
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 25, 2018

OR

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

For the transition period from to

Commission File Number **000-50972**

Texas Roadhouse, Inc.

(Exact name of registrant specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

20-1083890

(IRS Employer
Identification Number)

6040 Dutchmans Lane

Louisville, Kentucky 40205

(Address of principal executive offices) (Zip Code)

(502) 426-9984

(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.001 per share	Nasdaq Global Select Market

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

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

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

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

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

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

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

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

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

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

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

PART I

ITEM 1—BUSINESS

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

General Development of Business

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

Financial Information about Operating Segments

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

Narrative Description of Business

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

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

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

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

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

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

Unit Prototype and Economics

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

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

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

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

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

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

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

Site Selection

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

Existing Restaurant Locations

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

	Number of Restaurants		
	Company	Franchise	Total
Alabama	8	—	8
Alaska	2	—	2
Arizona	18	—	18
Arkansas	5	—	5
California	4	7	11
Colorado	16	1	17
Connecticut	5	—	5
Delaware	2	2	4
Florida	34	—	34
Georgia	9	6	15
Idaho	5	—	5
Illinois	15	—	15
Indiana	20	8	28
Iowa	9	—	9
Kansas	6	1	7
Kentucky	12	2	14
Louisiana	9	1	10
Maine	3	—	3
Maryland	8	6	14
Massachusetts	10	1	11
Michigan	14	3	17
Minnesota	4	—	4
Mississippi	3	—	3
Missouri	16	—	16
Montana	—	1	1
Nebraska	3	1	4
Nevada	2	—	2
New Hampshire	3	—	3
New Jersey	9	—	9
New Mexico	5	—	5
New York	19	—	19
North Carolina	19	—	19
North Dakota	2	1	3
Ohio	31	2	33
Oklahoma	7	—	7
Oregon	2	—	2
Pennsylvania	24	6	30
Rhode Island	3	—	3
South Carolina	2	6	8
South Dakota	2	—	2
Tennessee	14	2	16
Texas	67	5	72
Utah	9	1	10
Vermont	1	—	1
Virginia	15	—	15
Washington	1	—	1
West Virginia	2	3	5
Wisconsin	10	3	13
Wyoming	2	—	2
Total domestic restaurants	491	69	560
Bahrain	—	1	1
China	—	1	1
Kuwait	—	3	3
Mexico	—	1	1
Philippines	—	2	2
Qatar	—	2	2
Saudi Arabia	—	3	3
Taiwan	—	3	3
United Arab Emirates	—	6	6
Total international restaurants	—	22	22
Total system-wide restaurants	491	91	582

Food

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

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

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

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

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

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

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

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

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

Service

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

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

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

People

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

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

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

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

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

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

Marketing

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

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

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

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

Restaurant Franchise Arrangements

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

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

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

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

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

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

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

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

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

Information Technology

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

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

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

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

Competition

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

Trademarks

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

Government Regulation

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

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

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

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

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

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

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

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

Seasonality

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

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

Employees

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

Executive Officers of the Company

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

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

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

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

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

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

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

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

Website Access to Reports

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

ITEM 1A. RISK FACTORS

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

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

Risks Related to our Growth and Operating Strategy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

suitable acquisition or development candidates, negotiate acceptable acquisition or development terms and obtain appropriate financing.

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to the Restaurant Industry

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

adverse effect on our results of operations, financial condition or ability to accomplish our financial and management reporting.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our operating results could also be affected by the following:

- The relative level of our defense costs and nature and procedural status of pending proceedings;
- The cost and other effects of settlements, judgments or consent decrees, which may require us to make disclosures or to take other actions that may affect perceptions of our brand and products;
- Adverse results of pending or future litigation, including litigation challenging the composition and preparation of our products, or the appropriateness or accuracy of our marketing or other communication practices; and
- The scope and terms of insurance or indemnification protections that we may have.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our franchisees could take actions that could harm our business.

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

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

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

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

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

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

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

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

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

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

ITEM 1B—UNRESOLVED STAFF COMMENTS

None.

ITEM 2—PROPERTIES
Properties

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

State	Owned	Leased	Total
Alabama	3	5	8
Alaska	—	2	2
Arizona	6	12	18
Arkansas	—	5	5
California	1	3	4
Colorado	7	9	16
Connecticut	—	5	5
Delaware	1	1	2
Florida	7	27	34
Georgia	3	6	9
Idaho	1	4	5
Illinois	3	12	15
Indiana	12	8	20
Iowa	2	7	9
Kansas	2	4	6
Kentucky	4	8	12
Louisiana	2	7	9
Maine	—	3	3
Maryland	—	8	8
Massachusetts	1	9	10
Michigan	3	11	14
Minnesota	1	3	4
Mississippi	1	2	3
Missouri	2	14	16
Nebraska	1	2	3
Nevada	—	2	2
New Hampshire	2	1	3
New Jersey	—	9	9
New Mexico	1	4	5
New York	3	16	19
North Carolina	5	14	19
North Dakota	—	2	2
Ohio	12	19	31
Oklahoma	2	5	7
Oregon	—	2	2
Pennsylvania	3	21	24
Rhode Island	—	3	3
South Carolina	—	2	2
South Dakota	1	1	2
Tennessee	—	14	14
Texas	37	30	67
Utah	1	8	9
Vermont	—	1	1
Virginia	6	9	15
Washington	—	1	1
West Virginia	1	1	2
Wisconsin	4	6	10
Wyoming	2	—	2
Total	143	348	491

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

ITEM 3—LEGAL PROCEEDINGS

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

ITEM 4—MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

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

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

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

Unregistered Sales of Equity Securities

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

Issuer Repurchases of Securities

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

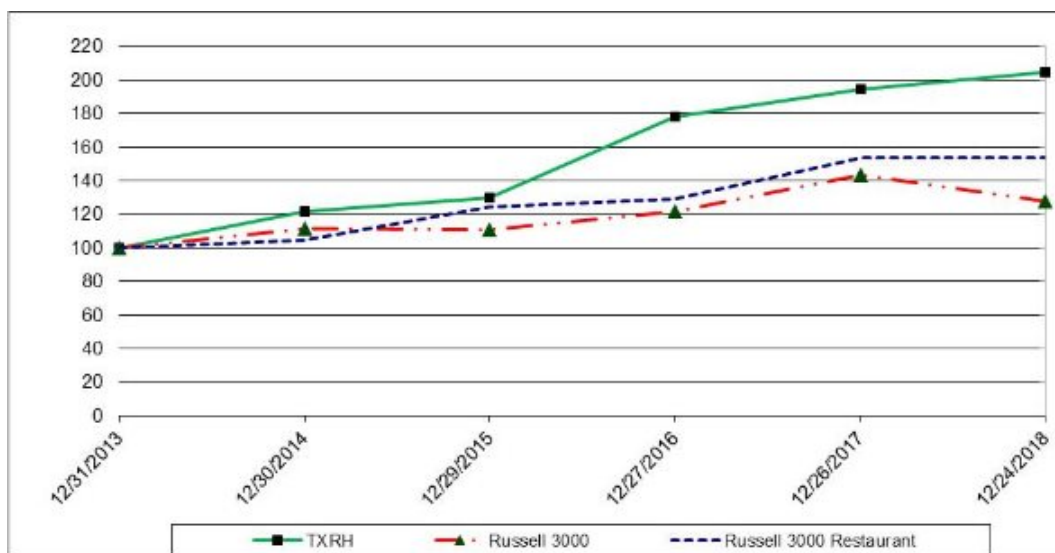
Since commencing our repurchase program in 2008, we have repurchased a total of 14,844,851 shares of common stock at a total cost of \$216.6 million through December 25, 2018 under authorizations from our Board of Directors.

Stock Performance Graph

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

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

Comparison of Cumulative Total Return Since December 31, 2013
Among Texas Roadhouse, Inc., the Russell 3000 Index and the Russell 3000 Restaurant Index



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

ITEM 6—SELECTED CONSOLIDATED FINANCIAL DATA

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

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

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

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

- (1) See note 12 to the Consolidated Financial Statements.
- (2) See note 11 to the Consolidated Financial Statements.
- (3) Comparable restaurant sales growth reflects the change in sales over the same period of the prior year for the comparable restaurant base. We define the comparable restaurant base to include those restaurants open for a full 18 months before the beginning of the later fiscal period, excluding sales from restaurants closed during the period.
- (4) Average unit volume represents the average annual restaurant sales from Texas Roadhouse company restaurants open for a full six months before the beginning of the period measured, excluding sales from restaurants closed during the period. Additionally, average unit volume of company restaurants for 2018, 2017, 2016, and 2014 in the table above was adjusted to reflect the restaurant sales of any acquired franchise restaurants.

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

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

Our Company

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

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

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

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

Presentation of Financial and Operating Data

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

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

Long-term Strategies to Grow Earnings Per Share

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

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

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

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

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

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

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

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

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

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

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

Key Operating Personnel

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

Managing partners and market partners are required, as a condition of employment, to sign a multi-year employment agreement. The annual compensation of our managing partners and market partners includes a base salary plus a percentage of the pre-tax income of the restaurant(s) they operate or supervise. Managing partners and market partners are eligible to participate in our equity incentive plan and are generally required to make deposits of \$25,000 and \$50,000, respectively. Generally, the deposits are refunded after five years of service.

Key Measures We Use To Evaluate Our Company

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

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

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

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

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

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

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

Other Key Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

2018 Financial Highlights

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

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

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

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

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

NM – Not meaningful

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

Restaurant Unit Activity

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

	December 25, 2018	December 26, 2017	December 27, 2016
Company - Texas Roadhouse	464	440	413
Company - Bubba's 33	25	20	16
Company - Other	2	2	2
Franchise - Texas Roadhouse - U.S.	69	70	73
Franchise - Texas Roadhouse - International	22	17	13
Total	582	549	517

Restaurant and Other Sales

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

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

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

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

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

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

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

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

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

Franchise Royalties and Fees

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

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

Restaurant Cost of Sales

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

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

Restaurant Labor Expenses

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

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

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

Restaurant Rent Expense

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

Restaurant Other Operating Expenses

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

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

Restaurant Pre-opening Expenses

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

Depreciation and Amortization Expenses ("D&A")

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

Impairment and Closure Costs

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

General and Administrative Expenses ("G&A")

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

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

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

Interest Expense, Net

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

Income Taxes

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

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

Liquidity and Capital Resources

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Contractual Obligations

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

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

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

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

Off-Balance Sheet Arrangements

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

Guarantees

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

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

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

Critical Accounting Policies and Estimates

The above discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and disclosures of contingent assets and liabilities. Our significant accounting policies are described in note 2 to the accompanying consolidated financial statements. Critical accounting policies are those that we

believe are most important to portraying our financial condition and results of operations and also require the greatest amount of subjective or complex judgments by management. Judgments or uncertainties regarding the application of these policies may result in materially different amounts being reported under different conditions or using different assumptions. We consider the following policies to be the most critical in understanding the judgments that are involved in preparing the consolidated financial statements.

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

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

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

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

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

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

used in performing the impairment test prove inaccurate, the fair value of the restaurants may ultimately prove to be significantly lower, thereby causing the carrying value to exceed the fair value and indicating impairment has occurred.

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

Effects of Inflation

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

ITEM 7A—QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

ITEM 8—FINANCIAL STATEMENTS AND SUPPLEMENTARY FINANCIAL DATA

See Index to Consolidated Financial Statements at Item 15.

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

None.

ITEM 9A—CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

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

Changes in internal control

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

Management's Report on Internal Control over Financial Reporting

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

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

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

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

ITEM 9B—OTHER INFORMATION

None.

PART III

ITEM 10—DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

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

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

ITEM 11—EXECUTIVE COMPENSATION

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

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

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

Equity Compensation Plans

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

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

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

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

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

ITEM 14—PRINCIPAL ACCOUNTING FEES AND SERVICES

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

PART IV

ITEM 15—EXHIBITS, FINANCIAL STATEMENT SCHEDULES

1. Consolidated Financial Statements

Description	Page Number in Report
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2. Financial Statement Schedules

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

3. Exhibits

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Quarterly Report on Form 10-Q for the period ended June 28, 2016) (File No. 000- 50972)
3.2	Bylaws of Registrant (incorporated by reference to Exhibit 3.3 to the Registration Statement on Form S-1 of Registrant (File No. 333-115259))
4.1	Registration Rights Agreement, dated as of May 7, 2004, among Registrant and others (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-1 of Registrant (File No. 333-115259))
10.1*	Texas Roadhouse, Inc. 2004 Equity Incentive Plan (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-8 of Registrant (File No. 333-121241))
10.2	Form of Director and Executive Officer Indemnification Agreement (incorporated by reference to Exhibit 10.9 to the Registration Statement on Form S-1 of Registrant (File No. 333-115259))
10.3	Form of Limited Partnership Agreement and Operating Agreement for certain company-managed Texas Roadhouse restaurants, including schedule of the owners of such restaurants and the aggregate interests held by directors, executive officers and 5% stockholders who are parties to such an agreement (incorporated by reference to Exhibit 10.10 to the Registration Statement on Form S-1 of Registrant (File No. 333-115259))
10.6	Form of Franchise Agreement and Preliminary Agreement for a Texas Roadhouse restaurant franchise, including schedule of directors, executive officers and 5% stockholders which have entered into either agreement (incorporated by reference to Exhibit 10.14 to the Registration Statement on Form S-1 of Registrant (File No. 333-115259))
10.7	Schedule of the owners of company-managed Texas Roadhouse restaurants and the aggregate interests held by directors, executive officers and 5% stockholders who are parties to Limited Partnership Agreements and Operating Agreements as of December 25, 2018 the form of which is set forth in Exhibit 10.3 of this Form 10-K
10.8	Schedule of the directors, executive officers and 5% stockholders which have entered into Franchise Agreements or Preliminary Agreements for a Texas Roadhouse Franchise as of December 25, 2018 the form of which is set forth in Exhibit 10.6 of this Form 10-K
10.11	Amended and Restated Lease Agreement (Two Paragon Centre) dated January 1, 2006 between Paragon Centre Holdings, LLC and Texas Roadhouse Holdings LLC (incorporated by reference to Exhibit 10.17 of Registrant's Quarterly Report on Form 10-Q for the quarter ended June 27, 2006) (File No. 000-50972)

Exhibit No.	Description
10.12	First Amendment to Amended and Restated Lease Agreement (Two Paragon Centre) dated December 18, 2006 between Paragon Centre Holdings LLC and Texas Roadhouse Holdings LLC (incorporated by reference to Exhibit 10.21 of Registrant's Annual Report on Form 10-K for the year ended December 26, 2006) (File No. 000-50972)
10.13	Second Amendment to Amended and Restated Lease Agreement (Two Paragon Centre) dated May 10, 2007 between Paragon Centre Holdings, LLC and Texas Roadhouse Holdings, LLC (incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 26, 2007) (File No. 000-50972)
10.14	Third Amendment to Amended and Restated Lease Agreement (Two Paragon Centre) dated September 7, 2007 between Paragon Centre Holdings, LLC and Texas Roadhouse Holdings, LLC (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 25, 2007) (File No. 000-50972)
10.15	Fourth Amendment dated July 22, 2009, and Fifth Amendment dated November 15, 2013, to Amended and Restated Lease Agreement (Two Paragon Centre) between Paragon Centre Holdings, LLC and Texas Roadhouse Holdings, LLC (incorporated by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the year ended December 30, 2014 (File No. 000-50972))
10.16*	Form of Restricted Stock Unit Award Agreement under the 2004 Equity Incentive Plan (incorporated by reference to Exhibit 10.19 of Registrant's Annual Report on Form 10-K for the year ended December 25, 2007 (File No. 000-50972))
10.17*	Form of First Amendment to Restricted Stock Unit Award Agreement under the 2004 Equity Incentive Plan with non-management directors (incorporated by reference to Exhibit 10.20 of Registrant's Annual Report on Form 10-K for the year ended December 30, 2008 (File No. 000-50972))
10.18*	Amendment to Texas Roadhouse, Inc. 2004 Equity Incentive Plan (incorporated by reference to Exhibit 10.21 of Registrant's Annual Report on Form 10-K for the year ended December 30, 2008 (File No. 000-50972))
10.19*	Texas Roadhouse, Inc. 2013 Long-Term Incentive Plan (incorporated by reference from Appendix A to the Texas Roadhouse, Inc. Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 5, 2013 (File No. 000-50972))
10.20*	Form of Restricted Stock Unit Award under the Texas Roadhouse, Inc. 2013 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 of Registrant's Quarterly Report on Form 10-Q for the quarter ended June 25, 2013 (File No. 000-50972))
10.21*	Texas Roadhouse, Inc. Cash Bonus Plan for cash incentive awards granted pursuant to the Texas Roadhouse, Inc. 2013 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.3 of Registrant's Quarterly Report on Form 10-Q for the quarter ended June 25, 2013 (File No. 000-50972))
10.22*	Employment Agreement between the Registrant and W. Kent Taylor, entered into as of January 8, 2015 (incorporated by reference to Exhibit 10.35 to the Registrant's Annual Report on Form 10-K for the year ended December 30, 2014 (File No. 000-50972))
10.23*	Employment Agreement between the Registrant and Scott M. Colosi, entered into as of January 8, 2015 (incorporated by reference to Exhibit 10.36 to the Registrant's Annual Report on Form 10-K for the year ended December 30, 2014 (File No. 000-50972))
10.24*	Employment Agreement between the Registrant and Celia Catlett, entered into as of January 8, 2015 (incorporated by reference to Exhibit 10.38 to the Registrant's Annual Report on Form 10-K for the year ended December 30, 2014 (File No. 000-50972))
10.25*	Employment Agreement between the Registrant and W. Kent Taylor entered into as of December 26, 2017
10.26*	Employment Agreement between the Registrant and Scott M. Colosi entered into as of December 26, 2017 (incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K ended December 26, 2017 (File No. 000-50972))
10.27*	Employment Agreement between the Registrant and Celia Catlett entered into as of December 26, 2017 (incorporated by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K ended December 26, 2017 (File No. 000-50972))

Exhibit No.	Description
10.28*	Employment Agreement between the Registrant and S. Chris Jacobsen entered into as of December 26, 2017 (incorporated by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K ended December 26, 2017 (File No. 000-50972))
10.29*	Form of Performance Stock Unit Award Agreement under the Texas Roadhouse, Inc. 2013 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.36 to the Registrant's Annual Report on Form 10-K for the year ended December 29, 2015 (File No. 000-50972))
10.30*	First Amendment to Employment Agreement between Texas Roadhouse Management Corp. and Scott M. Colosi entered into as of May 17, 2018 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated May 18, 2018 (File No. 000-50972))
10.31*	Employment Agreement between Texas Roadhouse Management Corp. and Tonya Robinson entered into as of May 18, 2018 (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 26, 2018 (File No. 000-50972))
10.32*	Employment Agreement between Texas Roadhouse Management Corp. and Doug Thompson entered into as of August 23, 2018 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 25, 2018 (File No. 000-50972))
10.33*	Amended and Restated Form of Restricted Stock Unit Award Agreement under the Texas Roadhouse, Inc. 2013 Long-Term Incentive Plan for officers (incorporated by reference to Exhibit 10.40 to the Registrant's Annual Report on Form 10-K for the year ended December 30, 2014 (File No. 000-50972))
10.34*	Amended and Restated Form of Restricted Stock Unit Award Agreement under the Texas Roadhouse, Inc. 2013 Long-Term Incentive Plan for non-officers (incorporated by reference to Exhibit 10.41 to the Registrant's Annual Report on Form 10-K for the year ended December 30, 2014 (File No. 000-50972))
10.35*	Second Amended and Restated Deferred Compensation Plan of Texas Roadhouse Management Corp., as amended December 19, 2007 and December 31, 2008 (incorporated by reference to Exhibit 10.42 to the Registrant's Annual Report on Form 10-K for the year ended December 30, 2014 (File No. 000-50972))
10.36*	Third Amended and Restated Deferred Compensation Plan of Texas Roadhouse Management Corp., effective January 1, 2010 (incorporated by reference to Exhibit 10.43 to the Registrant's Annual Report on Form 10-K for the year ended December 30, 2014 (File No. 000-50972))
10.37	Lease Agreement dated December 11, 2012 between Paragon Centre Holdings, LLC and Texas Roadhouse Holdings LLC (incorporated by reference to Exhibit 10.42 to the Registrant's Annual Report on Form 10-K for the year ended December 29, 2015 (File No. 000-50972))
10.38	First Amendment to Lease Agreement dated January 10, 2013 between Paragon Centre Holdings, LLC and Texas Roadhouse Holdings LLC (incorporated by reference to Exhibit 10.43 to the Registrant's Annual Report on Form 10-K for the year ended December 29, 2015 (File No. 000-50972))
10.39	Second Amendment to Lease Agreement dated February 11, 2015 between Paragon Centre Holdings, LLC and Texas Roadhouse Holdings LLC (incorporated by reference to Exhibit 10.44 to the Registrant's Annual Report on Form 10-K for the year ended December 29, 2015 (File No. 000-50972))
10.38	Third Amendment to Lease Agreement dated January 26, 2016 between Paragon Centre Holdings, LLC and Texas Roadhouse Holdings LLC (incorporated by reference to Exhibit 10.45 to the Registrant's Annual Report on Form 10-K for the year ended December 29, 2015 (File No. 000-50972))
10.39*	Employment agreement between the Registrant and S. Chris Jacobsen, entered into as of February 11, 2016 (incorporated by reference to Exhibit 10.46 to the Registrant's Annual Report on Form 10-K for the year ended December 29, 2015 (File No. 000-50972))
10.40*	Form of Nonqualified Stock Option Agreement under Texas Roadhouse, Inc. 2013 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.47 to the Registrant's Annual Report on Form 10-K for the year ended December 29, 2015 (File No. 000-50972))
10.41	Fourth Amendment to Lease Agreement dated January 13, 2017 between Paragon Centre Holdings, LLC and Texas Roadhouse Holdings LLC (incorporated by reference to Exhibit 10.36 to the Registrant's Annual Report on Form 10-K for the year ended December 27, 2016 (File No. 000-50972))
10.42	Fifth Amendment to Lease Agreement dated November 2, 2017 between Paragon Centre Holdings, LLC and Texas Roadhouse Holdings LLC (incorporated by reference to Exhibit 10.41 to the Registrant's Annual Report on Form 10-K ended December 26, 2017 (File No. 000-50972))

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

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

ITEM 16. FORM 10-K SUMMARY

Not applicable.

SIGNATURES

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

TEXAS ROADHOUSE, INC.

By: /s/ W. Kent Taylor

W. Kent Taylor

Chairman of the Company, Chief Executive

Officer, Director

Date: February 22, 2019

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

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

Report of Independent Registered Public Accounting Firm

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

Opinion on the Consolidated Financial Statements

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

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

Change in Accounting Principle

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

Basis for Opinion

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

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

/s/ KPMG LLP

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

Louisville, Kentucky
February 22, 2019

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control Over Financial Reporting

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

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

Basis for Opinion

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ KPMG LLP
Louisville, Kentucky
February 22, 2019

Texas Roadhouse, Inc. and Subsidiaries

Consolidated Balance Sheet s

(in thousands, except share and per share data)

	December 25, 2018	December 26, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 210,125	\$ 150,918
Receivables, net of allowance for doubtful accounts of \$34 at December 25, 2018 and \$43 at December 26, 2017	92,114	76,496
Inventories, net	18,827	16,306
Prepaid income taxes	7,569	—
Prepaid expenses	16,384	13,361
Total current assets	345,019	257,081
Property and equipment, net of accumulated depreciation of \$602,451 at December 25, 2018 and \$527,710 at December 26, 2017	956,676	912,147
Goodwill	123,220	121,040
Intangible assets, net of accumulated amortization of \$13,416 at December 25, 2018 and \$12,675 at December 26, 2017	1,959	2,700
Other assets	42,402	37,655
Total assets	\$ 1,469,276	\$ 1,330,623
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 62,060	\$ 57,579
Deferred revenue-gift cards	192,242	156,627
Accrued wages	34,159	29,678
Income taxes payable	—	2,494
Accrued taxes and licenses	24,631	21,997
Dividends payable	17,904	14,945
Other accrued liabilities	54,146	46,678
Total current liabilities	385,142	329,998
Long-term debt and obligation under capital lease, excluding current maturities	2,081	51,981
Restricted stock and other deposits	7,703	7,699
Deferred rent	48,079	42,141
Deferred tax liabilities, net	17,268	5,301
Other liabilities	48,295	42,112
Total liabilities	508,568	479,232
Texas Roadhouse, Inc. and subsidiaries stockholders' equity:		
Preferred stock (\$0.001 par value, 1,000,000 shares authorized; no shares issued or outstanding)	—	—
Common stock (\$0.001 par value, 100,000,000 shares authorized, 71,617,510 and 71,168,897 shares issued and outstanding at December 25, 2018 and December 26, 2017, respectively)	72	71
Additional paid-in-capital	257,388	236,548
Retained earnings	688,337	602,499
Accumulated other comprehensive loss	(228)	(39)
Total Texas Roadhouse, Inc. and subsidiaries stockholders' equity	945,569	839,079
Noncontrolling interests	15,139	12,312
Total equity	960,708	851,391
Total liabilities and equity	\$ 1,469,276	\$ 1,330,623

See accompanying notes to Consolidated Financial Statements.

