

Texas Roadhouse, Inc.
Form 10-K
February 26, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 K

(Mark One)

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

For the fiscal year ended December 29, 2015
OR

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

For the transition period from _____ to _____
Texas Roadhouse, Inc.

(Exact name of registrant specified in its charter)

Delaware 000 50972 20 1083890
(State or other jurisdiction of (Commission File Number) (IRS Employer
incorporation or organization) 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

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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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No .

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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 30, 2015 was \$2,383,696,151 based on the closing stock price of \$37.09. 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 70,089,368 on February 17, 2016.

Portions of the registrant's definitive Proxy Statement for the registrant's 2016 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 29, 2015, 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 strategy;
- our ability to successfully open new restaurants, acquire franchise restaurants 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 or production and the sale of food and alcoholic beverages;
- the impact of litigation, including 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 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 new restaurant concepts and our ability to open 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 growth initiatives;
- negative publicity regarding food safety, health concerns and other food or beverage related matters, including the integrity of our or our suppliers' food processing;

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- our franchisees' adherence to our practices, policies and procedures;
- 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 insurance losses and loss estimates;
- adoption of new, or changes in existing, accounting policies and practices;
- 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," 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," 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.

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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

Texas Roadhouse, Inc. is a growing restaurant company operating predominately in the casual dining segment. Our founder, chairman and chief executive officer ("CEO"), 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 483 restaurants in 49 states and four 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 29, 2015, we owned and operated 401 restaurants and franchised an additional 82 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 401 company owned restaurants is considered an operating segment.

Narrative Description of Business

Of the 401 restaurants we owned and operated at the end of 2015, we operated 392 as Texas Roadhouse restaurants and seven as Bubba's 33 restaurants. In addition, we operated two restaurants outside of the casual dining segment. In 2016, we plan to open approximately 30 company restaurants. While the majority of our restaurant growth in 2016 will be Texas Roadhouse restaurants, we currently expect to open approximately seven Bubba's 33 restaurants.

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

Texas Roadhouse is a moderately priced, full service, casual dining restaurant concept offering an assortment of specially seasoned and aged steaks hand cut daily on the premises and cooked to order over open grills. In addition to steaks, we also offer our guests a selection of ribs, fish, 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 offering an assortment of wings, sandwiches, pizza and burgers including our signature 33% bacon grind patty. In addition, we also offer our guests a selection of chicken, beef, fish and seafood. Bubba's 33 also offers an extensive selection of draft beer. Our first Bubba's 33 restaurant opened in May 2013.

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. At our Texas Roadhouse restaurants, we hand cut all but one of our assortment of steaks and make our sides from scratch. At our Bubba's 33 restaurants, we make our sides and bake our buns from scratch. 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.

- 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

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"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 net 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. In addition, we believe the dinner focus provides a better "quality of life" for our management teams and, therefore, is a key ingredient in attracting and retaining talented and experienced management personnel. We also 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.
- 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 \$9.99 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 2015 was \$16.31. 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 entrees range from \$7.99 for a turkey burger to \$19.99 for our 14-ounce ribeye.
- Creating a fun and comfortable atmosphere. We believe the atmosphere we establish in our restaurants is a key component for fostering repeat business. 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 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 6,700 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 57 to 68 tables for a total of 245 to 329 guests, including 15 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 Bubba's 33 restaurants to range between 7,700 and 8,900 square feet depending on location.

As of December 29, 2015, we leased 271 properties and owned 130 properties. Our 2015 average unit volume for all Texas Roadhouse company restaurants open before July 1, 2014 was \$4.7 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 2015, the average capital investment, including pre-opening costs, for the 24 Texas Roadhouse company restaurants opened during the year was \$4.7 million, broken down as follows:

	Average Cost	Low	High
Land(1)	\$ 1,225,000	\$ 725,000	\$ 2,205,000
Building(2)	1,725,000	1,365,000	2,150,000
Furniture and Equipment	1,100,000	1,010,000	1,165,000

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Pre-opening costs	600,000	410,000	1,085,000
Other(3)	50,000	—	440,000
Total	\$ 4,700,000		

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- (1) Represents the average cost for land acquisitions or 10x's initial base rent in the event the land is leased.
- (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 in 2014 and 2013 was \$5.1 million and \$4.1 million, respectively. The increase in our 2014 average capital investment was primarily due to higher building costs at certain locations, such as Anchorage, Alaska and the New York, New York vicinity, along with higher pre-opening costs due to unexpected delays in restaurant openings throughout the year. We expect our average capital investment for Texas Roadhouse restaurants opened in 2016 to be approximately \$4.8 million.

For 2015, the average capital investment, including pre-opening costs, for the four Bubba's 33 company restaurants opened during the year was \$6.0 million. We expect our average capital investment for Bubba's 33 restaurants opened in 2016 to be approximately \$5.7 million to \$6.0 million.

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 (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, including 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, traffic counts and parking. We work actively with 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, it requires approximately four to five months to construct, equip and open a restaurant.

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Existing Restaurant Locations

As of December 29, 2015, we had 401 company restaurants and 82 franchise restaurants in 49 states and four foreign countries as shown in the chart below.

