation in the Company's stock price and the non-employee director's continued service on the Board.

Additionally, in January 2018, the compensation committee agreed that beginning with the 2018 fiscal year, the total compensation for any non-employee director may not exceed $500,000, which amount shall be calculated by adding (i) the total cash compensation to be paid for services rendered by a non-employee director in any given fiscal year to (ii) the grant date value of any restricted stock units granted to such non-employee director in that fiscal year.

Further, in November 2019, the compensation committee and the Board elected to restructure the equity component for each non-employee director's total compensation. Accordingly and in lieu of the restricted stock unit schedule set forth in the table above for board and committee service, the compensation committee and the Board agreed that with respect to each non-employee director's 2020 fiscal year service, each shall receive an annual grant of restricted stock units equal to $185,000 divided by the closing sales price of the Company's common stock on the Nasdaq Global Select Market on the trading day immediately preceding the date of the grant, with such quotient rounded up or down to the nearest 100 shares. With respect to each non-employee director's 2020 fiscal year service, the Company made the annual grant on January 8, 2020.

(2) This amount includes a $20,000 annual fee for serving as the Lead Independent director, a $20,000 annual fee for serving as the chairperson of the audit committee, and a $20,000 annual fee for serving as the International Liaison.

(3) Mr. Parker passed away on January 26, 2019. All of the amounts listed in the table above reflect compensation relating to Mr. Parker's 2019 year service. Of the 4,750 restricted stock units granted to Mr. Parker on January 8, 2019 for his 2019 year service, he only vested in 234 restricted stock units upon his death and the remainder were forfeited.

(4) The chairperson of the compensation committee receives an annual fee of $10,000. The amounts for each of Mr. Parker and Mr. Zarley includes a prorated portion of such annual fee corresponding to their respective service as the chairperson of the compensation committee during the 2019 fiscal year.

All non-employee directors each received the following cash compensation relating to their 2019 fiscal year service:

(i) each non-employee director received a base fee of $25,000;

(ii) the Lead Independent director received a fee of $20,000;

(iii) the chairperson of the audit committee received a fee of $20,000;

(iv) the chairperson of the compensation committee received a fee of $10,000;

(v) the International Liaison received a fee of $20,000;

(vi) each non-employee director received $2,000 for each Board meeting he or she attended in person and $500 for each Board meeting he or she participated in telephonically; and

(vii) each non-employee director received $1,000 for each committee meeting he or she attended in person and $500 for each committee meeting he or she participated in telephonically.

Code of Conduct

The Board has approved and adopted a Code of Conduct that applies to all directors, officers and employees, including the Company's principal executive officer and the principal financial officer. The Code of Conduct is available in its entirety on the Company's website, *www.texasroadhouse.com*. The Company intends to post amendments to, or waivers from, its Code of Conduct, if any, that apply to the principal executive officer and the principal financial officer on its website.

Stock Ownership Guidelines

Our Board has adopted stock ownership guidelines to further align the financial interests of the Company's executive officers and non-employee directors with the interests of our shareholders. The guidelines provide that our Chief Executive Officer should own, at a minimum, the lesser of 100,000 shares or $2,500,000 in then-current market value, our President should own, at a minimum, the lesser of 40,000 shares or $1,000,000 in then-current market value, and our other executive officers and non-employee directors should own, at a minimum, the lesser of 10,000 shares or $500,000 in then-current market value. The executive officers and non-employee directors are expected to achieve the stock ownership levels under these guidelines within five years of assuming their respective positions.

All executive officers and non-employee directors who have been in their role for five years are in compliance with the guidelines. We anticipate that any people who are new to their roles within the last five years will, to the extent they are not currently in compliance, be in compliance with the guidelines within the required time frame.

Succession Planning

The Board and the Company recognize the importance of continuity of leadership to ensure a smooth transition for its employees, customers, and shareholders. In furtherance of the foregoing and as described in its charter, the nominating and corporate governance committee is responsible for periodically reporting to the Board the status of succession planning for senior management, including policies and principles regarding succession in the event of an emergency and/or retirement and the evaluation of potential successors to the executive officers and other key members of senior management. As a part of this process, both the Board and the nominating and corporate governance committee meet with certain members of management to review the top and emerging talent internally, their level of readiness and development needs.

Mandatory Retirement Age for Board Service

In November 2019, the Board and the nominating and corporate governance committee determined that it is advisable and in the best interest of the Company to establish a mandatory retirement age for the non-employee directors on the Board. In furtherance of the foregoing, in no event shall any non-employee be elected, re-elected and/or appointed to the Board if such non-employee is 75 years or older at the time of such election, re-election and/or appointment; provided, however, any director who began serving on the Board prior to 2006 shall be permitted to be re-elected to the Board so long as he is not 80 years or older at the time of such re-election.

STOCK OWNERSHIP INFORMATION

The following table sets forth as of March 1, 2020 certain information with respect to the beneficial ownership of the Company's common stock of (i) each executive officer named in the Summary Compensation Table (the "Named Executive Officers"), (ii) each non-employee director or nominee for director of the Company, (iii) all directors and current executive officers as a group, and (iv) each shareholder known by the Company to be the owner of 5% or more of the Company's common stock.

	Common Stock(1)	
Name	**Common Stock Ownership(2)**	**Percent**
Directors, Nominees and Named Executive Officers:		
W. Kent Taylor(2)	3,898,101	5.61%
Scott M. Colosi(3)	12,063	*
S. Chris Jacobsen	27,787	*
Gregory N. Moore	75,850	*
Tonya R. Robinson	14,560	*
Doug W. Thompson	66,276	*
Curtis A. Warfield	6,263	*
Kathleen M. Widmer	16,850	*
James R. Zarley	160,543	*
Directors and All Executive Officers as a Group (9 Persons)	4,278,293	6.16%
Other 5% Beneficial Owners**		
Blackrock, Inc.(4) 55 East 52nd Street New York, New York 10022	9,354,330	13.5%
The Vanguard Group(5) 100 Vanguard Boulevard Malvern, Pennsylvania 19355	6,135,997	8.84%

* Represents beneficial ownership of less than 1.0% of the outstanding shares of class.

** This information is based on stock ownership reports on Schedule 13G filed by each of these shareholders with the SEC as of March 1, 2020.

(1) Based upon information furnished to the Company by the named persons and information contained in filings with the SEC. Under the rules of the SEC, a person is deemed to beneficially own shares over which the person has or shares voting or investment power or has the right to acquire beneficial ownership within 60 days, and such shares are deemed to be outstanding for the purpose of computing the percentage beneficially owned by such person or group. However, we do not consider shares of which beneficial ownership can be acquired within 60 days to be outstanding when we calculate the percentage ownership of any other person. As of March 1, 2020, no director or executive officer has the right to acquire any beneficial ownership within 60 days. "Common Stock Ownership" includes (a) stock held in joint tenancy, (b) stock owned as tenants in common, (c) stock owned or held by spouse or other members of the reporting person's household, and (d) stock in which the reporting person either has or shares voting and/or investment power, even though the reporting person disclaims any beneficial interest in such stock.

(2) Mr. Taylor's address is c/o Texas Roadhouse, Inc., 6040 Dutchmans Lane, Louisville, Kentucky 40205.

(3) Scott M. Colosi retired from his executive officer position effective June 20, 2019. The stock ownership information listed above was provided to the Company by Mr. Colosi.

(4) As reported on the Schedule 13G/A filed by Blackrock, Inc. with the SEC on February 4, 2020, it has sole voting power with respect to 8,897,182 shares and sole dispositive power with respect to 9,354,330 shares.

(5) As reported on the Schedule 13G/A filed by The Vanguard Group with the SEC on February 12, 2020, it has sole voting power with respect to 138,931 shares, shared voting power with respect to 14,518 shares, sole dispositive power with respect to 5,991,158 shares, and shared dispositive power with respect to 144,839 shares.

Delinquent Section 16(a) Reports

Section 16(a) of the Exchange Act requires the Company's directors and executive officers, and persons who beneficially own more than 10% of a registered class of the Company's equity securities, to file with the SEC initial reports of stock ownership and reports of changes in stock ownership and to provide the Company with copies of all such filed forms. Based solely on its review of such copies or written representations from reporting persons, the Company believes that all reports were filed on a timely basis during the fiscal year ended December 31, 2019, with the exception of a Form 4 for Mr. Jacobsen that was filed on August 2, 2019 reporting the sale of 2,500 shares on July 30, 2019 pursuant to a written non-discretionary Rule 10b5-1 plan.

2019 EXECUTIVE SUMMARY

The following is an executive summary of our compensation program for our 2019 fiscal year:

Compensation Philosophy

- We believe that our approach to the compensation program for our Named Executive Officers provides our Named Executive Officers with a compensation package which promotes the sustained profitability of the Company and aligns the interests of our Named Executive Officers with those of our shareholders. The compensation packages also reflect a pragmatic response to external market conditions; that is, total compensation that is competitive with comparable positions in similar industries, including the casual dining sector of the restaurant industry, but which is reasonable and in the best interests of our shareholders.

Pay Objectives

- Our primary objective in setting and evaluating the compensation for our Named Executive Officers is to promote the sustained profitability of the Company. Our compensation program is designed to achieve this objective in the following manner:
  - The creation of a more direct relationship between the compensation for our Named Executive Officers and shareholder value since a significant portion of our Named Executive Officer's performance based restricted stock units and cash bonuses are based upon the achievement of defined performance goals to be established by the compensation committee.
  - The attraction and retention of top talent, while also encouraging our Named Executive Officers to keep their focus on both long-term business development and short-term financial growth.
  - The featuring of restricted stock unit awards, the value of which is dependent upon the performance of the Company and the price of our common stock.
  - The opportunity by the compensation committee to adjust a significant portion of the compensation for the Named Executive Officers through the annual grant of service based restricted stock units and/or performance based restricted stock units to more accurately reflect the overall performance of the Company.

Key Pay Components

- The compensation packages for our Named Executive Officers are divided into the following three key components:
  - *Base Salary:* Designed to provide a secure base of compensation and serve to motivate and retain our Named Executive Officers.

- *Cash Bonus:* Designed to reward our Named Executive Officers for the success of the Company as measured by growth in the Company's earnings per diluted share and its overall pre-tax profit, and for each Named Executive Officer's individual contribution to that success.
- *Restricted Stock Unit Grants:* Designed to offer the Named Executive Officers a financial interest in the long-term success of the Company and align their interests with those of our shareholders.

- The compensation packages for our Named Executive Officers include the following types of restricted stock units:
  - Service Based Restricted Stock Units, which grant the Named Executive Officers the conditional right to receive shares of our common stock that vest after a defined period of service;
  - "Retention" Restricted Stock Units, which vest upon the completion of the term of an individual Named Executive Officer's agreement or such longer date as determined by the compensation committee; and
  - Performance Based Stock Units, which are calculated based on the achievement of certain Company performance targets established by the compensation committee and vest over a period of service.
- Our Board has adopted stock ownership guidelines to further align the financial interests of the Company's executive officers with the interests of our shareholders. The guidelines provide that our Chief Executive Officer should own, at a minimum, the lesser of 100,000 shares or $2,500,000 in then-current market value, our President should own, at a minimum, the lesser of 40,000 shares or $1,000,000 in then-current market value, and our other executive officers should own, at a minimum, the lesser of 10,000 shares or $500,000 in then-current market value. The executive officers are expected to achieve these levels within five years of assuming their respective positions.

Setting Compensation

- The compensation program for our Named Executive Officers are determined by the compensation committee.
- The compensation committee evaluates the stock compensation for each Named Executive Officer on an annual basis to determine the right combination of rewards and incentives through the issuance of service based restricted stock units and/or performance based restricted stock units to drive company performance without encouraging unnecessary or excessive risk taking by all of the Named Executive Officers as a whole.

Compensation Discussion and Analysis

The Company's compensation committee reviews and establishes executive compensation in connection with each executive officer's employment agreement. We entered into new employment agreements with W. Kent Taylor, Scott M. Colosi, and S. Chris Jacobsen, each a Named Executive Officer, on December 26, 2017, each of which has an effective date of January 8, 2018 and expires on January 7, 2021. We entered into an employment agreement with Tonya R. Robinson, also a Named Executive Officer, on June 11, 2018 and having an effective date of May 18, 2018, and with Doug W. Thompson, also a Named Executive Officer, on August 23, 2018, each of which expires on January 7, 2021. In connection with Ms. Robinson's appointment to Chief Financial Officer, the Company and Mr. Colosi entered into an amendment to his 2018 Employment Agreement on May 17, 2018 to reflect his resignation as Chief Financial Officer of the Company while still remaining as President of the Company. As used herein, the employment agreements, as amended (as and if applicable), with Messrs. Taylor, Colosi, Jacobsen, and Thompson, and Ms. Robinson shall be referred to collectively as the "2018 Employment Agreements" and with respect to any Named Executive Officer, as a "2018 Employment Agreement". As more particularly described below, on July 3, 2019, the Company entered into a Consulting Agreement and General Release of Claims (the "Colosi Consulting Agreement") with Mr. Colosi relating to Mr. Colosi's retirement as President of the Company effective as of June 20, 2019.

To assist in setting compensation under the 2018 Employment Agreements and pursuant to the authority granted under its charter, the compensation committee engaged Willis Towers Watson as an independent compensation consultant in 2017 to advise the compensation committee on compensation for the executive officers and the non-employee directors, together with analysis and services related to such executive and director compensation. Specifically, the compensation committee asked the consultant to provide market data, review the design of the executive and director compensation packages, and provide guidance on cash and equity compensation for the Company's executive officers and the non-employee directors. Willis Towers Watson does not currently provide any other services to the Company, and the compensation committee has determined that Willis Towers Watson has sufficient independence from us and our executive officers to allow it to offer objective information and advice. All fees paid to Willis Towers Watson during fiscal year 2017 were in connection with their engagement by the compensation committee for the above services.

Each 2018 Employment Agreement establishes a base salary throughout the term of the agreement, and a cash incentive bonus amount based on the achievement of defined goals to be established by the compensation committee. In addition to cash compensation, the 2018 Employment Agreements also provide the compensation committee with an opportunity to make annual stock awards to the Named Executive Officers, the types and amounts of which are subject to the compensation committee's discretion based on their annual review of the performance of the Company and of the individual Named Executive Officers. The types of stock awards contemplated by the 2018 Employment Agreements are (i) restricted stock units, which grant the Named Executive Officers the conditional right to receive shares of our common stock that vest after a defined period of service, (ii) "retention" restricted stock units, which vest upon the completion of the term of an individual Named Executive Officer's agreement or such longer date as determined by the compensation committee, and (iii) performance stock units, which are calculated based on the achievement of certain Company performance targets established by the compensation committee and vest over a period of service. As of the date of this proxy statement and as more particularly described below, each Named Executive Officer has received an annual grant of restricted stock units relating to their 2018 year service (which were granted in 2017 or 2018 [as applicable]), their 2019 year service (which were granted in 2019), and their 2020 year service (which were granted in 2020). Additionally, each of Messrs. Taylor, Colosi, Jacobsen, and Thompson, and Ms. Robinson have received grants of performance stock units relating to their 2018, 2019 and/or 2020 year service (as applicable). Moreover, each of Messrs. Colosi, Jacobsen, and Thompson, and Ms. Robinson have received "retention" grants of restricted stock units under their respective 2018 Employment Agreements, which vest upon the completion of the term of the agreement on the condition that the applicable Named Executive Officer is still serving the Company on the vesting date. Finally, Mr. Taylor's 2018 Employment Agreement also provides for a long-term "retention" grant of restricted stock units, which vest on January 8, 2023 on the condition that Mr. Taylor is still serving the Company on the vesting date.

Under the 2018 Employment Agreements, each Named Executive Officer has agreed not to compete with us during the term of his or her employment and for a period of two years following his or her termination of employment, unless the Named Executive Officer's employment is terminated without cause following a change in control, in which case the Named Executive Officer has agreed not to compete with us through the date of the last payment of the Named Executive Officer's severance payments. Finally, the 2018 Employment Agreements also contain a "clawback" provision that enables the Company to seek reimbursement to the Company of any compensation paid to any Named Executive Officer which is required to be recovered by any law, governmental regulation or order, or stock exchange listing requirement.

The compensation packages for our Named Executive Officers offer base salaries and target cash bonus amounts and feature restricted stock unit awards, the value of which is dependent upon the performance of the Company and the price of our common stock. The compensation committee evaluates the stock compensation for each specific Named Executive Officer on an annual basis to determine the right combination of rewards and incentives through the issuance of service based restricted stock units and/or performance based restricted stock units to drive company performance without encouraging unnecessary or excessive risk taking by all of the Named Executive Officers as a whole. Under this approach, the Named Executive Officers receive a combination of service based restricted stock units and performance based restricted stock units, with a significant portion of some of the Named Executive Officer's compensation being tied to the grant of such performance based restricted stock units. By conditioning a significant portion of the Named Executive Officer's performance based restricted stock unit grants upon the achievement of defined performance goals to be established by the compensation committee, combined with the stock ownership guidelines for our Named Executive Officers more particularly described above, we have created a more direct relationship between compensation and shareholder value. Additionally, by only providing one year's worth of restricted stock units to our Named Executive Officers in the 2018 Employment Agreements, the compensation committee has the opportunity to adjust a significant portion of the compensation for the Named Executive Officers on an annual basis to more accurately reflect the overall performance of the Company, which may include the issuance of service based restricted stock units and/or performance based restricted stock units. Overall, we believe this approach provides the Named Executive Officers with a compensation package which promotes the sustained profitability of the Company and aligns the interests of our Named Executive Officers with those of our shareholders. The compensation packages also reflect a pragmatic response to external market conditions; that is, total compensation that is competitive with comparable positions in similar industries, including the casual dining sector of the restaurant industry, but which is reasonable and in the best interests of our shareholders.

We believe that the overall design of the compensation packages, along with the culture and values of our Company, allows us to attract and retain top talent, while also keeping the Named Executive Officers focused on both long-term business development and short-term financial growth.

In deciding to continue and modify many of our existing executive compensation practices, our compensation committee considered that the holders of approximately 82% of the votes cast at our 2019 annual meeting on an advisory basis approved the compensation of our Named Executive Officers as disclosed in the proxy statement for the 2019 annual meeting. None of the Named Executive Officers, including Mr. Taylor, participated in the creation of their own compensation packages.

Elements of Compensation

Base Salary. Base salaries for our Named Executive Officers are designed to provide a secure base of compensation which will be effective in motivating and retaining key executives.

Each Named Executive Officer's 2018 Employment Agreement establishes an annual salary for the years shown in the table below.

	2018 (through January 7, 2019) ($)	2019 (through January 7, 2020) ($)	2020 (through January 7, 2021) ($)
W. Kent Taylor(i) Chairman, Chief Executive Officer, President	525,000	525,000	525,000
Scott M. Colosi(ii) Former President	450,000	450,000	450,000
S. Chris Jacobsen Chief Marketing Officer	300,000	315,000	325,000
Tonya R. Robinson Chief Financial Officer	275,000	300,000	325,000
Doug W. Thompson Chief Operating Officer	450,000	450,000	450,000

(i) As more particularly described above, in connection with Mr. Colosi's retirement from the Company on June 2019, the Board appointed Mr. Taylor as President of the Company effective as of June 24, 2019 while still remaining as the Chairman and Chief Executive Officer of the Company. The Board and the compensation committee did not increase Mr. Taylor's compensation following his appointment to President.

(ii) As described above, Mr. Colosi retired as President of the Company on June 20, 2019. Mr. Colosi received a portion of the base salary for his partial 2019 fiscal year service through his retirement date and received additional compensation in accordance with the terms of the Colosi Consulting Agreement.

Incentive Bonus. Incentive bonuses are designed to reward our Named Executive Officers for the success of the Company, as measured by growth in the Company's earnings per diluted share ("EPS") and overall pre-tax profit, and for each Named Executive Officer's individual contribution to that success. It is our belief that a significant amount of each Named Executive Officer's compensation should be tied to the performance of the Company.

Pursuant to the terms of the Texas Roadhouse, Inc. Cash Bonus Plan (the "Cash Bonus Plan"), the compensation committee may award an annual cash incentive to the Named Executive Officers, which is the grant of a right to receive a payment of cash that is subject to targets and maximums, and that is contingent on achievement of performance objectives during the Company's fiscal year. These cash incentives are also subject to the terms and conditions of the 2018 Employment Agreements and reflect each Named Executive Officer's job responsibilities and individual contribution to the success of the Company.

Under the Cash Bonus Plan, the compensation committee established a two-pronged approach to tying the incentive compensation to the Company's performance. Under this approach, 50% of the target incentive bonus is awarded based on whether the Company achieves an annual EPS growth target of 10% (the "EPS Performance Goal"). The other 50% is based on a profit sharing pool (the "Profit Sharing Pool") comprised of 1.5% of the Company's pre-tax profits (income before taxes minus income attributable to non-controlling interests, as reported in our audited consolidated financial statements), which pool is distributed among our Named Executive Officers and certain other members of the Company's director-level management based on a pre-determined percentage interest in the pool and subject to certain pre-determined maximum amounts. After the end of the fiscal year, the compensation committee determines whether and to what extent the EPS Performance Goal has been met, and the portion of the Profit Sharing Pool to which each Named Executive Officer is entitled. Depending on the level of achievement of the EPS Performance Goal each year, 50% of the incentive bonus may be reduced to a minimum of $0 or increased to a maximum of two times the target amount. Each 1% change from the EPS Performance Goal results in an increase or decrease of 10% of the portion of the target bonus amount attributable to the achievement of the EPS Performance Goal. For example, if we achieve 11% EPS growth, the bonus payable would be 110% of the portion of the target bonus attributable to the achievement of the EPS Performance Goal. Conversely, if we achieve 9% EPS growth, the bonus payable would be 90% of the portion of the target bonus attributable to the achievement of the EPS Performance Goal. The remaining 50% of the Named Executive Officers' incentive bonus will fluctuate directly with Company pre-tax profits at fixed participation percentages and maximum amounts which are determined within 60 days following the commencement of the Company's fiscal year. The annual profit sharing component allows the Named Executive Officers to participate in a profit sharing pool with other members of the Company's director-level management team. By allowing this level of participation in the Company's overall profits, the compensation committee encourages responsible growth and aligns the interests of the Named Executive Officers with those of other management employees of the Company. This portion of the incentive bonus may be reduced to a minimum of $0 if the Company ceases to be profitable or for other reasons that the compensation committee determines, and may be increased to a maximum of two times the target amount established for each individual participant. Both portions of the incentive bonus can be adjusted downward (but not upward) by the compensation committee in its discretion. Cash incentive bonuses with respect to fiscal year 2019 were paid at 124.6% of the total target amount for all or a portion of the fiscal year in which a Named Executive Officer served in such role, based on actual EPS growth of 11.9% and an actual Profit Sharing Pool of $3,102,743 calculated on fiscal year 2019 pre-tax profit of $206,849,534.