Texas Roadhouse, Inc. and Subsidiaries

Consolidated Statements of Income and Comprehensive Income

(in thousands, except per share data)

	Fiscal Year Ended		
	December 25, 2018	December 26, 2017	December 27, 2016
Revenue:			
Restaurant and other sales	\$ 2,437,115	\$ 2,203,017	\$ 1,974,261
Franchise royalties and fees	20,334	16,514	16,453
Total revenue	2,457,449	2,219,531	1,990,714
Costs and expenses:			
Restaurant operating costs (excluding depreciation and amortization shown separately below):			
Cost of sales	795,300	721,550	669,203
Labor	793,384	687,545	590,256
Rent	48,791	44,807	40,580
Other operating	375,477	342,702	305,290
Pre-opening	19,051	19,274	19,547
Depreciation and amortization	101,216	93,499	82,964
Impairment and closure	278	654	179
General and administrative	136,163	123,294	110,795
Total costs and expenses	2,269,660	2,033,325	1,818,814
Income from operations	187,789	186,206	171,900
Interest expense, net	591	1,577	1,255
Equity income from investments in unconsolidated affiliates	(1,353)	(1,488)	(1,111)
Income before taxes	188,551	186,117	171,756
Provision for income taxes	24,257	48,581	51,183
Net income including noncontrolling interests	164,294	137,536	120,573
Less: Net income attributable to noncontrolling interests	6,069	6,010	4,975
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	\$ 158,225	\$ 131,526	\$ 115,598
Other comprehensive (loss) income, net of tax:			
Unrealized gain on derivatives, net of tax of (\$-), (\$-) and (\$18)	—	—	27
Foreign currency translation adjustment, net of tax of \$53, (\$97) and \$70, respectively	(189)	155	(112)
Total other comprehensive (loss) income, net of tax	(189)	155	(85)
Total comprehensive income	\$ 158,036	\$ 131,681	\$ 115,513
Net income per common share attributable to Texas Roadhouse, Inc. and subsidiaries:			
Basic	\$ 2.21	\$ 1.85	\$ 1.64
Diluted	\$ 2.20	\$ 1.84	\$ 1.63
Weighted average shares outstanding:			
Basic	71,467	70,989	70,396
Diluted	71,964	71,527	71,052
Cash dividends declared per share	\$ 1.00	\$ 0.84	\$ 0.76

See accompanying notes to Consolidated Financial Statements.

Texas Roadhouse, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

(tabular amounts in thousands, except share data)

	Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Texas Roadhouse, Inc. and Subsidiaries	Noncontrolling Interests	Total
Balance, December 29, 2015	70,091,203	\$ 70	\$ 201,023	\$ 468,678	\$ (109)	\$ 669,662	\$ 7,520	\$ 677,182
Net income	—	—	—	115,598	—	115,598	4,975	120,573
Other comprehensive loss, net	—	—	—	—	(85)	(85)	—	(85)
Distributions to noncontrolling interest holders	—	—	—	—	—	—	(4,479)	(4,479)
Dividends declared (\$0.76 per share)	—	—	—	(53,553)	—	(53,553)	—	(53,553)
Shares issued under share-based compensation plans including tax effects	879,042	1	5,958	—	—	5,959	—	5,959
Repurchase of shares of common stock	(114,700)	—	(4,110)	—	—	(4,110)	—	(4,110)
Indirect repurchase of shares for minimum tax withholdings	(235,808)	—	(9,312)	—	—	(9,312)	—	(9,312)
Share-based compensation	—	—	26,067	—	—	26,067	—	26,067
Balance, December 27, 2016	70,619,737	\$ 71	\$ 219,626	\$ 530,723	\$ (194)	\$ 750,226	\$ 8,016	\$ 758,242
Net income	—	—	—	131,526	—	131,526	6,010	137,536
Other comprehensive income, net	—	—	—	—	155	155	—	155
Noncontrolling interests contribution	—	—	—	—	—	—	3,457	3,457
Distributions to noncontrolling interest holders	—	—	—	—	—	—	(5,171)	(5,171)
Dividends declared (\$0.84 per share)	—	—	—	(59,681)	—	(59,681)	—	(59,681)
Shares issued under share-based compensation plans including tax effects	800,189	1	1,557	—	—	1,558	—	1,558
Indirect repurchase of shares for minimum tax withholdings	(251,029)	(1)	(11,638)	—	—	(11,639)	—	(11,639)
Cumulative effect of change in accounting principle	—	—	69	(69)	—	—	—	—
Share-based compensation	—	—	26,934	—	—	26,934	—	26,934
Balance, December 26, 2017	71,168,897	\$ 71	\$ 236,548	\$ 602,499	\$ (39)	\$ 839,079	\$ 12,312	\$ 851,391
Net income	—	—	—	158,225	—	158,225	6,069	164,294
Other comprehensive loss, net	—	—	—	—	(189)	(189)	—	(189)
Noncontrolling interests contribution	—	—	—	—	—	—	2,551	2,551
Distributions to noncontrolling interest holders	—	—	—	—	—	—	(5,746)	(5,746)
Acquisition of noncontrolling interest	—	—	(75)	—	—	(75)	(47)	(122)
Contribution from executive officer	—	—	1,000	—	—	1,000	—	1,000
Dividends declared (\$1.00 per share)	—	—	—	(71,509)	—	(71,509)	—	(71,509)
Shares issued under 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 change in accounting principle	—	—	—	(878)	—	(878)	—	(878)
Share-based compensation	—	—	33,983	—	—	33,983	—	33,983
Balance, December 25, 2018	71,617,510	\$ 72	\$ 257,388	\$ 688,337	\$ (228)	\$ 945,569	\$ 15,139	\$ 960,708

See accompanying notes to Consolidated Financial Statements.

Texas Roadhouse, Inc. and Subsidiaries
Consolidated Statements of Cash Flow s
(in thousands)

	December 25, 2018	December 26, 2017	December 27, 2016
Cash flows from operating activities:			
Net income including noncontrolling interests	\$ 164,294	\$ 137,536	\$ 120,573
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	101,216	93,499	82,964
Deferred income taxes	12,319	(5,069)	5,994
Loss on disposition of assets	6,008	4,961	5,125
Impairment and closure costs	105	600	139
Contribution from executive officer	1,000	—	—
Equity income from investments in unconsolidated affiliates	(1,353)	(1,488)	(1,111)
Distributions of income received from investments in unconsolidated affiliates	656	1,424	1,901
Provision for doubtful accounts	(9)	10	27
Share-based compensation expense	33,983	26,934	26,067
Changes in operating working capital:			
Receivables	(15,597)	(20,379)	(10,733)
Inventories	(2,495)	(48)	(455)
Prepaid expenses	(3,023)	(1,211)	(855)
Other assets	(4,290)	(7,401)	(4,229)
Accounts payable	8,882	1,601	138
Deferred revenue—gift cards	35,519	26,678	28,284
Accrued wages	4,481	3,639	(10,194)
Excess tax benefits from share-based compensation	—	—	(3,291)
Prepaid income taxes and income taxes payable	(8,581)	3,448	2,300
Accrued taxes and licenses	2,634	2,299	919
Other accrued liabilities	7,569	5,148	3,326
Deferred rent	5,938	6,038	4,610
Other liabilities	3,612	8,154	5,566
Net cash provided by operating activities	<u>352,868</u>	<u>286,373</u>	<u>257,065</u>
Cash flows from investing activities:			
Capital expenditures—property and equipment	(155,980)	(161,628)	(164,738)
Acquisition of franchise restaurants, net of cash acquired	(2,165)	(16,528)	—
Net cash used in investing activities	<u>(158,145)</u>	<u>(178,156)</u>	<u>(164,738)</u>
Cash flows from financing activities:			
Proceeds from revolving credit facility, net	—	—	25,000
Debt issuance costs	—	(476)	—
Proceeds from noncontrolling interest contribution and other	2,551	3,457	—
Distributions to noncontrolling interest holders	(5,746)	(5,171)	(4,479)
Acquisition of noncontrolling interest	(122)	—	—
Repurchase of shares of common stock	—	—	(4,110)
Excess tax benefits from share-based compensation	—	—	3,291
Proceeds from restricted stock and other deposits, net	418	740	419
Indirect repurchase of shares for minimum tax withholdings	(14,067)	(11,639)	(9,312)
Principal payments on long-term debt and capital lease obligation	(50,000)	(558)	(145)
Proceeds from exercise of stock options	—	1,558	2,673
Dividends paid to shareholders	(68,550)	(58,154)	(52,054)
Net cash used in financing activities	<u>(135,516)</u>	<u>(70,243)</u>	<u>(38,717)</u>
Net increase in cash and cash equivalents	59,207	37,974	53,610
Cash and cash equivalents—beginning of period	150,918	112,944	59,334
Cash and cash equivalents—end of period	<u>\$ 210,125</u>	<u>\$ 150,918</u>	<u>\$ 112,944</u>
Supplemental disclosures of cash flow information:			
Interest paid, net of amounts capitalized	\$ 896	\$ 1,216	\$ 1,011
Income taxes paid	\$ 20,519	\$ 50,201	\$ 42,890
Capital expenditures included in current liabilities	\$ 7,332	\$ 12,156	\$ 2,781
Obligation under capital lease	\$ —	\$ —	\$ 2,000

See accompanying notes to Consolidated Financial Statements.

Texas Roadhouse, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

(1) Description of Business

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

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

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

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

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

(b) Fiscal Year

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

(c) Cash and Cash Equivalents

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

(d) Receivables

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

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

Texas Roadhouse, Inc. and Subsidiaries**Notes to Consolidated Financial Statements****(Tabular amounts in thousands, except share and per share data)**

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

(e) Inventories

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

(f) Pre-opening Expenses

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

(g) Property and Equipment

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

The estimated useful lives are:

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

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

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

(h) Impairment of Goodwill

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

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

Texas Roadhouse, Inc. and Subsidiaries**Notes to Consolidated Financial Statements****(Tabular amounts in thousands, except share and per share data)**

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

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

(i) Other Assets

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

(j) Impairment or Disposal of Long-lived Assets

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

Texas Roadhouse, Inc. and Subsidiaries**Notes to Consolidated Financial Statements****(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
Employee healthcare	\$325,000

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

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

(l) Segment Reporting

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

(m) Revenue Recognition

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

(n) Income Taxes

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

(o) Advertising

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

Texas Roadhouse, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

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

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

(p) Leases and Leasehold Improvements

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

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

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

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

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

Texas Roadhouse, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

(q) Use of Estimates

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

(r) Comprehensive Income

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

(s) Fair Value of Financial Instruments

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

(t) Derivative Instruments and Hedging Activities

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

Texas Roadhouse, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

(u) Recent Accounting Pronouncements

Revenue Recognition

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

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

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

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

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

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

Texas Roadhouse, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

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

	December 25, 2018		
	As Reported	Balances Without Adoption of ASC 606	Adoption Impact of ASC 606
Balance Sheet			
Liabilities			
Deferred tax liabilities, net	\$ 17,268	\$ 17,568	\$ (300)
Other liabilities, non-current	48,295	47,114	1,181
Equity			
Retained earnings	\$ 688,337	\$ 689,218	\$ (881)
Income Statement			
Revenue			
Restaurant and other sales	\$ 2,437,115	\$ 2,442,268	\$ (5,153)
Franchise royalties and fees	20,334	17,990	2,344
Costs and expenses			
Other operating	375,477	380,630	(5,153)
General and administrative	136,163	133,815	2,348
Provision for income taxes	24,257	24,258	(1)
Net Income	\$ 158,225	\$ 158,228	\$ (3)

Statement of Cash Flows

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

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

Income Taxes

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

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

Texas Roadhouse, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

Compensation – Stock Compensation
(Accounting Standards Update 2017-09, "ASU 2017-09")

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

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

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

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

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

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

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

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

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

Fair Value Measurement

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

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

(3) Revenue

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

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

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

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

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

Texas Roadhouse, Inc. and Subsidiaries**Notes to Consolidated Financial Statements****(Tabular amounts in thousands, except share and per share data)**

as revenue as the corresponding franchise restaurant sales occur.

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

(4) Acquisitions

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

The purchase price has been preliminarily allocated as follows:

Current assets	\$ 42
Property and equipment	43
Goodwill	2,180
Current liabilities	(97)
	<u>\$ 2,168</u>

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

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

The purchase price has been allocated as follows:

Current assets	\$ 170
Property and equipment	12,281
Goodwill	4,469
Current liabilities	(392)
	<u>\$ 16,528</u>

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

(5) Long-term Debt and Obligation Under Capital Lease

Long-term debt consisted of the following:

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

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

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

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

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

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(6) Property and Equipment, Net

Property and equipment were as follows:

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

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

(7) Goodwill and Intangible Assets

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

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

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

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

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December 25, 2018 and December 26, 2017.

(8) Leases

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

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

Rent expense for operating leases consisted of the following:

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

(9) Income Taxes

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

	Fiscal Year Ended		
	December 25, 2018	December 26, 2017	December 27, 2016
Current:			
Federal	\$ 2,934	\$ 43,108	\$ 36,201
State	8,794	10,233	8,786
Foreign	210	309	202
Total current	11,938	53,650	45,189
Deferred:			
Federal	11,909	(4,830)	5,364
State	410	(239)	630
Total deferred	12,319	(5,069)	5,994
Income tax provision	<u>\$ 24,257</u>	<u>\$ 48,581</u>	<u>\$ 51,183</u>

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

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

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

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

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

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

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Components of deferred tax liabilities, net are as follows:

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

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

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

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

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

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

(10) Preferred Stock

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

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

(11) Stockholders' Equity

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

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

(12) Earnings Per Share

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

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

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

	Fiscal Year Ended		
	December 25, 2018	December 26, 2017	December 27, 2016
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	\$ 158,225	\$ 131,526	\$ 115,598
Basic EPS:			
Weighted-average common shares outstanding	71,467	70,989	70,396
Basic EPS	\$ 2.21	\$ 1.85	\$ 1.64
Diluted EPS:			
Weighted-average common shares outstanding	71,467	70,989	70,396
Dilutive effect of stock options and nonvested stock	497	538	656
Shares-diluted	71,964	71,527	71,052
Diluted EPS	\$ 2.20	\$ 1.84	\$ 1.63

(13) Commitments and Contingencies

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

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

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

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

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

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

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

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

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

(14) Share-based Compensation

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

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

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

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

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

Texas Roadhouse, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

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

Summary Details for RSUs

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

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

Summary Details for PSUs

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

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

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

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

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

Summary Details for Stock Options

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

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

(15) Fair Value Measurement

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

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

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

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

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

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

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

(16) Impairment and Closure Costs

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

Texas Roadhouse, Inc. and Subsidiaries

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

(17) Derivative and Hedging Activities

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

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

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

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

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

(18) Accumulated Other Comprehensive Loss

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

	Accumulated Other Comprehensive Loss
Balance as of December 27, 2016	(194)
Other comprehensive loss	252
Income taxes	(97)
Balance as of December 26, 2017	\$ (39)
Other comprehensive loss	(242)
Income taxes	53
Balance as of December 25, 2018	\$ (228)

(19) Related Party Transactions

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

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

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

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

(20) Selected Quarterly Financial Data (unaudited)

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

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

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

**2018 EMPLOYMENT AGREEMENT
(W. Kent Taylor)**

THIS 2018 EMPLOYMENT AGREEMENT (this “Agreement”) is entered into as of the date of execution by both parties by and between TEXAS ROADHOUSE MANAGEMENT CORP., a Kentucky corporation (the “Company”), and W. KENT TAYLOR, a resident of the Commonwealth of Kentucky (“Executive”).

RECITALS

A. Executive is currently employed as the Chairman, Chief Executive Officer of Texas Roadhouse, Inc. pursuant to the 2015 Employment Agreement dated January 8, 2015, (the “Existing Employment Agreement”).

B. Executive and the Company each desire to replace the Existing Employment Agreement with this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing premises and the respective agreements of the Company and Executive set forth below, the Company and Executive, intending to be legally bound, agree as follows:

1. *Effective Date.* The terms and conditions of Executive’s employment hereunder shall become effective January 8, 2018 (the “Effective Date”).

2. *Employment.* Subject to all the terms and conditions of this Agreement, Executive’s period of employment under this Agreement shall be the period commencing on the Effective Date and ending on January 7, 2021 (the “Third Anniversary Date”), which term, unless otherwise agreed to by the parties, shall be extended on the Third Anniversary Date and on each anniversary of that date thereafter, for a period of one year thereafter (which term together with any such extensions, if any, shall be hereinafter defined as the “Term”), unless Executive’s employment terminates earlier in accordance with Section 9 hereof. Thereafter, if Executive continues in the employ of the Company, the employment relationship shall be at will, terminable by either Executive or the Company at any time and for any reason, with or without cause, and subject to such terms and conditions established by the Company from time to time.

3. *Position and Duties.*

(a) *Employment with the Company.* While Executive is employed by the Company during the Term, Executive shall be employed as the Chairman, Chief Executive Officer of Texas Roadhouse, Inc., and such other titles as the Company may designate, and shall perform such duties and responsibilities as the Company shall assign

to him from time to time, including duties and responsibilities relating to Texas Roadhouse, Inc.'s wholly-owned and partially owned subsidiaries and other affiliates.

(b) *Performance of Duties and Responsibilities.* Executive shall serve the Company faithfully and to the best of his ability and shall devote his full working time, attention and efforts to the business of the Company during his employment with the Company hereunder. While Executive is employed by the Company during the Term, Executive shall report to the Board of Directors of Texas Roadhouse, Inc. (the "Board"). Executive hereby represents and confirms that he is under no contractual or legal commitments that would prevent him from fulfilling his duties and responsibilities as set forth in this Agreement. During his employment with the Company, Executive shall not accept other employment except as approved in writing by the Board. Executive may participate in charitable activities and personal investment activities to a reasonable extent, and he may serve as a director of business organizations as approved by the Board, so long as such activities and directorships do not interfere with the performance of his duties and responsibilities hereunder.

4. *Compensation.*

(a) *Base Salary.* While Executive is employed by the Company during the Term, the Company shall pay to Executive a base salary at the rate of Five Hundred Twenty-five Thousand and 00/100 Dollars (\$525,000.00) per fiscal year, less deductions and withholdings, and shall be paid in accordance with the Company's normal payroll policies and procedures. If Executive's employment is extended beyond the Third Anniversary Date as provided in Section 2, then on or after the Third Anniversary Date, and annually thereafter, Executive's base salary may be reviewed by the Compensation Committee of the Board to determine whether it should be adjusted.

(b) *Incentive Bonus.* Commencing with the Company's 2018 fiscal year and for each full fiscal year thereafter that Executive is employed by the Company during the Term, Executive shall be eligible for an annual incentive bonus, to be paid annually, based upon achievement of defined goals established by the Compensation Committee of the Board and in accordance with the terms of any incentive plan of the Company in effect from time to time (the "Incentive Bonus").

(i) The level of achievement of the objectives each fiscal year and the amount payable as Incentive Bonus shall be determined in good faith by the Compensation Committee of the Board. Any Incentive Bonus earned for a fiscal year shall be paid to Executive in a single lump sum on or before the date that is 2 ½ months following the last day of such fiscal year.

(ii) Subject to the achievement of the goals established by the Compensation Committee, as determined by the Compensation Committee, for each fiscal year of this Agreement, Executive shall be eligible for an annual target incentive bonus of Five Hundred Twenty-five Thousand and 00/100 Dollars (\$525,000.00). If Executive's employment is extended beyond the Third Anniversary Date as provided in

Section 2, then on or after the Third Anniversary Date, and annually thereafter, Executive's annual target incentive bonus may be reviewed by the Compensation Committee of the Board to determine whether it should be adjusted.

(c) *Stock Awards* .

(i) *Service Stock Award* . Pursuant to Section 6 of the Texas Roadhouse, Inc. 2013 Long Term Incentive Plan (the "Equity Incentive Plan") in place on the Effective Date, Executive shall be granted a stock bonus award whereby Executive has the conditional right to receive upon vesting 10,000 shares of the common stock of Texas Roadhouse, Inc. (the "Service Stock Award"), provided this Agreement has been fully executed by both Executive and the Company. If this Agreement has not been fully executed by the Effective Date, the Service Stock Award shall be granted to Executive on the date it is fully executed. If this Agreement is executed by both parties on or prior to the Effective Date, the Service Stock Award shall be granted to Executive on the date it is fully executed.

If the Service Stock Award has been granted on or prior to the Effective Date, it shall vest on January 8, 2019. If the Service Stock Award has been granted after the Effective Date, it shall vest on the first anniversary date of the grant. It shall be a condition of vesting that Executive continues to provide services to the Company as of the date of vesting, as provided in the Equity Incentive Plan.

Executive may be granted additional Service Stock Awards for the second and third years of the Term upon the recommendation of the Compensation Committee in amounts and upon terms and conditions to be established by the Compensation Committee.

If Executive's employment is extended beyond the Third Anniversary Date as provided in Section 2, then on or after the Third Anniversary Date, and annually thereafter, Executive's Service Stock Award may be reviewed by the Compensation Committee to determine whether it should be adjusted.

(ii) *Performance Stock Award* . Executive shall be also granted a stock bonus award whereby Executive has the conditional right to receive upon vesting a target performance stock award of 50,000 shares of the common stock of Texas Roadhouse, Inc. subject to the achievement of goals for fiscal year 2018 established by the Compensation Committee, as determined by the Compensation Committee (the "Performance Stock Award"). If this Agreement has not been fully executed on or prior to the Effective Date, or the Compensation Committee has not established the goals and the performance standards for achieving the Performance Stock Award, the Performance Stock Award shall be granted to Executive on the date both such conditions have been met. If this Agreement is executed by both parties on or prior to the Effective Date and the Compensation Committee has established the goals and the performance standards for achieving the Performance Stock Award, the Performance Stock Award shall be granted to Executive on the date it is fully executed.

If the Performance Stock Award has been granted on or prior to the Effective Date, it shall vest on January 8, 2019. If the Performance Stock Award has been granted after the Effective Date, it shall vest on the first anniversary date of the grant. It shall be a condition of vesting that Executive continues to provide services to the Company as of the date of vesting, as provided in the Equity Incentive Plan.

Executive may be granted additional Performance Stock Awards for the second and third years of the Term upon the recommendation of the Compensation Committee in amounts and upon terms and conditions to be established by the Compensation Committee.

The Compensation Committee will establish the goals for a fiscal year in writing as soon as practicable, but not later than ninety (90) days after the beginning of a fiscal year, and in no event after twenty-five percent (25%) of the applicable fiscal year has elapsed.

Performance Stock Awards for fiscal years subsequent to 2018, if any, shall vest on the date or dates established by the Compensation Committee, but not sooner than the first anniversary of the date of the grant. Notwithstanding the foregoing, shares associated with Performance Stock Awards shall not be issued to Executive until the amount of the award is determined by the Compensation Committee, which determination will be made within a reasonable time after the end of a fiscal year and after the Company's financial results for the fiscal year have been made public, but not later than the March 15th following the fiscal year for which the performance goals apply. Until the issuance of such shares, Executive shall not be entitled to vote the shares, shall not be entitled to receive dividends attributable to such shares, and shall not have any other rights as a shareholder with respect to such shares. If Executive's service to the Company ceases for any reason after the vesting date, but before the date the shares are issued, Executive shall retain the rights to the vested shares.

If Executive's employment is extended beyond the Third Anniversary Date as provided in Section 2, then on or after the Third Anniversary Date, and annually thereafter, Executive's Performance Stock Award may be reviewed by the Compensation Committee to determine whether it should be adjusted.

(iii) *Long-term Incentive Stock Award* . Executive shall also be granted a stock bonus award whereby Executive has the conditional right to receive upon vesting 75,000 shares of the common stock of Texas Roadhouse, Inc. (the “ Long-term Incentive Stock Award ”), provided this Agreement has been fully executed by both Executive and the Company. If this Agreement has not been fully executed by the Effective Date, the Long-term Incentive Stock Award shall be granted to Executive on the date it is fully executed. If this Agreement is executed by both parties on or prior to the Effective Date, the Long-term Incentive Stock Award shall be granted to Executive on the date it is fully executed. The Long-term Incentive Stock Award shall vest on January 8, 2023. It shall be a condition of vesting that Executive continues to provide

services to the Company as of the date of vesting, as provided in the Equity Incentive Plan. Executive shall also be eligible for grants of additional stock bonus awards if Executive continues to provide services to the Company after the expiration of this Agreement

(iv) If Executive's employment is terminated by the Company without Cause (as defined below) following a Change in Control (as defined below) and before the end of the Term of this Agreement, or if Executive's employment is terminated by Executive for Good Reason (as defined below) within 12 months following a Change in Control and before the end of the Term, or prior to a Change of Control at the direction of a person who has entered into an agreement with the Company, the consummation of which will constitute a Change of Control, and contingent upon Executive's execution of a full release of claims in the manner set forth in Section 10(h), all options or stock awards granted under any stock option and stock incentive plans of the Company that are outstanding as of the date of termination shall become immediately vested, and in the case of stock options, shall immediately become exercisable in full and shall remain exercisable until the earlier of (A) two years after termination of Executive's employment by the Company or (B) the option expiration date as set forth in the applicable option agreement. In addition, if Executive's employment is terminated under the circumstances described in this Section 4(c)(iv) and if Executive has not been granted a Service Stock Award or a Performance Stock Award for either or both of the second and third years of the Term, Executive shall be issued 10,000 shares of the common stock of Texas Roadhouse, Inc. for the year or years for which a Service Stock Award was not previously granted and 50,000 shares of the common stock of Texas Roadhouse, Inc. for the year or years for which a Performance Stock Award was not previously granted, which shares are immediately vested on the Termination Date (as defined below).