	Number of Restaurants		
	Company	Franchise	Total
Alabama	8	—	8
Alaska	2	—	2
Arizona	15	—	15
Arkansas	3	—	3
California	3	6	9
Colorado	15	1	16
Connecticut	4	—	4
Delaware	2	2	4
Florida	20	4	24
Georgia	5	7	12
Idaho	5	—	5
Illinois	15	—	15
Indiana	17	8	25
Iowa	9	—	9
Kansas	3	1	4
Kentucky	11	2	13
Louisiana	9	1	10
Maine	3	—	3
Maryland	5	6	11
Massachusetts	8	1	9
Michigan	11	3	14
Minnesota	4	—	4
Mississippi	1	—	1
Missouri	11	—	11
Montana	—	1	1
Nebraska	3	1	4
Nevada	1	—	1
New Hampshire	3	—	3
New Jersey	6	—	6
New Mexico	4	—	4
New York	14	—	14
North Carolina	17	—	17
North Dakota	2	1	3
Ohio	26	2	28
Oklahoma	6	—	6
Oregon	2	—	2
Pennsylvania	20	6	26
Rhode Island	3	—	3
South Carolina	2	6	8
South Dakota	2	—	2
Tennessee	11	2	13

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Texas	54	5	59
Utah	9	1	10
Vermont	1	—	1
Virginia	12	—	12
Washington	1	—	1
West Virginia	1	2	3
Wisconsin	10	3	13
Wyoming	2	—	2
Total domestic restaurants	401	72	473
United Arab Emirates	—	4	4
Saudi Arabia	—	1	1
Kuwait	—	3	3
Taiwan	—	2	2
Total international restaurants	—	10	10
Total system-wide restaurants	401	82	483

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Food

Menu. Our restaurants offer a wide variety of menu items at attractive prices that are designed to appeal to a broad range of consumer tastes. At Texas Roadhouse restaurants, our dinner entrée prices generally range from \$8.99 to \$26.99. We offer a broad assortment of specially seasoned and aged steaks, all cooked over open grills and all but one hand cut daily on the premises. We also offer our guests a selection of ribs, fish, 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®". 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 \$5.99 to \$19.99. We offer a broad assortment of wings, sandwiches, pizzas and burgers, including our signature 33% bacon grind patty. In addition, we also offer our guests a selection of chicken, beef, fish and seafood. Bubba's 33 also offers an extensive selection of draft beer. We provide a "12 & Under" menu for children at Bubba's 33 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 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 approximately 11% of restaurant sales in fiscal 2015.

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 so as 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 Texas Roadhouse restaurant, a trained meat cutter hand cuts our steaks and other restaurant team members prepare our side items and yeast rolls from scratch in the restaurants daily. At both Texas Roadhouse and Bubba's 33, 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 team currently consists of over 45 product coaches, supporting 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 Temp procedures. We have a food team whose function, in conjunction with our product coaches, is to develop, enforce and maintain programs designed to promote compliance with food safety guidelines. As a requirement of our quality assurance process, primary food items purchased from qualified vendors have been inspected by reputable, outside inspection services confirming that the vendor is compliant with United States Food and Drug Administration ("FDA") and United States Department of Agriculture ("USDA") guidelines.

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

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

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

Service

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

Guest Satisfaction. Through the use of guest surveys, our websites, "texasroadhouse.com" and "bubbas33.com", a toll free guest response telephone line, 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, featuring an exterior of rough hewn cedar siding and corrugated metal. The interiors feature pine floors and stained concrete 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. Guests may wait for seating in either a spacious, comfortable waiting area or a southwestern style bar. 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 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 oversees up to 10 to 15 managing partners and their respective management teams. Market partners also assist with our site selection process and recruitment of new management teams. 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 and in groups in Louisville, Kentucky.

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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 team members 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 the market 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 Area Marketing. Given our strategy to be a neighborhood destination, local restaurant area 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 product and people. Our restaurants use a permission-based email loyalty program, as well as social media, 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 29, 2015, we had 22 franchisees that operated 82 Texas Roadhouse restaurants in 23 states and four 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 Texas Roadhouse franchisees. Approximately 75% of our franchise restaurants are operated by 10 franchisees and no franchisee operates more than 14 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 requires the franchisee to pay a royalty fee of 4.0% of gross sales. The royalty fee varies depending on when the agreements were entered

into and range from 2.0% of gross sales to the current 4.0% fee. 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

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· 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 the 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 agreements for the development of Texas Roadhouse restaurants in foreign countries. In 2010, we entered into an agreement for the development of Texas Roadhouse restaurants in eight countries in the Middle East over a 10 year period. In 2015, we amended our agreement in the Middle East to add one additional country to the territory. We currently have eight restaurants open in the Middle East. In addition to the Middle East, we currently have signed franchise development agreements for the development of Texas Roadhouse restaurants in Taiwan, the Philippines and Mexico. We currently have two restaurants open in Taiwan. 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. The term of the agreements may be extended. 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 franchise agreement, including its obligations to operate the restaurant in strict accordance with our standards and specifications. A franchise agreement may also be terminated if a franchisee becomes insolvent, fails to make its required payments, creates a threat to the public health or safety, ceases to operate the restaurant, or misuses the Texas Roadhouse trademarks.

Franchise Compliance Assurance. We have various systems in place to promote compliance with our systems and standards, both during the development and operating 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 approve 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 founder have an ownership interest and six additional franchise restaurants in which neither we nor our founder have an ownership interest. Such management services include accounting, operational supervision, human resources, training, and food, beverage and equipment consulting for which we receive monthly fees of up to 2.5% of gross sales. We also make available to these restaurants certain legal services, restaurant employees and employee benefits on a

pass through cost basis. In addition, we receive a monthly fee from 15 franchise restaurants for providing payroll and accounting services.

Information Technology

All of our company owned 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

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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, 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 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 check for vulnerability.