The actual amounts earned by each Named Executive Officer for fiscal year 2019 are more fully described in "Executive Compensation." The target bonus amount, along with the minimum and maximum bonus amounts, are set forth below:

Executive Incentive Compensation for Fiscal Year 2019

	Target Bonus ($)	Minimum Bonus ($)	Maximum Bonus ($)
W. Kent Taylor Chairman, Chief Executive Officer, President	525,000	0	1,050,000
Scott M. Colosi(i) Former President	350,000	0	700,000
S. Chris Jacobsen Chief Marketing Officer	200,000	0	400,000
Tonya R. Robinson Chief Financial Officer	200,000	0	400,000
Doug W. Thompson Chief Operating Officer	480,000	0	960,000

(i) As described above, Mr. Colosi retired as President of the Company on June 20, 2019. Upon his retirement, Mr. Colosi forfeited his right to receive his bonus for his 2019 fiscal year service.

Stock Awards. We make equity awards in the form of restricted stock units, which represent the conditional right to receive one share of our common stock upon satisfaction of the vesting requirements. Restricted stock units offer the Named Executive Officers a financial interest in the Company and align their interests with those of our shareholders. We also believe that the market price of our publicly traded common stock represents the most appropriate metric for determining the value of the equity portion of our Named Executive Officers' compensation packages. The overall compensation packages for our Named Executive Officers offer base salaries and target cash bonus amounts and feature restricted stock unit awards, the value of which is dependent upon the performance of the Company and the price of our common stock. The compensation committee evaluates the stock compensation for each specific Named Executive Officer on an annual basis to determine the right combination of rewards and incentives through the issuance of service based restricted stock units and/or performance based restricted stock units to drive company performance without encouraging unnecessary or excessive risk taking by all of the Named Executive Officers as a whole. Under this approach, the Named Executive Officers receive a combination of service based restricted stock units and performance based restricted stock units, with a significant portion of some of the Named Executive Officer's compensation being tied to the grant of such performance based restricted stock units. We believe that the service based restricted stock awards are inherently performance based since their value varies in response to investor sentiment regarding overall Company performance at the time of vesting. Moreover, by only providing one year's worth of restricted stock units to our Named Executive Officers in the 2018 Employment Agreements, the compensation committee has the opportunity to adjust a significant portion of the total compensation for the Named Executive Officers on an annual basis to more accurately reflect the overall performance of the Company, which may include the issuance of service based restricted stock units and/or restricted stock units based on the achievement of defined goals to be established by the compensation committee for any and/or all of our Named Executive Officer. Additionally, each 2018 Employment Agreement for Messrs. Colosi, Jacobsen and Thompson, and Ms. Robinson provide for a "retention" grant of restricted stock units, which vest upon completion of the term of their 2018 Employment Agreement on the condition that the applicable Named Executive Officer is still serving the Company on the vesting date, and Mr. Taylor's 2018 Employment Agreement provides for a long-term "retention" grant of restricted stock units, which vest on January 8, 2023 on the condition that Mr. Taylor is still serving the Company on the vesting date.

In addition, the 2018 Employment Agreements for Messrs. Taylor, Colosi, Thompson, and Jacobsen and Ms. Robinson contain bifurcated awards of service based restricted stock units and performance based restricted stock units for all or a portion of the term of their respective 2018 Employment Agreements. For the performance based awards, the compensation committee has established a two-pronged approach which mirrors the approach used for annual cash incentive bonuses. Under this approach, a percentage of the target equity award is based on whether the Company achieves the annual EPS Performance Goal, and a percentage is based on the Profit Sharing Pool comprised of 1.5% of the Company's pre-tax profits (income before taxes minus income attributable to non-controlling interests, as reported in our audited financial statements). After the end of the fiscal year, the compensation committee determines whether and to what extent the EPS Performance Goal has been met, and the portion of the Profit Sharing Pool to which each officer is entitled. Each 1% change from the EPS Performance Goal results in an increase or decrease of 10% of the portion of the target amount attributable to the achievement of the EPS Performance Goal. For example, if we achieve 11% EPS growth, the number of shares awarded would be 110% of the portion of the target amount attributable to the achievement of the EPS Performance Goal. Conversely, if we achieve 9% EPS growth, the award would be 90% of the portion of the target amount attributable to the achievement of the EPS Performance Goal. The remaining percentage of the Named Executive Officers' equity award will fluctuate directly with Company pre-tax profits at fixed participation percentages and maximum amounts which are determined within 60 days following the commencement of the Company's fiscal year. Both portions of the performance based equity award may be reduced to a minimum of $0 or increased to a maximum of two times the target amount for each individual participant. Both portions of the performance based equity award can also be adjusted downward (but not upward) by the compensation committee in its discretion. Performance based equity awards with respect to fiscal year 2019 were paid at 124.6% of the total target amount for all or a portion of the fiscal year in which a Named Executive Officer served in such role, based on actual EPS growth of 11.9% and an actual Profit Sharing Pool of $3,102,743 calculated on fiscal year 2019 pre-tax profit of $206,849,534. For discussion of the percentages assigned by the compensation committee to each component of the performance based equity awards for Messrs. Taylor, Colosi, Jacobsen, and Thompson, and Ms. Robinson, refer to the associated tables below.

The number of restricted stock units granted to each Named Executive Officer reflects each Named Executive Officer's job responsibilities and individual contribution to the success of the Company.

Service Based Restricted Stock Units. Except as noted below, the number of service based restricted stock units granted under the 2018 Employment Agreements are shown in the table below and are subject to the Named Executive Officer still serving the Company on the vesting date.

	Service Based Restricted Stock Units vesting on January 8, 2019 pursuant to 2018 Employment Agreements	Service Based Restricted Stock Units vesting on June 11, 2019 pursuant to 2018 Employment Agreements	Service Based Restricted Stock Units vesting on August 27, 2019 pursuant to 2018 Employment Agreements	Service Based Restricted Stock Units vesting on January 8, 2020 pursuant to 2018 Employment Agreements	Service Based Restricted Stock Units vesting on January 8, 2021 pursuant to 2018 Employment Agreements(1)	Service Based Restricted Stock Units vesting on January 8, 2023 pursuant to 2018 Employment Agreements(2)	Total Service Based Restricted Stock Units granted pursuant to 2018 Employment Agreements
W. Kent Taylor Chairman, Chief Executive Officer, President	10,000	—	—	10,000	10,000	75,000	105,000
Scott M. Colosi Former President	10,000	—	—	10,000(3)	15,000(3)	—	35,000
S. Chris Jacobsen Chief Marketing Officer	—(4)	—	—	5,000	15,000	—	20,000
Tonya R. Robinson Chief Financial Officer	—	7,000	—	10,000	20,000	—	37,000
Doug W. Thompson Chief Operating Officer	—	—	2,000	10,000	22,500	—	34,500

(1) With respect to Messrs. Colosi, Jacobsen, and Thompson and Ms. Robinson, this number includes a retention grant of restricted stock units which will vest on January 8, 2021, provided the applicable Named Executive Officer is still serving the Company on the vesting date.

(2) With respect to Mr. Taylor, this number represents a retention grant of restricted stock units which will vest on January 8, 2023 provided Mr. Taylor is still serving the Company on the vesting date.

(3) As previously described, Mr. Colosi retired as President of the Company on June 20, 2019. Upon his retirement, Mr. Colosi forfeited his right to receive the 10,000 service based restricted stock units relating to his 2019 fiscal year service vesting on January 8, 2020 and the 15,000 retention restricted stock units vesting on January 8, 2021.

(4) With respect to Mr. Jacobsen, because Mr. Jacobsen's prior employment agreement included a grant of restricted stock units relating to his 2018 fiscal year service, his 2018 Employment Agreement did not include an initial grant of restricted stock units; provided, however, for his 2018 fiscal year service, Mr. Jacobsen received a grant of 10,000 restricted stock units, together with a retention grant of 5,000 restricted stock units, previously granted under his prior employment agreement.

Performance Based Restricted Stock Units. The number of performance based restricted stock units granted to Messrs. Taylor, Colosi, Thompson and Jacobsen for the 2019 fiscal year under their 2018

Employment Agreement, and the number of shares of common stock which actually vested based on the Company's performance, are shown in the table below:

	Target Number of Performance Based Restricted Stock Units Granted for 2019 pursuant to 2018 Employment Agreements	Minimum Number of Performance Based Restricted Stock Units pursuant to 2018 Employment Agreements	Maximum Number of Performance Based Restricted Stock Units pursuant to 2018 Employment Agreements	Actual Number of Shares Issued for 2019 following Certification of 2019 Performance Goals(1)
W. Kent Taylor Chairman, Chief Executive Officer, President	50,000	0	100,000	62,303
Scott M. Colosi Former President	40,000	0	80,000	0(2)
Doug W. Thompson Chief Operating Officer	20,000	0	40,000	24,921
S. Chris Jacobsen Chief Marketing Officer	7,000	0	14,000	8,722

(1) The shares underlying the performance based restricted stock units attributable to the 2019 fiscal year were issued on February 28, 2020. The compensation committee determined that 50% of the performance based restricted stock unit award for the 2019 fiscal year would be based on an EPS growth target of 10%, which portion would be reduced or increased by 10% for every 1% of annual growth in EPS less than or in excess of the 10% goal, and that 50% of the performance based restricted stock unit award for the 2019 fiscal year would be based on a pre-tax profit target opportunity equal to the percentage payout of 1.5% of pre-tax earnings divided by the bonus pool target set by the compensation committee for the performance period.

(2) As described above, Mr. Colosi retired as President of the Company on June 20, 2019. Upon his retirement, Mr. Colosi forfeited his right to receive any performance based restricted stock units relating to his 2019 fiscal year service.

The number of performance based restricted stock units granted in 2020 to Messrs. Taylor, Thompson, and Jacobsen, and Ms. Robinson under their respective 2018 Employment Agreements for the 2020 fiscal year is shown in the table below. The actual number of shares that will be issued to each of Messrs. Taylor, Thompson, and Jacobsen, and Ms. Robinson for fiscal year 2020 based on achievement of the performance goals assigned to these grants by the compensation committee will not be calculated until the first quarter of 2021.

	Target Number of Performance Based Restricted Stock Units vesting on January 8, 2021 pursuant to 2018 Employment Agreements(1)	Minimum Number of Performance Based Restricted Stock Units pursuant to 2018 Employment Agreements	Maximum Number of Performance Based Restricted Stock Units pursuant to 2018 Employment Agreements
W. Kent Taylor	50,000	0	100,000
Doug W. Thompson	20,000	0	40,000
S. Chris Jacobsen	7,000	0	14,000
Tonya R. Robinson	2,000	0	4,000

(1) The compensation committee determined that 50% of the performance based restricted stock unit award for 2020 would be based on an EPS growth target of 10%, which portion would be reduced or increased by 10% for every 1% of annual growth in EPS less than or in excess of the 10% goal, and that 50% of the performance based restricted stock unit award for 2019 would be based on a pre-tax profit target opportunity equal to the percentage payout of 1.5% of pre-tax earnings divided by the bonus pool target set by the compensation committee for the performance period. The performance based restricted stock unit award for Messrs. Taylor, Thompson, and Jacobsen and Ms. Robinson with respect to fiscal year 2020 will be certified in the first quarter of 2021.

The 2018 Employment Agreements further provide that the compensation committee may, in its discretion, grant additional performance based restricted stock units to Messrs. Taylor, Thompson, and Jacobsen, and Ms. Robinson with respect to future performance periods.

Separation and Change in Control Arrangements

Except in the event of a change in control, the 2018 Employment Agreement with Mr. Taylor provides that no severance would be paid to him upon termination of employment, but he would be entitled to receive a gift of a crisp $100 bill if his employment were to be terminated by the Company without cause before the end of the term. The 2018 Employment Agreement for each of Messrs. Colosi, Jacobsen, and Thompson, and Ms. Robinson provides that, except in the event of a change in control, if the Company terminates their employment without cause before the end of the term and the applicable Named Executive Officer signs a release of all claims against the Company, then the Company will pay a severance payment equal to any bonus for a year already ended (even if not yet paid at termination), plus the Named Executive Officer's base salary for a period of 180 days, and payment of a fixed sum ($175,000 for Mr. Colosi, $100,000 for Mr. Jacobsen, $225,000 for Mr. Thompson, and $100,000 for Ms. Robinson). Similar payments are due to the Named Executive Officers under the 2018 Employment Agreements if employment was or is terminated by reason of death or disability before the end of the term. The Company provides these severance payments to allow for a period of transition and in exchange for a full release of claims against the Company. The salary component of the severance payments is subject to deductions and withholdings and is to be paid to the Named Executive Officers in periodic installments in accordance with our normal payroll practices. The fixed sum is paid in a single lump sum, and any bonus component of the severance payments for a performance period that ended before termination is to be paid on the same date as the payment would have been made had his or her employment not been terminated.

The 2018 Employment Agreements also provide that if the Named Executive Officer's employment is terminated other than for cause following a change in control, or if the Named Executive Officer resigns for good reason following a change in control because he or she is required to relocate, and the Company's successor does not agree to be bound by the agreement, or the Named Executive Officer's responsibilities, pay or total benefits are reduced, then in such an event each such Named Executive Officer will receive severance payments in an amount equal to the Named Executive Officer's base salary and incentive bonus through the end of the term of the agreement but not less than one year. In addition, the Named Executive Officer's unvested stock awards, if any, will become vested as of the date of termination. Moreover, with respect to each of the Named Executive Officers under their respective 2018 Employment Agreements, if his or her employment is terminated under such circumstances and the Named Executive Officer has not yet been granted service based restricted stock units or performance based restricted stock units, as applicable under the respective Named Executive Officer's 2018 Employment Agreements, for either or both of the second and third years of his or her employment agreement, the Named Executive Officer will be issued the target number of service based restricted stock units and/or performance based restricted stock units (as applicable) set forth above for each of these years. The payments and acceleration of vesting of the stock awards are contingent upon the Named Executive Officer signing a full release of claims against the Company. The salary component of the severance payments is subject to deductions and withholdings and is to be paid to the Named Executive Officers in periodic installments in accordance with our normal payroll practices or in a lump sum at the discretion of the compensation committee and in compliance with Section 409A of the Internal Revenue Code. The bonus component of the severance payments to the Named Executive Officers is to be paid on the same date as the payment would have been made had his or her employment not been terminated.

According to the terms of the 2018 Employment Agreements, a change in control means that one of the following events has taken place: (1) the shareholders of the Company approve (a) a merger or statutory plan of exchange involving the Company ("Merger") in which the Company is not the continuing or surviving corporation or pursuant to which the Common Stock, $0.001 par value ("Common Stock") would be converted into cash, securities or other property, other than a Merger involving the Company in which the holders of Common Stock immediately prior to the Merger have substantially the same proportionate ownership of common stock of the surviving corporation after the Merger, or (b) a sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company or the adoption of any plan or proposal for the liquidation or dissolution; (2) during any period of 12 months or less, individuals who at the beginning of such period constituted a majority of the Board cease for any reason to constitute a majority thereof unless the nomination or election of such new directors was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period; (3) a tender or exchange offer (other than one made by (a) the Company, or (b) Mr. Taylor or any corporation, limited liability company, partnership, or other entity in which Mr. Taylor owns a direct or indirect ownership of 50% or more, or controls 50% or more of the voting power [collectively, the "Taylor Parties"]) is made for the Common Stock (or securities convertible into Common Stock) and such offer results in a portion of those securities being purchased and the offeror after the consummation of the offer is the beneficial owner (as determined pursuant to Section 13(d) of the Securities Exchange Act of 1934, as amended [the "Exchange Act"]), directly or indirectly, of securities representing in excess of the greater of at least 20% of the voting power of outstanding securities of the Company or the percentage of the voting power of the outstanding securities of the Company collectively held by all of the Taylor Parties; or (4) any person other than a Taylor Party becomes the beneficial owner of securities representing in excess of the greater of 20% of the aggregate voting power of the outstanding securities of the Company as disclosed in a report on Schedule 13D of the Exchange Act or the percentage of the voting power of the outstanding securities of the Company collectively held by all of the Taylor Parties. No change of control will be deemed to have occurred for purposes of an individual 2018 Employment Agreement by virtue of any transaction which results in the affected Named Executive Officer, or a group of persons which includes the affected Named Executive Officer, acquiring, directly or indirectly, securities representing 20% or more of the voting power of outstanding securities of the Company.

The estimated amounts that would have been payable to a Named Executive Officer under the 2018 Employment Agreements are more fully described in "Termination, Change of Control and Change of Responsibility Payments."

Additionally, on June 20, 2019, Mr. Colosi and the Company announced that Mr. Colosi would be retiring as President of the Company effective as of June 20, 2019. On July 3, 2019, the Company entered into the Colosi Consulting Agreement with Mr. Colosi. Under the Colosi Consulting Agreement, which expired on March 1, 2020, the Company agreed to pay Mr. Colosi an aggregate sum of $500,000 in bi-weekly installments over the term of the Colosi Consulting Agreement. In addition, the Company agreed to pay Mr. Colosi an aggregate sum of $1,400,000, payable on March 1, 2020. Under the terms of the Colosi Consulting Agreement, Mr. Colosi agreed to be available upon reasonable notice to consult on matters assigned by the Company. The Colosi Consulting Agreement also provided a general release of claims through June 20, 2019. Finally, the Colosi Consulting Agreement reaffirmed certain obligations of Mr. Colosi under his 2018 employment agreement, including, without limitation, obligations pertaining to non-competition, non-hire, and non-solicitation.

Hedging and Pledging Policies

The Company has an insider trading policy that, among other things, prohibits all of our employees (including our executive officers) and our directors from engaging in speculative trading in the Company's shares, which prohibition includes any arrangement by which a shareholder or option holder changes his or her economic exposure to changes in the price of the stock. Prohibited arrangements include buying standardized put or call options, writing put or call options, selling stock short, buying or selling securities convertible into other securities, or merely engaging in a private arrangement where the value of the agreement varies in relation to the price of the underlying security. Such arrangements are prohibited because these transactions may give the appearance of improper trades and look disloyal. In addition, our insider trading policy strongly discourages employees (including our executive officers) and our directors from holding the Company's securities in a margin account or otherwise pledging these securities as collateral for a loan. As of the date of this proxy statement, none of our Named Executive Officers and non-employee directors hold the Company's securities in a margin account or have otherwise pledged them as collateral for a loan.

Compensation Committee Report

The compensation committee has reviewed and discussed the "Compensation Discussion and Analysis" required by Item 402(b) of Regulation S-K with management. Based on such review and discussions, the compensation committee recommended to the Board that the "Compensation Discussion and Analysis" be included in this proxy statement and incorporated by reference into the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

All members of the compensation committee concur in this report.

James R. Zarley, Chair
Gregory N. Moore
Curtis A. Warfield
Kathleen M. Widmer

Summary Compensation Table

The following table sets forth the total compensation earned with respect to the fiscal years 2019, 2018, and 2017 for Mr. Taylor, our Chairman, Chief Executive Officer, and President, and Ms. Robinson, our Chief Financial Officer. It also includes such information for each of our three other most highly compensated executive officers during fiscal year 2019, as and if applicable.

Name and Principal Position	Year	Salary ($)	Bonus ($)(1)	Grant Date Fair Value of Stock Awards ($)(2)(3)	Non-equity Incentive Plan Compensation ($)	All Other Compensation ($)	Total ($)(3)
W. Kent Taylor	2019	525,000	—	3,711,600	654,181	8,961	4,899,742
Chairman, Chief Executive	2018	525,000	—	—	829,316	8,782	1,363,098
Officer, President	2017	525,000	—	7,314,300	710,240	8,670	8,558,210
Tonya R. Robinson	2019	298,077	200	1,237,200	249,212	1,161	1,785,850
Chief Financial Officer	2018	250,633	200	626,775	208,601	982	1,087,191
Scott M. Colosi	2019	219,808	—	4,020,900	—	1,727,455(4)	5,968,163
Former President	2018	450,000	200	—	552,877	8,782	1,011,859
	2017	450,000	200	2,709,000	473,494	8,670	3,641,364
S. Chris Jacobsen	2019	314,481	200	742,320	249,212	8,961	1,315,174
Chief Marketing Officer	2018	300,000	200	—	315,930	8,782	624,912
	2017	300,000	200	541,800	236,747	8,670	1,087,417
Doug W. Thompson	2019	450,000	200	2,629,050	598,108	8,961	3,686,319
Chief Operating Officer	2018	450,000	200	1,271,240	659,430	8,782	2,389,652

(1) This column represents holiday bonus awards paid to the Named Executive Officers for the fiscal years ended December 31, 2019, December 25, 2018, and December 26, 2017.

(2) Reflects the grant date fair value computed in accordance with FASB ASC Topic 718 of performance based restricted stock units and service based restricted stock units granted pursuant to the Company's long term incentive plan using the closing price of the Company's common stock on the last trading day immediately preceding the grant date. These are not amounts paid to or received by the Named Executive Officers.

The Company cautions that the amounts reported in the Summary Compensation Table for these awards may not represent the amounts that the Named Executive Officers will actually realize from the awards. Whether, and to what extent, a Named Executive Officer realizes value will depend on the Company's actual operating performance, stock price fluctuations and the Named Executive Officer's continued service with the Company. Additional information on all outstanding stock awards is reflected in the "Grants of Plan-Based Awards Table" and the "Outstanding Equity Awards at Fiscal Year End Table."