(v) A "Change of Control" shall mean that one of the following events has taken place at any time during the Term:

(A) The shareholders of the Company approve one of the following:

(I) Any 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

(II) Any 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;

(B) During any period of 12 months or less, individuals who at the beginning of such period constituted a majority of the Board of Directors 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;

(C) A tender or exchange offer, other than one made by:

(I) the Company, or by

(II) W. Kent Taylor or any corporation, limited liability company, partnership, or other entity in which W. Kent Taylor (x) owns a direct or indirect ownership of 50% or more or (y) 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 (a) at least 20 percent of the voting power of outstanding securities of the Company or (b) the percentage of the voting power of the outstanding securities of the Company collectively held by all of the Taylor Parties; or

(D) Any person other than a Taylor Party becomes the beneficial owner of securities representing in excess of the greater of (i) 20 percent 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 (ii) the percentage of the voting power of the outstanding securities of the Company collectively held by all of the Taylor Parties.

Notwithstanding anything in the foregoing to the contrary, no Change of Control shall be deemed to have occurred for purposes of this Agreement by virtue of any transaction which results in Executive, or a group of persons which includes Executive, acquiring, directly or indirectly, securities representing 20 percent or more of the voting power of outstanding securities of the Company.

For purposes of this Section 4(c)(v), the term “Company” shall mean Texas Roadhouse, Inc.

(vii) A termination by Executive for “Good Reason” shall mean a termination based on:

(A) the assignment to Executive of a different title or job responsibilities that result in a substantial decrease in the level of

responsibility from those in effect immediately prior to the Change of Control;

(B) a reduction by the Company or the surviving company in Executive's base pay as in effect immediately prior to the Change of Control;

(C) a significant reduction by the Company or the surviving company in total benefits available to Executive under cash incentive, stock incentive and other employee benefit plans after the Change of Control compared to the total package of such benefits as in effect prior to the Change of Control;

(D) the requirement by the Company or the surviving company that Executive be based more than 50 miles from where Executive's office is located immediately prior to the Change of Control, except for required travel on company business to an extent substantially consistent with the business travel obligations which Executive undertook on behalf of the Company prior to the Change of Control; or

(E) the failure by the Company to obtain from any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company (" Successor ") the assent to this Agreement contemplated by Section 13(g) hereof;

which is not cured within 30 days after Executive has delivered written notice of such condition to the Employer. In each case, Executive must give the Company notice of the condition within 90 days of the initial existence of the condition, and the separation from service must occur within a period of time not to exceed two years (or such shorter period as provided herein) following the initial existence of one or more of the conditions set forth above, or any termination will not be considered to be for Good Reason.

(d) *Benefits.* While Executive is employed by the Company during the Term, Executive shall be entitled to participate in all employee benefit plans and programs of the Company that are available to employees generally to the extent that Executive meets the eligibility requirements for each individual plan or program. The Company provides no assurance as to the adoption or continuance of any particular employee benefit plan or program, and Executive's participation in any such plan or program shall be subject to the provisions, rules and regulations applicable thereto.

(e) *Expenses.* While Executive is employed by the Company during the Term, the Company shall reimburse Executive for all reasonable and necessary out-of-pocket business, travel and entertainment expenses incurred by him in the performance of his duties and responsibilities hereunder, subject to the Company's normal policies and

procedures for expense verification and documentation. Any reimbursements made under this Section 4(e) will be paid on or before the last day of Executive's taxable year following the taxable year in which the expense is incurred.

(f) RESERVED

(g) *Clawback Provisions.* Notwithstanding any other provision in this Agreement to the contrary, any incentive based compensation, or any other compensation, paid or payable to Executive pursuant to this Agreement or any other agreement or arrangement with the Company which is subject to recovery under any law, government regulation, order or stock exchange listing requirement, will be subject to such deductions and clawback (recovery) as may be required to be made pursuant to law, government regulation, order, stock exchange listing requirement (or any policy of the Company adopted pursuant to any such law, government, regulation, order or stock exchange listing requirement). Executive specifically authorizes the Company to withhold from his future wages any amounts that may become due under this provision. Notwithstanding the foregoing, Executive's authorization to withhold amounts from future wages that may become due under this provision does not apply and is specifically rescinded in the event of a Change in Control. This section 4(g) shall survive the termination of this Agreement for a period of three (3) years.

5. *Affiliated Entities.* As used in this Agreement, "Company" shall include the Company, Texas Roadhouse, Inc. and each corporation, limited liability company, partnership, or other entity that is controlled by Texas Roadhouse, Inc., or is under common control with the Texas Roadhouse, Inc. (in each case "control" meaning the direct or indirect ownership of 50% or more of all outstanding equity interests).

6. *Confidential Information; Non-Disparagement.*

(a) Except as required in the performance of Executive's duties as an employee of the Company or as authorized in writing by the Board, Executive shall not, either during Executive's employment with the Company or at any time thereafter, use, disclose or make accessible to any person any confidential information for any purpose. "Confidential Information" means information proprietary to the Company or its suppliers or prospective suppliers and not generally known (including trade secret information) about the Company's suppliers, products, services, personnel, customers, recipes, pricing, sales strategies, technology, computer software code, methods, processes, designs, research, development systems, techniques, finances, accounting, purchasing, and plans. All information disclosed to Executive or to which Executive obtains access, whether originated by Executive or by others, during the period of Executive's employment by the Company (whether before, during, or after the Term), shall be presumed to be Confidential Information if it is treated by the Company as being Confidential Information or if Executive has a reasonable basis to believe it to be Confidential Information. Executive acknowledges that the above-described knowledge and information constitutes a unique and valuable asset of the Company and represents a substantial investment of time and expense by the Company, and that any disclosure or

other use of such knowledge or information other than for the sole benefit of the Company would be wrongful and would cause irreparable harm to the Company. During Executive's employment with the Company, Executive shall refrain from committing any acts that would materially reduce the value of such knowledge or information to the Company. The foregoing obligations of confidentiality shall not apply to any knowledge or information that (i) is now or subsequently becomes generally publicly known, or (ii) is required to be disclosed by law or legal process, other than as a direct or indirect result of the breach of this Agreement by Executive. Executive acknowledges that the obligations imposed by this Section 6 are in addition to, and not in place of, any obligations imposed by applicable statutory or common law, and that nothing in this Section 6 prohibits Executive from reporting violations of the law to a governmental agency or entity.

(b) Executive shall not at any time during the Term and during the Restricted Period (as defined below), or after the Term disparage the Company, any of its affiliates and any of their respective officers and directors, and shall not, without the prior written consent of the Company, disclose any information he may have learned during employment with the Company, including, but not limited to, any personal or financial information about an officer or director or his or her family member(s).

7. *Noncompetition Covenant.*

(a) *Agreement Not to Compete.* During Executive's employment with the Company (whether before, during, or after the Term) and during the Restricted Period, Executive shall not, directly or indirectly, on his own behalf or on behalf of any person or entity other than the Company, including without limitation as a proprietor, principal, agent, partner, officer, director, stockholder, employee, member of any association, consultant or otherwise, engage in any business that is directly competitive with the business of the Company, including without limitation any business that operates one or more full-service, casual dining steakhouse restaurants, within the 50 United States or any foreign country in which the Company or its franchisees or its joint venture partners is operating or in which Executive knows the Company or its franchisees or its joint venture partners contemplates commencing operations during the Restricted Period. The provisions of this Section 7(a) shall also apply to any business which is directly competitive with any other business which the Company acquires or develops during Executive's employment with the Company.

(b) *Agreement Not to Hire.* Except as required in the performance of Executive's duties as an employee of the Company, during Executive's employment with the Company (whether before, during, or after the Term) and during the Restricted Period, Executive shall not, directly or indirectly, hire, engage or solicit or induce or attempt to induce to cease working for the Company, any person who is then an employee of the Company or who was an employee of the Company during the six (6) month period immediately preceding Executive's termination of employment with the Company.

(c) *Agreement Not to Solicit.* Except as required in the performance of Executive's duties as an employee of the Company, during Executive's employment with the Company (whether before, during, or after the Term) and during the Restricted Period, Executive shall not, directly or indirectly, solicit, request, advise, induce or attempt to induce any vendor, supplier or other business contact of the Company to cancel, curtail, cease doing business with, or otherwise adversely change its relationship with the Company.

(d) *Restricted Period.* "Restricted Period" hereunder means the period commencing on the last day of Executive's employment with the Company and ending on the date that is two years following the last day of the Term.

(i) In the event Executive's employment is terminated by the Company without Cause following a Change in Control as defined in this Agreement, and before the end of the Term of this Agreement, the Restricted Period will begin on the last day of Executive's employment with the Company and end on the date the last payment of the current base salary is made to Executive pursuant to paragraph 10(c).

(e) *Acknowledgment.* Executive hereby acknowledges that the provisions of this Section 7 are reasonable and necessary to protect the legitimate interests of the Company and that any violation of this Section 7 by Executive shall cause substantial and irreparable harm to the Company to such an extent that monetary damages alone would be an inadequate remedy therefor. Therefore, in the event that Executive violates any provision of this Section 7, the Company shall be entitled to an injunction, in addition to all the other remedies it may have, restraining Executive from violating or continuing to violate such provision.

(f) *Blue Pencil Doctrine.* If the duration of, the scope of or any business activity covered by any provision of this Section 7 is in excess of what is determined to be valid and enforceable under applicable law, such provision shall be construed to cover only that duration, scope or activity that is determined to be valid and enforceable. Executive hereby acknowledges that this Section 7 shall be given the construction that renders its provisions valid and enforceable to the maximum extent, not exceeding its express terms, possible under applicable law.

(g) *Permitted Equity Ownership.* Ownership by Executive, as a passive investment, of less than 2.5% of the outstanding shares of capital stock of any corporation listed on a national securities exchange or publicly traded in the over-the-counter market shall not constitute a breach of this Section 7.

8. *Intellectual Property.*

(a) *Disclosure and Assignment.* As of the Effective Date, Executive hereby transfers and assigns to the Company (or its designee) all right, title, and interest of Executive in and to every idea, concept, invention, and improvement (whether patented, patentable or not) conceived or reduced to practice by Executive whether solely

or in collaboration with others while he is employed by the Company, and all copyrighted or copyrightable matter created by Executive whether solely or in collaboration with others while he is employed by the Company that relates to the Company's business (collectively, "Creations"). Executive shall communicate promptly and disclose to the Company, in such form as the Company may request, all information, details, and data pertaining to each Creation. Every copyrightable Creation, regardless of whether copyright protection is sought or preserved by the Company, shall be a "work made for hire" as defined in 17 U.S.C. § 101, and the Company shall own all rights in and to such matter throughout the world, without the payment of any royalty or other consideration to Executive or anyone claiming through Executive.

(b) *Trademarks.* All right, title, and interest in and to any and all trademarks, trade names, service marks, and logos adopted, used, or considered for use by the Company during Executive's employment (whether or not developed by Executive) to identify the Company's business or other goods or services (collectively, the "Marks"), together with the goodwill appurtenant thereto, and all other materials, ideas, or other property conceived, created, developed, adopted, or improved by Executive solely or jointly during Executive's employment by the Company and relating to its business shall be owned exclusively by the Company. Executive shall not have, and will not claim to have, any right, title, or interest of any kind in or to the Marks or such other property.

(c) *Documentation.* Executive shall execute and deliver to the Company such formal transfers and assignments and such other documents as the Company may request to permit the Company (or its designee) to file and prosecute such registration applications and other documents it deems useful to protect or enforce its rights hereunder. Any idea, invention, copyrightable matter, or other property relating to the Company's business and disclosed by Executive prior to the first anniversary of the effective date of Executive's termination of employment shall be deemed to be governed by the terms of this Section 8 unless proven by Executive to have been first conceived and made after such termination date.

(d) *Non-Applicability.* Executive is hereby notified that this Section 8 does not apply to any invention for which no equipment, supplies, facility, Confidential Information, or other trade secret information of the Company was used and which was developed entirely on Executive's own time, unless (i) the invention relates (A) directly to the business of the Company or (B) to the Company's actual or demonstrably anticipated research or development, or (ii) the invention results from any work performed by Executive for the Company.

9. *Termination of Employment.*

(a) Executive's employment with the Company shall terminate immediately upon:

- (i) Executive's receipt of written notice from the Company of the termination of his employment;
- (ii) the Company's receipt of Executive's written or oral resignation from the Company;
- (iii) Executive's Disability (as defined below); or
- (iv) Executive's death.

(b) The date upon which Executive's termination of employment with the Company occurs shall be the "Termination Date."

Provided that, for purposes of the timing of payments triggered by the Termination Date under Section 10, the Termination Date shall not be considered to have occurred until the date Executive and the Company reasonably anticipate that (i) Executive will not perform any further services for the Company or any other entity considered a single employer with the Company under Section 414(b) or (c) of the Internal Revenue Code (but substituting 50% for 80% in the application thereof) (the "Employer Group"), or (ii) the level of bona fide services Executive will perform for the Employer Group after that date will permanently decrease to less than 20% of the average level of bona fide services performed over the previous 36 months (or if shorter over the duration of service). For this purpose, service performed as an employee or as an independent contractor is counted, except that service as a member of the board of directors of an Employer Group entity is not counted unless termination benefits under this Employment Agreement are aggregated with benefits under any other Employer Group plan or agreement in which Executive also participates as a director. Executive will not be treated as having a termination of his employment while he is on military leave, sick leave or other bona fide leave of absence if the leave does not exceed six months or, if longer, the period during which Executive has a reemployment right under statute or contract. If a bona fide leave of absence extends beyond six months, Executive's employment will be considered to terminate on the first day after the end of such six month period, or on the day after Executive's statutory or contractual reemployment right lapses, if later. The Company will determine when Executive's Termination Date occurs based on all relevant facts and circumstances, in accordance with Treasury Regulation Section 1.409A-1(h).

10. *Payments upon Termination of Employment.*

- (a) If Executive's employment with the Company is terminated by reason of:
 - (i) Executive's abandonment of his employment or Executive's resignation for any reason (whether or not such resignation is set forth in writing or otherwise communicated to the Company);

- (ii) termination of Executive's employment by the Company for Cause (as defined below); or
- (iii) termination of Executive's employment by the Company without Cause following expiration of the Term;

the Company shall pay to Executive his then-current base salary through the Termination Date.

(b) Except in the case of a Change in Control, which is governed by Section 10(c) below, if Executive's employment with the Company is terminated by the Company pursuant to Section 9(a)(i) effective prior to the expiration of the Term for any reason other than for Cause (as defined below), then the Company shall pay to Executive, subject to Section 10(h) of this Agreement:

- (i) his then-current base salary through the Termination Date;
- (ii) any earned and unpaid annual Incentive Bonus for the fiscal year immediately preceding the Termination Date and any annual Incentive Bonus earned on a prorated basis through the Termination Date, payable after the actual amount of Incentive Bonus is calculated but not later than the date that is 2 ½ months following the last day of the applicable fiscal year; and
- (iii) a crisp \$100 bill from the Board.

Any amount payable to Executive pursuant to Section 10(b)(ii) shall be paid to Executive by the Company in the same manner and at the same time that Incentive Bonus payments are made to current named executive officers of Texas Roadhouse, Inc., as that term is applied by Texas Roadhouse, Inc. in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (the "Named Executive Officers"), but no earlier than the first normal payroll date of the Company following the expiration of all applicable rescission periods provided by law.

(c) If Executive's employment is terminated by the Company without Cause following a Change in Control as defined in this Agreement and before the end of the Term of this Agreement, or if Executive's employment is terminated by Executive for Good Reason following a Change in Control and before the end of the Term, then the Company shall pay to Executive, subject to Executive's compliance with Section 10(h) of this Agreement, an amount equal to his then current base salary and incentive bonus through the end of Term of the Agreement, paid in the same periodic installments in accordance with the Company's regular payroll practices, but in no event will the Company pay Executive less than one year of his current base salary and incentive bonus. At the option of the Compensation Committee and if in compliance with Code Section 409A, amounts payable pursuant to Section 10(c) may be paid in a lump sum.

(d) If Executive's employment with the Company is terminated effective prior to the expiration of the Term by reason of Executive's death or Disability, the Company shall pay to Executive or his beneficiary or his estate, as the case may be;

- (i) his then-current base salary through the Termination Date;
- (ii) any earned and unpaid annual Incentive Bonus for the fiscal year immediately preceding the Termination Date and any annual Incentive Bonus earned on a prorated basis through the Termination Date, payable after the actual amount of Incentive Bonus is calculated but not later than the date that is 2 ½ months following the last day of the applicable fiscal year;
- (iii) the amount of his then current base salary that Executive would have received from the Termination Date through the date that is 180 days following such Termination Date; and
- (iv) \$262,500.00.

Any amount payable to Executive pursuant to Section 10(d)(iii) shall be subject to deductions and withholdings and shall be paid to Executive or his estate or beneficiary by the Company in the same periodic installments in accordance with the Company's regular payroll practices commencing on the first normal payroll date of the Company following the expiration of all applicable rescission periods provided by law; provided, however, that at the option of the Compensation Committee and if in compliance with Code Section 409A, amounts payable pursuant to Section 10(d)(iii) may be paid in a lump sum. Any amount payable to Executive or his estate or beneficiary pursuant to Section 10(d)(ii) shall be paid to Executive or his estate or beneficiary by the Company in the same manner and at the same time that Incentive Bonus payments are made to current Named Executive Officers, but no earlier than the first normal payroll date of the Company following the expiration of all applicable rescission periods provided by law. Any amount payable to Executive or his estate or beneficiary pursuant to Section 10(d)(iv) shall be paid in a lump sum.

(e) "Cause" hereunder shall mean:

- (i) an act or acts of dishonesty undertaken by Executive and intended to result in substantial gain or personal enrichment of Executive at the expense of the Company;
- (ii) unlawful conduct or gross misconduct that is willful and deliberate on Executive's part and that, in either event, is materially injurious to the Company;

- (iii) the conviction of Executive of a felony;
- (iv) material and deliberate failure of Executive to perform his duties and responsibilities hereunder or to satisfy his obligations as an officer or employee of the Company, which failure has not been cured by Executive within ten days after written notice thereof to Executive from the Company; or
- (v) material breach of any terms and conditions of this Agreement by Executive not caused by the Company, which breach has not been cured by Executive within ten days after written notice thereof to Executive from the Company.

(f) “Disability” hereunder shall mean the inability of Executive to perform on a full-time basis the duties and responsibilities of his employment with the Company by reason of his illness or other physical or mental impairment or condition, if such inability continues for an uninterrupted period of 45 days or more during any 360-day period. A period of inability shall be “uninterrupted” unless and until Executive returns to full-time work for a continuous period of at least 30 days.

(g) In the event of termination of Executive’s employment, the sole obligation of the Company hereunder shall be its obligation to make the payments called for by Sections 10(a), 10(b), 10(c) or 10(d) hereof, as the case may be, and the Company shall have no other obligation to Executive or to his beneficiary or his estate, except as otherwise provided by law.

(h) Notwithstanding any other provision hereof, the Company shall not be obligated to make any payments under Section 10(b)(ii), (iii) or (iv) or 10(c) of this Agreement unless Executive has signed a full release of claims against the Company, in a form and scope to be prescribed by the Board, all applicable consideration periods and rescission periods provided by law shall have expired, and Executive is in strict compliance with the terms of this Agreement as of the dates of the payments. Executive must execute and deliver such release to the Company no later than the date specified by the Company and in no event later than 50 days following Executive’s Termination Date, and the release will be delivered by the Company to Executive at least 21 days (45 days where Executive is required to be given 45 days to review and consider the release) before the deadline set for its return. For purposes of this Agreement and the determination of the date on which payments or benefits will commence, the applicable rescission period of a release shall be deemed to expire on the 60th day following Executive’s termination of employment unless payment may be made based on an earlier rescission expiration date in compliance with Code Section 409A.

11. *Return of Property.* Upon termination of Executive’s employment with the Company, Executive shall deliver promptly to the Company all records, files, manuals,

books, forms, documents, letters, memoranda, data, customer lists, tables, photographs, video tapes, audio tapes, computer disks and other computer storage media, and copies thereof, that are the property of the Company, or that relate in any way to the business, products, services, personnel, customers, prospective customers, suppliers, practices, or techniques of the Company, and all other property of the Company (such as, for example, computers, pagers, credit cards, and keys), whether or not containing Confidential Information, that are in Executive's possession or under Executive's control.

12. *Remedies.* Executive acknowledges that it would be difficult to fully compensate the Company for monetary damages resulting from any breach by him of the provisions of Sections 6, 7, 8, and 11 hereof. Accordingly, in the event of any actual or threatened breach of any such provisions, the Company shall, in addition to any other remedies it may have, be entitled to injunctive and other equitable relief to enforce such provisions, and such relief may be granted without the necessity of proving actual monetary damages.

13. *Miscellaneous.*

(a) *Governing Law.* This Agreement shall be governed by, subject to, and construed in accordance with the laws of the Commonwealth of Kentucky without regard to conflict of law principles. Any action relating to this Agreement shall only be brought in a court of competent jurisdiction in the Commonwealth of Kentucky, and the parties consent to the jurisdiction, venue and convenience of such courts.

(b) *Jurisdiction and Law.* Executive and the Company consent to jurisdiction of the courts of the Commonwealth of Kentucky and/or the federal district courts, Western District of Kentucky, for the purpose of resolving all issues of law, equity, or fact, arising out of or in connection with this Agreement. Any action involving claims of a breach of this Agreement shall be brought in such courts. Each party consents to personal jurisdiction over such party in the state and/or federal courts of Kentucky and hereby waives any defense of lack of personal jurisdiction or *forum non conveniens*. Venue, for the purpose of all such suits, shall be in Jefferson County, Commonwealth of Kentucky.

(c) *Entire Agreement.* Except for any written stock option or stock award agreement and related agreements between Executive and the Company, this Agreement contains the entire agreement of the parties relating to Executive's employment with the Company and supersedes all prior agreements and understandings with respect to such subject matter including without limitation the Existing Employment Agreement, and the parties hereto have made no agreements, representations or warranties relating to the subject matter of this Agreement that are not set forth herein. As of the Effective Date, the Existing Employment Agreement shall terminate and be of no further force or effect; provided, however, any obligations of Executive or the Company arising under the Existing Employment Agreement prior to the Effective Date shall survive such termination.

(d) *No Violation of Other Agreements.* Executive hereby represents and agrees that neither (i) Executive's entering into this Agreement, (ii) Executive's employment with the Company, nor (iii) Executive's carrying out the provisions of this Agreement, will violate any other agreement (oral, written or other) to which Executive is a party or by which Executive is bound.

(e) *Amendments.* No amendment or modification of this Agreement shall be deemed effective unless made in writing and signed by the parties hereto.

(f) *No Waiver.* No term or condition of this Agreement shall be deemed to have been waived, except by a statement in writing signed by the party against whom enforcement of the waiver is sought. Any written waiver shall not be deemed a continuing waiver unless specifically stated, shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

(g) *Assignment.* This Agreement shall not be assignable, in whole or in part, by either party without the prior written consent of the other party, except that the Company may, without the consent of Executive, assign its rights and obligations under this Agreement (i) to any entity with which the Company may merge or consolidate, or (ii) to any corporation or other person or business entity to which the Company may sell or transfer all or substantially all of its assets. Upon Executive's written request, the Company will seek to have any Successor by agreement assent to the fulfillment by the Company of its obligations under this Agreement. After any assignment by the Company pursuant to this Section 13(g), the Company shall be discharged from all further liability hereunder and such assignee shall thereafter be deemed to be the "Company" for purposes of all terms and conditions of this Agreement, including this Section 13.

(h) *Counterparts.* This Agreement may be executed in any number of counterparts, and such counterparts executed and delivered, each as an original, shall constitute but one and the same instrument.

(i) *Severability.* Subject to Section 7(f) hereof, to the extent that any portion of any provision of this Agreement shall be invalid or unenforceable, it shall be considered deleted herefrom and the remainder of such provision and of this Agreement shall be unaffected and shall continue in full force and effect.

(j) *Survival.* The terms and conditions set forth in Sections 4(g), 5, 6, 7, 8, 9, 10, 11, 12, and 13 of this Agreement, and any other provision that continues by its terms, shall survive expiration of the Term or termination of Executive's employment for any reason.

(k) *Captions and Headings.* The captions and paragraph headings used in this Agreement are for convenience of reference only and shall not affect the construction or interpretation of this Agreement or any of the provisions hereof.

(l) *Notices* . Any notice required or permitted to be given under this Agreement shall be sufficient if in writing and either delivered in person or sent by first class certified or registered mail, postage prepaid, if to the Company, at the Company's principal place of business, and if to Executive, at his home address most recently filed with the Company, or to such other address or addresses as either party shall have designated in writing to the other party hereto.