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 mid priced, full service, casual dining restaurants primarily on the basis of taste, quality and price of the food offered, service, atmosphere, location and overall dining experience. Our competitors include a large and diverse group of restaurants that range from independent local operators to well capitalized national restaurant chains. We also face growing competition from the supermarket industry, which offers "convenient" meals in the form of improved entrees and side dishes from the deli section. 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 stylized logos. We have registered all of our significant marks with the United States Patent and Trademark Office. We have registered or have registrations pending for our most significant trademarks and service marks in 46 foreign jurisdictions including the European Union. 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 and local laws affecting our businesses. Each of our restaurants is subject to permitting, licensing and regulation by a number of government authorities, which may include among others, alcoholic beverage control, health and safety, nutritional menu labeling, health care, sanitation, building and fire codes, and to compliance with the applicable zoning, land use and environmental laws and regulations. Difficulties in obtaining or failure to obtain required licenses or approvals could delay or prevent the development of a new restaurant in a particular area. Additionally, difficulties or inability to retain or renew licenses, or increased compliance costs due to changed regulations, could adversely affect operations at existing restaurants.

In 2015, the sale of alcoholic beverages at our Texas Roadhouse restaurants accounted for approximately 11% of our restaurant sales. Alcoholic beverage control regulations 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

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premises that 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. The failure of a restaurant to obtain or retain liquor or food service licenses or permits would have a material adverse effect on the restaurant's operations. To reduce this risk, each company restaurant is operated in accordance with procedures intended to facilitate compliance with applicable codes and regulations.

We are 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 tip wage requirements, overtime pay, health benefits, unemployment tax rates, workers' compensation rates, citizenship requirements, working conditions, safety standards and hiring and employment practices. Significant numbers of our service, food preparation and other personnel are paid at rates related to the federal minimum wage (which currently is \$7.25 per hour) or federal minimum tipped wage (which currently is \$2.13 per hour). Our employees who receive tips as part of their compensation, such as servers, are paid at or above a minimum wage rate, after giving effect to applicable tip credits. We rely on our employees to accurately disclose the full amount of their tip income, and we base our FICA tax reporting on the disclosures provided to us by such tipped employees. Numerous states in which we operate have passed legislation governing the applicable state minimum hourly and/or tipped wage. Further planned and unplanned increases in federal and/or state minimum hourly and tipped wages or state unemployment tax rates will increase our labor costs. These increases may or may not be offset by additional menu price adjustments and/or guest traffic growth.

The Patient Protection and Affordable Care Act of 2010 (the "PPACA") includes provisions requiring all Americans to obtain health care coverage in 2015. As part of these provisions, we are required to offer health insurance benefits to some of our employees that were not previously offered coverage or pay a penalty. In 2014, we offered coverage to an expanded group of hourly employees that worked a minimum of 35 hours a week which resulted in approximately \$3.0 million in higher health care benefit costs. At the beginning of 2015, we offered coverage to an expanded group of employees, which included hourly employees that work a minimum of 30 hours per week. As a result of this change, our health care benefit costs were approximately \$4.5 million higher in 2015 compared to the prior year. We continue to assess the ongoing impact of these provisions on our health care benefit costs. While we believe that the impact of the requirement to provide more extensive health insurance benefits to employees is manageable, the requirements could have an adverse effect on our results of operations and financial position. These increases may or may not be offset by additional menu price adjustments and/or guest traffic growth.

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. The PPACA establishes a uniform, federal requirement for certain restaurants to post nutritional information on their menus, which specifically requires chain restaurants with 20 or more locations operating under the same name and offering substantially the same menus to publish the total number of calories of standard menu items on menus and menu boards, along with a statement that puts this calorie information in the context of a total daily calorie intake. The PPACA also requires covered restaurants to provide to consumers, upon request, a written summary of detailed nutritional information for each standard menu item and to provide a statement on menus and menu boards about the availability of this information. The PPACA further permits the FDA to require covered restaurants to make additional nutrient disclosures, such as disclosure of trans fat content. The FDA released final regulations to implement the menu labeling provision of the PPACA in November 2014 with

a compliance date of December 1, 2016. Compliance with current and future laws and regulations regarding the ingredients and nutritional content of our menu items may be costly and time consuming. Additionally, if consumer health regulations or consumer eating habits change significantly, we may be required to modify or discontinue certain menu items, and we may experience higher costs associated with the implementation of those changes. In addition, we cannot make any assurances regarding our ability to effectively respond to changes in consumer health perceptions or our ability to successfully implement the nutrient content disclosure requirements 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.

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

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service to disabled persons and make reasonable accommodation for their employment. In addition, when constructing or undertaking significant 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.

See Item 1A "Risk Factors" below for a discussion of risks relating to federal, state and local regulation of our business.

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 29, 2015, we employed approximately 47,900 people in the company restaurants we own and operate and our corporate support center. This amount includes 528 executive and administrative personnel and 1,854 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	60	Chairman and Chief Executive Officer
Scott M. Colosi	51	President and Chief Financial Officer
Celia P. Catlett	39	General Counsel and Corporate Secretary
S. Chris Jacobsen	50	Chief Marketing Officer

W. Kent Taylor. Mr. Taylor is the founder of Texas Roadhouse and 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 30 years of experience in the restaurant industry.

Scott M. Colosi. Mr. Colosi was appointed President in August 2011 and has served as Chief Financial Officer since January 2015. Previously, Mr. Colosi served as our Chief Financial Officer from September 2002 to August 2011. From 1992 until September 2002, Mr. Colosi was employed by YUM! Brands, Inc., owner of 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 15 years of legal experience, including over 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.

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Website Access to Reports

We make our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934, available, free of charge on or through the 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").

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 Business and Industry

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 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 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.

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. We expect this to continue to be the case for the near future.