(3) With respect to Mr. Taylor, (i) amounts for the 2019 fiscal year include the performance based restricted stock units and service based restricted stock units granted to Mr. Taylor during the 2019 fiscal year relating to his 2019 year service, and (ii) amounts for the 2017 fiscal year include (a) the performance based restricted stock units and service based restricted stock units granted to Mr. Taylor during the 2017 fiscal year relating to his 2018 year service, and (b) the "retention" restricted stock units granted under his 2018 Employment Agreement as more particularly described above.

With respect to Mr. Colosi, (i) amounts for the 2019 fiscal year include (a) the performance based restricted stock units and service based restricted stock units granted to Mr. Colosi during the 2019 fiscal year relating to his 2019 year service, and (b) the "retention" restricted stock units granted to Mr. Colosi during the 2019 fiscal year, and (ii) amounts for the 2017 fiscal year include the performance based restricted stock units and service based restricted stock units granted to

Mr. Colosi during the 2017 fiscal year relating to his 2018 year service. With respect to the restricted stock units granted to Mr. Colosi for the 2019 fiscal year, upon his retirement, he forfeited his right to receive such units which had a grant date fair value of $4,020,900.

With respect to Mr. Jacobsen, (i) amounts for the 2019 fiscal year include the performance based restricted stock units and service based restricted stock units granted to Mr. Jacobsen during the 2019 fiscal year relating to his 2019 year service, and (ii) amounts for the 2017 fiscal year include the "retention" restricted stock units granted to Mr. Jacobsen under his 2018 Employment Agreement as more particularly described above.

With respect to Ms. Robinson, (i) amounts for the 2019 fiscal year include (a) the service based restricted stock units granted to Ms. Robinson during the 2019 fiscal year relating to her 2019 year service, and (b) the "retention" restricted stock units granted to Ms. Robinson during the 2019 fiscal year, and (ii) amounts for the 2018 fiscal year include the service based restricted stock units granted to Ms. Robinson during the 2018 fiscal year relating to her 2018 year service.

With respect to Mr. Thompson, (i) amounts for the 2019 fiscal year include (a) the performance based restricted stock units and service based restricted stock units granted to Mr. Thompson during the 2019 fiscal year relating to his 2019 year service, and (b) the "retention" restricted stock units granted to Mr. Thompson during the 2019 fiscal year, and (ii) amounts for the 2018 fiscal year include the service based restricted stock units granted to Mr. Thompson during the 2018 fiscal year relating to his 2018 year service.

(4) With respect to Mr. Colosi's all other compensation amount described for 2019, Mr. Colosi received (i) approximately $323,529 under the Colosi Consulting Agreement for the period commencing on the start of the Colosi Consulting Agreement through December 31, 2019, (ii) $1,400,000 on March 1, 2020 following the conclusion of his consulting service under the Colosi Consulting Agreement, and (iii) $3,926 for other amounts earned during fiscal year 2019 prior to his retirement; provided, however, the column does not include approximately $176,471 that Mr. Colosi earned under the Colosi Consulting Agreement for the period commencing on January 1, 2020 and continuing through March 1, 2020.

Grants of Plan-Based Awards in Fiscal Year 2019

The following table presents information with respect to grants of stock awards to the applicable Named Executive Officers during fiscal year 2019.

Grants of Plan-Based Awards Table

Name	Grant Date	Estimated Future Payouts Under Equity Incentive Plan Awards(1) Minimum	Target	Maximum	All Other Stock Awards: Number of Shares of Stock or Units(2)	Grant Date Fair Value of Stock and Option Awards ($)(3)
W. Kent Taylor						
Service Based RSUs vesting on January 8, 2020	January 8, 2019	—	—	—	10,000	618,600
Performance Based RSUs vesting on January 8, 2020	January 8, 2019	—	50,000(4)	100,000	—	3,093,000
Scott M. Colosi						
Service Based RSUs vesting on January 8, 2020	January 8, 2019	—	—	—	10,000	618,600
Service Based RSUs vesting on January 8, 2021	January 8, 2019	—	—	—	15,000	927,900
Performance Based RSUs vesting on January 8, 2020	January 8, 2019	—	40,000(4)	80,000	—	2,474,400
S. Chris Jacobsen						
Service Based RSUs vesting on January 8, 2020	January 8, 2019	—	—	—	5,000	309,300
Performance Based RSUs vesting on January 8, 2019	January 8, 2019	—	7,000(4)	14,000	—	433,020
Tonya R. Robinson						
Service Based RSUs vesting on January 8, 2020	January 8, 2019	—	—	—	10,000	618,600
Service Based RSUs vesting on January 8, 2021	January 8, 2019	—	—	—	10,000	618,600
Doug W. Thompson						
Service Based RSUs vesting on January 8, 2020	January 8, 2019	—	—	—	10,000	618,600
Service Based RSUs vesting on January 8, 2021	January 8, 2020	—	—	—	12,500	773,250
Performance Based RSUs vesting on January 8, 2020	January 8, 2019	—	20,000(4)	40,000	—	1,237,200

(1) These amounts reflect the minimum, target, and maximum number of shares issuable under performance awards. The related performance targets and certain results are described in detail in the "Compensation Discussion and Analysis."

(2) Each stock award consists of restricted stock units, where each unit represents the conditional right to receive one share of our common stock upon satisfaction of vesting requirements. See the "Compensation Discussion and Analysis" for the conditions of accelerated vesting upon termination of employment other than for cause.

(3) Reflects the grant date fair value computed in accordance with ASC 718 of the target number of performance based units and restricted stock units granted to the Named Executive Officers using the closing price of the Company's common stock on the last trading day immediately preceding the grant date, which was $61.86. These are not amounts paid to or received by the Named Executive Officers. For discussion of the assumptions used in determining these values, see Note 14 to the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

(4) The amount included in the table above represents the target award opportunity. Performance based equity awards with respect to fiscal year 2019 were paid at 124.6% of the total target amount for all or a portion

of the fiscal year in which a Named Executive Officer served in such role, based on actual EPS growth of 11.9% and an actual Profit Sharing Pool of $3,102,743 calculated on fiscal year 2019 pre-tax profit of $206,849,534.

Outstanding Equity Awards

The following table presents information with respect to outstanding stock option awards, stock awards, and equity incentive plan awards as of December 31, 2019 by the Named Executive Officers (other than Mr. Colosi).

Outstanding Equity Awards at Fiscal Year End Table

	Stock Awards		Equity Incentive Plan Awards	
Name	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)(1)	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)(1)
W. Kent Taylor Chairman, Chief Executive Officer, President	85,000(2)	4,787,200	50,000(3)	2,816,000
S. Chris Jacobsen Chief Marketing Officer	15,000(4)	844,800	7,000(5)	394,240
Tonya R. Robinson Chief Financial Officer	20,000(6)	1,126,400	—	—
Doug W. Thompson Chief Operating Officer	22,500(7)	1,267,200	20,000(8)	1,126,400

(1) Market value was computed using the Company's closing stock price on the last trading day of our fiscal year ended December 31, 2019, which was $56.32.

(2) The vesting schedule is as follows: 10,000 shares on January 8, 2020, and 75,000 shares on January 8, 2023.

(3) Consists of performance awards which will vest and be earned, if at all, at the time of a determination by our compensation committee that certain Company performance measures have been satisfied. If and to the extent earned, the vesting schedule is as follows: 50,000 shares on January 8, 2020.

(4) The vesting schedule is as follows: 5,000 shares on January 8, 2020, and 10,000 shares on January 8, 2021.

(5) Consists of performance awards which will vest and be earned, if at all, at the time of a determination by our compensation committee that certain Company performance measures have been satisfied. If and to the extent earned, the vesting schedule is as follows: 7,000 shares on January 8, 2020.

(6) The vesting schedule is as follows: 10,000 shares on January 8, 2020, and 10,000 shares on January 8, 2021.

(7) The vesting schedule is as follows: 10,000 shares on January 8, 2020, and 12,500 shares on January 8, 2021.

(8) Consists of performance awards which will vest and be earned, if at all, at the time of a determination by our compensation committee that certain Company performance measures have been satisfied. If and to the extent earned, the vesting schedule is as follows: 20,000 shares on January 8, 2020.

See the "Compensation Discussion and Analysis" for the conditions of accelerated vesting upon termination of employment other than for cause.

Stock Vested

The following table presents information with respect to stock awards vested during the fiscal year ended December 31, 2019 by the Named Executive Officers.

Stock Vested Table

Name	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)(1)
W. Kent Taylor Chairman, Chief Executive Officer, President	88,983	5,504,488(i)
Scott M. Colosi Former President	73,186	4,527,286(ii)
S. Chris Jacobsen Chief Marketing Officer	15,000	927,900(iii)
Tonya R. Robinson Chief Financial Officer	10,000	563,310(iv)
Doug W. Thompson Chief Operating Officer	22,000	1,338,860(v)

(1) The value realized upon vesting of restricted stock units represents the fair value of the underlying shares based on the closing price of the Company's common stock on the trading day immediately preceding the vesting date, which is in accordance with the following:

(i) $61.86 with respect to the 10,000 service based restricted stock units which vested on January 8, 2019, and $61.86 with respect to the 78,983 performance based restricted stock units which vested on January 8, 2019 but became reportable on February 22, 2019.

(ii) $61.86 with respect to the 10,000 service based restricted stock units which vested on January 8, 2019, and $61.86 with respect to the 63,186 performance based restricted stock units which vested on January 8, 2019 but became reportable on February 22, 2019.

(iii) $61.86 with respect to the 15,000 restricted stock units which vested on January 8, 2019.

(iv) $62.52 with respect to the 1,500 restricted stock units which vested on February 26, 2019, $54.72 with respect to 1,500 restricted stock units which vested on May 6, 2019, and $55.35 with respect to 7,000 restricted stock units which vested on June 11, 2019.

(v) $61.86 with respect to the 20,000 restricted stock units which vested on January 8, 2019, and $50.83 with respect to 2,000 restricted stock units which vested on August 27, 2019.

Termination, Change of Control and Change of Responsibility Payments

If a Named Executive Officer had resigned or been terminated for cause prior to the expiration of the term of his or her 2018 Employment Agreement, the Named Executive Officer would have received payment of his or her annual base salary then in effect through the date of resignation or termination.

If a Named Executive Officer had been terminated prior to the expiration of the term of his or her 2018 Employment Agreement as a result of death or disability, such Named Executive Officer's beneficiary or estate would have been entitled to receive an amount equal to such officer's annual base salary then in effect through the date of termination due to death or disability, plus any earned but unpaid bonus, plus the amount of such Named Executive Officer's annual base salary then in effect for

180 days following the termination, plus a fixed bonus amount as follows: for Mr. Taylor, $262,500; for Mr. Colosi, $175,000; for Mr. Jacobsen, $100,000; for Ms. Robinson, $100,000; and, for Mr. Thompson, $225,000.

Except as otherwise noted with respect to Mr. Colosi, the following table lists the estimated amounts payable to a Named Executive Officer pursuant to the 2018 Employment Agreements if his or her employment had been terminated without cause unrelated to a change of control on December 31, 2019, the last day of our fiscal year, provided that each Named Executive Officer signed a full release of all claims against us.

Termination Payments Table

Name	Total Estimated Cash Payments ($)(1)
W. Kent Taylor Chairman, Chief Executive Officer, President	100
Scott M. Colosi Former President	1,900,000(2)
S. Chris Jacobsen Chief Marketing Officer	504,554
Tonya R. Robinson Chief Financial Officer	497,157
Doug W. Thompson Chief Operating Officer	1,045,026

(1) Mr. Taylor is entitled to a crisp $100 bill upon the termination of his employment without cause. If the employment of Mr. Jacobsen had been terminated under those circumstances, he would have received any bonus for a year already ended (even if not yet paid at termination), plus the proportionate share of his annual base salary then in effect ($315,000) for 180 days, plus $100,000. If the employment of Ms. Robinson had been terminated under those circumstances, she would have received any bonus for a year already ended (even if not yet paid at termination), plus the proportionate share of her annual base salary then in effect ($300,000) for 180 days, plus $100,000. If the employment of Mr. Thompson had been terminated under those circumstances, he would have received any bonus for a year already ended (even if not yet paid at termination), plus the proportionate share of his annual base salary then in effect ($450,000) for 180 days, plus $225,000.

(2) As more particularly described above, this amount includes the actual amount paid by the Company to Mr. Colosi pursuant to the Colosi Consulting Agreement and is comprised of (i) an aggregate sum of $500,000 in bi-weekly installments over the term of the Colosi Consulting Agreement, and (ii) $1,400,000 paid to Mr. Colosi on March 1, 2020. As previously discussed, upon his retirement, Mr. Colosi forfeited his right to all outstanding equity awards and he reaffirmed certain obligations under his 2018 employment agreement, including, without limitation, obligations pertaining to non-competition, non-hire, and non-solicitation

The following table lists the estimated amounts payable to a Named Executive Officer (other than Mr. Colosi) if his or her employment had been terminated without cause following a change of control, or if any of the officers had resigned his or her position for good reason following a change of control, on December 31, 2019, the last day of our fiscal year, provided that each Named Executive Officer signed a full release of claims against us.

Change in Control, Change in Responsibilities Payments Table

Name	Estimated Cash Payments ($)(1)	Estimated Value of Newly Vested Stock Awards ($)(2)	Total ($)
W. Kent Taylor Chairman, Chief Executive Officer, President	1,714,249	10,982,400	12,696,649
S. Chris Jacobsen Chief Marketing Officer	770,253	1,914,880	2,685,133
Tonya R. Robinson Chief Financial Officer	754,965	1,689,600	2,444,565
Doug W. Thompson Chief Operating Officer	1,536,738	4,083,200	5,629,938

(1) If the employment of any of the Named Executive Officers listed above had been terminated without cause following a change of control, or if any of the Named Executive Officers listed above had resigned his or her position for good reason following a change of control, the Named Executive Officer would have received the amount of his or her then current base salary and target incentive bonus through the end of the term of the Named Executive Officer's employment agreement, but not less than one year. Had a Named Executive Officer's employment been so terminated on December 31, 2019, each of Messrs. Taylor, Jacobsen, and Thompson, and Ms. and Robinson would have received payment through January 7, 2021.

The table below details the estimated payment for each Named Executive Officer.

Name	Salary ($)	Bonus ($)	Total Estimated Payments ($)
W. Kent Taylor Chairman, Chief Executive Officer, President	535,068	1,179,181	1,714,249
S. Chris Jacobsen Chief Marketing Officer	321,041	449,212	770,253
Tonya R. Robinson Chief Financial Officer	305,753	449,212	754,965
Doug W. Thompson Chief Operating Officer	458,630	1,078,108	1,536,738

(2) Each Named Executive Officer's restricted stock units would have become immediately vested upon a termination of his or her employment without cause following a change of control, or if any of the Named Executive Officers had resigned his or her position for good reason following a change of control. In addition, if any of Messrs. Taylor, Colosi, Jacobsen, and Thompson, and Ms. Robinson had not yet been granted performance based restricted stock units for the third year of their respective employment agreement, they would be issued the target number of units set forth in their respective 2018 Employment Agreements and as more particularly identified in the Grants of Plan-Based Awards Table above for each such year. The amounts shown in this column represent the value of the restricted stock units at the closing price of our common stock on the last trading day of our fiscal year ended December 31, 2019, which was $56.32. The number of restricted stock units which would have vested on that date are shown in "Outstanding Equity Awards."

CEO Pay Ratio

Under Section 953(b) of the Dodd Frank Wall Street Reform and Consumer Protection Act, a U.S. publicly traded corporation is required to disclose the ratio between their Chief Executive Officer's annual total compensation to the total compensation of such corporation's median employee after excluding the Chief Executive Officer's compensation. To identify our median employee, we used the 2019 total cash compensation for all individuals (other than Mr. Taylor, our CEO) who were employed by us as of December 31, 2019, the last day of our 2019 fiscal year. For the purposes of calculating our employee's total cash compensation, we used our employee's base wages identified on our employees' W-2 forms. As a part of our calculation, we included all employees, whether employed by us on a full-time or part-time basis, and we annualized the compensation of any employee whom we hired during our 2019 fiscal year and who was working for us at the end of our fiscal year. As of December 31, 2019, approximately 72% of our employees were part-time employees and our average employee worked approximately 23 hours per week.

We identified our median employee as a part-time server in Bismarck, North Dakota who worked an average of 15 hours per week. After identifying our median employee, we calculated the annual total compensation for such employee as $13,483, which is determined using the same methodology we used for our Named Executive Officers as set forth in the 2019 Summary Compensation Table described above.

As more particularly described in the 2019 Summary Compensation Table, the annual total compensation for Mr. Taylor, our CEO, for our 2019 fiscal year is $4,900,645 and the ratio between the compensation for our CEO and the compensation for our median employee is 363 to 1. Note that since the SEC rules allow companies to use various methodologies and assumptions, apply certain exclusions, and make reasonable estimates relating to a specific company's employee base when identifying the median employee, the CEO pay ratio disclosed by other companies may not be comparable with the CEO pay ratio disclosed in this paragraph. Additionally, the pay ratio between our CEO and our median employee may vary year to year based, in part, on the grant date value of any restricted stock units granted to our CEO in any given year.

AUDIT COMMITTEE REPORT

The audit committee of the Board (the "Committee") is currently composed of three directors, all of whom meet the criteria for independence under the applicable NASDAQ and Securities & Exchange Commission (the "SEC") rules and the Sarbanes-Oxley Act. The Committee acts under a written charter adopted by the Board, a copy of which is available on the Company's website at *www.texasroadhouse.com*.

The Committee has prepared the following report on its activities and with respect to the Company's audited consolidated financial statements for the fiscal year ended December 31, 2019 (the "Audited Financial Statements").

- The Committee met 14 times during fiscal year 2019, which were comprised of six regular meetings of the Committee and two meetings per quarter relating to the Committee's review of the Company's filings with the SEC. The Committee's meetings included private sessions with the Company's independent auditors and internal auditors, as well as executive sessions consisting of only Committee members. The Committee also met periodically in private sessions with management, including Named Executive Officers (as needed);
- The Committee reviewed the acknowledgement process for the Company's Code of Conduct, and the corresponding results;
- The Committee reviewed the scope, plans and results of the testing performed by the Company's internal auditors and independent auditors in their assessments of internal control over financial reporting and the consolidated financial statements;
- The Committee reviewed matters submitted to it via the Company's whistleblower hotline and/or other reporting mechanisms regarding concerns about allegedly questionable financial, accounting and/or auditing matters (if any);
- The Committee reviewed with management, including the internal auditors and the Company's Vice President of Legal, and the independent auditors, the Company's practices with respect to risk assessment and risk management. The overall adequacy and effectiveness of the Company's legal, regulatory and ethical compliance programs were also reviewed, as well as the Company's cybersecurity controls and system standards;
- The Committee reviewed with the Company's Vice President of Legal the Company's disclosures with respect to current lawsuits (as and if applicable);
- The Committee reviewed comment letters received from the SEC, if any, together with management's response to such letters;
- The Committee pre-approved all audit, audit-related and permissible non-audit services provided to the Company by KPMG LLP, the Company's independent auditors, for the 2019 fiscal year, before management engaged the independent auditors for those purposes, pursuant to and in accordance with the Texas Roadhouse, Inc. Policy for Pre-Approval of Services Provided by External Audit Firm (which is available on the Company's website, *www.texasroadhouse.com*);
- On a quarterly basis, the Committee discussed with KPMG LLP the matters required to be discussed by the Public Company Accounting Oversight Board Auditing Standard No. 1301, Communications with Committees;
- The Committee discussed with KPMG LLP their written disclosures and letter required by the Public Company Accounting Oversight Board regarding the independent auditor's communications with the Committee concerning independence;
- The Committee reviewed the selection, application and disclosure of critical accounting policies;

- The Committee reviewed with KPMG LLP the selection and disclosure of the critical audit matters set forth in the independent auditor's report of the Company's Form 10-K;
- The Committee reviewed the Company's quarterly earnings press releases prior to issuance;
- The Committee reviewed and discussed the Company's Audited Financial Statements for the 2019 fiscal year with management and the independent auditors;
- As mentioned above, the Committee reviewed the Company's Quarterly and Annual Reports on Form 10-Q and Form 10-K prior to filing with the SEC;
- The Committee evaluated the appointment, compensation, retention and oversight of KPMG LLP. In connection with such appointment, the Committee evaluated the service level of the incumbent independent auditor, which included criteria such as prior year quality of service, industry and technical expertise, independence, resource availability, and reasonableness and competitiveness of fees, as well as solicited the input of key management employees during its evaluation; and
- Based on the review and discussion referred to above, and in reliance thereon, the Committee recommended to the Board that the Audited Financial Statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, for filing with the SEC.

All members of the Committee concur in this report.

Gregory N. Moore, Chair
Curtis A. Warfield
James R. Zarley

Related Party Transactions

The Committee's charter provides that the Committee will review and approve any transactions between us and any of our executive officers, non-employee directors, and 5% shareholders, or any members of their immediate families, in which the amount involved exceeds the threshold limits established by the regulations of the SEC. In reviewing a related-party transaction, the Committee considers the material terms of the transaction, including whether the terms are generally available to an unaffiliated third party under similar circumstances. Unless specifically noted, the transactions described below were entered into before our initial public offering and the subsequent formation of the Committee.

Grants of Franchise or License Rights

We have licensed or franchised restaurants to companies owned in part by certain Named Executive Officers. The licensing or franchise fees paid by these companies to us range from 0.0% to 4.0% of restaurant sales, which is the amount we typically charge to franchisees. We believe that allowing certain Named Executive Officers with ownership interests in our restaurants that pre-dated our initial public offering to continue to maintain those ownership interests adds an ongoing benefit to the Company by making those Named Executive Officers more invested in the overall success of the brand. Ownership of franchised restaurants by our current and/or former Named Executive Officers as of the end of the 2019 fiscal year is listed below.