(m) *Six Month Delay* . Notwithstanding anything herein to the contrary, if Executive is a "specified employee" within the meaning of Treasury Regulation Section 1.409A-1(i) (or any successor thereto) on his Termination Date, any payments hereunder that are triggered by termination of employment and which are not exempt as separation pay under Treasury Regulation Section 1.409A-1(b)(9) or as short-term deferral pay, shall not begin to be paid until six months after his Termination Date, and at that time, Executive will receive in one lump sum payment of all the payments that would have otherwise been paid to Executive during the first six months following Executive's Termination Date. The Company shall determine, consistent with any guidance issued under Code Section 409A, the portion of payments that are required to be delayed, if any.

(n) *409A Compliance* . Executive and the Company agree and confirm that this Employment Agreement is intended by both parties to provide for compensation that is exempt from Code Section 409A as separation pay (up to the Code Section 409A limit) or as a short-term deferral, and to be compliant with Code Section 409A with respect to additional severance compensation and bonus compensation. This Agreement shall be interpreted, construed, and administered in accordance with this agreed intent, provided that the Company does not promise or warrant any tax treatment of compensation hereunder. Executive is responsible for obtaining advice regarding all questions to federal, state, or local income, estate, payroll, or other tax consequences arising from participation herein. This Agreement shall not be amended or terminated in a manner that would accelerate or delay payment of severance pay or bonus pay except as permitted under Treasury Regulations under Code Section 409A.

[Remainder of this page intentionally left blank.]

IN WITNESS WHEREOF, Executive and the Company have executed this Agreement on this 26th day of December, 2017.

TEXAS ROADHOUSE MANAGEMENT CORP.

By: /s/ Celia Catlett
Printed Name: Celia Catlett
Title: Vice President

W. KENT TAYLOR

/s/ W. Kent Taylor

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT dated as of December 3, 2018 (this “*Agreement*”), is made by and among (i) **TEXAS ROADHOUSE, INC.**, a Delaware corporation (“*Roadhouse*”), (ii) **TEXAS ROADHOUSE HOLDINGS LLC**, a Kentucky limited liability company (“*Holdings*”), (iii) **GREEN BROTHERS DINING INC.**, a Florida corporation (“*Franchisee*”) and (iv) **W. KENT TAYLOR**, an individual, and **MAYNARD INVESTMENTS, LLC**, a Kentucky limited liability company (each “*Major Shareholder*,” and collectively, “*Major Shareholders*”).

RECITALS

- A. Franchisee and Texas Roadhouse Development Corporation, a Kentucky corporation (“*Roadhouse Development Corporation*”), are parties to that certain Franchise Agreement dated August 13, 2012 (as amended, the “*Franchise Agreement*”) relating to that certain Texas Roadhouse franchise location located at 425 E. Eau Gallie Boulevard, Melbourne, Florida 32937 (the “*Restaurant*”) operated by Franchisee (the “*Business*”).
- B. Holdings is an affiliate of Roadhouse Development Corporation and wholly-owned by Roadhouse.
- C. As of the date of this Agreement, (i) Maynard Investments LLC, a Kentucky limited liability company, is the record owner of seventeen percent (17%) of the existing shares of Franchisee, and (ii) W. Kent Taylor is the sole member and sole manager of such limited liability company.
- D. Franchisee desires to sell, and Holdings desires to purchase, substantially all of the assets of Franchisee used in the operation of the Business on the terms, conditions, exclusions and limitations set forth in this Agreement.

IN CONSIDERATION OF THE PREMISES AND OF THE MUTUAL PROMISES MADE IN THIS AGREEMENT AND OF THE REPRESENTATIONS, WARRANTIES AND COVENANTS CONTAINED IN THIS AGREEMENT, AND FOR TEN AND 00/100 DOLLARS (\$10.00) IN HAND PAID AND OTHER GOOD AND VALUABLE CONSIDERATION, THE RECEIPT, ADEQUACY AND SUFFICIENCY OF WHICH ARE HEREBY ACKNOWLEDGED, THE PARTIES, INTENDING TO BE LEGALLY BOUND, AGREE AS FOLLOWS:

ARTICLE I DEFINITIONS

1.1. Defined Terms. When used in this Agreement, the following terms shall have the meanings specified:

“*Accounts Receivable*” has the meaning set forth in Section 2.1(f).

“*Agreement*” means this Asset Purchase Agreement, together with all schedules and exhibits referred to in this Agreement, as each may be amended from time to time in accordance with the terms of this Agreement.

“*Assumed Obligations*” has the meaning set forth in Section 2.5(a).

“ **Basket** ” has the meaning set forth in Section 9.4.

“ **Bill of Sale** ” means the Bill of Sale with respect to the transfer and sale of certain Purchased Assets, substantially in the form attached as Exhibit “A”.

“ **Business** ” has the meaning set forth in the Recitals.

“ **Closing** ” has the meaning set forth in Section 3.2.

“ **Closing Date** ” means December 3, 2018, unless a different date is agreed to in writing by the parties.

“ **Closing Date Working Capital** ” has the meaning set forth in Section 2.4(c).

“ **Closing Time** ” means 10:00 a.m. Eastern Time on the Closing Date.

“ **Code** ” means the Internal Revenue Code of 1986, as amended.

“ **Contracts** ” has the meaning set forth in Section 4.13(a).

“ **Employee** ” means any manager, employee, officer, independent contractor, agent or consultant of Franchisee employed or engaged by Franchisee in connection with the Business and entitled to an annual salary or other compensation in connection therewith.

“ **Employee Agreement** ” means any management, employment, severance or consulting agreement or contract between Franchisee and any Employee, including, without limitation, summaries of all oral employment or consulting or similar arrangements between Franchisee and any person which are not terminable without liability on thirty (30) days’ or less prior notice.

“ **Employee Plan** ” means any plan, program, policy, practice, contract, agreement or other arrangement providing for severance, termination pay, stock or stock-related awards, fringe benefits or other employee benefits of any kind, whether formal or informal, proposed or final, funded or unfunded and whether or not legally binding, including, without limitation, each “employee benefit plan” within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended, maintained, contributed to, or required to be contributed to, for the benefit of any current or former Employee of Franchisee.

“ **Environmental Laws** ” has the meaning set forth in Section 4.20.

“ **Escrow Agreement** ” has the meaning set forth in Section 2.4(b).

“ **Excluded Assets** ” has the meaning set forth in Section 2.1.

“ **Excluded Obligations** ” has the meaning set forth in Section 2.5(b).

“ **Financial Statements** ” means the financial statements of Franchisee as provided to Holdings relating to Franchisee’s 2016 and 2017 fiscal years, together with first half of Franchisee’s 2018 fiscal year.

“ **Franchisee** ” means Green Brothers Dining Inc., a Florida corporation.

“ **Franchise Agreement** ” has the meaning set forth in the Recitals.

“ **GAAP** ” means those generally accepted accounting principles which are recognized as such by the American Institute of Certified Public Accountants acting through its Accounting Principles Board or the Financial Accounting Standards Board or through other appropriate boards or committees thereof, and which are consistently applied.

“ **Governmental Authority** ” means the government of (i) the United States of America or any state or other political subdivision thereof, (ii) any other jurisdiction in which Franchisee conducts any part of its Business, or which asserts jurisdiction over any properties of Franchisee, or (iii) any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to, any such government.

“ **Holdback Period** ” has the meaning set forth in Section 2.4(b).

“ **Holdings** ” means Texas Roadhouse Holdings LLC, a Kentucky limited liability company.

“ **Intellectual Property** ” has the meaning set forth in Section 4.11.

“ **Law** ” means any federal, state, local or other law or governmental requirement of any kind, whether legislatively, judicially or administratively promulgated and any rules, regulations and orders promulgated thereunder.

“ **Major Shareholder(s)** ” means W. Kent Taylor and Maynard Investments, LLC.

“ **Material Adverse Effect** ” means a material and adverse effect on the financial condition, assets, liabilities, business, property or prospects of Franchisee, the Purchased Assets, Holdings or Roadhouse, as applicable.

“ **Operating Agreement** ” means, collectively, (i) that certain Management Fee Agreement, dated February 23, 2015, by and between Franchisee and Holdings, and (ii) that certain Operating and Management Agreement, dated April 1996, as amended, by and between Franchisee and WKT Restaurant Corp., as predecessor-in-interest to Texas Roadhouse, Inc.

“ **Personal Property** ” has the meaning set forth in Section 2.1(b).

“ **Personal Property Leases** ” has the meaning set forth in Section 4.10.

“ **Purchase Price** ” has the meaning set forth in Section 2.4(a).

“ **Purchased Assets** ” has the meaning set forth in Section 2.1.

“ **Real Property Lease** ” has the meaning set forth in Section 2.7.

“ **Records** ” has the meaning set forth in Section 2.1(h).

“ **Restaurant** ” has the meaning set forth in the Recitals.

“ **Roadhouse** ” means Texas Roadhouse, Inc., a Delaware corporation.

“ **Roadhouse Development Corporation** ” has the meaning set forth in the Recitals.

“ **Tax Audit** ” has the meaning set forth in Section 6.12.

“ **Taxes** ” has the meaning set forth in Section 4.19.

“ **Termination of Real Property Lease** ” means the termination of the Real Property Lease by and between Franchisee and James M. Kaufman & Associates, LLC, as landlord, substantially in the form attached as Exhibit “D”.

“ **Third Party Intellectual Property** ” has the meaning set forth in Section 4.11(a).

“ **Transaction** ” means the transactions contemplated by this Agreement.

ARTICLE II ASSET EXCHANGE

2.1. Commitment to Sell and Assign. Upon the terms and subject to the conditions set forth in this Agreement, Franchisee shall sell, transfer, assign, convey and deliver to Holdings all of the assets, properties, interests, business, goodwill, claims and other rights of Franchisee (other than the Excluded Assets) relating to the Business, whether tangible or intangible, vested or unvested, contingent or otherwise, real, personal or mixed, and wherever located, whether or not reflected on the books and records of Franchisee and whether or not described in this Agreement or in any of the schedules or exhibits to this Agreement, as such existed as of the date hereof, including, without limitation, all right, title and interest of Franchisee in and to the specified assets, properties and rights set forth below (collectively, the “ **Purchased Assets** ”):

- (a) Intentionally omitted;
- (b) All fixed assets, furniture, property, equipment, fixtures, tools, machinery, office equipment, plant and other tangible personal property related to or used in connection with the Business or located at Franchisee’s place of business, which are set forth in further detail on Schedule 2.1(b) (the “ **Personal Property** ”);
- (c) Intentionally omitted;
- (d) Intentionally omitted;
- (e) All cash held by Franchisee;
- (f) All of Franchisee’s accounts receivable, credit card receivables, notes, claims and other amounts receivable by Franchisee as a result of Franchisee ownership of the Purchased Assets or arising out of the Business, as of the Closing Time, including, but not limited to, amounts due from customers and vendors, whether or not arising in the ordinary course of business (the “ **Accounts Receivable** ”);
- (g) Prepaid expenses or advances to third parties relating to the Business, including, without limitation, deposits and maintenance agreements;
- (h) Except as set forth below, all business, accounting and financial records, property records, contract records, personnel records, correspondence, files, books and documents of Franchisee relating to the Business, including, without limitation, sales, marketing and advertising data and materials, customer and mailing lists, production reports, equipment logs, guides, vendor and customer invoices, credit reports, billing records, service records, software and related documentation, artwork, photographs, manuals and teaching aids, engineering, maintenance and production records (the “ **Records** ”);

- (i) All of Franchisee's inventory related to the Business;
- (j) All of Franchisee's licenses and permits required for the operation of the Business and the operation of the Purchased Assets or used by Franchisee (to the extent consent or notification is required for assignment, Franchisee shall obtain such consent and provide applicable notification prior to Closing);
- (k) All Intellectual Property, including, but not limited to, that set forth on Schedule 2.1(k);
- (l) All of Franchisee's rights to use the Third Party Intellectual Property, including, but not limited to, that set forth on Schedule 2.1(l);
- (m) All goodwill associated with the Business; and
- (n) Intentionally omitted.

Notwithstanding the foregoing, the Purchased Assets shall not include: (i) any contract or agreement relating to the Business that is not a Contract (as hereinafter defined); and (ii) original books and records that comprise Franchisee's permanent accounting, tax or corporate records and books and records that Franchisee is required to retain pursuant to any statute, rule or regulation; provided, however, Franchisee shall provide Holdings with copies or information regarding each of the foregoing (collectively, the "**Excluded Assets**").

2.2. Intentionally Omitted.

2.3. Commitment to Purchase and Accept. Upon the terms and subject to the conditions set forth in this Agreement, Holdings shall purchase, accept and acquire the Purchased Assets, free and clear of all liens, claims and encumbrances whatsoever (except as set forth in Section 4.4), and in full payment for such purchase shall pay to Franchisee the Purchase Price.

2.4. Purchase Price; Escrow of Shares; Working Capital Adjustment.

(a) Subject to customary closing adjustments for taxes, utilities, accrued employee fringe benefits, Assumed Obligations, Closing Date Working Capital (as defined herein below and as set forth in Schedule 2.4(a)) and other similar items, the purchase price for the Purchased Assets (the "**Purchase Price**") shall be Two Million Five Hundred Thousand and 00/100 Dollars (\$2,500,000.00), allocated among the various classes of Purchased Assets as set forth in Schedule 2.4(a). The Purchase Price shall be paid in the following manner: (i) Two Million and 00/100 Dollars (\$2,000,000.00, reflecting eighty percent [80%] of the Purchase Price) shall be paid by Holdings to Franchisee on the Closing Date; and (ii) Five Hundred Thousand and 00/100 Dollars (\$500,000.00, reflecting twenty percent [20%] of the Purchase Price) shall be deposited by Holdings on the Closing Date to be held in escrow during the Holdback Period. The parties acknowledge that the base amount for Franchisee's Working Capital used to determine the Purchase Price was zero dollars (\$0.00), and that any final determination as to any increase or decrease in Franchisee's Working Capital as of the Closing Date in accordance with Section 2.4(c) shall result in an increase or decrease, as applicable, in the Purchase Price.

(b) The parties acknowledge that twenty percent (20%) of the Purchase Price shall be held in escrow for a period of up to twelve (12) months after the Closing Date (the "**Holdback Period**"), pursuant to the terms of an escrow agreement substantially in the form of the agreement attached as Exhibit "C" (the "**Escrow Agreement**"). Upon the date that is six (6) months after the Closing Date, fifty percent (50%) of the funds held in escrow shall be released to Franchisee, less (i) any funds subject to an indemnification claim by

Holdings made prior to such date, (ii) any amounts paid by Holdings to vendors in connection with the Business that relate to periods prior to the Closing Date, (iii) any amounts payable by Franchisee to Holdings as a result of the reconciliation of Franchisee's Working Capital described in Section 2.4(a) herein above, and/or (iv) any amounts paid by Holdings in connection with the Tax Audit. All funds remaining in escrow upon the expiration of the Holdback Period shall be released to Franchisee, less (x) any funds then subject to an indemnification claim as further set forth in the Escrow Agreement, (y) any amounts paid by Holdings to vendors in connection with the Business that relate to periods prior to the Closing Date and not applied to the portion of the escrow funds released in accordance with the immediately preceding sentence, and/or (z) any amounts paid by Holdings in connection with the Tax Audit and not applied to the portion of the escrow funds released in accordance with the immediately preceding sentence.

(c) The parties agree that the final determination of the Franchisee's Working Capital as of the Closing Date (the "**Closing Date Working Capital**") shall be jointly determined by Holdings and Franchisee within six (6) months after Closing. If the Closing Date Working Capital is less than the amount set forth on Schedule 2.4(a), then Franchisee shall pay the difference in cash to Holdings within six (6) months after the Closing Date. If the Closing Date Working Capital is greater than the amount set forth on Schedule 2.4(a), Holdings shall pay the difference to Franchisee in cash within six (6) months after Closing. If there is a disagreement between the parties regarding the final determination of the Closing Date Working Capital, then the final determination of Closing Date Working Capital shall be made by an accounting firm selected by mutual agreement of Holdings and Franchisee, or if no agreement can be reached, then by Roadhouse's regularly employed accounting firm, with results of such determination binding on all parties.

2.5. Liabilities.

(a) On the Closing Date, Holdings shall assume only the following specifically enumerated obligations and liabilities of Franchisee (the "**Assumed Obligations**"):

(i) liabilities and obligations arising on and after the Closing Date (except as otherwise set forth in this Agreement) under the assets included in the Purchased Assets; and

(ii) liabilities for accounts payable, liabilities for gift cards issued by Franchisee and accrued and unpaid expenses of the Business incurred in the ordinary course of business.

(b) Franchisee shall retain, and Holdings shall not assume, any liabilities or obligations (other than the Assumed Obligations) of Franchisee, whether known or unknown, fixed or contingent, including, without limitation, the following obligations or liabilities (the "**Excluded Obligations**"):

(i) obligations and liabilities arising out of or relating to the Excluded Assets and/or the Real Property Lease;

(ii) liabilities of Franchisee for Taxes;

(iii) intentionally omitted;

(iv) other liabilities of the Business not expressly included in the Assumed Obligations, including, without limitation, all liabilities of Franchisee in connection with the Business arising under or pursuant to Environmental Laws arising from events occurring prior to the Closing Date; and

(v) all overdrafts.

2.6. Power of Attorney. Effective as of the Closing Time, Franchisee constitutes and appoints Holdings and its successors, legal representatives and assigns the true and lawful attorneys of Franchisee, with full power of substitution, in the name of Franchisee or Holdings, but on behalf of and for the benefit of Holdings and its successors, legal representatives and assigns to: (a) demand and receive from time to time any and all of the Purchased Assets and to make endorsements and give receipts and releases for and in respect of the same and any part thereof; (b) institute, prosecute, compromise and settle any and all proceedings at law, in equity or otherwise that Holdings and its successors, legal representatives or assigns may deem proper in order to collect, assert or enforce any claim, right or title of any kind in or to the Purchased Assets; (c) defend any or all actions, suits or proceedings in respect of any of the Purchased Assets; and (d) do all such acts and things in relation to such matters as Holdings and its successors, legal representatives or assigns deem desirable.

Franchisee agrees that the appointment hereby made and the powers hereby granted are coupled with an interest and are and shall be irrevocable by it in any manner or for any reason. After the Closing Time, Holdings shall have the right to receive and open all mail, packages and other communications addressed to Franchisee and relating to the Purchased Assets, and Franchisee agrees promptly to deliver to Holdings any such mail, packages or other communications received directly or indirectly by Franchisee. Holdings shall promptly deliver to Franchisee all mail, packages and other communications received by it which relate to Franchisee but do not relate to the Purchased Assets. Notwithstanding any provisions contained in this Section 2.6 to the contrary, such power of attorney granted by Franchisee to Holdings shall be limited solely with respect to the Transaction.

2.7. Termination of Real Property Lease. Franchisee and Holdings acknowledge and agree that (a) Franchisee is party to a certain lease, as amended, for the Franchisee's lease of certain premises in connection with the Business, which such lease is more particularly described on Schedule 2.7 (the "**Real Property Lease**"), and (b) Franchisee shall cause the Real Property Lease to be terminated as of the Closing Date by entering into and delivering at Closing the Termination of Real Property Lease in accordance with Section 3.3(c) hereof.

ARTICLE III CLOSING

3.1. Approval by Franchisee's Shareholders; Shareholder Instruments. Franchisee shall take any additional appropriate action necessary to have the transactions contemplated in Article II approved by Franchisee's shareholders in accordance with the applicable provisions of the State corporation laws of the State of Franchisee's organization.

3.2. Closing. The closing of the transactions contemplated in this Agreement (the "**Closing**") will be held in escrow on the Closing Date at the offices of First American Title Insurance Company, 1660 W. 2nd Street, Suite 700, Cleveland, Ohio 44113, Attention: Janine Djuric ("**Escrow Agent**"), unless the parties otherwise agree. All transactions occurring at the Closing shall be deemed to have occurred simultaneously as of the Closing Time, and no one transaction shall be complete until all transactions have been completed. Holdings and Franchisee shall each pay at Closing one-half (1/2) of the escrow fee and the expenses of the Escrow Agent.

3.3. Franchisee's Deliveries at Closing. Franchisee and each Major Shareholder, as and if applicable, shall execute and deliver, or cause to be executed and delivered, at the Closing to Holdings the following:

- (a) Intentionally omitted;

- (b) the Bill of Sale conveying in the aggregate all of the Personal Property, Intellectual Property and Records, and any other personal property included in the Purchased Assets, substantially in the form attached as **Exhibit “A”**;
- (c) the Termination of Real Property Lease, substantially in the form attached as **Exhibit “D”**;
- (d) intentionally omitted;
- (e) true, correct and complete copies of Franchisee’s Articles or Certificate of Incorporation and all amendments thereto, certified within sixty (60) days of the Closing Date by the Secretary of State of Franchisee’s State of incorporation (with copy certified as of the Closing Date by Franchisee’s secretary or comparable officer);
- (f) a certificate of the Secretary of State of Franchisee’s State of incorporation, dated within sixty (60) days of the Closing Date, duly certifying as to the existence and good standing of Franchisee as a corporation under the laws of the state of Franchisee’s State of incorporation (to be updated during the week prior to Closing);
- (g) certificates from each State, if any, where Franchisee is required to be qualified as a foreign corporation showing such qualification, dated as of a recent date;
- (h) a certificate executed by an officer of Franchisee, dated as of the Closing Date and substantially in the form attached as **Exhibit “E-1”**, that certifies (i) the due adoption by Franchisee of resolutions attached to such certificate authorizing the Transaction and the execution and delivery of this Agreement and the other agreements and documents contemplated hereby and the taking of all actions contemplated hereby and thereby; (ii) the due adoption by the shareholders of Franchisee of this Agreement and the approval of the Transaction by the requisite vote under applicable law; and (iii) that the copy of the Bylaws attached to such certificate is a true and correct copy of such Bylaws and that such Bylaws have not been amended;
- (i) a certificate executed by an officer of Franchisee, dated as of the Closing Date and substantially in the form attached as **Exhibit “F-1”**, that certifies that the representations and warranties of Franchisee contained in this Agreement are true and correct as of the Closing Date and that Franchisee has performed and complied with all covenants and conditions required by this Agreement to be performed and complied with by Franchisee at or prior to Closing;
- (j) intentionally omitted;
- (k) all of Franchisee’s books and records constituting a part of the Purchased Assets, including, without limitation, the Records;
- (l) possession or constructive possession of the Purchased Assets;
- (m) such documents necessary to release the Purchased Assets from all liens, claims, and encumbrances not expressly assumed hereunder;
- (n) such other agreements, documents and/or instruments, including, without limitation, specific releases, assignments, bills of sale and other instruments of conveyance and transfer, in form and substance acceptable to Holdings, as may be appropriate to transfer, convey and deliver the Purchased Assets

from Franchisee to Holdings and to vest in Holdings title thereto free and clear of all liens, claims and encumbrances (except as set forth in Section 4.4);

- (o) such other documents, instruments and certificates as Holdings may request;
- (p) the Escrow Agreement;
- (q) Termination of Franchise Agreement and General Release substantially in the form attached as Exhibit "I";
- (r) Amendment and Partial Termination of Operating Agreement substantially in the form attached as Exhibit "H";
- (s) tax clearance letter or certificate of no tax due issued by the state in which the Restaurant is located showing that no taxes are due and owing to the state by Franchisee, dated as of a date that is reasonably acceptable to Holdings; and
- (t) intentionally omitted.

3.4. Holdings's Deliveries. Holdings shall execute and deliver, or cause to be executed and delivered, to Franchisee at the Closing the following:

- (a) immediately available funds in the amount of eighty percent (80%) of the Purchase Price;
- (b) intentionally omitted;
- (c) a certificate executed by an officer of Roadhouse, dated as of the Closing Date and substantially in the form attached as Exhibit "F-2", that certifies that the representations and warranties of Roadhouse contained in this Agreement are true and correct as of the Closing Date and that Roadhouse has performed and complied with all covenants and conditions required by this Agreement to be performed and complied with by Roadhouse at or prior to Closing;
- (d) a certificate executed by an officer of Roadhouse, dated as of the Closing Date and substantially in the form attached as Exhibit "E-2" that certifies the due adoption by Roadhouse of resolutions attached to such certificate authorizing the Transaction and the execution and delivery of this Agreement and the other agreements and documents contemplated hereby and the taking of all actions contemplated hereby;
- (e) a certificate executed by an officer of Holdings, dated as of the Closing Date and substantially in the form attached as Exhibit "F-3", that certifies that the representations and warranties of Holdings contained in this Agreement are true and correct as of the Closing Date and that Holdings has performed and complied with all covenants and conditions required by this Agreement to be performed and complied with by Holdings at or prior to Closing;
- (f) a certificate executed by an officer of Holdings, dated as of the Closing Date and substantially in the form attached as Exhibit "E-3" that certifies the due adoption by Holdings of resolutions attached to such certificate authorizing the Transaction and the execution and delivery of this Agreement and the other agreements and documents contemplated hereby and the taking of all actions contemplated hereby;
- (g) the Escrow Agreement;

- (h) intentionally omitted; and
- (i) the Amendment and Partial Termination of Operating Agreement.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES
OF FRANCHISEE AND MAJOR SHAREHOLDERS

Franchisee and Major Shareholders hereby jointly and severally represent and warrant to Roadhouse and Holdings that each of the statements set forth in this Article IV is true, correct and complete as of the date of this Agreement, except as set forth in the disclosure schedule accompanying this Agreement.