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. We cannot assure you that we will be able to find sufficient suitable locations, or suitable purchase or lease terms, for planned expansion in any future period. 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 hire, train and retain qualified operating personnel, especially market partners and managing partners;

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- 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;
- our ability to secure liquor licenses;
- general economic conditions;
- the cost and availability of capital to fund construction costs and pre opening expenses; and
- weather and acts of God.

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. Our ability to operate new restaurants profitably will depend on numerous factors, including those discussed above impacting our average unit volume and comparable restaurant sales, some of which are beyond our control, including, but not limited to, the following:

- competition from competitors in our industry or our own restaurants;
- consumer acceptance of our restaurants in new domestic or international markets;
- 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
- weather and acts of God.

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 to our employees could result in the significant loss of qualified personnel which could harm our business and future prospects.

Our expansion into new domestic and/or international markets may present increased risks due to our unfamiliarity with the area.

Some of our new restaurants will be located in areas where we have little or no meaningful experience. Those markets may have different competitive conditions, consumer tastes and discretionary spending patterns than our existing markets, which may cause our new restaurants to be less successful than restaurants in our existing markets. An additional risk of expanding into new markets is the lack of market awareness of our brands. 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.

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 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.

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The acquisition of existing restaurants from our franchisees and other strategic transactions may have unanticipated consequences that could harm our business and our financial condition.

We plan to opportunistically acquire existing restaurants from our 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, 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. The development of additional concepts and/or the entrance into international markets may not be as successful as our experience in the development of the Texas Roadhouse concept domestically. Development rates for newer brands may differ significantly as there is increased risk in the development of a new restaurant concept or system.

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;
- unusually strong initial sales performance by new restaurants;
 - competition, either from our competitors in the restaurant industry or our own restaurants;
- weather and acts of God;
- consumer trends;
- 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; and
- general economic conditions, which can affect restaurant traffic, local labor costs and prices we pay for the food products and other supplies we use.

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Our average unit volume and comparable restaurant sales growth may not increase at rates achieved in the past. Changes in our average unit volume and comparable restaurant sales growth could cause the price of our common stock to fluctuate substantially.

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 tip wage rates, state unemployment tax rates, 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 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 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;
- fluctuations in commodity prices;
- competitive actions; and
- weather and acts of God.

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.

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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.

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 managers and hourly employees. Increased labor costs due to competition, unionization, increased minimum and tip wages, state unemployment rates or employee benefits costs or otherwise, would adversely impact our operating expenses. The federal government and numerous states have enacted legislation resulting in tip and/or minimum wage increases as well as pre determined future increases. We anticipate that additional legislation will be enacted in future periods. The Patient Protection and Affordable Care Act ("PPACA") includes provisions requiring health care coverage for all Americans in 2015. The legislation imposes implementation effective dates that began in 2010 and extend through 2020, and many of the changes require additional guidance from government agencies or federal regulations. The requirements to provide health insurance benefits to employees could have an adverse effect on our results of operations and financial position. 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. In addition, a shortage in the labor pool or other general inflationary pressures or changes could also increase our labor costs. Our operating margin will be adversely affected to the extent that we are not able or are unwilling to offset these costs through higher prices on our products.

Moreover, we could suffer from significant indirect costs, including restaurant disruptions due to management or hourly labor turnover and potential delays in new restaurant openings or adverse guest reactions to inadequate guest service levels due to staff shortages. Competition for qualified employees exerts upward pressure on wages paid to attract such personnel, resulting in higher labor costs, together with greater recruitment and training expense. 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.

In addition, our success depends on our ability to attract, motivate and retain qualified employees, including restaurant managers and staff, to keep pace with our growth strategy. If we are unable to do so, our results of operations may be adversely affected.

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Approximately 14% of our company owned 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 29, 2015, we operated a total of 54 company owned 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.

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

During 2016 and possibly beyond, the U.S. and global economies may 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.

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

Our success depends, in part, upon the popularity of our food products. 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 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 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 the supermarket industry which offers "convenient" meals in the form of improved entrees and side dishes from the deli section. 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 hourly 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.

Given the marked increase in the use of social media platforms and similar devices 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

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subscribers and participants can 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.

Health 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, illness and injury in general. In recent years there has been negative publicity concerning e coli, hepatitis A, "mad cow," "foot and mouth" disease and "bird flu." The restaurant industry has also been subject to a growing number of claims that the menus and actions of restaurant chains have led to the obesity of certain of their guests. In November 2014, the FDA published final regulations to implement the menu labeling provisions of the PPACA with a compliance date of December 2015. In July 2015, the FDA delayed compliance in order to further clarify guidance. Companies have until December 1, 2016 to comply with the new guidance. We cannot make any assurances regarding our ability to effectively respond to changes in consumer health perceptions or our ability to successfully implement the nutrient content disclosure requirements 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 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 revenues 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 sales.

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 the Norovirus, Ebola, Avian Flu, SARS and H1N1. To the extent that a virus is food borne, future outbreaks may

adversely affect the price and availability of certain food products and cause our guests to eat less of a product. To the extent that a virus is transmitted by human to human contact, our employees or guests could become infected, or could choose, or be advised or required, to avoid gathering in public places, any one of which could adversely affect our business.

We 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, including point of sale processing in our restaurants for 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.

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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. Remediation of such problems could result in significant, unplanned capital investments.

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

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 2015, approximately 77% 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 the subject to lawsuits or other proceedings relating to these type 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 a material adverse revenue consequences for us and our restaurants.