Restaurant	Name and Ownership	Initial Franchise Fee	Royalty Rate	Royalties Paid to Us in Fiscal Year 2019 ($)	Management, Supervision or Accounting Fees Paid to Us in Fiscal Year 2019 ($)
Billings, MT	W. Kent Taylor (27.5%) Scott M. Colosi (2.0%)	—	4.0%	222,294	27,787
Everett, MA	W. Kent Taylor (28.75%)	—	4.0%	277,760	34,720
Fargo, ND	Scott M. Colosi (5.05%)	—	4.0%	204,383	25,548
Lexington, KY	W. Kent Taylor (3.33%)	—	2.0%	112,338	23,724
McKinney, TX	Scott M. Colosi (2.0%)	—	4.0%	286,599	35,825
Muncie, IN	W. Kent Taylor (4.91%)	—	—	50,000	—
Omaha, NE	Scott M. Colosi (10.99%)	—	4.0%	231,165	28,896
Port Arthur, TX	W. Kent Taylor (15.0%) Scott M. Colosi (3.0%)	—	4.0%	236,302	29,538
Wichita, KS	W. Kent Taylor (24.05%) Scott M. Colosi (4.0%)	—	4.0%	330,413	41,302

For the 2019 fiscal year, the total amount of distributions received by Mr. Taylor and Mr. Colosi relating to their ownership interests in the above-referenced franchised restaurants were $1,525,985 and $192,308, respectively. These amounts do not reflect compensation paid by the Company to Mr. Taylor and/or Mr. Colosi during the 2019 fiscal year; rather, these amounts were paid by the applicable franchise entity and reflect a return on investment in these separate restaurant locations.

On March 19, 2004, we entered into a preliminary franchise agreement with a company which is 95% owned by Mr. Taylor to develop a restaurant at a location which is to be determined. The terms of the preliminary franchise agreement provide for no initial franchise fees and royalties of 3.5% of restaurant sales. During fiscal year 2019, we received no payment from this franchise restaurant, as none was due.

The franchise agreements and preliminary franchise agreement that we have entered into with our Named Executive Officers contain the same terms and conditions as those agreements that we enter into with our other domestic franchisees except, in some instances, the initial franchise fees and the royalty rates, which are currently $40,000 and 4.0%, respectively, for our other domestic franchisees. We have the contractual right, but not the obligation, to acquire the restaurants owned by our Named Executive Officers based on a pre-determined valuation formula which is the same as the formula contained in the domestic franchise agreements that we have entered into with other franchisees with whom we have such rights. A preliminary agreement for a franchise may be terminated if the franchisee does not identify and obtain our approval of its restaurant management personnel, locate and obtain our approval of a suitable site for the restaurant or does not demonstrate to us that it has secured necessary capital and financing to develop the restaurant. Once a franchise agreement has been entered into, it may be terminated if the franchisee defaults in the performance of any of its obligations under the agreement, including its obligations to operate the restaurant in strict 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.

Ownership Interest in Majority-Owned Joint Venture Entities

Upon his appointment to Chief Operating Officer, Mr. Thompson held an ownership interest in the Texas Roadhouse restaurant in Gilbert-East, AZ, which is a restaurant that is owned by an entity that the

Company controls and in which the Company holds a 52.5% ownership interest. The Company believes that allowing certain Named Executive Officers to have ownership interests in restaurants provides an ongoing benefit to the Company by making these persons more invested in the overall success of the brand. As of the end of the 2019 fiscal year, Mr. Thompson held a 35.5% ownership interest in the Gilbert-East, AZ restaurant, which entity paid $260,055 to us for management and supervision fees. Additionally, for the 2019 fiscal year, the total amount of distributions received by Mr. Thompson relating to his ownership interest in the Gilbert-East, AZ restaurant was $476,090. These amounts do not reflect compensation paid by the Company to Mr. Thompson during the 2019 fiscal year; rather, these amounts were paid by the applicable entity and reflect a return on investment in this restaurant location.

Other Related Transactions

We entered into real estate lease agreements for franchise restaurants located in Everett, MA, of which Mr. Taylor beneficially owns 28.75%, and Fargo, ND, of which Mr. Colosi owns 5.05%, before our granting franchise rights for those restaurants. We have subsequently assigned the leases to the franchisees, but we remain contingently liable if a franchisee defaults under the terms of a lease. The Everett lease expires in February 2023, and the Fargo lease expires in July 2021.

We previously entered into real estate lease agreements for the Company restaurants located in Gilbert-East, AZ. We subsequently assigned the lease to a joint venture operating entity, but we remain contingently liable if the entity defaults under the terms of the lease. The Gilbert-East lease expires in July 2023.

PRESENTATION OF PROPOSALS

PROPOSAL 1

ELECTION OF DIRECTORS

The Company's bylaws provide for not less than one and not more than 15 directors. Our Board currently consists of five directors. At the Annual Meeting, we are electing five directors to hold office until the Annual Meeting of Shareholders in 2021 and until a successor is elected and qualified. Although it is not anticipated that any of the nominees listed below will decline or be unable to serve, if that should occur, the proxy holders may, in their discretion, vote for a substitute nominee.

Nominees for Election as Directors

Set forth below are the Board members who will stand for re-election at the Annual Meeting, together with their age, all Company positions and offices they currently hold, and the year in which they joined the Board.

Name	Age	Position or Office	Director Since
Gregory N. Moore	70	Director	2005
W. Kent Taylor	64	Director; Chairman & CEO	2004
Curtis A. Warfield	51	Director	2018
Kathleen M. Widmer	58	Director	2013
James R. Zarley	75	Director	2004

Recommendation

THE BOARD RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" THE ELECTION OF THE NOMINEES FOR THE DIRECTORS OF THE COMPANY SET FORTH ABOVE.

PROPOSAL 2

RATIFICATION OF INDEPENDENT AUDITORS

As more particularly described in this proxy statement, the audit committee is directly responsible for managing the Company's independent auditors, which includes, without limitation, (i) pre-approving all audit and permitted non-audit services provided by our independent auditors, and (ii) the appointment, compensation, retention and oversight of the Company's independent auditors. In connection with the audit committee's appointment of the Company's independent auditors, the audit committee evaluates the service level of the incumbent independent auditor on an annual basis, which includes criteria such as prior year quality of service, industry and technical expertise, independence, resource availability, and reasonableness and competitiveness of fees, as well as solicits the input of key management employees during its evaluation.

In connection with the same and pursuant to its charter, the audit committee has appointed the firm of KPMG LLP to serve as the independent auditors to audit the consolidated financial statements and the internal control over financial reporting of the Company for the fiscal year which ends on December 29, 2020. The Board and the audit committee jointly agree that the continued retention of KPMG LLP is in the best interest of the Company and its shareholders. Accordingly, a resolution will be presented at the Annual Meeting to ratify the appointment of KPMG LLP. If the shareholders fail to ratify the appointment of KPMG LLP, the audit committee will take this result into account when appointing an independent auditor for the 2020 fiscal year. Even if the appointment is ratified, the audit committee in its discretion may direct the appointment of a different independent registered public accounting firm as the Company's independent auditors at any time during the year if the audit committee believes that such a change would be in the best interests of the Company and its shareholders. One or more representatives of KPMG LLP are expected to be present at the Annual Meeting, will have the opportunity to make a statement if they desire to do so, and will be available to respond to appropriate questions.

Fees Paid to the Independent Auditors

We incurred the following fees to KPMG LLP for fiscal years 2019 and 2018:

	2019($)	2018($)
Audit Fees	761,380	789,676
Audit-related Fees	—	7,375
Tax Fees	24,938	20,903
All Other Fees	1,500	1,500
	787,818	819,454

Audit Fees

KPMG LLP charged $761,380 in fiscal year 2019 and $789,676 in fiscal year 2018 for audit fees. These include professional services in connection with the audit of the Company's annual consolidated financial statements and its internal control over financial reporting. They also include reviews of the Company's consolidated financial statements included in the Company's Quarterly and Annual Reports on Form 10-Q and Form 10-K and for services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for the fiscal years shown. Additionally, the fees for fiscal years 2019 and 2018 contain approximately $41,380 and $55,676, respectively, related to statutory audits. Finally, the fees for fiscal years 2019 and 2018 contain approximately $20,000 and $69,000, respectively, related to the adoption of new accounting pronouncements.

Audit-Related Fees. KPMG LLP charged $7,375 in fiscal year 2018 for audit-related services in fiscal year 2018.

Tax Fees. KPMG LLP charged $24,938 in fiscal year 2019 and $20,903 in fiscal year 2018 for consulting and compliance services.

All Other Fees. KPMG LLP charged $1,500 in each fiscal year 2019 and fiscal year 2018 for access to their Accounting Research Online tool.

Pre-approval Policies and Procedures

The audit committee pre-approved all audit, audit-related and permissible non-audit services provided to the Company by KPMG LLP before management engaged the auditors for those purposes. The policy of the audit committee is to review all engagement letters for accounting firms for non-audit services.

Recommendation

THE BOARD RECOMMENDS A VOTE "FOR" THE RATIFICATION OF KPMG LLP AS THE COMPANY'S INDEPENDENT AUDITORS FOR THE 2020 FISCAL YEAR.

PROPOSAL 3

ADVISORY VOTE ON APPROVAL OF EXECUTIVE COMPENSATION

The Board requests shareholder approval of the compensation of the Company's Named Executive Officers as described in the "Compensation Discussion and Analysis," the Executive Compensation section and the other related executive compensation tables and related discussions in this proxy statement. As an advisory vote, the outcome of the voting on this proposal is not binding upon the Company; however, the compensation committee, which is responsible for establishing and administering the Company's executive compensation program, values the opinions expressed by shareholders on this proposal and will consider the outcome of the vote when making future compensation decisions for the Company's executive officers. Additionally, the compensation committee invites shareholders to express any questions or concerns regarding the Company's compensation philosophy for our executive officers by correspondence addressed to Texas Roadhouse, Inc. Compensation Committee, 6040 Dutchmans Lane, Louisville, Kentucky 40205.

The objective of the compensation committee in setting and evaluating the compensation of our executive officers is to promote the sustained profitability of the Company. Compensation for the Named Executive Officers is divided into three key components: (1) base salary, which provides a secure base of compensation and serves to motivate and retain our Named Executive Officers; (2) a cash bonus, which rewards our Named Executive Officers for the success of the Company as measured by growth in the Company's earnings per diluted share and its overall pre-tax profit, and for each Named Executive Officer's individual contribution to that success; and (3) grants of restricted stock units, which offer the Named Executive Officers a financial interest in the long-term success of the Company and align their interests with those of our shareholders. The types of restricted stock units are (i) restricted stock units, which grant the Named Executive Officers the conditional right to receive shares of our common stock that vest after a defined period of service, (ii) "retention" restricted stock units, which vest upon the completion of the term of an individual Named Executive Officer's agreement or such longer date as determined by the compensation committee, and (iii) performance stock units, which are calculated based on the achievement of certain Company performance targets established by the compensation committee and vest over a period of service. The compensation packages for our Named Executive Officers offer base salaries and target cash bonus amounts and feature restricted stock unit awards, the value of which is dependent upon the performance of the Company and the price of our common stock.

The compensation committee evaluates the stock compensation for each specific Named Executive Officer on an annual basis to determine the right combination of rewards and incentives through the issuance of service based restricted stock units and/or performance based restricted stock units to drive company performance without encouraging unnecessary or excessive risk taking by all of the Named Executive Officers as a whole. Under this approach, the Named Executive Officers receive a combination of service based restricted stock units and performance based restricted stock units, with a significant portion of some of the Named Executive Officers' compensation being tied to the grant of such performance based restricted stock units. By conditioning a significant portion of certain Named Executive Officer's performance based restricted stock unit grants upon the achievement of defined performance goals to be established by the compensation committee, combined with the stock ownership guidelines for our Named Executive Officers more particularly described above, we have created a more direct relationship between compensation and shareholder value. Additionally, by only providing one year's worth of restricted stock units to our Named Executive Officers, the compensation committee has the opportunity to adjust a significant portion of the total compensation for the Named Executive Officers on an annual basis to more accurately reflect the overall performance of the Company, which may include the issuance of service based restricted stock units and/or performance based restricted stock units. Overall, we believe this approach provides the Named Executive Officers with a compensation package which promotes the sustained profitability of the Company and aligns the interests of our Named Executive Officers with those of our shareholders. The compensation packages also reflect a pragmatic response to external market conditions; that is, total compensation that is competitive with comparable positions in similar industries, including the casual dining sector of the restaurant industry, but which is reasonable and in the best interests of our shareholders.

This structure, along with the culture and values of our Company, allows the Company to attract and retain top talent, while also encouraging our Named Executive Officers to keep their focus on both long-term business development and short-term financial growth. The Board was pleased to receive shareholder approval of the compensation packages of our Named Executive Officers in the advisory vote at the 2019 annual meeting and again requests approval of the compensation packages of our Named Executive Officers.

Recommendation

THE BOARD RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" THE EXECUTIVE COMPENSATION DETAILED IN THIS PROXY STATEMENT.

SHAREHOLDER PROPOSALS

Under Rule 14a-8 promulgated under the Exchange Act, shareholders may present proposals to be included in the Company proxy statement for consideration at the next annual meeting of its shareholders by submitting their proposals to the Company in a timely manner. Any such proposal must comply with Rule 14a-8.

The Company's bylaws, a copy of which is available on the Company's website, *www.texasroadhouse.com,* require shareholders who intend to propose business for consideration by shareholders at the 2021 annual meeting, other than shareholder proposals that are included in the proxy statement, to deliver written notice to the principal executive offices of the Company on or before December 4, 2020 (reflecting 120 calendar days prior to the one year anniversary of the date of the Company's proxy statement issued in connection with the prior year's annual meeting). This notice must include a description of the business desired to be brought before the annual meeting, the name and address of the shareholder proposing such business and of the beneficial owner, if any, on whose behalf the business is being brought, the class, series and number of shares of the Company which are beneficially owned by the shareholder and such other beneficial owner and any material interest of the shareholder and such other beneficial owner in such business. Similar requirements are set forth in the Company's bylaws with respect to shareholders desiring to nominate candidates for election as director. Exchange Act rules permit management to vote proxies in its discretion in certain cases if the shareholder does not comply with these deadlines, and in certain other cases notwithstanding the shareholder's compliance with these deadlines. If a shareholder submitting a matter to be raised at the Company's next annual meeting desires that such matter be included in the Company's proxy statement for that meeting, such matter must be submitted to the Company no later than December 4, 2020.

The rules of the SEC set forth standards for what shareholder proposals the Company is required to include in a proxy statement for an annual meeting.

SHAREHOLDERS' COMMUNICATIONS WITH THE BOARD

Shareholders that want to communicate in writing with the Board, or specific directors individually, may send proposed communications to the Company's Corporate Secretary, Christopher C. Colson, at 6040 Dutchmans Lane, Louisville, Kentucky 40205. The proposed communication will be reviewed by Mr. Colson and by the audit committee. If the communication is appropriate and serves to advance or improve the Company or its performance, then it will be forwarded to the Board or the appropriate director.

FORM 10-K

The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, accompanies this proxy statement. The Company's Annual Report does not form any part of the material for solicitation of proxies.

Any shareholder who wishes to obtain, without charge, a copy of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, which includes financial statements, and is required to be filed with the SEC, may access it at *www.texasroadhouse.com* in the Investors section or may send a written request to Christopher C. Colson, Corporate Secretary, Texas Roadhouse, Inc., 6040 Dutchmans Lane, Louisville, Kentucky 40205.

OTHER BUSINESS

The Board is not aware of any other matters to be presented at the Annual Meeting other than those set forth herein and routine matters incident to the conduct of the meeting. If any other matters should properly come before the Annual Meeting or any adjournment or postponement thereof, the persons named in the proxy, or their substitutes, intend to vote on such matters in accordance with their best judgment.

By Order of the Board of Directors,

Christopher C. Colson
Corporate Secretary

Louisville, Kentucky
April 3, 2020

Please vote your shares through any of the methods described on the proxy card as promptly as possible, whether or not you plan to attend the Annual Meeting in person. If you do attend the Annual Meeting, you may still vote in person, since the proxy may be revoked at any time before its exercise by delivering a written revocation of the proxy to the Company's Corporate Secretary.

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 31, 2019
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	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001 per share	TXRH	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 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 25, 2019 was $3,496,055,254 based on the closing stock price of $53.10. 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 69,405,753 on February 19, 2020.

Portions of the registrant's definitive Proxy Statement for the registrant's 2020 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 31, 2019, 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.

TABLE OF CONTENTS

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 successfully execute our growth strategies;
- our ability to successfully open new restaurants, acquire franchise restaurants and/or execute other strategic initiatives;
- 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;
- 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;
- our ability to raise capital in the future;
- 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, except as required by applicable law.

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 611 restaurants in 49 states and ten 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 31, 2019, we owned and operated 514 restaurants and franchised an additional 69 domestic restaurants and 28 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 514 company restaurants is considered an operating segment.

Narrative Description of Business

Of the 514 restaurants we owned and operated at the end of 2019, we operated 484 as Texas Roadhouse restaurants and 28 as Bubba’s 33 restaurants. In addition, we operated two restaurants outside of the casual dining segment. In 2020, we plan to open at least 30 company restaurants. While the majority of our restaurant growth in 2020 will be Texas Roadhouse restaurants, we currently expect to open as many as seven 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.

- *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 in any given market. 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 2019 was $17.57. 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 7,600 square feet of space constructed on sites of approximately 1.5 to 2.2 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 be approximately 7,500 square feet depending on the location with seating for approximately 270 guests.

As of December 31, 2019, we leased 368 properties and owned 146 properties. Our 2019 average unit volume for all Texas Roadhouse company restaurants open before June 26, 2018 was $5.6 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 2019, the average capital investment, including pre-opening expenses and a capitalized rent factor, for the 19 Texas Roadhouse company restaurants opened during the year was $5.5 million, broken down as follows:

	Average Cost	Low	High
Land(1)	$ 1,295,000	$ 700,000	$ 1,760,000
Building(2)	2,290,000	1,710,000	3,610,000
Furniture and Equipment	1,255,000	1,100,000	1,370,000
Pre-opening costs	665,000	535,000	915,000
Other(3)	10,000	—	90,000
Total	$ 5,515,000		

(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 2019, 2018 and 2017 was $5.5 million, $5.2 million and $5.3 million, respectively. The increase in our 2019 average capital investment was primarily due to higher building costs. We expect our average capital investment for restaurants to be opened in 2020 to be approximately $5.6 million.

Our average capital investment for the Bubba's 33 restaurants opened in 2019, 2018 and 2017 was $6.7 million, $7.1 million and $6.1 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 $6.6 million. We expect our average capital investment for restaurants to be opened in 2020 to be approximately $6.7 million.

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 five months to construct, equip and open a restaurant.

Existing Restaurant Locations

As of December 31, 2019, we had 514 company restaurants and 97 franchise restaurants in 49 states and ten foreign countries as shown in the chart below.

	Number of Restaurants		
	Company	Franchise	Total
Alabama	8	—	8
Alaska	2	—	2
Arizona	18	—	18
Arkansas	6	—	6
California	4	8	12
Colorado	16	1	17
Connecticut	5	—	5
Delaware	2	2	4
Florida	39	—	39
Georgia	10	5	15
Idaho	5	—	5
Illinois	16	—	16
Indiana	21	8	29
Iowa	9	—	9
Kansas	6	1	7
Kentucky	13	2	15
Louisiana	10	1	11
Maine	3	—	3
Maryland	8	6	14
Massachusetts	10	1	11
Michigan	14	3	17
Minnesota	4	—	4
Mississippi	3	—	3
Missouri	17	—	17
Montana	—	1	1
Nebraska	3	1	4
Nevada	2	—	2
New Hampshire	3	—	3
New Jersey	9	—	9
New Mexico	5	—	5
New York	20	—	20
North Carolina	19	—	19
North Dakota	2	1	3
Ohio	32	2	34
Oklahoma	8	—	8
Oregon	2	—	2
Pennsylvania	25	6	31
Rhode Island	3	—	3
South Carolina	3	6	9
South Dakota	2	—	2
Tennessee	15	2	17
Texas	69	5	74
Utah	9	1	10
Vermont	1	—	1
Virginia	17	—	17
Washington	1	—	1
West Virginia	3	3	6
Wisconsin	10	3	13
Wyoming	2	—	2
Total domestic restaurants	514	69	583
Bahrain	—	1	1
China	—	1	1
South Korea	—	1	1
Kuwait	—	3	3
Mexico	—	1	1
Philippines	—	5	5
Qatar	—	2	2
Saudi Arabia	—	5	5
Taiwan	—	3	3
United Arab Emirates	—	6	6
Total international restaurants	—	28	28
Total system-wide restaurants	514	97	611

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 10.6% of restaurant sales in fiscal 2019.

We always strive to maintain a consistent menu at our restaurants. 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 and sanitation 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 and United States Department of Agriculture 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. All restaurant managers are required to complete the American National Standards Institute (ANSI) Certified Food Manager training. 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.

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, team work and staff attentiveness 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 wood walls 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. Each market partner oversees a group of varying sizes of 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, including responsible alcohol service, 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 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 ten 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 television or print advertising to promote our brands. 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 31, 2019, we had 26 franchisees that operated 97 Texas Roadhouse restaurants in 22 states and ten 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 ten franchisees and no franchisee operates more than 17 restaurants.

Our standard domestic franchise agreement has a term of ten 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.

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 31, 2019, we had 17 restaurants open in five countries in the Middle East, three restaurants open in Taiwan, five in the Philippines and one each in Mexico, China and South Korea for a total of 28 restaurants in ten foreign countries. For the existing international agreements, the franchisee is generally 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 ensure 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 and 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 founder 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.

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 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 52 foreign jurisdictions. To better protect our brands, 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. In 2018, federal regulations went into effect under the Patient Protection and Affordable Care Act of 2010 ("PPACA") requiring new menu nutritional labeling requirements. As a result, we include calorie information on our menus and make additional nutritional information available at our restaurants and on our website. Future regulatory action may occur which could result in further changes in the federal nutritional disclosure requirements.

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. In 2019, the sale of alcoholic beverages accounted for 10.6% of our Texas Roadhouse restaurant sales.

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. 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 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 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 31, 2019, we employed approximately 67,900 people. This amount includes 682 executive and administrative personnel and 2,526 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.