4.1. Organization and Authority of Franchisee. Franchisee is a corporation duly organized, validly existing and in good standing under the laws of its State of incorporation and is duly qualified as a foreign corporation and, if applicable, is in good standing in each jurisdiction in which such qualification is required by law. Franchisee has full power and authority to enter into and perform its obligations under this Agreement and under all other agreements, documents and/or instruments to be executed and/or delivered by Franchisee pursuant to or in connection with this Agreement. Franchisee has full power and authority to own, operate and/or hold under lease the Purchased Assets as, and in the places where, such properties and assets now are owned, operated or held and to transact the business it transacts and proposes to transact.

4.2. Authorization; Enforceability. The execution, delivery and performance by Franchisee of this Agreement and of all of the agreements, documents and/or instruments to be executed and/or delivered by Franchisee pursuant to or in connection with this Agreement have been duly authorized by all necessary corporate action of Franchisee. This Agreement is, and the other agreements, documents and instruments referred to herein will be, when executed and delivered by the parties, the valid, legal and binding obligations of Franchisee and Major Shareholders, enforceable against Franchisee and Major Shareholders in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization or other laws of general application relating to or affecting the enforcement of creditors' rights generally, and except that the availability of the remedy of specific performance or other equitable relief is subject to the discretion of the court before which any proceeding therefor may be brought.

4.3. No Violation or Conflict by Franchisee. The execution, delivery and performance of this Agreement by Franchisee and Major Shareholders does not and will not violate, conflict with or result in the creation or imposition of any lien, charge or encumbrance under any Law, judgment, order or decree binding on Franchisee or the Articles of Incorporation or the Bylaws of Franchisee, or any contract or agreement to which Franchisee is a party or by which Franchisee or any of the Purchased Assets are bound.

4.4. Title to Assets.

(a) Except as set forth on Schedule 4.4(a), Franchisee has good and marketable title to all of the Purchased Assets (including, without limitation, the Personal Property) pursuant to the schedules hereto and a good and valid leasehold interest in all property leased by Franchisee and used in connection with the Business, in each case, free and clear of all liens, claims and encumbrances. Upon delivery of the Purchased Assets at the Closing, good and valid title to Purchased Assets, free and clear of all mortgages, liens, claims, pledges, security interests or other encumbrances, will pass to Holdings.

(b) Intentionally omitted.

4.5. Intentionally Omitted.

4.6. No Litigation. Except as described on Schedule 4.6, there are no actions at law or in equity, or arbitration proceedings, or claims or investigations of which Franchisee has received notice that are pending, or to Franchisee's knowledge threatened, or state of facts existing, which gives Franchisee any reasonable basis to anticipate any such action, proceeding, claim or investigation. There are no proceedings pending, or to Franchisee's knowledge threatened, against Franchisee and related to the Business by or before any governmental board, department, commission, bureau, instrumentality or agency, or state of facts existing which gives Franchisee any reasonable basis to anticipate any such proceeding; and Franchisee's ownership and operation of the Business is not in violation of any order, decree or judgment of any court or arbitration tribunal or governmental board, department, commission, bureau, instrumentality or agency.

4.7. Financial Statements and Financial Condition. The Financial Statements (a) were prepared in accordance with the books of account and records of Franchisee, (b) are true, correct and complete and present fairly the financial position and results of operations of the Business as of the dates and for the periods indicated therein, (c) make full and adequate disclosure of, and provision for, all obligations and liabilities of the Business as of the dates thereof, and (d) were prepared in conformity with GAAP (except with respect to interim financial statements that are subject to normal year-end adjustments that will not be material).

4.8. Liabilities and Obligations. The Financial Statements reflect all liabilities of Franchisee relating to the Business, accrued, contingent or otherwise, arising out of transactions effected or events occurring on or prior to the date of such Financial Statements. All reserves shown in the Financial Statements are appropriate, reasonable and sufficient to provide for the losses contemplated thereby. Except as set forth in the Financial Statements, Franchisee is not liable upon or with respect to, or obligated in any other way to provide funds in respect of or to guarantee or assume in any manner, any debt, obligation or dividend of any person, corporation, association, partnership, joint venture, trust or other entity which relates to or effects the Business.

4.9. Intentionally Omitted.

4.10. Personal Property; Inventories. Schedule 2.1(b) sets forth a description of all Personal Property, and separately sets forth all tangible property (other than Excluded Assets) (i) leased by Franchisee, (ii) in the possession of Franchisee and owned by other persons, or (iii) owned by Franchisee and in the possession of other persons. Schedule 4.10 contains a complete and accurate list of Franchisee's interest in all leases of equipment and other personal property pertaining to the Business (the "**Personal Property Leases**"). Except for the Personal Property Leases listed on Schedule 4.10, there are no other Personal Property Leases to which Franchisee is party and which relate to the Business or to the Purchased Assets.

4.11. Intellectual Property.

(a) Franchisee owns, or is licensed or otherwise possesses legally sufficient rights to use, all patents, trademarks, trade names, trade secrets, service marks, copyrights, maskworks and any applications therefor, technology, know-how, video and audio compression algorithms, computer software programs or applications (in both source code and object code form) and tangible or intangible proprietary information or material that are used or proposed to be used in the Business (the "**Intellectual Property**"). Schedule 2.1(k) lists all Intellectual Property and, if Franchisee owns such Intellectual Property, specifies the jurisdictions in which each such Intellectual Property has been issued or registered or in which an application for such issuance and registration has been filed, including the respective registration or application numbers and the names of all registered owners. Schedule 2.1(l) includes and specifically identifies all Intellectual Property owned by or licensed from third parties that are incorporated in, are, or form a part of, any Franchisee product or service, excluding any such intellectual property rights that are available on a commodity basis (such as "shrink wrap" licenses) and which are non-exclusive, terminable and available at a standard fee (collectively, "**Third Party**

Intellectual Property”). Franchisee has not licensed or entered into agreements with third parties regarding the license, use or restriction on use of any Intellectual Property.

(b) Franchisee is not, nor will it be as a result of the execution and delivery of this Agreement or the performance of its obligations hereunder, in violation of any Third Party Intellectual Property. No claims with respect to the Intellectual Property or Franchisee’s use of any Third Party Intellectual Property are currently pending, or to Franchisee’s knowledge threatened, by any person, nor does Franchisee know of any valid grounds for any bona fide claims. All of the Intellectual Property held by Franchisee is valid and subsisting and there is no unauthorized use, infringement or misappropriation of any Intellectual Property by any third party. Franchisee (i) has not been sued or charged in writing as a defendant in any claim, suit, action or proceeding which involves a claim or infringement of any trade secrets, patents, trademarks, service marks, maskworks or copyrights and has not been informed or notified by any third party that Franchisee may be engaged in such infringement, or (ii) has no knowledge of any infringement liability with respect to, or infringement by, Franchisee of any trade secret, patent, trademark, service mark, maskwork or copyright of another.

4.12. Entire Business. Franchisee has the complete and unrestricted power and the unqualified right to sell, transfer, convey, assign and deliver the Purchased Assets to Holdings. The sale of the Purchased Assets by Franchisee to Holdings pursuant to this Agreement will effectively convey to Holdings the entire Business (other than the Excluded Assets and the Excluded Obligations). The assets, properties and rights which will be owned or possessed by Holdings as of the Closing will constitute all of the tangible and intangible property used by Franchisee (whether owned by it or by any of its affiliates) in connection with the conduct of the Business as heretofore conducted by Franchisee, except for the Excluded Assets.

4.13. Contracts.

(a) Schedule 4.13(a) contains a complete and accurate list of Franchisee’s interest in any and all personal easements, sales and purchase orders and acknowledgments, license and maintenance agreements, third party product agreements, third party supply agreements, promissory notes and other evidences of indebtedness, and related loan and security agreements, and any and all other contracts or binding agreements relating to the Business (each individually, a “**Contract**”, and collectively, the “**Contracts**”), other than any such contracts being terminated on the Closing Date in accordance with this Agreement. Except for the Contracts listed on Schedule 4.13(a) and any contracts being terminated on the Closing Date in accordance with this Agreement, there are no other Contracts to which Franchisee is party and which relate to the Business or to the Purchased Assets.

(b) Neither Franchisee nor any Franchisee shareholder is a party, nor is the Business bound by, any noncompetition agreement or arrangement or any other agreement or arrangement restricting or prohibiting the way in which the Business is operated other than the Franchise Agreement.

4.14. Certain Transactions. Except as set forth on Schedule 4.14 or with respect to actions taken by the Manager (as defined in the Operating Agreement), since June 27, 2018, Franchisee has conducted the Business only in the ordinary course consistent with past practices and has not, in each case with respect to the business and operations of the Business, (i) paid, or made any accrual or arrangement for the payment of, bonuses or special compensation of any kind or any severance or termination pay to any present or former officer or employee; (ii) made any general wage or salary increases to its employees or increased or altered any other benefits or insurance provided to or maintained on behalf of any employee by it or declared or paid any bonus to any employee; (iii) sold, assigned or transferred or agreed to sell, assign or transfer any of its assets, properties or rights; (iv) granted any rights or licenses under any Intellectual Property or entered into any licensing or distributorship arrangements; (v) canceled or agreed to cancel any debts; (vi) waived or agreed to

waive any rights; (vii) effected any change in the accounting methods and principles used in connection with its books, records and financial statements; (viii) entered into any transaction other than in the ordinary course of business, except transactions expressly permitted by the terms of this Agreement; (ix) suffered any event or condition of any character; (x) suffered any default under, or suffered any event which with notice or lapse of time or both would constitute a default under, any Contract, debt instrument or other agreement to which Franchisee is a party or by which it or any of the Purchased Assets is bound; (xi) lost or terminated any employees; or (xii) terminated (excluding a termination in accordance with its terms) or amended, or suffered a termination or amendment of, any Contract, agreement, lease or license.

4.15. Employees. Franchisee (a) has no Employees, (b) does not maintain or contribute to and is not required to maintain or contribute to any Employee Plan, and (c) is not bound by or subject to any Employee Agreement.

4.16. Intentionally Omitted.

4.17. Intentionally Omitted.

4.18. Insurance. Schedule 4.18 sets forth a true, correct and complete schedule that describes all insurance policies currently maintained by Franchisee in connection with the operation of the Business and the Purchased Assets. All of such insurance policies are now in effect and shall continue to remain in full force and effect through the Closing Date in accordance with their respective terms.

4.19. Taxes. Franchisee has timely and properly filed all federal, state, local and foreign tax returns and reports and forms which it is or has been required to file, either on its own behalf or on behalf of its employees or other persons or entities, including but not limited to income, profits, franchise, sales, use, occupation, property, excise, ad valorem and payroll (including employee taxes withheld) taxes (“**Taxes**”), all such returns, reports and forms being true and complete in all material respects, and has paid all taxes, including penalties and interest, if any, which have become due pursuant to such returns or reports or forms or pursuant to assessments received by Franchisee. Schedule 4.19 sets forth a true, correct and complete schedule that lists all such Taxes and the taxing entity. No tax deficiencies have been determined nor proposed tax assessments charged against Franchisee and there exists no basis for any such deficiencies. No Internal Revenue Service or other governmental taxing authority audit of Franchisee is pending or threatened, and the results of any completed audits are properly reflected in the Financial Statements. Franchisee has not granted any extension to any taxing authority of the limitation period during which any tax liability may be asserted.

4.20. Environmental Matters. Franchisee is currently in compliance with and has not violated Environmental Laws (as defined below) applicable to the Business and/or the Purchased Assets has obtained all permits, licenses and other authorizations needed to operate the Business in compliance with Environmental Laws and is unaware of any present requirements of any applicable Environmental Law which is due to be imposed upon it which will increase its cost of complying with Environmental Laws. All past on-site generation, treatment, storage and disposal of waste, if any (including hazardous waste), at the Business by Franchisee have been done in compliance with the currently applicable environmental laws, and all off-site treatment, storage and disposal of waste (including hazardous waste), if any, generated by Franchisee have been done in compliance with the currently applicable Environmental Laws. None of the Purchased Assets are comprised of or contain any hazardous substances. The term (i) “Environmental Laws” includes, but is not limited to, any federal, state or local law, statute, charter or ordinance, and any rule, regulation, binding interpretation, binding policy, permit, order, court order or consent decree issued pursuant to any of the foregoing, which pertains to, governs or otherwise regulates any of the following activities, including, without limitation, (A) the emission, discharge, release or spilling of any substance into the air, surface water, groundwater, soil or substrata, and (B) the manufacturing, processing, sale, generation, treatment, storage,

disposal, labeling or other management of any waste, hazardous substance or hazardous waste, and (ii) “waste,” “hazardous substance,” and “hazardous waste” include any substance defined as such by any applicable environmental laws.

4.21. Creditors. On or after the Closing Date, neither Roadhouse nor Holdings shall be subject to any claim of a creditor of Franchisee, or to any obligation to pay, discharge or satisfy in any manner Franchisee’s liabilities or other obligations as a result of the sale and transfer of the Purchased Assets to Holdings under this Agreement, except as expressly assumed by Holdings hereunder.

4.22. Compliance with Laws. Franchisee has complied with all laws, statutes, rules, regulations, orders and standards of any federal, state and local agencies and authorities applicable to the Business and the Purchased Assets (including, but not limited to, those concerned with civil rights, labor and discrimination, safety and health, zoning and land use and the environment). The execution, delivery and performance by Franchisee and Major Shareholders of this Agreement will not (i) conflict with or result in a breach of any of the terms, provisions or conditions of an order, judgment, decree or ruling of any court, arbitrator or governmental authority applicable to Franchisee or (ii) violate any provision of any statute or other rule or regulation of any governmental authority application to Franchisee.

4.23. Third Party Options. There are no existing contracts, options, commitments or rights with, to or in any third party to acquire the Purchased Assets or any interest therein or in the Business or the Business itself.

4.24. Transactions with Certain Persons. Except as set forth in this Agreement, at and as a result of the Closing, Holdings shall not have any obligation or liability to any current or former shareholder, director, officer, manager or employee of Franchisee or Franchisee’s shareholders or any member of any Franchisee shareholder’s immediate family or any entity in which such person has a direct or indirect ownership interest.

4.25. Accuracy of Information Furnished. All information furnished to Roadhouse or Holdings by Franchisee or Major Shareholders herein or in any exhibit or schedule hereto is true, correct and complete. Such information states all facts required to be stated therein or necessary to make the statements therein, in light of the circumstances under which such statements are made, true, correct and complete.

4.26. Intentionally Omitted.

4.27. Questionable Payments. Neither Franchisee, Franchisee’s shareholders, nor any of Franchisee’s current or former officers, directors, employees, agents, or representatives, have in connection with the business or operations of the Business, (i) used any corporate funds for any contributions, gifts, entertainment or other expenses relating to political activity, or used any corporate funds to reimburse any person for any such payment in contravention of any laws, (ii) used any corporate funds for any direct or indirect payments to any foreign or domestic government officials or employees, (iii) violated any provision of the Foreign Corrupt Practices Act of 1977, (iv) established or maintained any unrecorded fund of corporate monies or other assets, (v) made any false or fictitious entries on the books and records of Franchisee, (vi) made any bribe, rebate, payoff, influence payment, kickback or other payment of any nature, or (vii) made any favor or gift which is not deductible for federal income tax purposes.

4.28. Intentionally Omitted.

4.29. Books of Accounts. The books of account of Franchisee have been kept accurately in the ordinary course of its business in accordance with generally accepted accounting principles, the transactions

entered therein represent bona fide transactions and the revenues, expenses, assets and liabilities of Franchisee have been properly recorded in such books.

4.30. Consents. Other than consents required and obtained in connection with the Contracts (as and if applicable), no authorization, consent, approval, permit or license of, or filing with, any governmental or public body or authority, any lender or lessor or any other person or entity is required to authorize, or is required in connection with, the execution, delivery and performance of this Agreement or the agreements contemplated hereby on the part of Franchisee and/or Major Shareholders.

4.31. Broker Fees. Neither Franchisee nor any Major Shareholder has any liability or obligation to pay any fees or commissions to any broker, finder or agent with respect to the transactions contemplated by this Agreement.

4.32. Intentionally Omitted.

4.33. Franchise Agreement. Franchisee and Major Shareholders have undertaken all required obligations and are in compliance with the Franchise Agreement and any other documents associated therewith.

ARTICLE V REPRESENTATIONS AND WARRANTIES OF ROADHOUSE AND HOLDINGS

Roadhouse and Holdings jointly and severally represent and warrant to Franchisee that each of the statements set forth in this Article V is true, correct and complete as of the date of this Agreement, except as set forth in the disclosure schedules accompanying this Agreement.

5.1. Organization

(a) Roadhouse is a corporation duly and validly existing and in good standing under the laws of Delaware and has full corporate power to enter into and perform its obligations under this Agreement and under any other agreements, documents and instruments to be executed and delivered by Roadhouse pursuant to this Agreement.

(b) Holdings is a limited liability company duly and validly existing and in good standing under the laws of Kentucky and has full power to enter into and perform its obligations under this Agreement and under any other agreements, documents and instruments to be executed and delivered by Holdings pursuant to this Agreement.

5.2. Authorization; Enforceability. The execution, delivery and performance of this Agreement and of all of the agreements, documents and instruments to be executed and delivered by Roadhouse and Holdings pursuant to this Agreement have been duly authorized by all necessary corporate or limited liability company action. This Agreement is, and the other agreements, documents and instruments required hereby will be, when executed and delivered by the parties hereto, enforceable against Roadhouse and Holdings in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization or other laws of general application relating to or affecting the enforcement of creditors' rights generally, and except that the availability of the remedy of specific performance or other equitable relief is subject to the discretion of the court before which any proceeding therefor may be brought.

5.3. No Violation or Conflict. The execution, delivery and performance of this Agreement by Roadhouse and Holdings does not and will not violate or conflict with any Law, judgment, order, or decree binding on Roadhouse or Holdings or the Articles or Certificate of Incorporation, Bylaws, Articles or Certificate of Organization or Operating Agreement (as applicable) or any material contract or agreement to which Roadhouse or Holdings is a party or by which Roadhouse or Holdings, if applicable, is bound.

5.4. Accuracy of Information Furnished. All information furnished to Franchisee by Roadhouse or Holdings herein or in any exhibit or schedule hereto is true, correct and complete. Such information states all facts required to be stated therein or necessary to make the statements therein, in light of the circumstances under which such statements are made, true, correct and complete.

5.5. Broker Fees. Neither Roadhouse nor Holdings has any liability or obligation to pay any fees or commissions to any broker, finder or agent with respect to the transactions contemplated by this Agreement.

ARTICLE VI COVENANTS

Franchisee and Major Shareholders covenant to Holdings, and Holdings covenants to Franchisee, as applicable, that from and after the date of this Agreement, without the other parties' prior written consent:

6.1. Intentionally Omitted.

6.2. Intentionally Omitted.

6.3. Intentionally Omitted.

6.4. Intentionally Omitted.

6.5. Cooperation. As soon as practical after the date hereof, if they have not previously done so, Holdings and Franchisee shall promptly and properly prepare and file all filings required by all Laws relating to the transactions contemplated hereby, and shall cooperate in all respects in connection with the giving of any notices to any governmental authority or securing the permission, approval, determination, consent or waiver of any governmental authority required by Law in connection with the consummation of this Agreement.

6.6. Intentionally Omitted.

6.7. Intentionally Omitted.

6.8. Intentionally Omitted.

6.9. Intentionally Omitted.

6.10. Intentionally Omitted.

6.11. Intentionally Omitted.

6.12. Taxes and Tax Returns. Franchisee shall pay all applicable sales, transfer, documentary, use and filing fees and taxes that may become due or payable as a result of the sale, conveyance,

assignment, transfer or delivery of any of the Purchased Assets. Franchisee will cooperate fully, as and to the extent requested by Holdings, in connection with the filing of tax returns and any audit, litigation or other proceeding with respect to taxes. Notwithstanding anything contained in this Agreement, the parties acknowledge and agree that the Restaurant is subject to an ongoing sales and use tax audit by the State of Florida relating to the period commencing November 2014 through October 2017 (the “**Tax Audit**”). Holdings shall be entitled to recover any costs, expenses or fees incurred in connection with the Tax Audit during the Holdback Period in accordance with Section 2.4 hereof.

6.13. Intentionally Omitted.

6.14. Publicity. No party shall take any action, nor shall it permit any of its employees, officers, directors, as applicable, to take any action that may result in the public disclosure of the transactions contemplated by this Agreement without the consent of the other parties; provided, however, that in the event the disclosing party believes such information is required to be disclosed under applicable law, it may release such disclosure but will use reasonable efforts to give the other parties advance notice of the disclosure; and provided, further, that Roadhouse will be permitted to file this Agreement and to describe the transactions contemplated hereby in filings under the Securities Act (as and if applicable).

6.15. Intentionally Omitted.

6.16. Confidentiality. Franchisee must comply with all confidentiality provisions set forth in the Franchise Agreement. In addition, from the date of this Agreement to the date that is five (5) years after the earlier to occur of the Closing or the termination of this Agreement, each party will keep the nature and terms of the transactions contemplated by this Agreement and all information concerning the other party and its respective business, strictly confidential, using such information solely for the purposes contemplated by this Agreement and disclosing such information only to those persons or agents with a need to know (and then, solely for the purposes of assisting in such purposes and subject to such persons or agents being bound by this section). Such disclosure will be limited to the parties’ business and financial advisors (i.e., its lawyer, accountant and/or lender) and Franchisee’s equity owners, and the disclosure of such information to any other person will require the prior written consent of the other party. This section will not apply to extent the disclosing party can demonstrate the information (i) is generally available to or known by the public other than as a result of improper disclosure by a the disclosing party, (ii) is obtained by the disclosing party from a source other than the other party; provided that such source was not bound by a duty of confidentiality with respect to such information, (iii) is independently developed by the disclosing party without the use of the information learned from the other party, or (iv) is required to be disclosed under applicable law or may be disclosed pursuant to Section 6.14 above. In the event the disclosing party believes such information is required to be disclosed under applicable law, it shall use reasonable efforts to give the other party advance notice of such disclosure. In the event of a termination of this Agreement, each party will promptly return to the other party all notes, memos, reports and other materials provided to such party in connection with this Agreement. Holdings and Major Shareholders acknowledge that the Franchisee’s shareholders are aware of the confidential terms of this Agreement and may hold interests in other Texas Roadhouse restaurants. Franchisee and Major Shareholders agree to cause the Franchisee’s shareholders (including Major Shareholders) to keep confidential the terms of this Agreement in connection with their communications and activities relating to the shareholders’ other non-Franchisee Texas Roadhouse restaurants. Notwithstanding anything to the contrary contained herein, (a) upon the Closing, information of Franchisee that is included within the Purchased Assets shall be deemed owned by Holdings and the limitations set forth in this paragraph shall apply to Franchisee with respect to such information, and (b) Roadhouse and Holdings will not be limited in the disclosure of information to the extent such information was available to Roadhouse Development Corporation pursuant to its rights under the Franchise Agreement and disclosure of such information is not prohibited by the Franchise Agreement.

6.17. Trade Secrets. Franchisee and Major Shareholders expressly acknowledge they will comply with all confidentiality provisions set forth in the Franchise Agreement, which are currently effective and will continue for that length of time as set forth in the Franchise Agreement.

6.18. Noncompetition. Franchisee and Major Shareholders expressly acknowledge they will comply with all noncompetition covenants set forth in the Franchise Agreement, which are currently effective and will continue for that length of time set forth in the Franchise Agreement. Franchisee and Major Shareholders agree that the noncompetition covenants set forth in the Franchise Agreement are incorporated herein by reference and that payment of the Purchase Price constitutes additional and adequate consideration for such covenants.

6.19. Additional Remedies. Franchisee and Major Shareholders acknowledge and agree that the covenants and agreements contained in Sections 6.17 and 6.18 are of the essence of this Agreement; that each of such covenants is reasonable and necessary to protect and preserve the trade secrets and the legitimate business interests of Holdings; that irreparable harm, loss and damage that cannot be remedied in damages in an action at law will be suffered by Holdings should Franchisee or Major Shareholders breach any of the covenants and agreements contained in those Sections; that a breach of any such covenant and agreement may constitute an infringement of Holdings's rights in and to the trade secrets; that each of such covenants or agreements is separate, distinct and severable not only from the other of such covenants and agreements but also from the other and remaining provisions of this Agreement; and that, in addition to other rights and remedies available to it as a matter of law or equity, Holdings shall be entitled to an immediate temporary injunction and also to a permanent injunction to prevent a breach or contemplated breach by any of Franchisee or Major Shareholders of any of such covenants or agreements. Franchisee and each Major Shareholder has carefully read and considered the terms and provisions of this Section and agree that the restrictions are fair and reasonable and are reasonably necessary for the protection of the trade secrets and the legitimate business interests of Holdings, including Holdings's goodwill and substantial relationships with customers. In the event any of the restrictions contained in those sections are held unenforceable as over broad, overlong, not reasonably necessary to protect the legitimate business interests of Holdings, or for any other reason, the parties agree that the court shall modify such restriction and grant the relief necessary to protect such interests. As so modified, such restriction shall be as fully enforceable as if it had been set forth herein by the parties. It is the intent of the parties that the court in so establishing substitute restrictions, recognize that the parties hereto desire that the described restrictions be imposed and maintained to the maximum lawful extent.