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

The restaurant industry is subject to various federal, state and local government regulations, including those relating to the sale of food and alcoholic beverages. Such regulations are subject to change from time to time. 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 tip wage requirements, overtime pay, health benefits, unemployment tax rates, workers' compensation rates, citizenship 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 against us;
- 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

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position. We, therefore, devote appropriate resources to the protection of our trademarks and proprietary rights. The protective actions that we take, however, 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.

Complaints or litigation may hurt us.

Occasionally, our guests file complaints or lawsuits against us alleging that we are responsible for some illness or injury they suffered as a result of a visit to our restaurants, or that we have problems with food quality or operations. We are also subject to a variety of other claims arising in the ordinary course of our business, including personal injury claims, contract claims, claims from franchisees and claims alleging violations of federal and state laws regarding consumer, workplace and employment matters, wage and hour claims, discrimination and similar matters, or we could become subject to class action lawsuits related to these matters in the future. The restaurant industry has also been subject to a growing number of claims that the menus and actions of restaurant chains have led to the obesity of certain of their guests. 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. 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 that is uninsured or significantly in excess of our insurance coverage for any claims could materially adversely affect our business, results of operations, financial condition or liquidity. Further, adverse publicity resulting from these allegations may have a material adverse effect on us and our restaurants.

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.

We may need additional capital in the future and it may not be available on acceptable terms.

The development of our business may require significant additional capital in the future to, among other things, fund our operations and growth strategy. We may rely on bank financing and 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 ability to obtain additional financing will be subject to a number of factors, including market conditions, our operating performance, investor sentiment and our ability to incur additional debt in

compliance with agreements governing our outstanding debt. These factors may make the timing, amount, terms and conditions of additional financings unattractive to us. 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

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secured indebtedness that in the aggregate exceeds 15% 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.

We have also entered into another loan agreement to finance a restaurant which imposes financial covenants that are less restrictive than those imposed by our existing revolving credit facility. A default under this loan agreement could result in a default under our existing revolving credit facility, which in turn would limit our ability to secure additional funds under that facility. As of December 29, 2015, we were in compliance with all of our lenders' covenants.

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 owned restaurant operations, as well as our overall performance in connection with our impairment analyses for long lived assets. When impairment triggers are deemed to exist for any company owned restaurant, the estimated undiscounted future cash flows for the restaurant are compared to its carrying value. If the carrying value exceeds the undiscounted cash flows, an impairment charge would be recorded equal to the difference between the carrying value and the estimated fair value.

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

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

If we lose the services of any of our key management personnel, our business could suffer.

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.

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, "blank check" preferred stock and staggered terms for our Board of Directors. 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.

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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.

ITEM 1B—UNRESOLVED STAFF COMMENTS

None.

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ITEM 2—PROPERTIES

Properties

Our Support Center is located in Louisville, Kentucky. We occupy this facility under leases with Paragon Centre Holdings, LLC, a limited liability company in which we have a minority ownership position. As of December 29, 2015, we leased 75,219 square feet. Our leases expire between December 31, 2029 and December 31, 2030 including all applicable extensions. Of the 401 company restaurants in operation as of December 29, 2015, we owned 130 locations and leased 271 locations, as shown in the following table.

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State	Owned	Leased	Total
Alabama	3	5	8
Alaska	—	2	2
Arizona	6	9	15
Arkansas	—	3	3
California	1	2	3
Colorado	7	8	15
Connecticut	—	4	4
Delaware	1	1	2
Florida	3	17	20
Georgia	2	3	5
Idaho	1	4	5
Illinois	2	13	15
Indiana	10	7	17
Iowa	2	7	9
Kansas	2	1	3
Kentucky	4	7	11
Louisiana	2	7	9
Maine	—	3	3
Maryland	—	5	5
Massachusetts	1	7	8
Michigan	3	8	11
Minnesota	1	3	4
Mississippi	1	—	1
Missouri	2	9	11
Nebraska	1	2	3
Nevada	—	1	1
New Hampshire	2	1	3
New Jersey	—	6	6
New Mexico	1	3	4
New York	3	11	14
North Carolina	5	12	17
North Dakota	—	2	2
Ohio	12	14	26
Oklahoma	2	4	6
Oregon	—	2	2
Pennsylvania	3	17	20
Rhode Island	—	3	3
South Carolina	—	2	2
South Dakota	1	1	2
Tennessee	—	11	11
Texas	35	19	54
Utah	—	9	9
Vermont	—	1	1
Virginia	4	8	12
Washington	—	1	1
West Virginia	1	—	1
Wisconsin	4	6	10

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Wyoming	2	—	2
Total	130	271	401

Additional information concerning our properties and leasing arrangements is included in note 2(p) and note 7 to the Consolidated Financial Statements appearing in Part II, Item 8 of this Annual Report on Form 10-K.

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ITEM 3—LEGAL PROCEEDINGS

On September 30, 2011, the U.S. Equal Employment Opportunity Commission ("EEOC") filed a 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 complaint alleges that applicants over the age of 40 were denied employment in our restaurants in bartender, host, server and server assistant positions due to their age. The EEOC is seeking injunctive relief, remedial actions, payment of damages to the applicants and costs. We have filed an answer to the complaint, and the case is in discovery. We deny liability; however, in view of the inherent uncertainties of litigation, the outcome of this case cannot be predicted at this time. We cannot estimate the amount or range of loss, if any, associated with this matter.