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.

Information about our Executive Officers

Set forth below are the name, age, position and a brief account of the business experience of each of our executive officers. Executive officers are appointed by our Board of Directors and serve until their successors are elected or until resignation or removal, in accordance with their employment agreements. There are no family relationships among any of our executive officers.

Name	Age	Position
W. Kent Taylor	64	Chairman, Chief Executive Officer, and President
S. Chris Jacobsen.	54	Chief Marketing Officer
Tonya R. Robinson	51	Chief Financial Officer
Douglas W. Thompson	56	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, and his role as President in June 2019. 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.

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 25 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.

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 shareholder value by (1) expanding our base of company 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 likely 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, field support 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, or finding new employees (including new employees arising from a strategic initiative) to assimilate to our culture and brand standards. 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;
- 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. Those new markets may have smaller trade areas and different competitive conditions, consumer tastes and discretionary spending patterns than our traditional, existing markets, which may cause our new store locations to be less successful than restaurants in our existing market areas. 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. Additionally, the opening of a new restaurant could negatively impact sales at one or more of our existing nearby restaurants, which could adversely affect our financial performance.

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;
- delays by our landlord or other developers in constructing other parts of a development adjacent to our premises in a timely manner; 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.

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 an incremental way. As of December 31, 2019, we have expanded the concept to 28 restaurants and expect to open as many as seven additional locations in 2020. 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.

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

As of December 31, 2019, our operations include 28 Texas Roadhouse franchise restaurants in ten 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 other international markets. In addition, operating in international markets may require significant resources and management attention and will subject us to economic, political and regulatory 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 brands 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 or tariffs on goods needed to construct and/or operate our restaurants;
- political or social unrest, economic instability and destabilization of a region;
- effects of actual or threatened terrorist attacks;
- health concerns from global pandemics;
- 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 and/or change the business strategy regarding an existing concept. 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 possibly 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 associated with successfully integrating new employees (including new employees arising from a strategic initiative);

- 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.

Additionally, we may evaluate other means to leverage our competitive strengths, including the expansion of our products across other strategic initiatives or business opportunities. The expansion of our products may damage our reputation if products bearing our brands are not of the same quality or value that guests associate with our brands. In addition, we may experience dilution of the goodwill associated with our brands as it becomes more common and increasingly accessible.

We are subject to all of the risks associated with leasing space subject to long-term non-cancelable leases, as well as risks related to renewal.

The majority of our company-owned restaurants are located on leased premises. Payments under our operating leases account for a significant portion of our operating expenses. Additional sites that we lease are likely to be subject to similar long-term non-cancelable leases. In connection with the relocation, other operational changes, or closure of any restaurant, we may nonetheless be committed to perform on our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term.

In addition, as each of our leases expires, there can be no assurance we will be able to renew our expiring leases after the expiration of all remaining renewal options, either on commercially acceptable terms or at all. As a result, at the end of the lease term and expiration of all renewal periods, we may be unable to renew the lease without substantial additional cost, if at all. As a result, we may be required to relocate or close a restaurant, which could subject us to construction and other costs and risks, and may have an adverse effect on our operating performance.

Approximately 13% 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 31, 2019, we operated a total of 69 company-owned restaurants in Texas. As a result, we are particularly susceptible to adverse trends and economic conditions in this state, including declines in oil prices that may increase levels of unemployment and cause other economic pressures that may result in lower sales and profits at our restaurants in oil regions of Texas and surrounding areas. 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;
- 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 and other food and beverage related matters, including the integrity of our, or our suppliers’ food processing;
- negative publicity regarding health concerns and/or global pandemics;
- 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.

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 hour and overtime pay, state unemployment rates or employee benefits costs (including workers' compensation and health insurance), company staffing initiatives, 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 addition, regulatory actions which result in changes to healthcare eligibility, design and cost structure could occur. 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 2020 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 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. 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.

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.

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. If we are unable to quickly and effectively respond to such reports, we may suffer declines in guest traffic. The impact may be immediate without affording us an opportunity for redress or correction. These factors could have a material adverse effect on our business.

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. In 2018, federal disclosure requirements went into effect under the Patient Protection and Affordable Care Act of 2010 requiring new menu nutritional labeling requirements. As a result, we include calorie information on our menus and make additional nutritional information available at our restaurants and on our website. However, future regulatory action may occur which could result in further changes in the 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 concepts 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.

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

Food safety and sanitation 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. We may also be adversely affected if jurisdictions in which we have restaurants impose mandatory closures, seek voluntary closures, impose restrictions on operations and/or require public notification. Even if such measures are not implemented and a virus or other disease does not spread significantly, the perceived risk of infection or significant health risk may materially 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, security 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 or a material breach in the security of these systems could result in delays in guest service and reduce efficiency in our operations.

Additionally, our corporate systems and processes and corporate support for our restaurant operations are handled primarily at our restaurant support center. We have disaster recovery procedures and business continuity plans in place to address most events of a crisis nature, including tornadoes and other natural disasters, and back up off-site locations for recovery of electronic and other forms of data information. However, if we are unable to fully implement our disaster recovery plans, we may experience delays in recovery of data, inability to perform vital corporate functions, tardiness in required reporting and compliance, failures to adequately support field operations and other breakdowns in normal communication and operating procedures that could have a material adverse effect on our financial condition, results of operations and exposure to administrative and other legal claims.

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 2019, approximately 80% 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.

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, hour and 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 work authorization 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 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 and other places of accommodation are designed to be accessible to the disabled, we could be required to make modifications to provide service to, or make reasonable accommodations, for disabled persons.

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. As a Company, we take responsible alcohol service seriously. However, 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 brands 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, attention 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.

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 or have sufficient liquidity to either repay or refinance the then outstanding balance at the expiration of our amended revolving credit facility, or upon violation of the covenants, our growth could be impeded and our financial performance could be materially adversely affected.

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-owned 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 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.

Both our domestic and international 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 shareholders, 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. If we issue preferred shares in the future that have a preference over our common stock with respect to dividends or upon liquidation, dissolution or winding up, or if we issue preferred shares with voting rights that dilute the voting power of our common stock, the rights of our common stockholders or the market price of our common stock may be adversely affected.

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 or repurchase our common stock up to the maximum amounts permitted under our previously announced repurchase program.

Payment of cash dividends on our common stock or repurchases of our common stock are 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 and repurchased our common stock in the past, there can be no assurance that we will continue to pay dividends or repurchase our common stock in the future.

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

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

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 31, 2019, we leased 133,023 square feet. Our lease expires October 31, 2048 including all applicable extensions. Of the 514 company restaurants in operation as of December 31, 2019, we owned 146 locations and leased 368 locations, as shown in the following table.

State	Owned	Leased	Total
Alabama	3	5	8
Alaska	—	2	2
Arizona	6	12	18
Arkansas	1	5	6
California	1	3	4
Colorado	7	9	16
Connecticut	—	5	5
Delaware	1	1	2
Florida	7	32	39
Georgia	3	7	10
Idaho	1	4	5
Illinois	3	13	16
Indiana	13	8	21
Iowa	2	7	9
Kansas	2	4	6
Kentucky	4	9	13
Louisiana	2	8	10
Maine	—	3	3
Maryland	—	8	8
Massachusetts	1	9	10
Michigan	4	10	14
Minnesota	1	3	4
Mississippi	1	2	3
Missouri	2	15	17
Nebraska	1	2	3
Nevada	—	2	2
New Hampshire	2	1	3
New Jersey	—	9	9
New Mexico	1	4	5
New York	3	17	20
North Carolina	4	15	19
North Dakota	—	2	2
Ohio	12	20	32
Oklahoma	2	6	8
Oregon	—	2	2
Pennsylvania	3	22	25
Rhode Island	—	3	3
South Carolina	—	3	3
South Dakota	1	1	2
Tennessee	—	15	15
Texas	38	31	69
Utah	1	8	9
Vermont	—	1	1
Virginia	6	11	17
Washington	—	1	1
West Virginia	1	2	3
Wisconsin	4	6	10
Wyoming	2	—	2
Total	146	368	514

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

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 during the periods covered by this report 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.

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 19, 2020 was 189.

On February 20, 2020, our Board of Directors authorized the payment of a cash dividend of $0.36 per share of common stock. This payment will be distributed on March 27, 2020, to shareholders of record at the close of business on March 11, 2020. 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 31, 2019, our Board of Directors approved a stock repurchase program which authorized us to repurchase up to $250.0 million of our common stock. This stock repurchase program has no expiration date and replaced a previous stock repurchase program which was approved on May 22, 2014. The previous program authorized us to repurchase up to $100.0 million of our common stock and did not have an expiration date. 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 17,470,096 shares of common stock at a total cost of $356.4 million through December 31, 2019 under authorizations from our Board of Directors.

The following table includes information regarding purchases of our common stock made by us during the 14 weeks ended December 31, 2019 in connection with the repurchase programs described above:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
September 25 to October 22	96,802	$ 50.15	96,802	$ 164,410,020
October 23 to November 19	36,636	$ 53.25	36,636	$ 162,459,227
November 20 to December 31	36,749	$ 56.63	36,749	$ 160,378,001
Total	170,187		170,187	

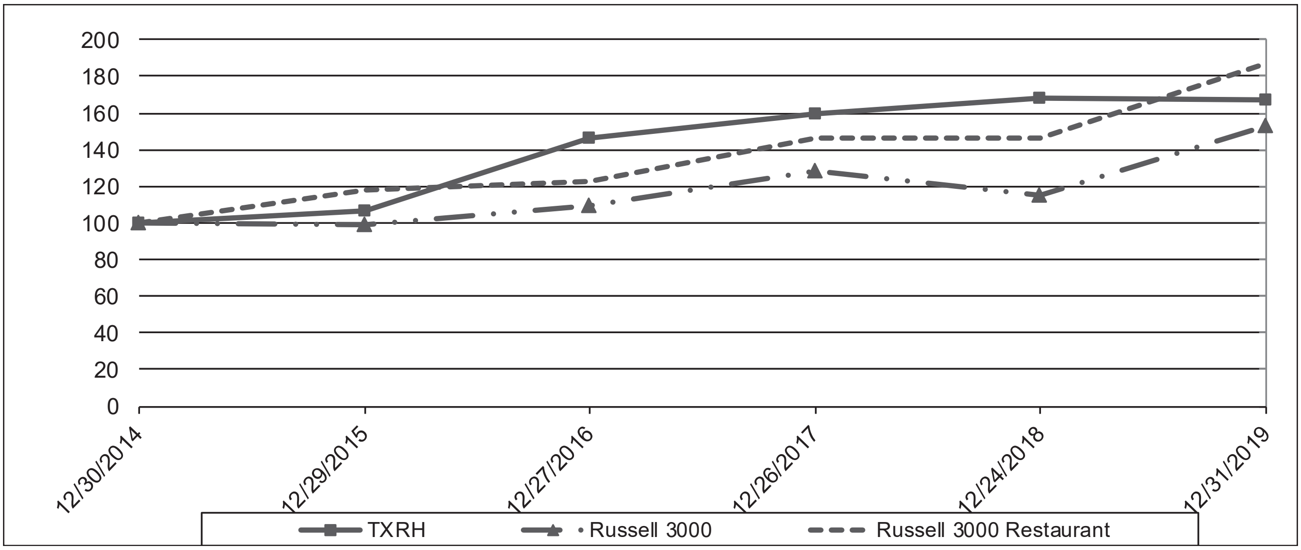
Stock Performance Graph

The following graph sets forth the 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 31, 2019, 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 30, 2014 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 30, 2014

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



	12/30/2014	12/29/2015	12/27/2016	12/26/2017	12/24/2018	12/31/2019
Texas Roadhouse, Inc.	$ 100.00	$ 106.75	$ 146.71	$ 160.09	$ 168.18	$ 166.73
Russell 3000	$ 100.00	$ 99.21	$ 109.18	$ 128.38	$ 114.72	$ 153.08
Russell 3000 Restaurant	$ 100.00	$ 118.28	$ 122.98	$ 146.30	$ 146.54	$ 187.31

ITEM 6—SELECTED FINANCIAL DATA

We derived the selected consolidated financial data as of and for the years 2019, 2018, 2017, 2016 and 2015 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. Fiscal year 2019 was 53 weeks in length. Fiscal years 2018, 2017, 2016 and 2015 were 52 weeks in length. Our historical results are not necessarily indicative of our results for any future period.

	Fiscal Year				
	2019	2018	2017	2016	2015
	(in thousands, except per share data)				
Consolidated Statements of Income:					
Revenue:					
Restaurant sales and other	$ 2,734,177	$ 2,437,115	$ 2,203,017	$ 1,974,261	$ 1,791,446
Franchise royalties and fees	21,986	20,334	16,514	16,453	15,922
Total revenue	2,756,163	2,457,449	2,219,531	1,990,714	1,807,368
Income from operations	212,023	187,789	186,206	171,900	144,565
Income before taxes	213,915	188,551	186,117	171,756	144,247
Provision for income taxes	32,397	24,257	48,581	51,183	42,986
Net income including noncontrolling interests	$ 181,518	$ 164,294	$ 137,536	$ 120,573	$ 101,261
Less: Net income attributable to noncontrolling interests	7,066	6,069	6,010	4,975	4,367
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	$ 174,452	$ 158,225	$ 131,526	$ 115,598	$ 96,894
Net income per common share:					
Basic	$ 2.47	$ 2.21	$ 1.85	$ 1.64	$ 1.38
Diluted	$ 2.46	$ 2.20	$ 1.84	$ 1.63	$ 1.37
Weighted average shares outstanding:					
Basic	70,509	71,467	70,989	70,396	70,032
Diluted	70,916	71,964	71,527	71,052	70,747
Cash dividends declared per share	$ 1.20	$ 1.00	$ 0.84	$ 0.76	$ 0.68

	Fiscal Year				
	2019	2018	2017	2016	2015
			($ in thousands)		
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 107,879	$ 210,125	$ 150,918	$ 112,944	$ 59,334
Total assets	1,983,565	1,469,276	1,330,623	1,179,971	1,032,706
Operating lease liabilities, net of current portion	538,710	-	-	-	-
Long-term debt, net of current maturities	-	-	50,000	50,550	25,694
Total liabilities	1,052,396	508,568	479,232	421,729	355,524
Noncontrolling interests	15,175	15,139	12,312	8,016	7,520
Texas Roadhouse, Inc. and subsidiaries stockholders' equity	$ 915,994	$ 945,569	$ 839,079	$ 750,226	$ 669,662
Selected Operating Data (unaudited):					
Restaurants:					
Company-Texas Roadhouse	484	464	440	413	392
Company-Bubba's 33	28	25	20	16	7
Company-Other	2	2	2	2	2
Franchise - Domestic	69	69	70	73	72
Franchise - International	28	22	17	13	10
Total	611	582	549	517	483
Company restaurant information:					
Store weeks	26,473	24,693	23,274	21,583	20,020
Comparable restaurant sales growth(1)	4.7 %	5.4 %	4.5 %	3.5 %	7.2 %
Texas Roadhouse restaurants only:					
Comparable restaurant sales growth(1)	4.6 %	5.4 %	4.5 %	3.6 %	7.2 %
Average unit volume(2)	$ 5,555	$ 5,209	$ 4,973	$ 4,805	$ 4,664
Net cash provided by operating activities	$ 374,298	$ 352,868	$ 286,373	$ 257,065	$ 227,941
Net cash used in investing activities	$ (214,820)	$ (158,145)	$ (178,156)	$ (164,738)	$ (173,203)
Net cash used in financing activities	$ (261,724)	$ (135,516)	$ (70,243)	$ (38,717)	$ (81,526)

(1) 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.

(2) 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 in the table above was adjusted to reflect the restaurant sales of any acquired franchise restaurants. In addition, average unit volume for 2019 includes 53 weeks compared to 52 weeks for all other periods presented.

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 611 restaurants in 49 states and ten 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 31, 2019, our 611 restaurants included:

- 514 "company restaurants," of which 494 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 514 restaurants we owned and operated at the end of 2019, we operated 484 as Texas Roadhouse restaurants and operated 28 as Bubba's 33 restaurants. In addition, we operated two restaurants outside of the casual dining segment.

- 97 "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 97 franchise restaurants, 69 were domestic restaurants and 28 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. Fiscal year 2019 was 53 weeks in length and, as such, the fourth quarter of fiscal 2019 was 14 weeks in length. Fiscal years 2018 and 2017 were 52 weeks in length, while the fourth quarters for those years were 13 weeks in length.

As further noted in note 2 to the consolidated financial statements, we adopted Accounting Standards Codification 842, *Leases ("ASC 842")*, which required an entity to recognize a right-of-use asset and a lease liability for virtually all leases. We adopted this standard as of the beginning of our 2019 fiscal year and used a modified retrospective approach. As a result, the comparative financial information has not been updated and the required disclosures prior to the date of adoption have not been updated and continue to be reported under the accounting standards in effect for those periods. The adoption of this standard had a significant impact on our consolidated balance sheet. There was no significant impact to our results of operations or cash flows related to the adoption of this standard.

In addition, 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.

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 continue to evaluate opportunities to develop restaurants in existing markets and in new domestic and international markets. Domestically, we 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 once the associated lease expired or as a result of eminent domain which allows us to update them to a more current 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 2019, we opened 22 company restaurants while our franchise partners opened nine restaurants. We currently plan to open at least 30 company restaurants in 2020 including as many as seven Bubba's 33 restaurants. In addition, we anticipate our existing franchise partners will open as many as eight Texas Roadhouse restaurants, primarily international, in 2020.

Our average capital investment for the 19 Texas Roadhouse restaurants opened during 2019, including pre-opening expenses and a capitalized rent factor, was $5.5 million. We expect our average capital investment for Texas Roadhouse restaurants opening in 2020 to be approximately $5.6 million. For 2019, the average capital investment, including pre-opening expenses and a capitalized rent factor, for the three Bubba's 33 restaurants opened during the year was $6.7 million. We expect our average capital investment for Bubba's 33 restaurants opening in 2020 to be approximately $6.7 million.

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 31, 2019, we had 17 restaurants open in five countries in the Middle East, three restaurants open in Taiwan, five in the Philippines and one each in Mexico, China and South Korea for a total of 28 restaurants in ten foreign countries. For the existing international agreements, the franchisee is generally 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 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-level profitability (restaurant margin), in any given year, depending on the level of inflation we experience. 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 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 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. In addition, we continue to focus on driving to-go sales which has significantly contributed to our recent sales growth.

Leveraging Our Scalable Infrastructure. To support our growth, we have made significant investments in our infrastructure over the past several years, including information and accounting systems, real estate, human resources, legal, marketing, international and restaurant operations, including the development of new concepts. In addition, in Q4 2018 we increased our number of regional market partners, market partners and regional support teams. Whether we are able to leverage our infrastructure in future years by growing our general and administrative costs at a slower rate than our revenue 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 20, 2020, our Board of Directors declared a quarterly dividend of $0.36 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 $356.4 million through our authorized stock repurchase programs to repurchase 17,470,096 shares of our common stock at an average price per share of $20.40. On May 31, 2019, our Board of Directors approved a stock repurchase program under which we may repurchase up to $250.0 million of our common stock. This stock repurchase program has no expiration date and replaced a previous stock repurchase program which was approved on May 22, 2014. All repurchases to date have been made through open market transactions. This includes repurchases of $89.6 million under the new repurchase program and repurchases of $50.2 million under the previous stock purchase program. As of December 31, 2019, $160.4 million remains authorized for stock repurchases.

Key Operating Personnel

Key management personnel who have a significant impact on the performance of our restaurants include market partners, managing partners, kitchen managers, service managers and 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. Each market partner oversees a group of varying sizes of 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 refundable 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, 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 half relates to beef costs.

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 or relocated 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, Net. Impairment and closure costs, net include any impairment of long-lived assets, including property and equipment, operating lease right-of-use assets and 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 Income (Expense), Net. Interest income (expense), net includes earnings on cash and cash equivalents reduced by interest expense on our debt or financing obligations including the amortization of loan fees.

Equity Income from Unconsolidated Affiliates. As of December 31, 2019, December 25, 2018 and December 26, 2017, we owned a 5.0% to 10.0% equity interest in 24 franchise restaurants. Additionally, as of December 31, 2019, 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. 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 31, 2019 and December 25, 2018 included 20 majority-owned restaurants, all of which were open. At December 26, 2017, our consolidated subsidiaries included 18 majority-owned restaurants, all of which were open.

2019 Financial Highlights

Total revenue increased $298.7 million or 12.2% to $2.8 billion in 2019 compared to $2.5 billion in 2018. The increase was primarily due to an increase in average unit volume driven by comparable restaurant sales growth, the opening of new restaurants and the addition of the 53rd week in 2019. The 53rd week resulted in $59.0 million in restaurant and other sales or 2.4% of the increase in 2019 compared to 2018. Store weeks and comparable restaurant sales increased 7.2% and 4.7%, respectively, at company restaurants in 2019.

Restaurant margin increased $50.1 million or 11.8% to $474.2 million in 2019 from $424.2 million in 2018 while restaurant margin, as a percentage of restaurant and other sales, remained relatively unchanged at 17.3% in 2019 compared to 17.4% in 2018. 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 and prior staffing initiatives intended to increase sales. These decreases were partially offset by lower cost of sales due to the benefit of higher average check.

Net income increased $16.2 million or 10.3% to $174.5 million in 2019 compared to $158.2 million in 2018 primarily due to higher restaurant margin dollars partially offset by higher depreciation and amortization expense, general and administration expense, and income tax expense. Diluted earnings per share increased 11.9% to $2.46 from $2.20 in the prior year. In addition, diluted earnings per share were positively impacted by $0.10 to $0.11 as a result of the 53rd week.