6.20. Franchisee Ratings/Accounts. Upon the request of Holdings, Franchisee will assign to Holdings its Workman's Compensation mod/rate, unemployment experience rate, and any similar rating, in each case, to the extent allowed under applicable law.

6.21. Intentionally Omitted.

ARTICLE VII CONDITIONS PRECEDENT TO OBLIGATIONS OF HOLDINGS

The obligations of Holdings to be performed on the Closing Date are subject to the satisfaction prior to or at the Closing of the following conditions precedent:

7.1. Compliance with Agreement. Franchisee and Major Shareholders shall have performed and complied, in all material respects, with all of their respective obligations, covenants and agreements under this Agreement which are to be performed or complied with by them prior to the Closing.

7.2. Due Diligence. Holdings shall be satisfied, in its sole discretion, with the results of its continuing due diligence review of the Business and the Purchased Assets.

7.3. No Litigation. No investigation, suit, action or other proceeding that questions the validity or legality of the transactions contemplated by this Agreement or that seeks restraint, prohibition, damages or other relief in connection with this Agreement or the consummation of the transactions contemplated by this Agreement shall be pending before any court or governmental agency or threatened. There shall not be in effect any order, decree or injunction of any court that (i) prohibits consummation of this Agreement or the transactions contemplated by this Agreement, (ii) requires Holdings to hold separate or dispose of any of the Purchased Assets or (iii) adversely impairs the value of the Purchased Assets or the Business.

7.4. Representations and Warranties. The representations and warranties made by Franchisee and Major Shareholders in this Agreement shall be true and correct in all material respects at and as of the date of this Agreement and as of the Closing Date with the same force and effect as though said representations and warranties had been made on the Closing Date.

7.5. Material Adverse Effect. No event shall have occurred or set of facts or circumstances arisen which has resulted in, or could be expected to result in, a Material Adverse Effect on the Purchased Assets or Business.

7.6. Deliveries at Closing. Franchisee and Major Shareholders, as applicable, shall have delivered to Holdings the documents and items specified in Sections 2.2 and 3.3.

7.7. Board Approval. Roadhouse has received approval of the Transaction from its Board of Directors.

7.8. Intentionally Omitted.

ARTICLE VIII CONDITIONS PRECEDENT TO OBLIGATIONS OF FRANCHISEE AND MAJOR SHAREHOLDERS

The obligations of Franchisee and Major Shareholders to be performed on the Closing Date are subject to the satisfaction prior to or at the Closing of the following conditions precedent:

8.1. Compliance with Agreement. Each of Roadhouse and Holdings shall have performed and complied in all material respects with all of its obligations, covenants and agreements under this Agreement which are to be performed or complied with by it prior to the Closing.

8.2. No Litigation. No investigation, suit, action or other proceeding that questions the validity or legality of the transactions contemplated by this Agreement or that seeks restraint, prohibition, damages or other relief in connection with this Agreement or the consummation of the transactions contemplated by this Agreement shall be pending before any court or governmental agency or threatened. There shall not be in effect any order, decree or injunction of any court that prohibits consummation of this Agreement or the transactions contemplated by this Agreement.

8.3. Representations and Warranties. The representations and warranties made by Holdings in this Agreement shall be true and correct in all material respects at and as of the date of this Agreement and

as of the Closing Date with the same force and effect as though said representations and warranties had been made on the Closing Date.

8.4. Material Adverse Effect. No event shall have occurred or set of facts or circumstances arisen which has resulted in, or could be expected to result in, a Material Adverse Effect on Holdings.

8.5. Deliveries at Closing. Holdings shall have delivered to Franchisee the documents and items specified in Section 3.4.

ARTICLE IX SURVIVAL AND INDEMNIFICATION

9.1. Survival of Representations and Warranties. The representations and warranties contained herein, other than the representations and warranties contained in Sections 4.2 (Authorization; Enforceability), 4.4 (Title), 4.19 (Taxes), and 4.20 (Environmental Matters), shall survive the Closing for a period of fifteen (15) months. The representations and warranties contained in Sections 4.2 (Authorization; Enforceability) and 4.4 (Title) shall survive the Closing until the expiration of the applicable statute of limitations period specified pursuant to applicable Law (but not less than fifteen (15) months). If written notice of a claim has been given prior to the expiration of the applicable survival period set forth above by a party in whose favor such representations and warranties have been made to the party that made such representations and warranties, the relevant representations and warranties shall survive as to such claim until the claim has been finally resolved. The covenants contained in Section 6 shall continue indefinitely unless such covenant specifically provides for a termination date for such covenant's survival.

9.2. Indemnification by Franchisee and Major Shareholders. Franchisee and each Major Shareholder, jointly and severally, agree to indemnify, defend and hold harmless Roadhouse and Holdings, and each respective director, officer, employee, agent and affiliate of Roadhouse and Holdings for all losses, damages, liabilities and claims, and all fees, costs and expenses related to, including, without limitation, attorney fees, arising out of, based upon or resulting from: (i) any breach by Franchisee or any Major Shareholder of any representation or warranty set forth in this Agreement or in any document delivered thereunder or hereunder; (ii) any failure by Franchisee or any Major Shareholder to carry out, perform, satisfy and discharge any covenant, agreement, undertaking, liability or obligation to be performed or discharged by either of them pursuant to the terms of this Agreement or any of the documents delivered thereunder or hereunder; (iii) any Excluded Assets or Excluded Obligations; and (iv) the operation of the Business prior to the Closing or Franchisee's ownership of the Purchased Assets prior to the Closing; provided that Franchisee and Major Shareholders will not have any indemnification obligation pursuant to provisions (i), (iii) or (iv) to the extent Holdings is responsible for such losses, damages, liabilities, claims and expenses due to its breach of the Operating and Management Agreement. The indemnification provisions of this Agreement shall not be deemed to preclude or otherwise limit in any way the exercise of any other rights or pursuit of any other remedies for the breach of this Agreement or with respect to any misrepresentation or any breach of warranty by Franchisee or any Major Shareholder.

9.3. Indemnification by Holdings. Holdings agrees to indemnify, defend and hold harmless Franchisee and Major Shareholders and each officer, director, employee, agent and affiliate of Franchisee for all losses, damages, liabilities and claims, and all fees, costs and expenses related to, including, without limitation, attorney fees, arising out of, based upon or resulting from: (i) any breach by Holdings of any representation or warranty set forth in this Agreement or in any document delivered hereunder; (ii) any failure by Holdings to carry out, perform, satisfy and discharge any covenant, agreement, undertaking, liability or obligation to be performed or discharged by it pursuant to the terms of this Agreement or any of the documents delivered pursuant to this Agreement; or (iii) any obligation or liability relating to the Business or the Purchased

Assets that is expressly assumed under this Agreement. The indemnification provisions of this Agreement shall not be deemed to preclude or otherwise limit in any way the exercise of any other rights or pursuit of any other remedies for the breach of this Agreement or with respect to any misrepresentation or any breach of warranty by Holdings.

9.4. Indemnification Limitations. Notwithstanding the indemnification provisions of this Article IX, no indemnification shall be made by a party until the aggregate indemnification claim or claims by the indemnified party exceeds Ten Thousand and 00/100 Dollars (\$10,000.00), in which event the indemnifying party shall indemnify the indemnified party for the amount in excess of Ten Thousand and 00/100 Dollars (\$10,000.00) (the “*Basket*”). The foregoing limitation and the Basket shall not apply to indemnification claims made by Roadhouse or Holdings with respect to Excluded Assets or obligations or liabilities relating to the Business or the Purchased Assets that are not expressly assumed under this Agreement.

9.5. Indemnification Procedures. In the event a claim against an indemnifying party is applicable, the indemnified party shall give prompt notice to the indemnifying party; provided that any failure to provide such notice shall not affect the indemnification obligations of the parties under this Agreement except to the extent such failure materially prejudices the potential defenses of the indemnifying party. The indemnifying party shall have the right to defend, settle or compromise any claim, demand, action or proceeding with counsel of its own choosing which is reasonably acceptable to the indemnified party (unless the indemnified party agrees to assume the cost of the defense and any settlement), at its sole cost and expense; provided, however, that no settlement or compromise may be entered into by the indemnifying party without the prior written consent of the indemnified party. The indemnified party may select counsel to participate in any such defense at its sole cost and expense. In connection with any such claim, action or proceeding, the parties shall cooperate with each other and provide each with access to relevant books and records in their possession.

9.6. Escrow; Right of Set-Off. Upon notice to Major Shareholders specifying in reasonable detail a claim for indemnification, if Major Shareholders do not satisfy such indemnification claim through a cash payment within a reasonable period of time (not to exceed thirty [30] days), then Roadhouse or Holdings may set off any amount to which it may be entitled under this Article IX against the funds held in escrow pursuant to the terms of such Escrow Agreement. Neither the exercise nor the failure to exercise such right of set-off or to give a notice of claim under the Escrow Agreement will constitute an election of remedies or limit Roadhouse or Holdings in any manner in the enforcement of any other remedies that may be available to them.

ARTICLE X INTENTIONALLY OMITTED

ARTICLE XI INTENTIONALLY OMITTED

ARTICLE XII MISCELLANEOUS

12.1. Entire Agreement; Amendment. The Franchise Agreement, this Agreement and the documents referred to in this Agreement constitute the entire agreement between the parties pertaining to the subject matter hereof, and supersede all prior and contemporaneous agreements, understandings, negotiations and discussions of the parties, whether oral or written, and there are no warranties, representations or other agreements between the parties in connection with the subject matter hereof, except as specifically set forth in this Agreement or documents referred to in this Agreement. Major Shareholders acknowledge and agree that the restrictive covenants in the Franchise Agreement shall survive the Closing. This Agreement may only be

amended or modified by an instrument in writing executed by the parties. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision of this Agreement, whether or not similar, nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.

12.2. Expenses. Whether or not the transactions contemplated by this Agreement are consummated, each of the parties shall pay their respective fees and expenses incurred in connection with the transactions contemplated by this Agreement.

12.3. Governing Law. This Agreement, including its formation, application, performance, enforcement, the relationship between the parties, and any claims, demands, causes of action and disputes in any way arising out of or related to it, shall be governed, construed and interpreted under the substantive law (and the law of remedies, if applicable) of the Commonwealth of Kentucky. Subject to Section 12.14, every dispute arising out of or connected with this Agreement, or that otherwise arises between the parties, shall be commenced in any state or federal court sitting in Jefferson County, Kentucky, which forum shall be the sole and exclusive jurisdiction and venue for the resolution of such disputes, and to which jurisdiction and venue each party hereby consents and submits for all purposes.

12.4. Succession and Assignment. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns. No party may assign any of its rights or delegate any of its duties under this Agreement without the prior written consent of the other parties.

12.5. Notices. All communications, notices and disclosures required or permitted by this Agreement shall be in writing and shall be deemed to have been given at the earlier of the time when actually delivered to an officer of the party to which notice is to be given or when sent by facsimile transmission, overnight courier service or by certified or registered first-class mail, postage prepaid, return receipt requested, addressed as follows, unless and until any party notifies the others in accordance with this Section of a change of address:

If to Roadhouse or Holdings:

Texas Roadhouse, Inc.
6040 Dutchmans Lane
Louisville, Kentucky 40205
Attention: Legal Department

If to Franchisee:

Green Brothers Dining Inc.
6040 Dutchmans Lane
Louisville, Kentucky 40205
Attention: W. Kent Taylor

If to Major Shareholders:

Maynard Investments, LLC
12011 Hunting Crest Drive
Prospect, Kentucky 40059

12.6. Severability. If any provision, clause, or part of this Agreement, or the application thereof under certain circumstances, is held invalid, the remainder of this Agreement, or the application of such provision, clause, or part under other circumstances, shall not be affected thereby.

12.7. No Reliance. Neither Roadhouse or Holdings, nor Franchisee or Major Shareholders assume any liability to any person not a party to this Agreement because of any reliance on the representations, warranties, and agreements of the parties contained herein.

12.8. Counterparts. This Agreement and all documents referred to in this Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument. A facsimile or scanned/PDF signature shall be deemed an original signature for purposes of execution of this Agreement.

12.9. Specific Performance. Each of the parties agrees that the other parties would be damaged irreparably in the event any of the provisions of this Agreement are not performed in accordance with their terms. Accordingly, each party agrees that the other parties shall be entitled to injunctive relief to prevent breaches of the provisions of this Agreement and to specifically enforce this Agreement in any action, in addition to any other remedy to which such party may be entitled at law or in equity.

12.10. Further Assurances. Upon and subject to the conditions contained in this Agreement, each party agrees, both before and after the Closing, to use reasonable efforts to take all actions and to do all things necessary to consummate and make effective the transactions contemplated by this Agreement.

12.11. Schedules; Exhibits. Each schedule and exhibit delivered pursuant to the terms of this Agreement shall be in writing and shall constitute part of this Agreement.

12.12. Headings. The headings of sections of this Agreement are provided for convenience only and will not affect its construction or interpretation.

12.13. Joint Negotiations; Representation by Counsel. Franchisee, Major Shareholders, Roadhouse and Holdings each acknowledge that each party to this Agreement has been represented by counsel in connection herewith and the transactions contemplated hereby. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party.

12.14. Arbitration. Any disputes arising pursuant to this Agreement shall be settled by arbitration held in Louisville, Kentucky in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect. Upon such a dispute, the parties shall mutually agree upon one arbitrator. In the event the parties are unable to agree upon one arbitrator, each party shall select one arbitrator, and each of those arbitrators shall agree upon a third arbitrator, who will serve as the sole arbitrator for purposes of this Agreement. Judgment upon the award rendered by the arbitrator may be entered in any court having *in personam* and subject matter jurisdiction. The arbitrator shall decide any claim or controversy at issue in accordance with the terms of this Agreement and shall not be authorized to award any damages other than direct compensatory damages actually incurred and proven. The expenses of each party, including its share of the cost of the arbitration, shall be borne such party. However, in the event either party institutes arbitration as a result of any claim, suit, action or proceeding being asserted against it by a third party arising out of or in connection

with a matter for which the other party is alleged to be responsible under this Agreement, the party instituting arbitration may recover any attorney's fees and expenses to which it became subject in connection with the arbitration in the event such party prevails in such arbitration. The applicable provisions of Kentucky law shall govern the role of judicial participation in the enforcement of the decision arising from arbitration and any matters not covered by this Section or the American Arbitration Association rules related to arbitration as well as the empowerment of the arbitrator. This provision shall not preclude Roadhouse and Holdings from obtaining injunctive relief in the appropriate court for breaches or alleged breaches of the covenants contained in Article VI of this Agreement.

[signature page follows]

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the day and year first written above.

ROADHOUSE:

TEXAS ROADHOUSE, INC.,
a Delaware corporation

By: _____
Name: Tonya Robinson
Title: CFO

HOLDINGS:

TEXAS ROADHOUSE HOLDINGS LLC,
a Kentucky limited liability company

By: Texas Roadhouse, Inc.,
a Delaware corporation,
its Manager

By: _____
Name: Tonya Robinson
Title: CFO

FRANCHISEE:

GREEN BROTHERS DINING INC.,
a Florida corporation

By: _____
Name: W. Kent Taylor
Title: President and Secretary

-signatures continued on the following page-

MAJOR SHAREHOLDERS:

By: _____
W. KENT TAYLOR , an individual resident
of the Commonwealth of Kentucky

MAYNARD INVESTMENTS, LLC,
a Kentucky limited liability company

By: _____
Name: W. Kent Taylor
Title: Manager

EXHIBIT A
TO
ASSET PURCHASE AGREEMENT
FORM OF BILL OF SALE

For good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, **GREEN BROTHERS DINING INC.** , a Florida corporation (“ *Franchisee* ”), does hereby grant, bargain, transfer, sell, assign, convey and deliver to **TEXAS ROADHOUSE HOLDINGS LLC** , a Kentucky limited liability company (“ *Holdings* ”), all right, title and interest in and to the Purchased Assets (as such term is defined in that certain Asset Purchase Agreement (the “ *Purchase Agreement* ”), dated as of December 3, 2018 by and among Holdings, Franchisee, Texas Roadhouse, Inc., W. Kent Taylor and Maynard Investments, LLC). Franchisee for itself, its successors and assigns hereby covenants and agrees that, at any time and from time to time forthwith upon the written request of Holdings, Franchisee will do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered, each and all such further acts, deeds, assignments, transfers, conveyances, powers of attorney and assurances as may reasonably be required by Holdings in order to assign, transfer, set over, convey, assure and confirm unto and vest in Holdings, its successors and assigns, title to the Purchased Assets sold, conveyed, transferred and delivered by this Bill of Sale at no additional cost or expense to Franchisee. This Bill of Sale is being executed and delivered by Franchisee pursuant to the terms of the Purchase Agreement, and terms not defined in this Bill of Sale shall have the meanings set forth in the Purchase Agreement. To the extent there is a conflict between the terms and provisions of this Bill of Sale and the Purchase Agreement, the terms and provisions of the Purchase Agreement will govern.

Executed this 3rd day of December, 2018.

FRANCHISEE:

GREEN BROTHERS DINING INC.,
a Florida corporation

By: _____
Name: W. Kent Taylor
Title: President and Secretary

EXHIBIT B
TO
ASSET PURCHASE AGREEMENT
INTENTIONALLY OMITTED

Exhibit B-1

EXHIBIT C
TO
ASSET PURCHASE AGREEMENT
FORM OF ESCROW AGREEMENT

THIS ESCROW AGREEMENT (this “*Agreement*”), dated as of December 3, 2018 (the “*Closing Date*”), among (i) **TEXAS ROADHOUSE HOLDINGS LLC**, a Kentucky limited liability company, FEIN 31-1515794 (“*Holdings*”), (ii) **GREEN BROTHERS DINING INC.**, a Florida corporation (“*Franchisee*”), and (iii) **FIRST AMERICAN TITLE INSURANCE COMPANY**, as escrow agent (“*Escrow Agent*”).

Recitals

A. This is the Escrow Agreement referred to in that certain Asset Purchase Agreement dated December 3, 2018 (the “*Purchase Agreement*”) among Holdings, Franchisee and certain Major Shareholders. Capitalized terms used in this Agreement without definition shall have the respective meanings given to them in the Purchase Agreement.

B. The parties to this Agreement acknowledge that Escrow Agent is not a party to the Purchase Agreement and that all obligations of Escrow Agent are set forth herein.

THE PARTIES, INTENDING TO BE LEGALLY BOUND, HEREBY AGREE AS FOLLOWS:

1. **Establishment of Escrow.**

(a) Holdings and Franchisee hereby appoint Escrow Agent and Escrow Agent accepts appointment and agrees to act as escrow agent and to hold, safeguard and disburse the Escrow Fund pursuant to the terms and conditions hereof.

(b) On or before the Closing Date, Holdings is depositing with Escrow Agent Five Hundred Thousand and 00/100 Dollars (\$500,000.00) (the “*Escrow Fund*”). Following the deposit of the Escrow Fund by Holdings, Escrow Agent is hereby directed by Franchisee to invest the Escrow Fund, including interest and income earnings, for the benefit of Franchisee in a First American Trust Interest Bearing Savings Account (“*IBA*”) or a successor investment offered by Escrow Agent and jointly instructed in writing by Franchisee and Holdings and as shall be reasonably acceptable to Escrow Agent. Escrow Agent will provide compensation on balances in the Escrow Fund at the applicable rate for such account/investment. Escrow Agent shall have the right to liquidate any investments held in order to provide funds necessary to make required payments under this Escrow Agreement.

(c) Receipt, investment and reinvestment of the Escrow Fund shall be confirmed by Escrow Agent as soon as practicable by account statement to Franchisee and Holdings, and any discrepancies in any such account statement shall be noted by parties to Escrow Agent within thirty (30) calendar days after receipt thereof. Failure to inform Escrow Agent in writing of any discrepancies in any such account statement within said thirty (30) day period shall conclusively be deemed confirmation of the accuracy of such account statement in its entirety.

(d) In the event funds transfer instructions are given (other than in writing at the time of execution of this Escrow Agreement), whether in writing, by facsimile or otherwise, Escrow Agent is authorized

to seek confirmation of such instructions by telephone call-back to the person or persons designated on Schedule 1 hereto (“**Schedule 1**”), and Escrow Agent may rely upon the confirmation of anyone purporting to be the person or persons so designated. Each funds transfer instruction shall be made by joint written instruction executed by an authorized signatory of Holdings and Franchisee, a list of such authorized signatories is set forth on Schedule 1. Funds transfers contemplated by Section 3 shall be made to accounts designated by Franchisee in writing (the written instruction of Holdings not required for such transfer instructions). If Escrow Agent is unable to contact any of the authorized representatives identified in Schedule 1, Escrow Agent shall not be required to make any disbursements until such representative has been contacted. The persons and telephone numbers for call-backs may be changed only in a writing actually received and acknowledged by Escrow Agent.

Escrow Agent and the beneficiary’s bank in any funds transfer may rely solely upon any account numbers or similar identifying numbers provided by Holdings or Franchisee to identify (a) the beneficiary, (b) the beneficiary’s bank, or (c) an intermediary bank. Escrow Agent may apply any of the escrowed funds for any payment order it executes using any such written instructions, even when its use may result in a person other than the beneficiary being paid, or the transfer of funds to a bank other than the beneficiary’s bank or an intermediary bank designated. The parties acknowledge that these security procedures are commercially reasonable.

2. **Claims.**

(a) From time to time, on or before 5 pm Chicago Time of the first anniversary date of this Agreement, Holdings may give notice (a “**Notice**”) to Franchisee and Escrow Agent specifying in reasonable detail the nature and dollar amount of (i) any claim (a “**Claim**”) it may have under Article IX of the Purchase Agreement, (ii) any payment (a “**Payment**”) by Holdings to vendors in connection with the Business that relate to periods prior to the Closing Date, (iii) any amounts payable by Franchisee to Holdings as a result of the reconciliation of Franchisee’s Closing Date Working Capital described in Section 2.4(a) of the Purchase Agreement, and/or (iv) any amounts paid by Holdings in connection with the Tax Audit as described in Section 6.12 of the Purchase Agreement. Holdings may make more than one Claim with respect to any underlying state of facts. If Franchisee gives notice to Holdings and Escrow Agent disputing any Claim or Payment (a “**Counter Notice**”) by 5 pm Chicago Time of the thirtieth (30th) day following receipt by Escrow Agent of the Notice regarding such Claim or Payment, such Claim or Payment shall be resolved as provided in Section 2(b) hereunder. If no Counter Notice is received by Escrow Agent within such thirty (30) day period, then the dollar amount of the Payment or of the damages claimed by Holdings as set forth in its Notice shall be deemed established for purposes of this Agreement and the Purchase Agreement and, on the next business day following the end of such thirty (30) day period, Escrow Agent shall pay to Holdings the dollar amount claimed in the Notice from (and only to the extent of) the Escrow Fund (taking into account, with respect to any Claim, the indemnification Basket contained in Section 9.4 of the Purchase Agreement). Escrow Agent shall not inquire into or consider whether a Claim or Payment complies with the requirements of the Purchase Agreement.

(b) If a Counter Notice is given with respect to a Claim or Payment, Escrow Agent shall make payment with respect thereto only in accordance with (i) joint written instructions of Holdings and Franchisee, or (ii) a final non-appealable order of a court of competent jurisdiction. Any court order shall be accompanied by a legal opinion by counsel for the presenting party satisfactory to Escrow Agent to the effect that the order is final and non-appealable. Escrow Agent shall act on such court order and legal opinion without further question. Notwithstanding the foregoing, Escrow Agent shall pay to Holdings, immediately following the receipt of a Counter Notice, the dollar amount equal to the dollar amount claimed in the Notice less the dollar amount disputed in the Counter Notice, if any.

3. **Release of Escrow Funds; Termination of Escrow .**

(a) On the first business day immediately following the date that is six (6) months after the date of this Agreement, Escrow Agent shall pay and distribute from the Escrow Fund to Franchisee fifty percent (50%) of the amount originally deposited in the Escrow Fund, minus a sum equal to the amount previously distributed from the Escrow Fund to Holdings, if any, during such period, in accordance with the terms and conditions set forth in Section 2 hereof, unless (i) any Claim and/or Payment is then pending, in which case an amount equal to the aggregate dollar amount of such Claim and/or Payment (as shown in the Notice of such Claim and/or Payment) shall be retained by Escrow Agent in the Escrow Fund from the amount otherwise to be distributed (and the balance of the amount determined above shall be paid to Franchisee) or (ii) Holdings has given notice to Franchisee and Escrow Agent specifying in reasonable detail the nature of any other Claim it may have under Article IX of the Purchase Agreement with respect to which it is unable to specify the amount of damages (or a reasonable estimate of the maximum damages), in which case the entire Escrow Fund shall be retained by Escrow Agent, in either case until it receives joint written instructions of Holdings and Franchisee or a final non-appealable order of a court of competent jurisdiction as contemplated by Section 2(b).