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

ITEM 4—MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

Our common stock is traded on the Nasdaq Global Select Market under the symbol TXRH. Dividend information and the quarterly high and low sales prices of our common stock by quarter were as follows:

	High	Low	Dividends Declared
Year ended December 29, 2015			
First Quarter	\$ 38.42	\$ 32.13	\$ 0.17
Second Quarter	\$ 37.80	\$ 33.33	\$ 0.17
Third Quarter	\$ 40.82	\$ 31.55	\$ 0.17
Fourth Quarter	\$ 38.64	\$ 33.06	\$ 0.17
Year ended December 30, 2014			
First Quarter	\$ 27.95	\$ 22.87	\$ 0.15
Second Quarter	\$ 27.11	\$ 23.73	\$ 0.15
Third Quarter	\$ 27.93	\$ 24.51	\$ 0.15
Fourth Quarter	\$ 34.32	\$ 26.63	\$ 0.15

The number of holders of record of our common stock as of February 17, 2016 was 246.

On February 19, 2016, our Board of Directors authorized the payment of a cash dividend of \$0.19 per share of common stock. This payment will be distributed on April 1, 2016, to shareholders of record at the close of business on March 16, 2016. 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 credit facility and other contractual restrictions, or other factors deemed relevant.

As of December 29, 2015, shares of common stock authorized for issuance under our equity compensation plans are summarized in the following table. The weighted average option exercise price is for stock options only, as the restricted stock has no exercise price. See note 13 to the Consolidated Financial Statements for a description of the plans.

Plan Category	Shares to Be Issued Upon Exercise	Weighted-Average Option Exercise Price	Shares Available for Future Grants
Plans approved by stockholders(1)	1,543,084	\$ 13.10	5,275,064
Plans not approved by stockholders	—	—	—
Total	1,543,084	\$ 13.10	5,275,064

(1) See note 13 to the Consolidated Financial Statements.
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. 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.

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During 2015, we paid approximately \$11.4 million to repurchase 321,789 shares of our common stock, and we had \$74.0 million remaining under our authorized stock repurchase program as of December 29, 2015.

Since commencing our repurchase program in 2008, we have repurchased a total of 14,730,151 shares of common stock at a total cost of \$212.4 million through December 29, 2015 under authorizations from our Board of Directors. The following table includes information regarding purchases of our common stock made by us during the 13 weeks ended December 29, 2015.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
September 30 to October 27	39,200	\$ 36.15	39,200	\$ 79,258,206
October 28 to November 24	70,000	\$ 34.55	70,000	\$ 76,841,018
November 25 to December 29	80,500	\$ 35.02	80,500	\$ 74,023,881
Total	189,700		189,700	

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 29, 2015, 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 28, 2010 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 28, 2010

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

	12/28/2010	12/27/2011	12/25/2012	12/31/2013	12/30/2014	12/29/2015
Texas Roadhouse, Inc.	\$ 100.00	\$ 87.41	\$ 97.17	\$ 160.60	\$ 195.15	\$ 208.32
Russell 3000	\$ 100.00	\$ 99.70	\$ 112.80	\$ 147.75	\$ 164.80	\$ 163.50
Russell 3000 Restaurant	\$ 100.00	\$ 127.85	\$ 127.07	\$ 161.02	\$ 168.94	\$ 199.82

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ITEM 6—SELECTED CONSOLIDATED FINANCIAL DATA

We derived the selected consolidated financial data as of and for the years 2015, 2014, 2013, 2012, and 2011 from our audited consolidated financial statements.

The Company utilizes a 52 or 53 week accounting period that ends on the last Tuesday in December. The Company utilizes a 13 or 14 week accounting period for quarterly reporting purposes. Fiscal year 2013 was 53 weeks in length while fiscal years 2015, 2014, 2012, and 2011 were 52 weeks in length. Our historical results are not necessarily indicative of our results for any future period.

	Fiscal Year				
	2015	2014	2013	2012	2011
	(in thousands, except per share data)				
Consolidated Statements of Income:					
Revenue:					
Restaurant sales	\$ 1,791,446	\$ 1,568,556	\$ 1,410,118	\$ 1,252,358	\$ 1,099,475
Franchise royalties and fees	15,922	13,592	12,467	10,973	9,751
Total revenue	1,807,368	1,582,148	1,422,585	1,263,331	1,109,226
Income from operations	144,565	130,449	119,715	110,458	95,239
Income before taxes	144,247	129,967	118,227	108,539	93,192
Provision for income taxes	42,986	38,990	34,140	34,738	26,765
Net income including noncontrolling interests	\$ 101,261	\$ 90,977	\$ 84,087	\$ 73,801	\$ 66,427
Less: Net income attributable to noncontrolling interests	4,367	3,955	3,664	2,631	2,463
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	\$ 96,894	\$ 87,022	\$ 80,423	\$ 71,170	\$ 63,964
Net income per common share:					
Basic	\$ 1.38	\$ 1.25	\$ 1.15	\$ 1.02	\$ 0.90
Diluted	\$ 1.37	\$ 1.23	\$ 1.13	\$ 1.00	\$ 0.88
Weighted average shares outstanding(1):					
Basic	70,032	69,719	70,089	70,026	70,829
Diluted	70,747	70,608	71,362	71,485	72,278