	Results of Operations					
	Fiscal Year					
	2019		2018		2017	
	$	%	$	%	$	%
	(In thousands)					
Consolidated Statements of Income:						
Revenue:						
Restaurant and other sales	2,734,177	99.2	2,437,115	99.2	2,203,017	99.3
Franchise royalties and fees	21,986	0.8	20,334	0.8	16,514	0.7
Total revenue	2,756,163	100.0	2,457,449	100.0	2,219,531	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	883,357	32.3	795,300	32.6	721,550	32.8
Labor	905,614	33.1	793,384	32.6	687,545	31.2
Rent	52,531	1.9	48,791	2.0	44,807	2.0
Other operating	418,448	15.3	375,477	15.4	342,702	15.6
(As a percentage of total revenue)						
Pre-opening	20,156	0.7	19,051	0.8	19,274	0.9
Depreciation and amortization	115,544	4.2	101,216	4.1	93,499	4.2
Impairment and closure, net	(899)	NM	278	NM	654	NM
General and administrative	149,389	5.4	136,163	5.5	123,294	5.6
Total costs and expenses	2,544,140	92.3	2,269,660	92.4	2,033,325	91.6
Income from operations	212,023	7.7	187,789	7.6	186,206	8.4
Interest income (expense), net	1,514	0.1	(591)	(0.0)	(1,577)	(0.1)
Equity income from investments in unconsolidated affiliates	378	0.0	1,353	0.1	1,488	0.1
Income before taxes	213,915	7.8	188,551	7.7	186,117	8.4
Provision for income taxes	32,397	1.2	24,257	1.0	48,581	2.2
Net income including noncontrolling interests	181,518	6.6	164,294	6.7	137,536	6.2
Net income attributable to noncontrolling interests	7,066	0.3	6,069	0.2	6,010	0.3
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	174,452	6.3	158,225	6.4	131,526	5.9

NM – Not meaningful

	Reconciliation of Income from Operations to Restaurant Margin		
	Fiscal Year Ended		
	2019	2018	2017
	(In thousands, except per store week)		
Income from operations	$ 212,023	$ 187,789	$ 186,206
Less:			
Franchise royalties and fees	21,986	20,334	16,514
Add:			
Pre-opening	20,156	19,051	19,274
Depreciation and amortization	115,544	101,216	93,499
Impairment and closure, net	(899)	278	654
General and administrative	149,389	136,163	123,294
Restaurant margin	$ 474,227	$ 424,163	$ 406,413
Restaurant margin $/store week	$ 17,914	$ 17,177	$ 17,462
Restaurant margin *(as a percentage of restaurant and other sales)*	17.3%	17.4%	18.4%

Restaurant Unit Activity

	Total	Texas Roadhouse	Bubba's 33	Other
Balance at December 25, 2018	582	555	25	2
Company openings	22	19	3	—
Franchise openings - Domestic	1	1	—	—
Franchise openings - International	8	8	—	—
Franchise closings - International	(2)	(2)	—	—
Balance at December 31, 2019	611	581	28	2

	December 31, 2019	December 25, 2018	December 26, 2017
Company - Texas Roadhouse	484	464	440
Company - Bubba's 33	28	25	20
Company - Other	2	2	2
Franchise - Texas Roadhouse - U.S.	69	69	70
Franchise - Texas Roadhouse - International	28	22	17
Total	611	582	549

Restaurant and Other Sales

Restaurant and other sales increased 12.2% in 2019 compared to 2018 and increased 10.6% in 2018 compared to 2017. 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.

	2019	2018	2017
Company Restaurants:			
Increase in store weeks	7.2 %	6.1 %	7.8 %
Increase in average unit volume	4.1 %	4.8 %	3.5 %
Other(1)	1.0 %	(0.1)%	0.3 %
Total increase in restaurant sales	12.3 %	10.8 %	11.6 %
Other sales(2)	(0.1)%	(0.2)%	— %
Total increase in restaurant and other sales	12.2 %	10.6 %	11.6 %
Store weeks	26,473	24,693	23,274
Comparable restaurant sales growth	4.7 %	5.4 %	4.5 %
Texas Roadhouse restaurants only:			
Comparable restaurant sales growth	4.6 %	5.4 %	4.5 %
Average unit volume (in thousands)	$ 5,555	$ 5,209	$ 4,973
Average unit volume (in thousands), 2018 and 2017 adjusted (3)	$ 5,555	$ 5,338	$ 5,086
Weekly sales by group:			
Comparable restaurants (448, 408 and 380 units, respectively)	102,824	100,810	96,572
Average unit volume restaurants (21, 21 and 27 units, respectively)(4)	94,379	88,493	82,526
Restaurants less than six months old (15, 35 and 33 units, respectively)	106,328	97,268	92,208

(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 2019, represent $19.8 million related to the amortization of third party gift card fees net of $10.7 million related to the amortization of gift card breakage income. For 2018, other sales 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) As 2019 contains 53 weeks, for comparative purposes, 2018 and 2017 average unit volumes were adjusted to a 53-week basis.

(4) 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. In addition, the increase in store weeks in 2019 includes the impact of the 53rd week. 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.

	2019	2018	2017
Guest traffic counts	1.8 %	3.9 %	3.6 %
Per person average check	2.9 %	1.5 %	0.9 %
Comparable restaurant sales growth	4.7 %	5.4 %	4.5 %

Year-over-year sales for newer restaurants included in our average unit volume, but excluded from our comparable restaurant sales, partially offset the impact of positive comparable restaurant sales growth for all periods presented.

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 labor and/or commodities.

	Menu Price Increases
Q4 2019	1.9%
Q2 2019	1.5%
Q4 2018	1.7%
Q1 2018	0.8%
Q4 2017	0.3%
Q2 2017	0.5%
Q4 2016	1.0%

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. We may take additional pricing in 2020 if needed.

In 2020, we plan to open at least 30 company restaurants, including as many as seven Bubba's 33 restaurants. We have either begun construction or have sites under contract for purchase or lease for the majority of our expected 2020 openings.

Franchise Royalties and Fees

Franchise royalties and fees increased $1.7 million or 8.1% in 2019 compared to 2018 and increased $3.8 million or 23.1% in 2018 compared to 2017. The increases in both 2019 and 2018 were attributable to an increase in average unit volume at domestic restaurants, driven by comparable restaurant sales growth of 3.8%, and the opening of new restaurants. The increase in 2019 was also impacted by the addition of the 53rd week. 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. Also included in the increase in 2018 were reclassifications of $2.6 million in conjunction with the implementation of new revenue recognition accounting guidance as previously described.

We anticipate our existing franchise partners will open as many as eight Texas Roadhouse restaurants, primarily international, in 2020.

Restaurant Cost of Sales

Restaurant cost of sales, as a percentage of restaurant and other sales, decreased to 32.3% in 2019 from 32.6% in 2018 and from 32.8% in 2017. These decreases were primarily due to the benefit of menu pricing actions partially offset by commodity inflation of 1.9% and 1.4% in 2019 and 2018, respectively. The decrease in 2018 was also due to the reclassification of $5.4 million in conjunction with the implementation of new revenue recognition accounting guidance as previously described.

For 2020, we currently expect commodity cost inflation of 1.0% to 2.0% with fixed price contracts for just over 50% 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 33.1% in 2019 compared to 32.6% in 2018. This increase was primarily attributed to higher average wage rates and prior staffing initiatives intended to increase sales 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 32.6% in 2018 compared to 31.2% in 2017. The increase was primarily attributed to higher average wage rates and staffing initiatives to increase sales along with higher costs associated with health insurance and workers' compensation expense partially offset by the benefit from an increase in average unit volume.

In 2020, we anticipate our labor costs will be pressured by mid-single digit inflation due to ongoing labor market pressures and increases in state-mandated wage rates. These increases may or may not be offset by additional menu price adjustments.

Restaurant Rent Expense

Restaurant rent expense, as a percentage of restaurant and other sales, remained relatively unchanged at 1.9% in 2019 compared to 2.0% in both 2018 and 2017. The decrease in 2019 was primarily due to the benefit of the 53rd week and an increase in average unit volume partially offset by higher rent expense, as a percentage of restaurant and other sales, at our newer restaurants. Rent expense was unchanged in 2018 compared to 2017 due to higher rent expense, as a percentage of restaurant and other sales, at our newer restaurants 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 15.3% in 2019 from 15.4% in 2018. The decrease was primarily attributed to lower utilities expense and lower marketing and advertising expense along with the benefit from an increase in average unit volume. These decreases were partially offset by higher general liability insurance expense and repairs and maintenance expense.

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 Pre-opening Expenses

Pre-opening expenses increased to $20.2 million in 2019 from $19.1 million in 2018 and from $19.3 million in 2017. 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, increased to 4.2% in 2019 compared to 4.1% in 2018. The increase in D&A was primarily due to higher depreciation at new stores from company restaurants and accelerated depreciation on relocated restaurants. These increases were partially offset by an increase in average unit volume.

D&A, as a percentage of revenue, decreased to 4.1% in 2018 compared to 4.2% in 2017. The decrease in D&A was 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, Net

Impairment and closure costs, net were ($0.9) million, $0.3 million and $0.7 million in 2019, 2018 and 2017, respectively. Impairment and closure income in 2019 included a gain of $2.6 million related to the forced relocation of one restaurant. This included a gain of $1.2 million related to the leasehold improvements and a gain of $1.4 million to settle a favorable operating lease. Also, in 2019, we recorded a charge of $1.1 million related to the impairment of the right-of-use asset at an underperforming restaurant. The remaining costs of $0.6 million related to closure costs primarily related to the relocation of Texas Roadhouse restaurants. For 2018 and 2017, the amounts recorded were closure costs primarily related to the relocation of Texas Roadhouse restaurants. See note 16 in the Consolidated Financial Statements for further discussion regarding closures and impairments recorded in 2019, 2018 and 2017.

General and Administrative Expenses ("G&A")

G&A, as a percentage of total revenue, decreased to 5.4% in 2019 compared to 5.5% in 2018. The decrease was primarily due to the benefit of the 53rd week, lower claims administration costs related to a previously disclosed legal settlement and an increase in average unit volume. These decreases were partially offset by increased costs from the expansion of our regional operations support structure and increased marketing expenses due to decreased contributions from company restaurants.

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.

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 Income (Expense), Net

Interest income was $1.5 million in 2019 compared to interest expense of $0.6 million in 2018. Net interest expense decreased to $0.6 million in 2018 compared to $1.6 million in 2017. These changes were primarily driven by earnings on our cash and cash equivalents as well as paying off our outstanding credit facility of $50.0 million in April 2018.

Income Taxes

Our effective tax rate increased to 15.1% in 2019 compared to 12.9% in 2018 primarily due to lower excess tax benefits related to our share-based compensation program partially offset by lower non-deductible officers' compensation. In addition, the prior year tax rate benefitted from an adjustment related to tax reform that we recorded in conjunction with the filing of our 2017 tax return. See note 9 to the Consolidated Financial Statements for a reconciliation of the statutory federal income tax rate to our effective tax rate. For 2020, we expect the effective tax rate to be 14.0% to 15.0%.

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.

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		
	2019	2018	2017
Net cash provided by operating activities	$ 374,298	$ 352,868	$ 286,373
Net cash used in investing activities	(214,820)	(158,145)	(178,156)
Net cash used in financing activities	(261,724)	(135,516)	(70,243)
Net (decrease) increase in cash and cash equivalents	$ (102,246)	$ 59,207	$ 37,974

Net cash provided by operating activities was $374.3 million in 2019 compared to $352.9 million in 2018. The increase was primarily due to an increase in net income and depreciation and amortization expense. The increase in net income was primarily driven by increased restaurant margin dollars. This was partially offset by a decrease in working capital along with a decrease in deferred income taxes. The decrease in working capital was primarily due to a decrease in deferred revenue related to gift cards partially offset by a decrease in prepaid income taxes.

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.

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 $214.8 million in 2019 compared to $158.1 million in 2018 and $178.2 million in 2017. The increase in 2019 was primarily due to an increase in capital expenditures from the relocation of existing restaurants, the remodeling of our support center office and the continued opening of new restaurants.

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 31, 2019, 146 of the 514 company restaurants have been developed on land which we own.

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

	2019	2018	2017
New company restaurants	$ 99,957	$ 83,633	$ 104,819
Refurbishment of existing restaurants	63,548	58,125	49,344
Relocation of existing restaurants	25,131	6,100	4,807
Capital expenditures related to Support Center office	25,704	8,122	2,658
Total capital expenditures	$ 214,340	$ 155,980	$ 161,628

Our future capital requirements will primarily depend on the number of new restaurants we open, the timing of those openings and the restaurant prototypes 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 2020, we expect our capital expenditures to be $210.0 million to $220.0 million, the majority of which will relate to planned restaurant openings, including at least 30 company restaurant openings in 2020, the refurbishment of existing restaurants and the relocation of existing company restaurants. 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 2020, 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 $261.7 million in 2019 compared to $135.5 million in 2018. The increase is primarily due to share repurchases of $139.8 million in 2019 as well as higher dividend payments in 2019. As a result of the 53rd week, 2019 had five dividend payments versus four payments in 2018. These increases were partially offset by the repayment of our revolving credit facility in Q2 2018.

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.

On May 31, 2019, our Board of Directors approved a stock repurchase program under which we may repurchase up to $250.0 million of our common stock. This stock repurchase program has no expiration date and replaced a previous stock repurchase program which was approved on May 22, 2014. All repurchases to date under our stock repurchase programs have been made through open market transactions. The timing and the amount of any repurchases are 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 2019, we repurchased 2,625,245 shares for $139.8 million and had $160.4 million remaining under our authorized stock repurchase program as of December 31, 2019.

We paid cash dividends of $102.4 million in 2019 including the payment of a regular quarterly dividend authorized by our Board of Directors on December 5, 2019, of $0.30 per share of common stock to shareholders of record at the close of business on December 11, 2019. This payment was distributed on December 27, 2019. On February 20, 2020, our Board of Directors authorized the payment of a quarterly cash dividend of $0.36 per share of common stock. This payment will be distributed on March 27, 2020 to shareholders of record at the close of business on March 11, 2020. The increase in the dividend per share amount reflects the increase in our regular annual dividend rate from $1.20 per share in 2019 to $1.44 per share in 2020. 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 $6.4 million to equity holders of all of our 20 majority-owned company restaurants in 2019. In 2018, we paid distributions of $5.7 million to equity holders of 19 of our 20 majority-owned company 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 31, 2019 and December 25, 2018 was 2.64% and 3.81%, respectively. At December 31, 2019, we had $191.8 million of availability, net of $8.2 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 31, 2019.

Contractual Obligations

The following table summarizes the amount of payments due under specified contractual obligations as of December 31, 2019 (in thousands):

	Payments Due by Period				
	Total	Less than 1 year	1 - 3 Years	3 - 5 Years	More than 5 years
Obligation under finance lease	$ 2,111	$ —	$ —	$ —	$ 2,111
Interest on finance lease	4,938	278	561	569	3,530
Operating lease obligations	990,321	52,450	107,622	108,630	721,619
Capital obligations	163,546	163,546	—	—	—
Total contractual obligations(1)	$ 1,160,916	$ 216,274	$ 108,183	$ 109,199	$ 727,260

(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

We do not have any off-balance sheet arrangements.

Guarantees

As of December 31, 2019 and December 25, 2018, we were contingently liable for $13.9 million and $14.8 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 31, 2019, 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 2024
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 17, 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, right-of-use assets 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 under a predetermined amount 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.

In 2019, as a result of our impairment analysis, we recorded a charge of $1.1 million related to the impairment of the right-of-use asset at an underperforming restaurant. In addition, at December 31, 2019, we had 17 restaurants whose trailing 12-month cash flows did not meet the predetermined 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 2019, 2018 and 2017, 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 judgments and assumptions about 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 31, 2019, we had 71 reporting units, primarily at the restaurant level, with allocated goodwill of $124.7 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 2019. 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 2019 goodwill impairment test. See note 16 in the Consolidated Financial Statements for further discussion regarding closures and impairments recorded in 2019, 2018 and 2017, including the impairments of goodwill and other long-lived assets.

Effects of Inflation

We have not operated in a period of high commodity 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 31, 2019, 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.

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 31, 2019.

Changes in internal control

On December 26, 2018, the Company adopted ASC 842, *Leases.* As a result, changes to processes and procedures occurred that affect the Company’s internal control over financial reporting. These changes were monitored during the year and did not impact the effectiveness of our internal control over financial reporting.

Except for the changes noted above, there were no other significant changes to the Company’s internal control over financial reporting that occurred during the quarter ended December 31, 2019 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 31, 2019.

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 31, 2019 as stated in their report at F-3.

ITEM 9B—OTHER INFORMATION

None.

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 on or about April 3, 2020.

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 on or about April 3, 2020.

ITEM 11—EXECUTIVE COMPENSATION

Incorporated by reference from our Definitive Proxy Statement to be dated on or about April 3, 2020.

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 on or about April 3, 2020.

Equity Compensation Plan Information

As of December 31, 2019, 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	913,427	3,110,767
Plans not approved by stockholders	—	—
Total	913,427	3,110,767

(1) Total number of shares consists of 836,427 restricted stock units and 77,000 performance stock units. Shares in this column are excluded from the Shares Available for Future Grants column. No stock options were outstanding as of December 31, 2019.

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

Incorporated by reference from our Definitive Proxy Statement to be dated on or about April 3, 2020.

ITEM 14—PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated by reference from our Definitive Proxy Statement to be dated on or about April 3, 2020.

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))
4.2	Description of Securities
10.1	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))
10.2	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))
10.3	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))
10.4	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 31, 2019 the form of which is set forth in Exhibit 10.2 of this Form 10-K
10.5	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 31, 2019 the form of which is set forth in Exhibit 10.3 of this Form 10-K
10.6*	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))

Exhibit No.	Description
10.7*	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))
10.8*	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))
10.9*	Employment Agreement between the Registrant and W. Kent Taylor entered into as of December 26, 2017 (incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K ended December 25, 2018 (File No. 000-50972))
10.10*	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))
10.11*	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))
10.12*	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))
10.13*	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))
10.14*	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))
10.15*	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))
10.16*	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))
10.17*	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))
10.18*	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))
10.19*	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))
10.20*	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))
10.21*	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))
10.22	Master Lease Agreement dated October 26, 2018 between Paragon Centre Holdings, LLC and Texas Roadhouse Holdings LLC (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 25, 2018 (File No. 000-50972))
10.23	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))

Exhibit No.	Description
10.24	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))
10.25*	Consulting Agreement and General Release of Claims between Scott M. Colosi and Texas Roadhouse, Inc., Texas Roadhouse Holdings LLC and Texas Roadhouse Management Corp. entered into July 3, 2019 (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated July 3, 2019 (File No. 000-50972))
10.26*	Executive Transition and Consulting Agreement between Celia Catlett and Texas Roadhouse, Inc., Texas Roadhouse Holdings LLC and Texas Roadhouse Management Corp. entered into on August 21, 2019 (incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated August 21, 2019 (File No. 000-50972))
10.27	Assignment and Assumption Agreement between Texas Roadhouse Holdings LLC and Texas Roadhouse, Inc. dated October 26, 2018
10.28	First Amendment to Paragon Centre Master Lease Agreement between Paragon Centre Holdings, LLC and Texas Roadhouse, Inc. dated December 13, 2019
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 31, 2019, filed February 28, 2020, formatted in inline eXtensible Business Reporting Language (iXBRL): (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.
104	Cover page, formatted in iXBRL and contained in Exhibit 101.

* 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.

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 28, 2020

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 28, 2020
/s/ TONYA R. ROBINSON Tonya R. Robinson	Chief Financial Officer (Principal Financial Officer) (Principal Accounting Officer)	February 28, 2020
/s/ GREGORY N. MOORE Gregory N. Moore	Director	February 28, 2020
/s/ CURTIS A. WARFIELD Curtis A. Warfield	Director	February 28, 2020
/s/ KATHLEEN M. WIDMER Kathleen M. Widmer	Director	February 28, 2020
/s/ JAMES R. ZARLEY James R. Zarley	Director	February 28, 2020

(This page has been left blank intentionally.)

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 31, 2019 and December 25, 2018, 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 31, 2019, 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 31, 2019 and December 25, 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, 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 31, 2019, 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 28, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Changes in Accounting Principle

As discussed in Notes 2 and 8 to the consolidated financial statements, effective December 26, 2018, the Company changed its method of accounting for leases due to the adoption of Financial Accounting Standards Board Accounting Standard Codification Topic 842, *Leases*.

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.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Assessment of potential indicators of impairment of long-lived assets

As discussed in Notes 2 and 16 to the consolidated financial statements, the Company assesses long-lived assets related to restaurants held and used in the business, including property and equipment and right-of- use assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of a restaurant may not be recoverable. Trailing 12-month cash flows under predetermined amounts at the individual restaurant level are the Company’s primary indicator that the carrying amount of a restaurant may not be recoverable. The property and equipment, net of accumulated depreciation, balance as of December 31, 2019 was $1.06 billion, or 53% of total assets. The operating lease right-of-use asset, net, balance as of December 31, 2019 was $500 million, or 25% of total assets.

We identified the assessment of the Company’s determination of potential indicators of impairment of long-lived assets as a critical audit matter. There was subjectivity in identifying events or circumstances indicating the carrying amount of an asset group may not be recoverable, including the determination of the cash flow thresholds and the period of cash flows utilized to identify a potential impairment trigger.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company’s process to determine and identify potential indicators of impairment. We evaluated the cash flow thresholds and the period of cash flows utilized by the Company to identify a potential impairment trigger. We tested that those restaurants with trailing 12-month cash flows were evaluated for potential impairment triggers and we compared the trailing 12-month cash flows to historical financial data. We assessed other events and circumstances that could have been indicative of a potential impairment trigger.