(b) On the date that is five (5) business days after the first anniversary date of this Agreement, Escrow Agent shall pay and distribute the remaining balance of the Escrow Fund to Franchisee, unless (i) any Claim and/or Payment is then pending, in which case an amount equal to the aggregate dollar amount of such Claim and/or Payment (as shown in the Notice of such Claim and/or Payment) shall be retained by Escrow Agent in the Escrow Fund (and the balance paid to Franchisee) or (ii) Holdings has given notice to Franchisee and Escrow Agent specifying in reasonable detail the nature of any other Claim it may have under Article IX of the Purchase Agreement with respect to which it is unable to specify the amount of damages (or a reasonable estimate of the maximum damages), in which case the entire Escrow Fund shall be retained by Escrow Agent, in either case until it receives joint written instructions of Holdings and Franchisee or a final non-appealable order of a court of competent jurisdiction as contemplated by Section 2(b).

4. **Duties of Escrow Agent .**

(a) Escrow Agent shall not be under any duty to give the Escrow Fund held by it hereunder any greater degree of care than it gives its own similar property.

(b) Escrow Agent shall not be liable, except for its own gross negligence or willful misconduct and, except with respect to claims based upon such gross negligence or willful misconduct that are successfully adjudicated against Escrow Agent, the other parties hereto shall jointly and severally indemnify and hold harmless Escrow Agent (and any successor Escrow Agent) from and against any and all losses, liabilities, claims, actions, penalties, judgments, settlements, suits, proceedings, litigation, investigations, damages, costs and expenses, including reasonable attorneys' fees and disbursements, arising out of and in connection with (i) Escrow Agent's execution and performance of this Escrow Agreement, or (ii) its following any instructions or other directions, whether joint or singular, from the parties, except to the extent that its following any such instruction or direction is not permitted hereby. Without limiting the foregoing, Escrow Agent shall in no event be liable in connection with its investment or reinvestment of any cash held by it hereunder, in accordance with the terms hereof, including, without limitation, any liability for any delays (not resulting from its gross negligence or willful misconduct) in the investment or reinvestment of the Escrow Fund, or any loss of interest incident to any such delays. Escrow Agent shall have no duty to solicit any payments which may be due it or the [IBA] , including, without limitation, the Escrow Fund nor shall Escrow Agent have any duty or obligation to confirm or verify the accuracy or correctness of any amounts deposited with it hereunder.

(c) Escrow Agent shall be entitled to rely upon any order, judgment, certification, demand, notice, instrument or other writing delivered to it hereunder without being required to determine the authenticity or the correctness of any fact stated therein or the propriety or validity of the service thereof. Escrow Agent may act in reliance upon any instrument or signature believed by it to be genuine and may assume that the person purporting to give receipt or advice or make any statement or execute any document in connection with the provisions hereof has been duly authorized to do so. Escrow Agent may conclusively presume that the undersigned representative of any party hereto which is an entity other than a natural person has full power and authority to instruct Escrow Agent on behalf of that party unless written notice to the contrary is delivered to Escrow Agent.

(d) Escrow Agent may act pursuant to the advice of counsel with respect to any matter relating to this Agreement and shall not be liable for any action taken or omitted by it in good faith in accordance with such advice.

(e) Escrow Agent does not have any interest in the Escrow Fund deposited hereunder but is serving as escrow holder only and having only possession thereof. This Section 4(e) and Section 4(b) shall survive notwithstanding any termination of this Agreement or the resignation of Escrow Agent.

(f) Escrow Agent makes no representation as to the validity, value, genuineness or the collectability of any security or other document or instrument held by or delivered to it.

(g) Escrow Agent shall not be called upon to advise or supervise any party as to the wisdom in investing, selling or retaining, or taking or refraining from any action with respect to any securities or other property deposited hereunder.

(h) Anything in this Escrow Agreement to the contrary notwithstanding, in no event shall Escrow Agent be liable for special, incidental, punitive, indirect or consequential loss or damage of any kind whatsoever (including, but not limited to, lost profits), even if Escrow Agent has been advised of the likelihood of such loss or damage and regardless of the form of action.

(i) Escrow Agent (and any successor Escrow Agent) may at any time resign as such by delivering the Escrow Fund to any successor Escrow Agent jointly designated by the other parties hereto in writing, or to any court of competent jurisdiction, whereupon Escrow Agent shall be discharged of and from any and all further obligations arising in connection with this Agreement. The resignation of Escrow Agent will take effect on the earlier of (i) the appointment of a successor (including a court of competent jurisdiction), or (ii) the day which is 30 days after the date of delivery of its written notice of resignation to the other parties hereto. If at that time Escrow Agent has not received a designation of a successor Escrow Agent, Escrow Agent's sole responsibility after that time shall be to retain and safeguard Escrow Fund until receipt of a designation of successor Escrow Agent or a joint written disposition instruction by the other parties hereto or a final non-appealable order of a court of competent jurisdiction. Any entity into which Escrow Agent may be merged or converted or with which it may be consolidated, or any entity to which all or substantially all the escrow business may be transferred, shall be Escrow Agent under this Escrow Agreement without further act.

(j) In the event of any disagreement between the other parties hereto resulting in adverse claims or demands being made in connection with the Escrow Fund or in the event that Escrow Agent is in doubt as to what action it should take hereunder, Escrow Agent shall be entitled to retain the Escrow Fund until Escrow Agent shall have received (i) a final non-appealable order of a court of competent jurisdiction directing delivery of the Escrow Fund, or (ii) a written agreement executed by the other parties hereto directing delivery of the Escrow Fund, in which event Escrow Agent shall disburse the Escrow Fund in accordance with such

order or agreement. Any court order shall be accompanied by a legal opinion by counsel for the presenting party satisfactory to Escrow Agent to the effect that the order is final and non-appealable. Escrow Agent shall act on such court order and legal opinion without further question.

(k) Each of Holdings, on the one hand, and Franchisee, on the other hand, shall pay one-half of the fees and expenses (including reasonable and documented attorneys' fees) of the Escrow Agent for the services to be rendered by the Escrow Agent pursuant to this Agreement. Escrow Agent shall receive compensation (as payment in full) for the services to be rendered hereunder in the amount of Seven Hundred and 00/100 Dollars (\$700.00) at the time of execution of this Agreement.

(l) No printed or other matter in any language (including, without limitation, prospectuses, notices, reports and promotional material) that mentions Escrow Agent's name or the rights, powers, or duties of Escrow Agent shall be issued by the other parties hereto or on such parties' behalf unless Escrow Agent shall first have given its specific written consent thereto.

5. **Limited Responsibility**. This Agreement expressly sets forth all the duties of Escrow Agent with respect to any and all matters pertinent hereto. No implied duties or obligations shall be read into this agreement against Escrow Agent. Escrow Agent shall not be bound by the provisions of any agreement among the other parties hereto except this Agreement.

6. **Notices**. All notices, consents, waivers and other communications under this Agreement must be in writing and will be deemed to have been duly given when (i) delivered by hand (with written confirmation of receipt), (ii) sent by telecopier or other electronic transmission (with written confirmation of receipt); provided that a copy is mailed by registered mail, return receipt requested, or (iii) when received by the addressee, if sent by a nationally recognized overnight delivery service (receipt requested), in each case to the appropriate addresses and telecopier numbers and/or email address set forth below (or to such other addresses and telecopier numbers and/or email address as a party may designate by notice to the other parties):

- | | |
|-----------------|---|
| (a) Franchisee: | Green Brothers Dining Inc.
6040 Dutchmans Lane
Louisville, Kentucky 40205
Attention: W. Kent Taylor
Facsimile: _____
Email: _____
Phone: _____ |
| (b) Holdings: | Texas Roadhouse Holdings LLC
6040 Dutchmans Lane
Louisville, Kentucky 40205
Attention: Legal Department
Facsimile: (502) 426-3274
Email: legal@texasroadhouse.com
Phone: (502) 426-9984 |

(c) Escrow Agent: First American Title Insurance Company
10 West Broad Street, Ste. 1975
Columbus, Ohio 43215
Attention: Megan Kosmo, Esq.
Facsimile: (866) 303-5081
Email: MKosmo@firstam.com
Phone: (614) 405-8677

Notwithstanding the above, in the case of communications delivered to Escrow Agent pursuant to this Section 6, such communications shall be deemed to have been given on the date received by the above listed notice party, an officer of Escrow Agent or any employee of Escrow Agent who reports directly to any such officer at the above-referenced office. In the event that Escrow Agent, in its sole discretion, shall determine that an emergency exists, Escrow Agent may use such other means of communication as Escrow Agent deems appropriate. “ **Business Day** ” shall mean any day other than a Saturday, Sunday or any other day on which Escrow Agent located at the notice address set forth above is authorized or required by law or executive order to remain closed.

7. **Jurisdiction; Service of Process.** Any action or proceeding seeking to enforce any provision of, or based on any right arising out of, this Agreement may be brought against any of the parties in the courts of Commonwealth of Kentucky, County of Jefferson, or, if it has or can acquire jurisdiction, in the United States District Court for the Western District of Kentucky, and each of the parties consents to the jurisdiction of such courts (and of the appropriate appellate courts) in any such action or proceeding and waives any objection to venue laid therein. Process in any action or proceeding referred to in the preceding sentence may be served on any party anywhere in the world. The parties further hereby waive any right to a trial by jury with respect to any lawsuit or judicial proceeding arising out of or relating to this Escrow Agreement.

8. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original and all of which, when taken together, will be deemed to constitute one and the same. All signatures of the parties to this Escrow Agreement may be transmitted by facsimile or electronic transmission, and such transmission will, for all purposes, be deemed to be the original signature of such party whose signature it reproduces and will be binding upon such party.

9. **Section Headings.** The headings of sections in this Agreement are provided for convenience only and will not affect its construction or interpretation.

10. **Waiver.** The rights and remedies of the parties to this Agreement are cumulative and not alternative. Neither the failure nor any delay by any party in exercising any right, power, or privilege under this Agreement or the documents referred to in this Agreement will operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power, or privilege will preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege. To the maximum extent permitted by applicable law, (a) no claim or right arising out of this Agreement or the documents referred to in this Agreement can be discharged by one party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by the other party; (b) no waiver that may be given by a party will be applicable except in the specific instance for which it is given; and (c) no notice to or demand on one party will be deemed to be a waiver of any obligation of such party or of the right of the party giving such notice or demand to take further action without notice or demand as provided in this Agreement or the documents referred to in this Agreement.

11. **Exclusive Agreement and Modification.** This Agreement supersedes all prior agreements among the parties with respect to its subject matter and constitutes (along with the documents referred to in this

Agreement) a complete and exclusive statement of the terms of the agreement between the parties with respect to its subject matter. This Agreement may not be amended except by a written agreement executed by Holdings, Roadhouse, Franchisee, and Escrow Agent. A person who is not a party to this Agreement shall have no right to enforce any term of this Agreement.

12. **Governing Law**. This Agreement shall be governed by the laws of the Commonwealth of Kentucky without regard to conflicts of law principles.

13. **Compliance with Court Orders**. In the event that any escrow property shall be attached, garnished or levied upon by any court order, or the delivery thereof shall be stayed or enjoined by an order of a court, or any order, judgment or decree shall be made or entered by any court order affecting the property deposited under this Escrow Agreement, Escrow Agent is hereby expressly authorized, in its reasonable discretion, to obey and comply with all writs, orders or decrees so entered or issued, which it is advised by legal counsel of its own choosing is binding upon it, whether with or without jurisdiction, and in the event that Escrow Agent obeys or complies with any such writ, order or decree it shall not be liable to any of the parties hereto or to any other person, entity, firm or corporation, by reason of such compliance notwithstanding such writ, order or decree be subsequently reversed, modified, annulled, set aside or vacated.

14. **Force Majeure**. No party to this Escrow Agreement is liable to any other party for losses due to, or if it is unable to perform its obligations under the terms of this Escrow Agreement because of, acts of God, fire, war, terrorism, floods, strikes, electrical outages, equipment or transmission failure, or other causes reasonably beyond its control.

15. **Patriot Act Disclosure/Taxpayer Identification Numbers/Tax Reporting**.

(a) **Patriot Act Disclosure**. Section 326 of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (“***USA PATRIOT Act***”) requires Escrow Agent to implement reasonable procedures to verify the identity of any person that opens a new account with it. Accordingly, the parties acknowledge that Section 326 of the USA PATRIOT Act and Escrow Agent’s identity verification procedures require Escrow Agent to obtain information which may be used to confirm the parties’ identity, including, without limitation, name, address and organizational documents (“***Identifying Information***”). The parties agree to provide Escrow Agent with and consent to Escrow Agent obtaining from third parties any such Identifying Information required as a condition of opening an account with or using any service provided by Escrow Agent.

(b) **Taxpayer Identification Numbers (“*TINs*”)**. The parties have provided Escrow Agent with their respective fully executed Internal Revenue Service (“***IRS***”) Form W-8, or W-9 and/or other required documentation. The parties each represent that its correct TIN assigned by the IRS, or any other taxing authority, is set forth in the delivered forms, as well as in a Substitute IRS Form W-9 set forth on the signature page of this Agreement.

(c) **Tax Reporting**. Holdings and Franchisee further represent to Escrow Agent that the transaction memorialized in the Purchase Agreement does not: (i) constitute an installment sale requiring any tax reporting by Escrow Agent or withholding of imputed interest or original issue discount to the IRS or other taxing authority; and (ii) that no portion of the principal amount of the Escrow Fund represents any portion of the purchase price for shares of stock under the Purchase Agreement.

In addition, all interest or other income earned under this Escrow Agreement shall be allocated to the Franchisee and reported, as and to the extent required by law, by Escrow Agent to the IRS, or any other taxing

authority, on IRS Form 1099 or 1042S (or other appropriate form) as income earned from the Escrow Fund by the Franchisee whether or not said income has been distributed during such year. Any other tax returns required to be filed will be prepared and filed by the Franchisee and/or Holdings with the IRS and any other taxing authority as required by law, including, but not limited to, any applicable reporting or withholding pursuant to the Foreign Investment in Real Property Tax Act (“**FIRPTA**”). Franchisee and Holdings acknowledge and agree that Escrow Agent shall have no responsibility for the preparation and/or filing of any tax return or any applicable FIRPTA reporting or withholding with respect to the Escrow Fund or any income earned by the Escrow Fund. Franchisee and Holdings further acknowledge and agree that any taxes payable from the income earned on the investment of any sums held in the Escrow Fund shall be paid by Franchisee. In the absence of written direction from the Franchisee and Holdings, all proceeds of the Escrow Fund shall be retained in the Escrow Fund and reinvested from time to time by Escrow Agent as provided in this Agreement. Escrow Agent shall withhold any taxes it deems required to be withheld by law, including, but not limited to, required withholding in the absence of proper tax documentation, and shall remit such taxes to the appropriate authorities.

16. **Defined Terms**. Unless otherwise defined herein, capitalized terms shall have the meaning ascribed to them in the Purchase Agreement.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first written above.

HOLDINGS:

TEXAS ROADHOUSE HOLDINGS LLC,
a Kentucky limited liability company

By: Texas Roadhouse, Inc.,
a Delaware corporation,
its Manager

By: _____
Name: Tonya Robinson
Title: CFO

FRANCHISEE:

GREEN BROTHERS DINING INC.,
a Florida corporation

By: _____
Name: W. Kent Taylor
Title: President and Secretary

ESCROW AGENT:

FIRST AMERICAN TITLE INSURANCE COMPANY

By: _____
Name: _____
Title: _____

SCHEDULE 1

Telephone Number(s) and authorized signature(s) for Person(s) Designated to Give and Confirm Funds Transfer Instructions

If to Holdings:

	<u>Name</u>	<u>Telephone Number</u>	<u>Signature</u>
1.	<u>Celia Catlett</u>	(502) 426-9984	_____
2.	<u>Sean Renfro</u>	(502) 426-9984	_____
3.	<u>Tonya Robinson</u>	(502) 426-9984	_____
4.	<u>Nicole Maddox</u>	(502) 426-9984	_____

If to Franchisee :

1.	<u>W. Kent Taylor</u>	(502) 515-7265	_____
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Telephone call backs shall be made to both parties if joint instructions are required pursuant to this Agreement. All funds transfer instructions must include the signature of the person(s) authorizing said funds transfer and must not be the same person confirming said transfer.

EXHIBIT D
TO
ASSET PURCHASE AGREEMENT

TERMINATION OF REAL PROPERTY LEASE

TERMINATION OF LEASE

THIS TERMINATION OF LEASE (this “*Agreement*”) is made and entered into this 3rd day of December, 2018 (the “*Effective Date*”) by and among **JAMES M. KAUFMAN & ASSOCIATES, LLC**, a Florida limited liability company (“*Landlord*”), and **GREEN BROTHERS DINING INC.**, a Florida corporation (“*Tenant*”).

WITNESSETH:

WHEREAS, James M. Kaufman, Trustee (“*Original Landlord*”), as landlord, and Assignor, as tenant, entered into that certain Lease dated March 6, 1996, as amended by that certain First Amendment to Lease dated May 1, 1998, as further amended by that certain Second Amendment to Lease dated February 4, 2014, as further amended by that certain Third Amendment to Lease dated September 19, 2016, as further amended by that certain Fourth Amendment to Lease dated February 1, 2018, and as further amended by that certain Fifth Amendment to Lease dated June 15, 2018 (collectively, the “*Lease*”) for the lease of certain real property located in Melbourne, Florida, as more particularly described in the Lease (“*Premises*”);

WHEREAS, Landlord is successor-in-interest to Original Landlord and Landlord is now the landlord under the Lease;

WHEREAS, the term of the Lease is scheduled to expire on December 31, 2018; and

WHEREAS, in connection with that certain Asset Purchase Agreement dated December 3, 2018 by and among Tenant, Texas Roadhouse, Inc., Texas Roadhouse Holdings LLC and certain other parties (the “*APA*”), Landlord and Tenant have agreed to terminate the Lease effective as of the Effective Date.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant agree as follows:

1. **Recitals; Capitalized Terms**. The recitals set forth above are true and accurate and are incorporated herein by reference. Except as otherwise expressly set forth in this Agreement, all defined terms shall have the meaning ascribed to those terms in the Lease.
2. **Termination of Lease**. Landlord and Tenant acknowledge and agree that effective as of the Effective Date, the Lease is hereby terminated and of no further force and effect.
3. **December Base Rent and Additional Rent**. As consideration for Landlord’s agreement to terminate the Lease as of the Effective Date, Tenant shall pay to Landlord, and Landlord shall be entitled to retain in its entirety, monthly base rent, the sales tax applicable to such monthly base rent, and Tenant’s share of real estate taxes for the Premises due to Landlord for December 2018. All other amounts due and payable to Landlord under the Lease (including, without limitation, any applicable percentage rent and Tenant’s share of utilities for the Premises) shall be prorated between the parties as of the Effective Date, with Tenant responsible to pay such amounts applicable through the Effective Date and Landlord responsible for any such amounts applicable following the Effective Date. The parties agree that for purposes of determining the prorated additional rent due and payable by Tenant to Landlord pursuant to Section 28 of the Lease for the current lease year commencing March 1, 2018 and ending on the Effective Date, the breakpoint of annual gross sales shall be Two Million Two Hundred Eighty-Four Thousand Nine Hundred Thirty-One and 51/100 Dollars

(\$2,284,931.51). Additionally, such prorated additional rent becoming due and payable under Section 28 of the Lease shall be paid to Landlord within fifteen (15) days following the Effective Date.

4. **Security Deposit**. The parties acknowledge and agree that Landlord currently retains a security deposit applicable to the Lease in the amount of Twenty-Four Thousand Nine Hundred Fifty-Four and 90/100 Dollars (\$24,954.90) (the “***Security Deposit***”). Notwithstanding anything to the contrary contained in the Lease (including, without limitation, Section 7 regarding the security deposit and Section 27 regarding conditions for surrender of the Premises by Tenant to Landlord), the parties hereby agree that Landlord shall be entitled to retain the Security Deposit in its entirety in lieu of Tenant making any repairs or replacements to any portion of the Premises (including, without limitation, the building and other improvements located thereon) prior to surrender of the Premises to Landlord upon the termination of the Lease. Accordingly, as of the Effective Date, Landlord hereby accepts Tenant’s surrender of the Premises in its as-is, where-is condition, and Tenant’s obligations as set forth in the Lease for surrender of the Premises upon termination of the Lease are hereby deemed satisfied in full.

5. **Personal Property**. The parties hereby acknowledge and agree that Tenant is leaving at the Premises upon surrender certain items of its personal property, as more particularly described on **Exhibit “A”** attached hereto (the “***Surrendered Personal Property***”), to be purchased by Mulligan’s Beach House Bar & Grill (“***New Tenant***”) pursuant to a separate agreement between Tenant and New Tenant. Landlord acknowledges and agrees that Landlord has no rights and/or interest in or to such Surrendered Personal Property, including without limitation, any right to receive the proceeds resulting from the sale by Tenant to New Tenant, and the purchase by New Tenant from Tenant, of such Surrendered Personal Property. For the avoidance of doubt, Tenant acknowledges and agrees that the AC units, hoods and walk-in coolers attached to the building shall remain at the Premises upon surrender as part of Landlord’s property.

6. **Miscellaneous**. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same instrument. This Agreement shall be binding on the parties when executed and delivered by the parties to one another by facsimile and/or other electronic transmission. The parties hereto each represent and warrant that it has full power and lawful authority to enter into and perform its obligations under this Agreement, and that the person or persons signing on its behalf has been duly authorized to do so.

—Signatures Appear on Following Page—

IN WITNESS WHEREOF, the parties have executed this Termination of Lease as of the Effective Date.

LANDLORD:

JAMES M. KAUFMAN & ASSOCIATES, LLC,
a Florida limited liability company

By: _____
Name: James M. Kaufman
Title: Managing Member

TENANT:

GREEN BROTHERS DINING INC.,
a Florida corporation

By: _____
Name: W. Kent Taylor
Title: President and Secretary

EXHIBIT “A”

Tenant’s Personal Property

[To Be Inserted]

EXHIBIT E-1
TO
ASSET PURCHASE AGREEMENT

FORM OF CERTIFICATE OF GREEN BROTHERS DINING INC.

The undersigned does hereby certify that he is the duly elected, qualified and acting President and Secretary of **GREEN BROTHERS DINING INC.**, a Florida corporation (“*Franchisee*”), and the undersigned does hereby further certify as follows:

1. Attached hereto, marked as **Exhibit “A”**, is a true and correct copy of that certain Certificate of Resolutions of Green Brothers Dining Inc. dated _____, 2018, which were duly and lawfully adopted. Such consent has not been amended, altered or rescinded and is in full force and effect on the date hereof.
2. Attached hereto, marked **Exhibit “B”**, is a true and correct copy of the current Articles of Incorporation of Franchisee.
3. Attached hereto, marked as **Exhibit “C”**, is a true and correct copy of the current Bylaws of Franchisee, together with all amendments thereto (if any).
4. Franchisee is duly qualified and authorized to conduct business in the State of Florida. Attached hereto, marked as **Exhibit “D”**, is a Certificate of Existence issued within the past thirty (30) days by the State of Florida.

IN WITNESS WHEREOF, the undersigned hereby certifies the above to be true and has executed this Certificate of Green Brothers Dining Inc. this 3rd day of December, 2018.

GREEN BROTHERS DINING INC.,
a Florida corporation

By: _____
Name: W. Kent Taylor
Title: President and Secretary

Exhibit “A”
Certificate of Resolution

Exhibit “B”

Articles of Incorporation

Exhibit “C”

By-Laws

Exhibit “D”

Certificate of Existence

EXHIBIT E-2
TO
ASSET PURCHASE AGREEMENT

FORM OF CERTIFICATE OF TEXAS ROADHOUSE, INC.

The undersigned does hereby certify that she is the duly elected, qualified and acting CFO of **TEXAS ROADHOUSE, INC.**, a Delaware corporation, and the undersigned does hereby further certify as follows:

Attached hereto, marked as **Exhibit "A"**, is a true and correct copy of that certain Board of Directors Resolutions of Texas Roadhouse, Inc. dated August 18, 2016, which were duly and lawfully adopted. Such consent has not been amended, altered or rescinded and is in full force and effect on the date hereof.

IN WITNESS WHEREOF, the undersigned hereby certifies the above to be true and has executed this Certificate of Texas Roadhouse, Inc. this 3rd day of December, 2018.

TEXAS ROADHOUSE, INC.,
a Delaware corporation

By: _____
Name: Tonya Robinson
Title: CFO

Exhibit “A”
Certificate of Resolution

Exhibit E-2-2

EXHIBIT E-3
TO
ASSET PURCHASE AGREEMENT

FORM OF CERTIFICATE OF TEXAS ROADHOUSE HOLDINGS LLC

The undersigned does hereby certify that she is the duly elected, qualified and acting CFO of Texas Roadhouse, Inc., which is the sole manager of **TEXAS ROADHOUSE HOLDINGS LLC**, a Kentucky limited liability company, and the undersigned does hereby further certify as follows:

Attached hereto, marked as **Exhibit "A"**, is a true and correct copy of that certain Board of Directors Resolutions of Texas Roadhouse, Inc. dated August 18, 2016, which were duly and lawfully adopted. Such consent has not been amended, altered or rescinded and is in full force and effect on the date hereof.