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	Fiscal Year									
	2015		2014		2013		2012		2011	
	(\$ in thousands)									
Consolidated Balance Sheet Data:										
Cash and cash equivalents	\$ 59,334		\$ 86,122		\$ 94,874		\$ 81,746		\$ 78,777	
Total assets	1,032,706		943,142		877,644		791,254		740,670	
Long-term debt and obligations under capital leases, net of current maturities										
	25,550		50,693		50,990		51,264		61,601	
Total liabilities	355,524		328,186		283,784		260,517		244,848	
Noncontrolling interests	7,520		7,064		6,201		5,653		3,918	
Texas Roadhouse, Inc. and subsidiaries stockholders' equity(2)	\$ 669,662		\$ 607,892		\$ 587,659		\$ 525,084		\$ 491,904	
Selected Operating Data (unaudited):										
Restaurants:										
Company-Texas Roadhouse	392		368		345		318		291	
Company-Bubba's 33	7		3		1		—		—	
Company-Other	2		1		—		2		3	
Franchise	82		79		74		72		72	
Total	483		451		420		392		366	
Company restaurant information:										
Store weeks	20,020		18,565		17,426		15,936		14,573	
Comparable restaurant sales growth(3)	7.2	%	4.7	%	3.4	%	4.7	%	4.7	%
Texas Roadhouse restaurants only:										
Comparable restaurant sales growth(3)	7.2	%	4.7	%	3.4	%	4.7	%	4.8	%
Average unit volume(4)	\$ 4,664		\$ 4,355		\$ 4,186		\$ 4,085		\$ 3,917	
Net cash provided by operating activities	\$ 227,941		\$ 191,713		\$ 173,836		\$ 148,046		\$ 136,419	
Net cash used in investing activities	\$ (173,203)		\$ (124,240)		\$ (111,248)		\$ (90,154)		\$ (79,475)	
Net cash used in financing activities	\$ (81,526)		\$ (76,225)		\$ (49,460)		\$ (54,923)		\$ (64,421)	

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

(2) See note 10 to the Consolidated Financial Statements.

(3) Comparable restaurant sales growth reflects the change in sales over the same period of the prior years 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. Although 2013 contained 53 weeks, for comparative purposes, 2013 average unit volume was

adjusted to a 52 week basis. Additionally, average unit volume of company owned restaurants for 2014 and 2013 in the table above was adjusted to reflect the restaurant sales of any acquired franchise restaurants.

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

The discussion and analysis below for the Company should be read in conjunction with the consolidated financial statements and the notes to such financial statements (pages F 1 to F 26), "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 483 restaurants in 49 states and four 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 29, 2015, our 483 restaurants included:

- 401 "company restaurants," of which 385 were wholly owned and 16 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 minority 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 401 restaurants we owned and operated at the end of 2015, we operated 392 as Texas Roadhouse and operated seven as Bubba’s 33 restaurants. In addition, we operated two restaurants outside of the casual dining segment.
- 82 "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 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. We have contractual arrangements which grant us the right to acquire at pre determined formulas (i) the remaining equity interests in 14 of the 16 majority owned company restaurants and (ii) 68 of the 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 ends on the last Tuesday in December. Fiscal years 2015 and 2014 were 52 weeks in length, while the quarters for those years were 13 weeks in length. Fiscal year 2013 was 53 weeks in length and, as such, the fourth quarter of fiscal 2013 was 14 weeks in length.

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 Texas Roadhouse and Bubba’s 33 restaurants in existing markets and in new domestic and international markets. Domestically, we will remain focused primarily on mid sized 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. 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 2015, we opened 29 restaurants including 24 Texas Roadhouses, four Bubba's 33s and one Jagers. We currently plan to open approximately 30 company restaurants in 2016 including approximately seven Bubba's 33

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restaurants. In addition, we anticipate our existing franchise partners will open as many as six, primarily international, Texas Roadhouse restaurants in 2016.

Our average capital investment for Texas Roadhouse restaurants opened during 2015, including pre-opening expenses and a capitalized rent factor, was \$4.7 million, which is lower than our average capital investment in 2014 of \$5.1 million. Our 2014 average capital investment was higher than 2015 primarily due to higher building costs at certain locations, such as Anchorage, Alaska and the New York, New York vicinity, along with higher pre-opening costs due to unexpected delays in restaurant openings throughout the year. We expect our average capital investment for Texas Roadhouse restaurants opening in 2016 to be approximately \$4.8 million. We continue to focus on driving sales and managing restaurant development costs in order to further increase our restaurant development in the future.

For 2015, the average capital investment, including pre-opening costs, for the four Bubba's 33 restaurants opened during the year was \$6.0 million. We expect our average capital investment for Bubba's 33 restaurants opening in 2016 to be \$5.7 million to \$6.0 million.

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 (union or non-union), local permitting requirements, our ability to negotiate with landlords, cost of liquor and other licenses and hook-up fees and geographical location.

We may, at our discretion, add franchise restaurants, domestically and/or internationally, primarily with franchisees who have demonstrated prior success with Texas Roadhouse or other restaurant concepts and in markets in which the franchisee demonstrates superior knowledge of the demographics and restaurant operating conditions. In conjunction with this strategy, we signed our first international franchise development agreement in 2010 for the development of Texas Roadhouse restaurants in eight countries in the Middle East over a ten year period. In 2015, we amended our agreement in the Middle East to add one additional country to the territory. We currently have eight restaurants open in three countries in the Middle East. In addition to the Middle East, we currently have signed franchise development agreements for the development of Texas Roadhouse restaurants in Taiwan, the Philippines and Mexico. We currently have two restaurants open in Taiwan. Additionally, in 2010, we entered into a joint venture agreement with a casual dining restaurant operator in China for a minority ownership in four non-Texas Roadhouse restaurants, all of which are currently open. We continue to explore opportunities in other countries for international expansion. We may also look to acquire domestic franchise restaurants under terms favorable to the Company and our stockholders.

Additionally, from time to time, we will evaluate potential mergers, acquisitions, joint ventures or other strategic initiatives to acquire or develop additional concepts either domestically and/or internationally.