/s/ KPMG LLP

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

Louisville, Kentucky
February 28, 2020

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 31, 2019, 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 31, 2019, 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 31, 2019 and December 25, 2018, 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 31, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated February 28, 2020 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 28, 2020

Texas Roadhouse, Inc. and Subsidiaries

Consolidated Balance Sheets

(in thousands, except share and per share data)

	December 31, 2019	December 25, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 107,879	$ 210,125
Receivables, net of allowance for doubtful accounts of $12 at December 31, 2019 and $34 at December 25, 2018	99,305	92,114
Inventories, net	20,267	18,827
Prepaid income taxes	2,015	7,569
Prepaid expenses	18,433	16,384
Total current assets	247,899	345,019
Property and equipment, net of accumulated depreciation of $678,988 at December 31, 2019 and $602,451 at December 25, 2018	1,056,563	956,676
Operating lease right-of-use asset, net	499,801	—
Goodwill	124,748	123,220
Intangible assets, net of accumulated amortization of $14,141 at December 31, 2019 and $13,416 at December 25, 2018	1,234	1,959
Other assets	53,320	42,402
Total assets	$ 1,983,565	$ 1,469,276
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of operating lease liabilities	$ 17,263	$ —
Accounts payable	61,653	62,060
Deferred revenue-gift cards	209,258	192,242
Accrued wages	39,699	34,159
Accrued taxes and licenses	30,433	24,631
Dividends payable	—	17,904
Other accrued liabilities	58,914	54,146
Total current liabilities	417,220	385,142
Operating lease liabilities, net of current portion	538,710	—
Restricted stock and other deposits	8,249	7,703
Deferred rent	—	48,079
Deferred tax liabilities, net	22,695	17,268
Other liabilities	65,522	50,376
Total liabilities	1,052,396	508,568
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, 69,400,252 and 71,617,510 shares issued and outstanding at December 31, 2019 and December 25, 2018, respectively)	69	72
Additional paid-in-capital	140,501	257,388
Retained earnings	775,649	688,337
Accumulated other comprehensive loss	(225)	(228)
Total Texas Roadhouse, Inc. and subsidiaries stockholders' equity	915,994	945,569
Noncontrolling interests	15,175	15,139
Total equity	931,169	960,708
Total liabilities and equity	$ 1,983,565	$ 1,469,276

See accompanying notes to Consolidated Financial Statements.

Texas Roadhouse, Inc. and Subsidiaries

Consolidated Statements of Income and Comprehensive Income

(in thousands, except per share data)

	Fiscal Year Ended		
	December 31, 2019	December 25, 2018	December 26, 2017
Revenue:			
Restaurant and other sales	$ 2,734,177	$ 2,437,115	$ 2,203,017
Franchise royalties and fees	21,986	20,334	16,514
Total revenue	2,756,163	2,457,449	2,219,531
Costs and expenses:			
Restaurant operating costs (excluding depreciation and amortization shown separately below):			
Cost of sales	883,357	795,300	721,550
Labor	905,614	793,384	687,545
Rent	52,531	48,791	44,807
Other operating	418,448	375,477	342,702
Pre-opening	20,156	19,051	19,274
Depreciation and amortization	115,544	101,216	93,499
Impairment and closure, net	(899)	278	654
General and administrative	149,389	136,163	123,294
Total costs and expenses	2,544,140	2,269,660	2,033,325
Income from operations	212,023	187,789	186,206
Interest income (expense), net	1,514	(591)	(1,577)
Equity income from investments in unconsolidated affiliates	378	1,353	1,488
Income before taxes	213,915	188,551	186,117
Provision for income taxes	32,397	24,257	48,581
Net income including noncontrolling interests	181,518	164,294	137,536
Less: Net income attributable to noncontrolling interests	7,066	6,069	6,010
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	$ 174,452	$ 158,225	$ 131,526
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustment, net of tax of ($1), $53 and ($97), respectively	3	(189)	155
Total comprehensive income	$ 174,455	$ 158,036	$ 131,681
Net income per common share attributable to Texas Roadhouse, Inc. and subsidiaries:			
Basic	$ 2.47	$ 2.21	$ 1.85
Diluted	$ 2.46	$ 2.20	$ 1.84
Weighted average shares outstanding:			
Basic	70,509	71,467	70,989
Diluted	70,916	71,964	71,527
Cash dividends declared per share	$ 1.20	$ 1.00	$ 0.84

See accompanying notes to Consolidated Financial Statements.

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 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 of tax	—	—	—	—	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 of tax	—	—	—	—	(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 share-based compensation plans including tax effects	684,804	1	(1)	—	—	—	—	—
Indirect repurchase of shares for minimum tax withholdings	(236,191)	—	(14,067)	—	—	(14,067)	—	(14,067)
Cumulative effect of adoption of ASC 606, *Revenue from Contracts with Customers*, net of tax	—	—	—	(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
Net income	—	—	—	174,452	—	174,452	7,066	181,518
Other comprehensive income, net of tax	—	—	—	—	3	3	—	3
Distributions to noncontrolling interest holders	—	—	—	—	—	—	(6,357)	(6,357)
Acquisition of noncontrolling interest and other	—	—	(70)	—	—	(70)	(673)	(743)
Dividends declared ($1.20 per share)	—	—	—	(84,462)	—	(84,462)	—	(84,462)
Shares issued under share-based compensation plans including tax effects	617,395	—	—	—	—	—	—	—
Indirect repurchase of shares for minimum tax withholdings	(209,408)	—	(12,471)	—	—	(12,471)	—	(12,471)
Repurchase of shares of common stock	(2,625,245)	(3)	(139,846)	—	—	(139,849)	—	(139,849)
Cumulative effect of adoption of ASC 842, *Leases,* net of tax	—	—	—	(2,678)	—	(2,678)	—	(2,678)
Share-based compensation	—	—	35,500	—	—	35,500	—	35,500
Balance, December 31, 2019	69,400,252	$ 69	$ 140,501	$ 775,649	$ (225)	$ 915,994	$ 15,175	$ 931,169

See accompanying notes to Consolidated Financial Statements.

Texas Roadhouse, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)

	December 31, 2019	December 25, 2018	December 26, 2017
Cash flows from operating activities:			
Net income including noncontrolling interests	$ 181,518	$ 164,294	$ 137,536
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	115,544	101,216	93,499
Deferred income taxes	6,335	12,319	(5,069)
Loss on disposition of assets	5,885	6,008	4,961
Impairment and closure costs	(1,283)	105	600
Contribution from executive officer	—	1,000	—
Equity income from investments in unconsolidated affiliates	(378)	(1,353)	(1,488)
Distributions of income received from investments in unconsolidated affiliates	1,837	656	1,424
Provision for doubtful accounts	(22)	(9)	10
Share-based compensation expense	35,500	33,983	26,934
Changes in operating working capital:			
Receivables	(5,774)	(15,597)	(20,379)
Inventories	(1,414)	(2,495)	(48)
Prepaid expenses	(2,049)	(3,023)	(1,211)
Other assets	(12,823)	(4,290)	(7,401)
Accounts payable	407	8,882	1,601
Deferred revenue—gift cards	16,991	35,519	26,678
Accrued wages	5,540	4,481	3,639
Prepaid income taxes and income taxes payable	5,554	(8,581)	3,448
Accrued taxes and licenses	5,802	2,634	2,299
Other accrued liabilities	(3,773)	7,569	5,148
Operating lease right-of-use assets and lease liabilities	5,826	—	—
Deferred rent	—	5,938	6,038
Other liabilities	15,075	3,612	8,154
Net cash provided by operating activities	374,298	352,868	286,373
Cash flows from investing activities:			
Capital expenditures—property and equipment	(214,340)	(155,980)	(161,628)
Acquisition of franchise restaurants, net of cash acquired	(1,536)	(2,165)	(16,528)
Proceeds from sale of property and equipment	1,056	—	—
Net cash used in investing activities	(214,820)	(158,145)	(178,156)
Cash flows from financing activities:			
Debt issuance costs	—	—	(476)
Proceeds from noncontrolling interest contribution	—	2,551	3,457
Distributions to noncontrolling interest holders	(6,357)	(5,746)	(5,171)
Acquisition of noncontrolling interest	(743)	(122)	—
Proceeds from restricted stock and other deposits, net	62	418	740
Indirect repurchase of shares for minimum tax withholdings	(12,471)	(14,067)	(11,639)
Principal payments on long-term debt	—	(50,000)	(558)
Proceeds from exercise of stock options	—	—	1,558
Repurchase of shares of common stock	(139,849)	—	—
Dividends paid to shareholders	(102,366)	(68,550)	(58,154)
Net cash used in financing activities	(261,724)	(135,516)	(70,243)
Net (decrease) increase in cash and cash equivalents	(102,246)	59,207	37,974
Cash and cash equivalents—beginning of period	210,125	150,918	112,944
Cash and cash equivalents—end of period	$ 107,879	$ 210,125	$ 150,918
Supplemental disclosures of cash flow information:			
Interest paid, net of amounts capitalized	$ 738	$ 896	$ 1,216
Income taxes paid	$ 20,440	$ 20,519	$ 50,201
Capital expenditures included in current liabilities	$ 15,416	$ 7,332	$ 12,156

See accompanying notes to Consolidated Financial Statements.

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 31, 2019 and December 25, 2018 and for each of the years in the three-year period ended December 31, 2019.

As of December 31, 2019, we owned and operated 514 restaurants and franchised an additional 97 restaurants in 49 states and ten foreign countries. Of the 514 company restaurants that were operating at December 31, 2019, 494 were wholly-owned and 20 were majority-owned. Of the 97 franchise restaurants, 69 were domestic and 28 were international restaurants.

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.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

As of December 31, 2019 and December 25, 2018, we owned a 5.0% to 10.0% equity interest in 24 restaurants. Additionally, as of December 31, 2019 and December 25, 2018, 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 year 2019 was 53 weeks in length. In fiscal year 2019, the 53rd week added $59.0 million to restaurant and other sales and $0.10 to $0.11 to diluted earnings per share in our consolidated statements of income and comprehensive income. Fiscal years 2018 and 2017 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 $22.4 million and $34.1 million at December 31, 2019 and December 25, 2018, 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 charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

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

(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) 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(g) for further discussion of leases.

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 $27.9 million, $29.7 million and $25.8 million for the years ended December 31, 2019, December 25, 2018 and December 26, 2017, respectively. These costs are included in other operating costs in our consolidated statements of income and comprehensive income.

(g) Leases

We lease land and/or buildings for the majority of our restaurants under non-cancelable lease agreements which have initial terms and one or more option periods. In addition, certain of these leases contain pre-determined fixed escalations of the minimum rent over the lease term.

Beginning in 2019 with the adoption of ASC 842, *Leases*, we recognize operating lease right-of-use assets and operating lease liabilities for these leases based on the present value of the lease payments over the lease term. In addition, for those leases with fixed escalations, we recognize the related rent expense on a straight-line basis over the lease term. See note 8 for further discussion of leases.

(h) 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 reporting unit level, which we define as the individual restaurant level. These tests are performed on an annual basis, or sooner if an event or other circumstance indicates that goodwill may be impaired. Prior to 2019, this annual assessment occurred at the end of each fiscal year. In 2019, we changed the annual assessment date to the beginning of our fourth quarter. As our primary indicator of impairment is a decrease in cash flows and because we have a significant number of reporting units with goodwill, an earlier evaluation date will allow us to more timely identify potential impairments. This change was not due to any goodwill impairment concerns within any of our reporting units. In addition, we determined this did not represent a material change to a method of applying an accounting principle.

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, 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 2019, 2018 and 2017, 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 and deposits. 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, right-of-use assets 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 under a predetermined amount 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. See note 16 for further discussion of amounts recorded as part of our impairment analysis.

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

(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
Property	$250,000
Employee healthcare	$350,000

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 31, 2019, we operated 514 restaurants, each as a single operating segment, and franchised an additional 97 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.

We adopted ASC 606, *Revenue from Contracts with Customers,* as of the beginning of our 2018 fiscal year. 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 conformity with generally accepted accounting principles in the United States ("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 prior to adoption 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 prior to adoption has not been restated and continues to be reported under the accounting standards in effect for those periods. The impact of adopting ASC 606 as compared to the previous revenue recognition guidance on our consolidated balance sheet and our consolidated statements of income and comprehensive income was not significant.

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 are 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 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 prior to adoption 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 beginning of our 2018 fiscal year. The comparative financial information prior to adoption has not been restated and continues to be reported under the accounting standards in effect for those periods. 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. For all years presented, no valuation allowances have been recorded.

(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 31, 2019, December 25, 2018 and December 26, 2017. Domestic company and franchise restaurants are required to remit a 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 $18.3 million, $17.1 million and $14.5 million for the years ended December 31, 2019, December 25, 2018 and December 26, 2017, respectively.

(p) Pre-opening Expenses

Pre-opening expenses, which are charged to operations as incurred, consist of expenses incurred before the opening of a new or relocated 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.

(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 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 breakage and third party fees 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 foreign currency translation adjustments which are excluded from net income under GAAP. Foreign currency translation adjustment 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 our investment.

(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) Recent Accounting Pronouncements

Leases

(Accounting Standards Codification 842, "ASC 842")

On December 26, 2018, we adopted ASC 842, *Leases*, which requires an entity to recognize a right-of-use asset and a lease liability for virtually all leases. As further described in note 8, we lease land and/or buildings for the majority of our restaurants under non-cancelable lease agreements. We adopted ASC 842 using a modified retrospective approach. As a result, the comparative financial information has not been updated and the required disclosures prior to the date of adoption have not been updated and continue to be reported under the accounting standards in effect for those periods.

ASC 842 also permitted the election of certain practical expedients upon adoption. We elected the transition package of practical expedients which allowed us to carryforward the historical lease classification. We also elected the practical expedient to not separate lease and non-lease components for all leases entered into after the date of adoption. Finally, we elected the hindsight practical expedient which required us to assess the lease term for all existing leases. This resulted in extending the terms for certain existing leases in which renewal options had already been exercised or were reasonably certain of being exercised and shortening the terms for certain existing leases in which renewal options were not reasonably certain of being exercised. As a result of the hindsight election, we recorded a $2.7 million reduction, net of tax, to retained earnings as of the first day of fiscal 2019 to reflect the change in lease terms.

The adoption of this standard had a significant impact on our consolidated balance sheet. There was no significant impact to our results of operations or cash flows. This standard did not have a significant impact on our liquidity or 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), and for interim periods within those years, with early adoption permitted for annual periods beginning after December 15, 2018. We do not believe this standard will have a significant impact on our consolidated financial statements.

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 annual and interim periods for fiscal years beginning after December 15, 2019 (our 2020 fiscal year) and will be applied on a prospective basis. Early adoption is permitted for interim and annual goodwill impairment tests performed on testing dates after January 1, 2017. We do not believe this standard will have a significant impact on our consolidated financial statements.

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 changes 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 do not believe this standard will have a significant impact on our consolidated financial statements.

(3) Revenue

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

		Fiscal Year Ended	
	December 31, 2019	December 25, 2018	December 26, 2017
Restaurant and other sales	$ 2,734,177	$ 2,437,115	$ 2,203,017
Franchise royalties	19,445	17,443	16,195
Franchise fees	2,541	2,891	319
Total revenue	$ 2,756,163	$ 2,457,449	$ 2,219,531

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 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 years ended December 31, 2019 and December 25, 2018, we recognized gift card fees, net of gift card breakage income, of $9.1 million and $5.2 million, respectively. 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 31, 2019 and December 25, 2018, our deferred revenue balance related to gift cards was $209.3 million and $192.2 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 $135.2 million for the year ended December 31, 2019 related to the amount in deferred revenue as of December 25, 2018. We recognized restaurant sales of $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 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 $1.9 million as of December 31, 2019 and $1.8 million as of December 25, 2018. We recognized revenue of $0.3 million for both years ended December 31, 2019 and December 25, 2018 related to the amounts in deferred revenue as of December 25, 2018 and December 26, 2017, respectively.

(4) Acquisitions

On October 28, 2019, we acquired one franchise restaurant in Georgia which was subsequently relocated. Pursuant to the terms of the acquisition agreement, we paid a total purchase price of $1.5 million. This transaction was accounted for using the purchase method as defined in ASC 805, *Business Combinations* ("ASC 805"). As a result of this acquisition, $1.5 million of goodwill was generated, which is not amortizable for book purposes, but is deductible for tax purposes.

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. 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.

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 31, 2019 and December 25, 2018 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

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 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%. In April 2018, we paid off our outstanding credit facility of $50.0 million. The weighted-average interest rate for the amended revolving credit facility as of December 31, 2019 and December 25, 2018 was 2.64% and 3.81%, respectively. As of December 31, 2019, we had $191.8 million of availability, net of $8.2 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 31, 2019.

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

(6) Property and Equipment, Net

Property and equipment were as follows:

	December 31, 2019	December 25, 2018
Land and improvements	$ 135,708	$ 127,579
Buildings and leasehold improvements	922,036	835,490
Furniture, fixtures and equipment	614,920	556,254
Construction in progress	51,924	28,975
Liquor licenses	10,963	10,829
	1,735,551	1,559,127
Accumulated depreciation and amortization	(678,988)	(602,451)
	$ 1,056,563	$ 956,676

There was no interest capitalized in connection with restaurant construction for the year ended December 31, 2019. For the years ended December 25, 2018 and December 26, 2017, the amount of interest capitalized in connection with restaurant construction was $0.1 million and $0.4 million, 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 26, 2017 (1)	$ 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
Additions	1,528	—
Amortization expense	—	(725)
Disposals and other, net	—	—
Impairment	—	—
Balance as of December 31, 2019	$ 124,748	$ 1,234

(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 31, 2019 were $15.4 million and $14.1 million, respectively. As of December 25, 2018, the gross carrying amount and accumulated amortization of the intangible assets was $15.4 million and $13.4 million, respectively. 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 $0.1 million to $0.4 million. Refer to note 4 for discussion of the acquisitions completed for the years ended December 31, 2019 and December 25, 2018.

(8) Leases

We recognize right-of-use assets and lease liabilities for both real estate and equipment leases that have a term in excess of one year. As of December 31, 2019, these amounts were as follows:

	Leases		
	Real estate	**Equipment**	**Total**
Operating lease right-of-use assets	$ 495,903	$ 3,898	$ 499,801
Current portion of operating lease liabilities	15,966	1,297	17,263
Operating lease liabilities, net of current portion	536,109	2,601	538,710
Total operating lease liabilities	$ 552,075	$ 3,898	$ 555,973

Information related to our real estate leases as of and for the fiscal year ended December 31, 2019 was as follows (in thousands):

Real estate costs	**Fiscal Year Ended December 31, 2019**
Operating lease	$ 54,844
Variable lease	1,590
Short-term lease	120
Total lease costs	$ 56,554

Real estate lease liability maturity analysis	**Total**
2020	$ 52,450
2021	53,393
2022	54,229
2023	54,268
2024	54,362
Thereafter	721,619
Total	$ 990,321
Less interest	438,246
Total discounted operating lease liabilities	$ 552,075

Real estate leases other information	**Fiscal Year Ended December 31, 2019**
Cash paid for amounts included in measurement of operating lease liabilities	$ 49,018
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 51,220
Weighted-average remaining lease term (years)	17.82
Weighted-average discount rate	6.77

Operating lease payments exclude $32.6 million of minimum lease payments for executed real estate leases that we have not yet taken possession. In addition to the above operating leases, as of December 31, 2019 we had one finance lease with a right-of-use asset balance and lease liability balance of $1.7 million and $2.1 million, respectively. The right-of-use asset balance is included as a component of other assets and the lease liability balance as a component of other liabilities in the consolidated balance sheets.

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

Beginning in 2019, we recognize operating lease right-of-use assets and operating lease liabilities for real estate leases, including our restaurant leases and Support Center lease, as well as certain restaurant equipment leases based on the present value of the lease payments over the lease term. We estimate the present value based on our incremental borrowing rate which corresponds to the underlying lease term. In addition, operating lease right-of-use assets are reduced for accrued rent and increased for any initial direct costs recognized at lease inception. For leases commencing in 2019 and later, we account for lease and non-lease components as a single lease component.

Certain of our operating leases contain predetermined fixed escalations of the minimum rent over the lease term. For these leases, we recognize the related rent expense on a straight-line basis over the lease term. 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 store opens, 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. In recognizing straight-line rent expense, we record the difference between amounts charged to operations and amounts paid as accrued rent. Straight-line rent expense is included as an operating lease cost in the table above.

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. In addition, certain of our operating leases have variable escalations of the minimum rent that depend on an index or rate. We recognize variable rent expense when the escalation is determinable. Contingent rent and variable rent expense are included as variable lease costs in the table above.

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
Minimum rent—occupancy	$ 47,741	$ 43,621
Contingent rent	1,050	1,186
Rent expense, occupancy	48,791	44,807
Minimum rent—equipment and other	6,176	5,087
Rent expense	$ 54,967	$ 49,894

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

(9) Income Taxes

Components of our income tax provision for the years ended December 31, 2019, December 25, 2018 and December 26, 2017 are as follows:

	Fiscal Year Ended		
	December 31, 2019	December 25, 2018	December 26, 2017
Current:			
Federal	$ 15,643	$ 2,934	$ 43,108
State	10,050	8,794	10,233
Foreign	369	210	309
Total current	26,062	11,938	53,650
Deferred:			
Federal	4,396	11,909	(4,830)
State	1,939	410	(239)
Total deferred	6,335	12,319	(5,069)
Income tax provision	$ 32,397	$ 24,257	$ 48,581

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

A reconciliation of the statutory federal income tax rate to our effective tax rate for December 31, 2019, December 25, 2018 and December 26, 2017 is as follows:

	Fiscal Year Ended		
	December 31, 2019	December 25, 2018	December 26, 2017
Tax at statutory federal rate	21.0 %	21.0 %	35.0 %
State and local tax, net of federal benefit	3.8	3.6	3.3
FICA tip tax credit	(9.4)	(9.6)	(7.0)
Work opportunity tax credit	(1.5)	(1.5)	(0.9)
Stock compensation	(0.1)	(1.4)	(1.8)
Net income attributable to noncontrolling interests	(0.6)	(0.8)	(1.1)
Officers compensation	1.2	1.7	0.1
Tax reform	—	—	(1.7)
Other	0.7	(0.1)	0.2
Total	15.1 %	12.9 %	26.1 %

Our effective tax rate increased to 15.1% in 2019 compared to 12.9% in 2018 primarily due to lower excess tax benefits related to our share-based compensation program partially offset by lower non-deductible officer compensation. In addition, the prior year tax rate benefitted from an adjustment related to tax reform that we recorded in conjunction with the filing of our 2017 tax return.

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.