IN WITNESS WHEREOF, the undersigned hereby certifies the above to be true and has executed this Certificate of Texas Roadhouse Holdings LLC this 3rd day of December, 2018.

TEXAS ROADHOUSE HOLDINGS LLC,
a Kentucky limited liability company

By: Texas Roadhouse, Inc.,
a Delaware corporation,
its Manager

By: _____
Name: Tonya Robinson
Title: CFO

Exhibit “A”
Certificate of Resolution

EXHIBIT F-1
TO
ASSET PURCHASE AGREEMENT

FORM OF OFFICER'S CERTIFICATE OF GREEN BROTHERS DINING INC.

This Officer's Certificate of Green Brothers Dining Inc. (this "***Certificate***") is being delivered pursuant to that certain Asset Purchase Agreement by and among Texas Roadhouse, Inc., Texas Roadhouse Holdings LLC, Green Brothers Dining Inc., and the other parties named therein, dated December 3, 2018 (the "***Agreement***"). Capitalized terms not otherwise defined herein shall have the meaning set forth in the Agreement.

The undersigned, W. Kent Taylor, does hereby certify that:

1. He is the duly qualified and acting President and Secretary of Green Brothers Dining Inc., a corporation formed under the laws of the State of Florida (the "***Corporation***").
2. The representations and warranties of the Corporation made in the Agreement are true and correct with the same force and effect as though expressly made on and as of the date hereof, except to the extent such representations and warranties expressly relate to an earlier date (in which case such representations and warranties shall be true and correct on and as of such earlier date).
3. All of the covenants and obligations that the Corporation is required to perform or to comply with pursuant to the Agreement on or before the Closing Date (considered both collectively and individually) have been duly performed, complied with, and satisfied as of the date hereof.

IN WITNESS WHEREOF, the undersigned has signed this Certificate as of the 3rd day of December, 2018.

GREEN BROTHERS DINING INC.,
a Florida corporation

By: _____

Name: W. Kent Taylor

Title: President and Secretary

EXHIBIT F-2
TO
ASSET PURCHASE AGREEMENT

FORM OF OFFICER'S CERTIFICATE OF TEXAS ROADHOUSE, INC.

This Officer's Certificate of Texas Roadhouse, Inc. (this "***Certificate***") is being delivered pursuant to that certain Asset Purchase Agreement by and among Texas Roadhouse, Inc., Texas Roadhouse Holdings LLC, Green Brothers Dining Inc., and the other parties named therein, dated December 3, 2018 (the "***Agreement***"). Capitalized terms not otherwise defined herein shall have the meaning set forth in the Agreement.

The undersigned, Tonya Robinson, does hereby certify that:

1. She is the duly qualified and acting CFO of Texas Roadhouse, Inc., a corporation formed under the laws of the State of Delaware (the "***Corporation***").
2. The representations and warranties of the Corporation made in the Agreement are true and correct with the same force and effect as though expressly made on and as of the date hereof, except to the extent such representations and warranties expressly relate to an earlier date (in which case such representations and warranties shall be true and correct on and as of such earlier date).
3. All of the covenants and obligations that the Corporation is required to perform or to comply with pursuant to the Agreement on or before the Closing Date (considered both collectively and individually) have been duly performed, complied with, and satisfied as of the date hereof.

IN WITNESS WHEREOF, the undersigned has signed this Certificate as of the 3rd day of December, 2018.

TEXAS ROADHOUSE, INC.,
a Delaware corporation

By: _____
Name: Tonya Robinson
Title: CFO

EXHIBIT F-3
TO
ASSET PURCHASE AGREEMENT

FORM OF MANAGER'S CERTIFICATE OF TEXAS ROADHOUSE HOLDINGS LLC

This Manager's Certificate of Texas Roadhouse Holdings LLC (this "***Certificate***") is being delivered pursuant to that certain Asset Purchase Agreement by and among Texas Roadhouse, Inc., Texas Roadhouse Holdings LLC, Green Brothers Dining Inc., and the other parties named therein, dated December 3, 2018 (the "***Agreement***"). Capitalized terms not otherwise defined herein shall have the meaning set forth in the Agreement.

The undersigned, Tonya Robinson, does hereby certify that:

1. She is the duly qualified and acting CFO of Texas Roadhouse, Inc., the Manager of Texas Roadhouse Holdings LLC, a limited liability company organized under the laws of the Commonwealth of Kentucky (the "***Company***").
2. The representations and warranties of the Company made in the Agreement are true and correct with the same force and effect as though expressly made on and as of the date hereof, except to the extent such representations and warranties expressly relate to an earlier date (in which case such representations and warranties shall be true and correct on and as of such earlier date).
3. All of the covenants and obligations that the Company is required to perform or to comply with pursuant to the Agreement on or before the Closing Date (considered both collectively and individually) have been duly performed, complied with, and satisfied as of the date hereof.

IN WITNESS WHEREOF, the undersigned has signed this Certificate as of the 3rd day of December, 2018.

TEXAS ROADHOUSE HOLDINGS LLC,
a Kentucky limited liability company

By: Texas Roadhouse, Inc.,
a Delaware corporation,
its Manager

By: _____
Name: Tonya Robinson
Title: CFO

EXHIBIT G
TO
ASSET PURCHASE AGREEMENT
INTENTIONALLY OMITTED

EXHIBIT H
TO
ASSET PURCHASE AGREEMENT

AMENDMENT AND PARTIAL TERMINATION OF OPERATING AGREEMENT

AMENDMENT AND PARTIAL TERMINATION OF OPERATING AGREEMENT

THIS AMENDMENT AND PARTIAL TERMINATION OF OPERATING AGREEMENT (this “*Agreement*”) is made and entered into this 3rd day of December, 2018 (the “*Effective Date*”), by and between **GREEN BROTHERS DINING INC.**, a Florida corporation (“*Green Brothers*”), and **TEXAS ROADHOUSE HOLDINGS LLC**, a Kentucky limited liability company (“*Holdings*”).

WHEREAS, Green Brothers, as Company, and WKT Restaurant Corp. (“*Original Manager*”), as Manager, entered into that certain Operating and Management Agreement dated April 1996 (as amended from time to time, the “*Original Operating Agreement*”), whereby Green Brothers engaged Original Manager to provide certain management services for the operation of the Texas Roadhouse restaurant located in Melbourne, Florida, as more particularly set forth in the Original Operating Agreement;

WHEREAS, Green Brothers, as Company, and Holdings (as successor-in-interest to Original Manager), as Manager, entered into that certain Management Fee Agreement dated February 23, 2015 (the “*Amended Operating Agreement*”), which amended certain provisions in the Original Operating Agreement (the Original Operating Agreement and Amended Operating Agreement, each as otherwise amended or modified from time to time, are hereby collectively referred to as the “*Operating Agreement*”);

WHEREAS, pursuant to that certain Asset Purchase Agreement dated December 3, 2018 by and among Green Brothers, Holdings and certain other parties, the parties have agreed to amend and terminate a portion of the Operating Agreement, among other things; and

WHEREAS, Green Brothers and Holdings desire to amend and partially terminate the Operating Agreement effective as of the Effective Date.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Green Brothers and Holdings agree as follows:

1. **Recitals; Definitions**. The recitals set forth above are true and accurate and are hereby incorporated herein by reference. All capitalized terms contained herein and not otherwise defined shall have the same meaning as such capitalized term is given in the Operating Agreement.

2. **Administrative Services; Partial Termination of Services**. From and after the Effective Date, Green Brothers hereby engages Holdings, and Holdings hereby accepts such engagement, to provide any and all administrative, banking, data processing and accounting services for and on behalf of Green Brothers (collectively, the “*Administrative Services*”). The parties acknowledge and agree that from and after the Effective Date, (i) the scope of services provided by Holdings for Green Brothers under the Operating Agreement is limited solely to the Administrative Services and (ii) any and all other services provided by Holdings for Green Brothers under the Operating Agreement are hereby terminated and shall cease as of the Effective Date.

3. **Term**. Notwithstanding anything to the contrary contained in the Operating Agreement, the term of the Operating Agreement, as amended hereby, shall continue from and after the Effective Date and shall expire on December 31, 2019. Upon the expiration of such term, the Operating Agreement shall

automatically terminate, and the parties shall have no further liabilities or obligations to one another, except those liabilities and obligations which expressly survive such termination.

4. **Management Fee**. From and after the Effective Date, Green Brothers shall have no obligation to pay to Holdings the Management Fee described in Section 3 of the Amended Operating Agreement, except for any Management Fee becoming due and payable to Holdings prior to the Effective Date.

5. **Miscellaneous**. Except as otherwise expressly set forth in this Agreement, the Operating Agreement shall remain in full force and effect according to its terms and shall inure to the benefit of and shall be binding upon the parties hereto and their respective permitted successors and assigns. All terms, covenants, conditions and restrictions under the Operating Agreement, except as modified by this Agreement, are hereby ratified and confirmed. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which shall constitute one and the same instrument. This Agreement shall be binding on the parties when executed and delivered by the parties to one another by facsimile and/or other electronic transmission. The parties hereto each represent and warrant that it has full power and lawful authority to enter into and perform its obligations under this Agreement, and that the person or persons signing on its behalf has been duly authorized to do so. In the event of a conflict between the terms of this Agreement and the Operating Agreement, the terms of this Agreement shall govern. This Agreement shall be construed and governed by the laws of the Commonwealth of Kentucky.

-signatures on the following page-

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the Effective Date.

GREEN BROTHERS:

GREEN BROTHERS DINING INC.,
a Florida corporation

By: _____
Name: W. Kent Taylor
Title: President and Secretary

HOLDINGS:

TEXAS ROADHOUSE HOLDINGS LLC,
a Kentucky limited liability company

By: Texas Roadhouse, Inc.,
a Delaware corporation,
its Manager

By: _____
Name: Tonya Robinson
Title: CFO

EXHIBIT I
TO
ASSET PURCHASE AGREEMENT

FORM OF TERMINATION OF FRANCHISE AGREEMENT AND GENERAL RELEASE

THIS TERMINATION OF FRANCHISE AGREEMENT AND GENERAL RELEASE (this “*Agreement*”) is entered into by and between **TEXAS ROADHOUSE DEVELOPMENT CORPORATION**, a Kentucky corporation (“*Franchisor*”), and **GREEN BROTHERS DINING INC.**, a Florida corporation (“*Franchisee*”).

Recitals

- A. This is the Release referred to in the Asset Purchase Agreement dated December 3, 2018 (the “*Purchase Agreement*”) by and among Texas Roadhouse, Inc., Texas Roadhouse Holdings LLC, Franchisee and the other parties named therein. Capitalized terms used in this agreement without definition shall have the meanings set forth in the Purchase Agreement.
- B. The parties to this Agreement acknowledge that Franchisor is not a party to the Purchase Agreement.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

1. The Franchise Agreement and all rights of Franchisee granted therein or ancillary thereto are hereby terminated *ipso facto*, and without need for any further action, as of Closing. Any covenants or other terms that survive termination of the Franchise Agreement shall continue in full force and effect in accordance with their terms.

2. Franchisee hereby releases and forever discharges Franchisor, Holdings, Roadhouse, their affiliates, subsidiaries and their respective heirs, successors, members, shareholders, partners, representatives, assigns, agents, officers, directors, independent contractors, servants and employees, in their corporate and individual capacities (“*Franchisor Affiliates*”), of and from any claims, debts, liabilities, demands, obligations, costs, expenses, actions and causes of action of every nature, character and description, known or unknown, vested or contingent, that Franchisee now owns or holds, or has at any time heretofore owned or held, or may at any time own or hold against Franchisor and its Franchisor Affiliates, arising prior to and including the date of Closing, including, without limitation, any such claims that Franchisee may have against Franchisor and its Franchisor Affiliates (i) arising under the Franchise Agreement, except those surviving the termination of the Franchise Agreement pursuant to the terms hereof and the Purchase Agreement, (ii) arising from the parties’ conduct during the term of the Franchise Agreement, (iii) arising during Franchisee’s operation of the Business, (iv) arising under federal, state and local laws, rules or ordinances, including, but not limited to, federal and state franchise and deceptive trade practice laws, (v) any obligation to refund or otherwise return any part of the franchise fee that Franchisee paid to Franchisor upon the execution of the Franchise Agreement, or (vi) arising under the Operating Agreement.

3. Franchisor hereby releases and forever discharges Franchisee, its affiliates, subsidiaries and their respective heirs, successors, members, managers, shareholders, partners, representatives, assigns, agents, officers, directors, independent contractors, servants and employees, in their corporate and individual capacities (“*Franchisee Affiliates*”), of and from any claims, debts, liabilities, demands, obligations, costs, expenses, actions and causes of action of every nature, character and description, known or unknown, vested or contingent, that Franchisor now owns or holds, or has at any time heretofore owned or held, or may at any time

own or hold against Franchisee and its Franchisee Affiliates, arising prior to and including the date of Closing, including, without limitation, any such claims that Franchisor may have against Franchisee and its Franchisee Affiliates (i) arising under the Franchise Agreement, except those surviving the termination of the Franchise Agreement pursuant to the terms hereof and the Purchase Agreement, (ii) arising from the parties' conduct during the term of the Franchise Agreement, (iii) arising during Franchisee's operation of the Business, except as expressly provided in the Purchase Agreement, or (iv) any franchise renewal fee or incremental royalty payments due had the Franchise Agreement been timely renewed, if applicable. Notwithstanding the foregoing, Franchisor does not release or discharge any claim (a) for any sums due under the Franchise Agreement or any sums due to Franchisor Affiliates for accounts receivables incurred in the ordinary course of Franchisee's business through and including the termination date or (b) against Franchisee Affiliates except those that specifically relate to the acts and omissions of Franchisee in the operation of the Business.

4. The releases herein shall not apply to any obligations of the parties under the Purchase Agreement.

5. This Agreement is made in the Commonwealth of Kentucky and its provisions shall be governed by and enforced and interpreted under the laws of that State, except that its conflicts of law rules shall be excluded.

—Signatures Appear on Following Page—

IN WITNESS WHEREOF the parties have executed and delivered this Agreement on this 3rd day of December, 2018.

FRANCHISOR:

TEXAS ROADHOUSE DEVELOPMENT CORPORATION,
a Kentucky corporation

By: /s/ Tonya Robinson
Name: Tonya Robinson
Title: Treasurer

FRANCHISEE:

GREEN BROTHERS DINING INC.,
a Florida corporation

By: /s/ W. Kent Taylor
Name: W. Kent Taylor
Title: President and Secretary

**Schedule of the Owners of Company-Managed Texas Roadhouse Restaurants and the
Interests Held by Directors, Executive Officers and 5% Stockholders Who Are Parties to
Limited Partnership Agreements and Operating Agreements**

As of December 25, 2018

<u>Entity Name</u>	<u>Restaurant Location</u>	<u>Percentage of Holdings' Interest</u>	<u>Actual Management Fee Charged</u>	<u>Percentage Owned by Executive Officers, Directors & 5% Stockholders</u>
Texas Roadhouse of Billings, LLC	Billings, MT	5%	0.5%	29.5%
Texas Roadhouse of Everett, LLC	Everett, MA	5%	0.5%	28.75%
Roadhouse of Fargo, LLC	Fargo, ND	5.05%	0.5%	5.05%
Texas Roadhouse of Gilbert, AZ, LLC	Gilbert, AZ	52.5%	3.5%	35.5%
Roadhouse of McKinney, Ltd.	McKinney, TX	5%	0.5%	2.0%
Hoosier Roadhouse, LLC	Muncie, IN	0%	0%	4.91%
Roadhouse of Omaha, LLC	Omaha, NE	5.49%	0.5%	10.99%
Texas Roadhouse of Port Arthur, Ltd.	Port Arthur, TX	5%	0.5%	18.0%
Roadhouse of Kansas, LLC	Wichita, KS	5%	0.5%	28.05%

Schedule of the Directors, Executive Officers and 5% Stockholders which have entered into License Agreements, Franchise Agreements or Preliminary Agreements for a Texas Roadhouse Restaurant

As of December 25, 2018

	<u>Name and Ownership</u>	<u>Prelim. Agt. Signed</u>	<u>Fran. or Lic. Agt. Signed</u>	<u>Franchise Fee</u>	<u>Royalty Rate</u>
BILLINGS, MT TEXAS ROADHOUSE OF BILLINGS, LLC 6040 DUTCHMANS LANE LOUISVILLE, KY 40205	W. Kent Taylor (27.5%) Scott M. Colosi (2.0%)	3/1/2002	12/11/2018	\$ 0	4.0 %
EVERETT, MA TEXAS ROADHOUSE OF EVERETT, LLC 6040 DUTCHMANS LANE LOUISVILLE, KY 40205	W. Kent Taylor (28.75%)	2/15/2002	6/8/2018	\$ 0	4.0 %
FARGO, ND (1) ROADHOUSE OF FARGO, LLC 6040 DUTCHMANS LANE LOUISVILLE, KY 40205	Scott M. Colosi (5.05%)	1/30/2006	10/5/2016	\$ 15,000	4.0 %
FARMINGTON, NM (2) ROADHOUSE OF FARMINGTON, NM, LLC 6040 DUTCHMANS LANE LOUISVILLE, KY 40205	W. Kent Taylor (95.0%)	3/19/2004		\$ 0	3.5 %
GILBERT – EAST (3) TEXAS ROADHOUSE OF GILBERT, AZ, LLC 6040 DUTCHMANS LANE LOUISVILLE, KY 40205	Doug Thompson (35.5%)	N/A	2/15/2008 (lic)	\$ 0	0.0%
LEXINGTON, KY MAN O'WAR RESTAURANTS, INC. 300 WEST VINE, SUITE 2200 LEXINGTON, KY 40507	W. Kent Taylor (5.0%)	N/A	9/26/1994 (lic) 8/13/2012 (fran)	\$ 0	2.0 %
MCKINNEY, TX ROADHOUSE OF MCKINNEY, LTD. 6040 DUTCHMANS LANE LOUISVILLE, KY 40205	Scott M. Colosi (2.0%)	3/16/2004	9/16/2014	\$ 0	4.0 %
MUNCIE, IN HOOSIER ROADHOUSE, LLC 2131 MELODY LANE ANDERSON, IN 46012	W. Kent Taylor (4.91%)	N/A	5/29/1996 (lic) 4/11/2013 (fran)	\$ 0	\$ 50,000 /yr
OMAHA, NE ROADHOUSE OF OMAHA, LLC 6040 DUTCHMANS LANE LOUISVILLE, KY 40205	Scott M. Colosi (10.99%)	3/19/2004	2/10/2017	\$ 15,000	4.0 %
PORT ARTHUR, TX TEXAS ROADHOUSE OF PORT ARTHUR, LTD. 6040 DUTCHMANS LANE LOUISVILLE, KY 40205	W. Kent Taylor (15.0%) Scott M. Colosi (3.0%)	12/15/2003	12/21/2018	\$ 0	4.0 %
WICHITA, KS ROADHOUSE OF KANSAS, LLC 6040 DUTCHMANS LANE LOUISVILLE, KY 40205	W. Kent Taylor (24.05%) Scott M. Colosi (4.0%)	3/17/2004	1/3/2015	\$ 0	4.0 %

(1) Franchise rights under Preliminary Agreement dated 4/27/2004 with Roadhouse of Louisiana, LLC were transferred to this location.

(2) Franchise rights under this Preliminary Agreement are to be transferred to a location not yet identified.

(3) Restaurant opened in August 2008. The entity pays management fees, but does not pay royalties.

SUBSIDIARIES OF THE COMPANY

The following contains a list of the “significant subsidiaries” of Texas Roadhouse, Inc. as of December 25, 2018, together with the names of certain other subsidiaries, and the states in which those subsidiaries are organized. The names of particular subsidiaries of Texas Roadhouse, Inc. have been omitted because, considered in the aggregate as a single subsidiary, they would not constitute, as of the end of the year covered by this report, a “significant subsidiary” as that term is defined in Rule 1-02(w) of Regulation S-X under the Securities Exchange Act of 1934.

I. SUBSIDIARIES WHOLLY-OWNED BY TEXAS ROADHOUSE, INC.

NAME OF ENTITY	FORM OF ENTITY
Strategic Restaurant Concepts, LLC (d/b/a Bubba’s 33 and Jaggers)	Kentucky limited liability company
Armadillo, Inc.	Virginia corporation
Roadhouse-Creek of NJ, LLC	Kentucky limited liability company
Texas Roadhouse Development Corporation	Kentucky corporation
Texas Roadhouse Holdings LLC	Kentucky limited liability company
Texas Roadhouse International, LLC	Nevada limited liability company
Texas Roadhouse Management Corp.	Kentucky corporation
Texas Roadhouse Central Treasury LLC	Kentucky limited liability company
Texas Roadhouse Delaware LLC	Delaware limited liability company

II. INDIRECTLY WHOLLY-OWNED SUBSIDIARIES

NAME OF ENTITY	FORM OF ENTITY
Roadhouse Enterprises, Inc.	Texas corporation
Texas Roadhouse of Kansas, LLC	Kansas limited liability company
Texas Roadhouse of Reno, NV, LLC	Nevada limited liability company
TRDC International, LLC	Nevada limited liability company
Texas Roadhouse International Services, LLC	Kentucky limited liability company
Roadhouse Private Beverage Club of Pelham, Inc.	Alabama Corporation
Texas Roadhouse Administrative Services, LLC	Kentucky limited liability company
Strategic Restaurant Enterprises, Inc.	Texas corporation
SRC of Kansas, LLC	Kansas limited liability company
TXRH International IP, LLC	Texas limited liability company
Texas Roadhouse Intermediary, LLC	Kentucky limited liability company
Texas Roadhouse of Jonesboro, Inc.	Arkansas non-profit corporation

III. PARTIALLY-OWNED SUBSIDIARIES

NAME OF ENTITY	FORM OF ENTITY
Texas Roadhouse of Austin-North, Ltd.	Kentucky limited partnership
Texas Roadhouse of Austin, Ltd.	Kentucky limited partnership
Texas Roadhouse of Bakersfield, LLC	Kentucky limited liability company
Texas Roadhouse of Baytown, TX, LLC	Kentucky limited liability company
Texas Roadhouse of Corona, CA LLC	Kentucky limited liability company
Texas Roadhouse of Fort Myers, FL, LLC	Kentucky limited liability company
Texas Roadhouse of Gilbert, AZ, LLC	Kentucky limited liability company
Texas Roadhouse of Hendersonville, de Novo, LLC	Kentucky limited liability company
Texas Roadhouse of Huber Heights, LLC	Kentucky limited liability company
Texas Roadhouse of Jacksonville, NC, LLC	Kentucky limited liability company
Texas Roadhouse of Lancaster OH, LLC	Kentucky limited liability company
Texas Roadhouse of Lexington, KY, II, LLC	Kentucky limited liability company
Texas Roadhouse of Mansfield, Ltd.	Kentucky limited partnership
Texas Roadhouse of Menifee, CA, LLC	Kentucky limited liability company
Texas Roadhouse of Orange Park, LLC	Kentucky limited liability company
Texas Roadhouse of Parker, LLC	Kentucky limited liability company
Texas Roadhouse of Richmond, LLC	Kentucky limited liability company
Texas Roadhouse of Stillwater, OK, LLC	Kentucky limited liability company
Texas Roadhouse of Valdosta, LLC	Kentucky limited liability company
Texas Roadhouse of Warwick, LLC	Kentucky limited liability company
SRC of Anne Arundel County, MD, LLC	Kentucky limited liability company
Texas Roadhouse of Baltimore County, MD, LLC	Kentucky limited liability company
Texas Roadhouse of Howard County, MD, LLC	Kentucky limited liability company

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Texas Roadhouse, Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 333-121241 and 333-188683) on Form S-8 of Texas Roadhouse, Inc. of our reports dated February 22, 2019, with respect to the consolidated balance sheets of Texas Roadhouse, Inc. and subsidiaries as of December 25, 2018 and December 26, 2017, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 25, 2018, and the related notes (collectively, the consolidated financial statements), and the effectiveness of internal control over financial reporting as of December 25, 2018, which reports appear in the December 25, 2018 annual report on Form 10-K of Texas Roadhouse, Inc.

/s/ KPMG LLP

Louisville, Kentucky
February 22, 2019

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT**

I, W. Kent Taylor, certify that:

1. I have reviewed this report on Form 10-K of Texas Roadhouse, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2019

By: /s/ W. Kent Taylor
W. Kent Taylor
Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT**

I, Tonya R. Robinson, certify that:

1. I have reviewed this report on Form 10-K of Texas Roadhouse, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2019

By: /s/ TONYA R. ROBINSON
Tonya R. Robinson
Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

I, W. Kent Taylor, Chief Executive Officer of Texas Roadhouse, Inc. (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) The Annual Report on Form 10-K of the Company for the fiscal year ended December 25, 2018 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

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

Date: February 22, 2019

By: /s/ W. Kent Taylor

W. Kent Taylor
Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

I, Tonya R. Robinson, Chief Financial Officer of Texas Roadhouse, Inc. (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) The Annual Report on Form 10-K of the Company for the fiscal year ended December 25, 2018 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

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

Date: February 22, 2019

By: /s/ TONYA R. ROBINSON

Tonya R. Robinson
Chief Financial Officer