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. 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 sales, in any given year, depending on the level of inflation we experience. In addition to restaurant margin, as a percentage of restaurant 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 guest traffic counts, 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. In order to attract new guests and increase the frequency of visits of our existing guests, we also continue to drive various localized marketing programs, to focus on speed of service and to increase throughput by adding seats in 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 systems, real estate, human resources, legal, marketing, international and operations, including the development of new concepts. 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

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time and our long term strategy includes increasing our regular quarterly dividend amount over time. On February 19, 2016, our Board of Directors declared a quarterly dividend of \$0.19 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 and other contractual restrictions, or other factors deemed relevant.

In 2008, our Board of Directors approved our first stock repurchase program. Since then, we have paid \$212.4 million through our authorized stock repurchase programs to repurchase 14,730,151 shares of our common stock at an average price per share of \$14.42. 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 29, 2015, \$74.0 million remains authorized for repurchase.

Key Operating Personnel

Key management personnel who have a significant impact on the performance of our restaurants include kitchen managers, service managers, assistant managers and managing partners and market partners. Managing partners are single unit operators who have primary responsibility for the day-to-day operations of the entire restaurant and are responsible for maintaining the standards of quality and performance we establish. Kitchen and service managers have primary responsibility for overseeing the operations of their respective areas and, along with assistant managers, support the managing partners. Market partners oversee up to 10 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 new restaurant site selection process. 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 and market partners includes a base salary plus a percentage of the pre tax net income of the restaurant(s) they operate or supervise. Managing and market partners are eligible to participate in our equity incentive plan and, as a general rule, are 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 operating 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-owned 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 later fiscal period 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 sales for company owned Texas Roadhouse restaurants open for a full six months before the beginning of the period measured. Average unit volume excludes sales on restaurants closed during the period. Growth in average unit volume in excess of comparable restaurant sales growth is generally an indication that newer restaurants are operating with sales levels in excess of the company average. Conversely, growth in average unit volume less than growth in comparable restaurant sales growth is generally an indication that newer restaurants are operating with sales levels lower than the company average.

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

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Restaurant Margin. Restaurant margin represents restaurant sales less operating costs, including cost of sales, labor, rent and other operating costs. Depreciation and amortization expense, substantially all of which relates to restaurant level assets, is excluded from restaurant operating costs and is shown separately as it represents a non-cash charge for the investment in our restaurants. Restaurant margin is widely regarded as a useful metric by which to evaluate restaurant level operating efficiency and performance. Restaurant margin is not a measurement determined in accordance with generally accepted accounting principles ("GAAP") and should not be considered in isolation, or as an alternative, to income from operations or other similarly titled measures of other companies. Restaurant margin, as a percentage of restaurant sales, may fluctuate based on inflationary pressures, commodity costs and wage rates. As such, we also focus on the growth of restaurant margin dollars per store week as a measure of restaurant level profitability as it provides additional insight on operating performance.

Other Key Definitions

Restaurant Sales. Restaurant sales include gross food and beverage sales, net of promotions and discounts, for all company owned 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.

Franchise Royalties and Fees. Domestic franchisees typically pay a \$40,000 initial franchise fee for each new restaurant. In addition, at each renewal period, we receive a fee equal to the greater of 30% of the then-current initial franchise fee or \$10,000 to \$15,000. Franchise royalties consist of royalties in an amount up to 4.0% of gross sales, as defined in our franchise agreement, paid to us by our domestic franchisees. In addition, fees paid to us by our international franchisees are included in franchise royalties and fees. The terms of the international agreements may vary significantly from our domestic agreements.

Restaurant Cost of Sales. Restaurant cost of sales consists of food and beverage 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 and gift card fees, gift card breakage income 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") includes 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, associated with restaurants where the carrying amount of the asset is not recoverable and exceeds the fair value of the asset and expenses associated with the closure of a restaurant. Closure costs also include any gains or losses

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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 the net amount of advertising costs incurred less amounts remitted by company and franchise restaurants. Supervision and accounting fees received from certain franchise restaurants are offset against G&A. G&A also includes share based compensation expense related to executive officers, support center employees and area managers, including market partners. The realized and unrealized holding gains and losses related to the investments in our deferred compensation plan, as well as offsetting compensation expense, are also recorded in G&A.

Interest Expense, 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 29, 2015, we owned a 5.0% to 10.0% equity interest in 24 franchise restaurants. As of December 30, 2014 and December 31, 2013, we owned a 5.0% to 10.0% equity interest in 23 franchise restaurants. While we exercise significant control over these Texas Roadhouse franchise restaurants, we do not consolidate their financial position, results of operations or cash flows as it is immaterial to our consolidated financial position, results of operations and/or cash flows. Additionally, as of December 29, 2015 and December 30, 2014, 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 29, 2015 and December 30, 2014 included 16 majority owned restaurants, all of which were open. Our consolidated subsidiaries at December 31, 2013 included 15 majority owned restaurants, all of which were open.

2015 Financial Highlights

Total revenue increased \$225.2 million or 14.2% to \$1.8 billion in 2015 compared to \$1.6 billion in 2014 primarily due to the opening of new restaurants combined with an increase in average unit volume driven by comparable restaurant sales growth. Comparable restaurant sales growth increased 7.2% at company restaurants in 2015.

Restaurant margin, as a percentage of restaurant sales, decreased 30 basis points to 17.3% in 2015 compared to 17.6% in 2014 primarily due to commodity inflation in 2015.

Net income increased \$9.9 million or 11.3% to \$96.9 million in 2015 compared to \$87.0 in 2014 primarily due to the increase in restaurant margin partially offset by higher G&A and depreciation costs. Diluted earnings per share increased 11.1% to \$1.37 from \$1.23 in the prior year.

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	Results of Operations					
	Fiscal Year					
	2015		2014		2013	
	\$	%	\$	%	\$	%
Consolidated Statements of Income:						
Revenue:						