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

Components of deferred tax liabilities, net are as follows:

	December 31, 2019	December 25, 2018
Deferred tax assets:		
Deferred revenue—gift cards	$ 16,122	$ 12,851
Insurance reserves	4,774	3,949
Other reserves	601	890
Share-based compensation	5,510	4,623
Operating lease liabilities	137,744	—
Deferred rent	—	12,179
Deferred compensation	10,503	8,483
Tax credit carryforwards	1,710	—
Other assets	2,482	2,212
Total deferred tax asset	179,446	45,187
Deferred tax liabilities:		
Property and equipment	(63,777)	(50,513)
Goodwill and intangibles	(6,241)	(5,398)
Operating lease right-of-use asset	(123,813)	—
Other liabilities	(8,310)	(6,544)
Total deferred tax liability	(202,141)	(62,455)
Net deferred tax liability	$ (22,695)	$ (17,268)

As of December 31, 2019, we have federal tax credit carryforwards of $1.5 million expiring in 2038 and state tax credit carryforwards of $0.2 million expiring in 2023.

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 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 settlements	—
Balance at December 25, 2018	1,482
Additions to tax positions related to prior years	16
Additions to tax positions related to current year	362
Reductions due to statute expiration	(314)
Reductions due to exam settlement	—
Balance at December 31, 2019	$ 1,546

As of December 31, 2019 and December 25, 2018, 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 31, 2019 possess a December tax year-end. As a result, as of December 31, 2019, the tax years ended December 27, 2016, December 26, 2017 and December 25, 2018 remain subject to examination by all tax jurisdictions. As of December 31, 2019, 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 31, 2019, no event occurred that is likely to result in a significant increase or decrease in the unrecognized tax benefits through December 29, 2020.

(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 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 31, 2019 and December 25, 2018.

(11) Stockholders' Equity

On May 31, 2019, our Board of Directors approved a stock repurchase program under which we may repurchase up to $250.0 million of our common stock. This stock repurchase program has no expiration date and replaced a previous stock repurchase program which was approved on May 22, 2014. All repurchases to date under our stock repurchase programs have been made through open market transactions. The timing and the amount of any repurchases are 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.

For the year ended December 31, 2019, we paid $139.8 million to repurchase 2,625,245 shares of our common stock. This includes repurchases of $89.6 million under the new repurchase program and repurchases of $50.2 million under the previous stock repurchase program. We did not repurchase any shares of common stock during the years ended December 25, 2018 and December 26, 2017. As of December 31, 2019, we had $160.4 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 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 all years presented, shares of non-vested stock that were not included because they would have had an anti-dilutive effect were not significant.

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 31, 2019	December 25, 2018	December 26, 2017
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	$ 174,452	$ 158,225	$ 131,526
Basic EPS:			
Weighted-average common shares outstanding	70,509	71,467	70,989
Basic EPS	$ 2.47	$ 2.21	$ 1.85
Diluted EPS:			
Weighted-average common shares outstanding	70,509	71,467	70,989
Dilutive effect of nonvested stock	407	497	538
Shares-diluted	70,916	71,964	71,527
Diluted EPS	$ 2.46	$ 2.20	$ 1.84

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

(13) Commitments and Contingencies

The estimated cost of completing capital project commitments at December 31, 2019 and December 25, 2018 was $163.5 million and $168.3 million, respectively.

As of December 31, 2019 and December 25, 2018, we are contingently liable for $13.9 million and $14.8 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 31, 2019 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 2024
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 17, 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 31, 2019, 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.

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.

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

(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 various forms of equity awards including options, stock appreciation rights, full value awards, and performance based awards. This plan replaced the Texas Roadhouse, Inc. 2004 Equity Incentive Plan. The Company provides restricted stock units ("RSUs") to employees as a form of share-based compensation. An RSU is the conditional right to receive one share of common stock upon satisfaction of the vesting requirement. In addition to RSUs, the Company provides performance stock units ("PSUs") to executives as a form of share-based compensation. 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. The following table summarizes the share-based compensation recorded in the accompanying consolidated statements of income and comprehensive income:

	Fiscal Year Ended		
	December 31, 2019	December 25, 2018	December 26, 2017
Labor expense	$ 9,032	$ 8,463	$ 7,171
General and administrative expense	26,468	25,520	19,763
Total share-based compensation expense	$ 35,500	$ 33,983	$ 26,934

Share-based compensation activity by type of grant as of December 31, 2019 and changes during the period then ended are presented below. For both RSUs and PSUs, we do not estimate forfeitures as we record them as they occur.

Summary Details for RSUs

	Shares	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 25, 2018	824,945	$ 53.51		
Granted	561,191	57.84		
Forfeited	(74,483)	56.75		
Vested	(475,226)	55.13		
Outstanding at December 31, 2019	836,427	$ 55.20	1.1	$ 47,110

As of December 31, 2019, with respect to unvested RSUs, there was $20.8 million of unrecognized compensation cost that is expected to be recognized over a weighted-average period of 1.1 years. The vesting terms of the RSUs range from 1.0 to 5.0 years. The total intrinsic value of RSUs vested during the years ended December 31, 2019, December 25, 2018 and December 26, 2017 was $27.8 million, $32.1 million and $23.4 million, respectively. The excess tax benefit associated with vested RSUs for the years ended December 31, 2019, December 25, 2018 and December 26, 2017 was $0.3 million, $1.9 million and $1.6 million, respectively, which was recognized in the income tax provision.

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

Summary Details for PSUs

	Shares	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 25, 2018	90,000	$ 54.18		
Granted	117,000	61.86		
Incremental Performance Shares (1)	52,169	54.18		
Forfeited	(40,000)	61.86		
Vested	(142,169)	54.18		
Outstanding at December 31, 2019	77,000	$ 61.86	0.1	$ 4,337

(1) Additional shares from the December 2017 PSU grant that vested in January 2019 due to exceeding the initial 100% target.

We grant 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 expense 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 31, 2019, December 25, 2018 and December 26, 2017 was $8.8 million, $8.9 million and $8.6 million, respectively.

On January 8, 2020, 95,946 shares vested related to the January 2019 PSU grant and are expected to be distributed during the 13 weeks ending March 31, 2020. This included 77,000 granted shares and 18,946 incremental shares due to the grant exceeding the initial 100% target. As of December 31, 2019, with respect to unvested PSUs, there was $0.1 million of unrecognized compensation cost that is expected to be recognized over a weighted-average period of 0.1 year. There was no allowable excess tax benefit associated with vested PSUs for the year ended December 31, 2019. 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.

Summary Details for Stock Options

No stock options were granted or vested during the fiscal years ended December 31, 2019, December 25, 2018 and December 26, 2017. The total intrinsic value of options exercised during the year ended December 26, 2017 was $4.0 million.

For the year ended December 26, 2017, cash received before tax withholdings from options exercised was $1.6 million. The excess tax benefit for the year ended December 26, 2017 was $1.0 million which was recognized within the income tax provision.

(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.

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

There were no transfers among levels within the fair value hierarchy during the year ended December 31, 2019.

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

	Fair Value Measurements		
	Level	December 31, 2019	December 25, 2018
Deferred compensation plan—assets	1	$ 44,623	$ 31,632
Deferred compensation plan—liabilities	1	(44,679)	(31,721)

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.

The following table presents the fair value of our assets measured on a nonrecurring basis:

	Fair Value Measurements			Total gain (loss) Fiscal Year Ended	
	Level	December 31, 2019	December 25, 2018	December 31, 2019	December 25, 2018
Long-lived assets held for use	1	$ 1,684	$ —	$ 1,190	$ —
Operating lease right-of-use assets	3	$ 611	$ —	$ (1,144)	$ —

Long-lived assets held for use include leasehold improvements for one restaurant that is subject to a forced relocation. These assets are valued using a Level 1 input, or the contractually negotiated price we will receive. These assets are included in property and equipment in our consolidated balance sheets. These assets were recorded at their fair value, resulting in a gain of $1.2 million, which is included in impairment and closure, net in our consolidated statements of income. For further discussion of impairment charges, see note 16.

Operating lease right-of-use assets include the lease related assets for one underperforming restaurant in which the carrying value of the right-of-use asset for the associated land and building lease was reduced to fair value. These assets are valued using a Level 3 input, or the discounted cashflows we expect to receive based on the future operations of this location. This resulted in a loss of $1.1 million, which is included in impairment and closure, net in our consolidated statements of income. For further discussion of impairment charges, see note 16.

At December 31, 2019 and December 25, 2018, 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.

(16) Impairment and Closure Costs

We recorded impairment and closure costs of ($0.9) million, $0.3 million and $0.7 million for the years ended December 31, 2019, December 25, 2018 and December 26, 2017.

Impairment and closure costs in 2019 included a gain of $2.6 million related to the forced relocation of one restaurant. This included a gain of $1.2 million related to the leasehold improvements and a gain of $1.4 million to settle a favorable operating lease. Also, in 2019, we recorded a charge of $1.1 million related to the impairment of the right-of-use asset at an underperforming restaurant. The remaining costs of $0.6 million related to costs associated with the relocation of restaurants.

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

Impairment and closure costs in 2018 and 2017 were related to costs associated with the relocation of restaurants.

(17) Related Party Transactions

As of December 31, 2019 and December 25, 2018, we had nine franchise restaurants and one majority-owned company restaurant owned in part by certain of our officers or the former president of the Company. As of December 26, 2017, we had ten franchise restaurants owned in part by certain of our officers, directors and 5% stockholders of the Company. These franchise entities paid us fees of $2.2 million, $2.1 million and $2.1 million for the years ended December 31, 2019, December 25, 2018 and December 26, 2017, respectively. As discussed in note 13, we are contingently liable on leases which are related to two of these restaurants.

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.

(18) Selected Quarterly Financial Data (unaudited)

	2019				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenue	$ 690,608	$ 689,828	$ 650,489	$ 725,238	$ 2,756,163
Total costs and expenses	$ 630,163	$ 636,545	$ 605,605	$ 671,827	$ 2,544,140
Income from operations	$ 60,445	$ 53,283	$ 44,884	$ 53,411	$ 212,023
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	$ 50,390	$ 44,845	$ 36,531	$ 42,686	$ 174,452
Basic earnings per common share	$ 0.70	$ 0.63	$ 0.53	$ 0.61	$ 2.47
Diluted earnings per common share	$ 0.70	$ 0.63	$ 0.52	$ 0.61	$ 2.46
Cash dividends declared per share	$ 0.30	$ 0.30	$ 0.30	$ 0.30	$ 1.20

	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

The fourth quarter of 2019 includes an estimated impact of $0.10 to $0.11 per diluted share for the 53rd week.

2019 SUSTAINABILITY UPDATE

DEAR SHAREHOLDERS,

This is our second year to highlight our sustainability efforts in the Annual Report. As we announced last year, we are committed to updating our Sustainability Report annually. We also committed to updating the Board of Directors each year, which we did at the November Board of Directors Meeting. We updated the Board on our 2019 accomplishments and our plan for 2020. The support of the Board and the Executive Team demonstrates our company's commitment to our sustainability mission, which is to make every community we serve better than we found it.

We believe that our four pillars – Food, Community, Employees, and Conservation – align with our brand, employees, and guests. The pillars are also aligned with five of the United Nations' 17 Sustainable Development Goals: good health and well-being, clean water and sanitation, affordable and clean energy, responsible consumption and production, and life on land.

Since the beginning, one of our most important sustainability assets is our Managing Partner Model, which provides our Managing Partners with 10% of their restaurant profits. This ownership mentality is a built-in incentive for our Managing Partners to reduce waste, conserve energy, and run lean restaurants. After all, the less they waste means more money in their pockets. This creates a win for all.

We are excited about the bottom-up momentum that has been created rather than top-down mandates. Our company was built on this bottom-up mentality and we feel that for sustainability to be successful, we need to follow that same model. Building "sustainability champions" will provide immense benefits down the line.

For example, last year, we created a Sustainability Committee at our Support Center. This group, which is comprised of 10 employees from various departments, was formed in April and has hit the ground running. In September, the committee and Support Center volunteers completed a neighborhood cleanup where they collected 400 gallons of trash. The committee also hosted a Responsible E-cycling Week and collected three 112-gallon bins of electronics and four 96-gallon bins of documents to shred. They have committed to hosting one event each year, and knowing this group, it will probably be more!

The renovation of our Support Center offices gave us a great opportunity to highlight sustainability throughout our buildings. A few examples include the use of recycled barn wood, wood from bourbon barrels, water bottle filling stations, and recycling areas, which has lessened the use of plastic bottles and cans throughout the buildings.

The building design includes an open-office concept, creating more natural light, which will cut down on electricity use. In addition, all offices now have lights with motion sensors that turn off automatically, which has resulted in energy savings.

We also found a great opportunity to combine sustainability with our support of veterans through a partnership with Chris Cruise. Chris is a veteran who created a company to make wooden flags from discarded bourbon barrels. The repurposed flags are made by veterans, some of who are 100% disabled. As a result of the partnership, we ordered nearly 400 of the flags rather than creating awards for our upcoming conference.

In 2019, we began our partnership with WaterStep, a non-profit focused on water solutions for clean water in developing countries. Through our partnership, we purchased WaterBalls to help women and children in developing countries gather water for their families. Instead of carrying limited quantities of water on top of their heads, the WaterBalls are a safer and more efficient solution. WaterStep has used some of the money donated to explore building a factory in Kenya to build the WaterBalls and distribute locally, which would provide jobs and cut down on shipping costs.

For 2020, we increased our commitment to the Honeybee Conservancy. We had great success last year in placing bee hives throughout the country. This year we will also be providing grants to beekeepers.

As we continued to grow our sustainability programs, we did face several challenges last year. Our kids crayon recycling program did not do well in our regional test, so we have not expanded it nationwide. We are currently reassessing the program to find future opportunities that might be more effective. We also experienced a drop in the number of stores recycling in 2019. This is the second year we have experienced a drop, which is due to rising costs and other hurdles.

We have a number of new opportunities that we are exploring in 2020. For example, we are in the very early stages of testing a uniform shirt that is made from recycled materials. We are also excited to begin sharing sustainability messaging on our social media channels more consistently throughout the year. And finally, we are going to explore composting in our Support Center café in an effort to reduce waste.

We are excited about the opportunities and momentum in 2020 as we believe it could be a pivotal year. To review our full 2019 Sustainability Report, visit our website at texasroadhouse.com/sustainability.

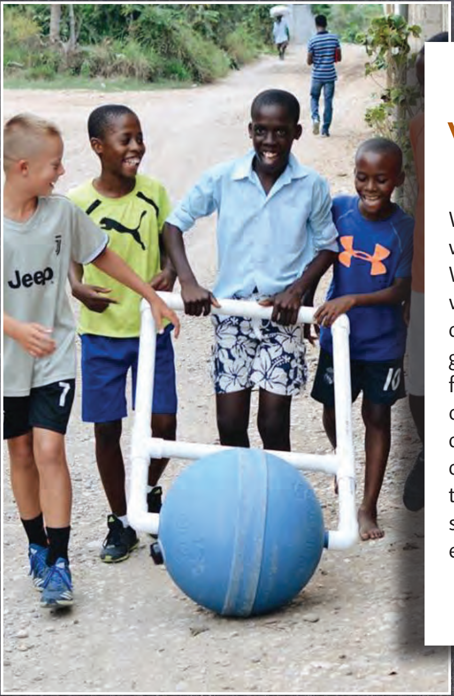
Travis Doster
Vice President of Communications

SUSTAINABILITY

SUSTAINABILITY

WE MAKE IT **OUR MISSION** TO LEAVE EVERY COMMUNITY **BETTER THAN WE FOUND IT.**

TEXAS ROADHOUSE



WaterStep
Training & Technology to Heal a Thirsty World

We are proud to partner with WaterStep to fund WaterBalls to help women and children in developing countries gather water for their families. Instead of carrying limited quantities of water on top of their heads, the WaterBalls are a safer and more efficient solution.

SUSTAINABILITY COMMITTEE

The Texas Roadhouse Support Center Sustainability Committee was established in April. The Committee had their first neighborhood clean-up and collected 400 gallons of trash.

SOLAR PANELS

We installed solar panels in two of our Arizona stores. These two systems combined will generate about 500 kWh to our stores.

PRESERVING RESOURCES THROUGH *Recycling*

TREES SAVED	GHG EMISSIONS SAVED	WATER SAVED	ELECTRICITY SAVED
81,703	35,644 MTCO2E	47.66M GAL	19.63M KW

BOARD OF DIRECTORS

CURTIS A. WARFIELD
CEO and President
Windham Advisors LLC

GREGORY N. MOORE
Former Senior Vice President and Controller
Yum! Brands, Inc.

JAMES R. ZARLEY
Former Chairman and CEO
Conversant, Inc.

KATHLEEN M. WIDMER
Group Chairman, Consumer North America
Johnson & Johnson

W. KENT TAYLOR
Founder, Chairman, CEO, and President
Texas Roadhouse, Inc.

SHAREHOLDER INFORMATION

SUPPORT CENTER
(Corporate Office)
6040 Dutchmans Lane, Louisville, KY 40205
(800) TEX-ROAD or (800) 839-7623

ANNUAL MEETING
Thursday, May 14, 2020
9:00 AM EDT
Texas Roadhouse Support Center
6040 Dutchmans Lane
Louisville, KY 40205

TRANSFER AGENT
Computershare
P.O. Box 505000, Louisville, KY 40233
Phone (877) 581-5548

FINANCIAL INQUIRIES
For additional financial documents and information, please visit our website at texasroadhouse.com. Please contact us by phone at (502) 515-7300 or by sending us an email to investment@texasroadhouse.com

INDEPENDENT AUDITORS
KPMG LLP
400 W. Market Street, Suite 2600, Louisville, KY 40202
Phone (502) 587-0535

MEDIA INQUIRIES
For all media requests, please contact
Travis Doster at (502) 638-5457

STOCK LISTING
Texas Roadhouse, Inc. Common Stock is listed on the NASDAQ Stock Exchange under the symbol TXRH

RESTAURANT LOCATIONS

AS OF DECEMBER 31, 2019

DOMESTIC
553

INTERNATIONAL
28

BUBBA'S 33
28

2019 AWARD WINNERS

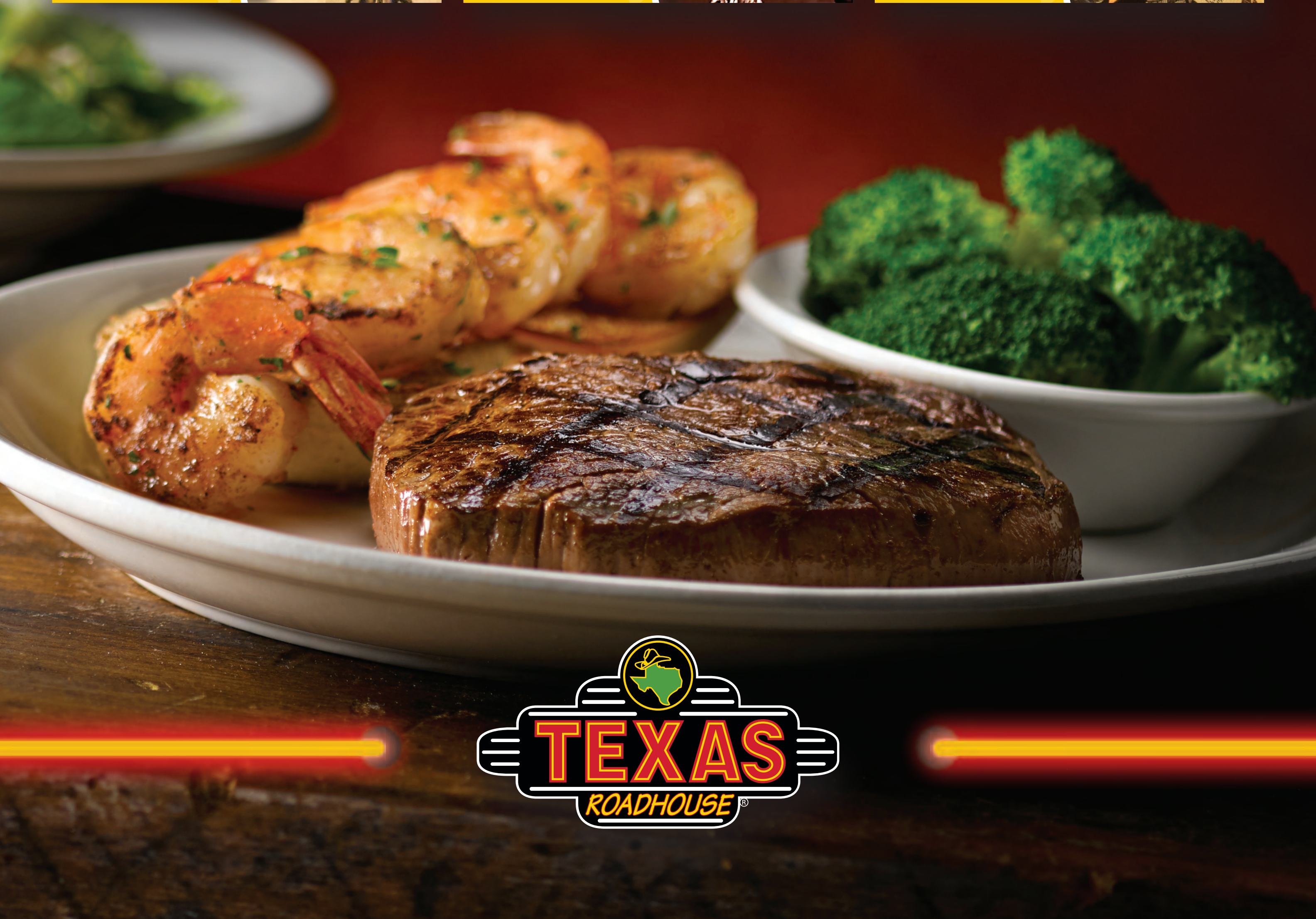
MANAGING PARTNER OF THE YEAR
DWIGHT SZABO

MEAT CUTTER OF THE YEAR
DANIEL RIVERA

KITCHEN MANAGER OF THE YEAR
JOSHUA LUND

ROADIE OF THE YEAR
BONNIE HUBRICH

SERVICE MANAGER OF THE YEAR
ASHLEY BALLI



TEXAS ROADHOUSE®