Texas Roadhouse, Inc.
Form 10-Q
November 02, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 25, 2018

OR

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

For the transition period from to

Commission File Number 000-50972

Texas Roadhouse, Inc.

(Exact name of registrant specified in its charter)

Delaware	20-1083890
(State or other jurisdiction of	(IRS Employer

incorporation or organization) Identification Number)

6040 Dutchmans Lane, Suite 200

Louisville, Kentucky 40205

(Address of principal executive offices) (Zip Code)

(502) 426-9984

(Registrant’s telephone number, including area code)

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

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

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

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

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

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

The number of shares of common stock outstanding were 71,550,183 on October 24, 2018.

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PART I — FINANCIAL INFORMATION

ITEM 1 — FINANCIAL STATEMENTS

Texas Roadhouse, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

(unaudited)

	September 25, 2018	December 26, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 151,190	$ 150,918
Receivables, net of allowance for doubtful accounts of $27 at September 25, 2018 and $43 at December 26, 2017	34,804	76,496
Inventories, net	16,336	16,306
Prepaid income taxes	779	—
Prepaid expenses	13,046	13,361
Total current assets	216,155	257,081
Property and equipment, net of accumulated depreciation of $583,750 at September 25, 2018 and $527,710 at December 26, 2017	940,955	912,147
Goodwill	121,040	121,040
Intangible assets, net of accumulated amortization of $13,231 at September 25, 2018 and $12,675 at December 26, 2017	2,144	2,700
Other assets	44,532	37,655
Total assets	$ 1,324,826	$ 1,330,623
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt and obligation under capital lease	$ 10	$ 9
Accounts payable	55,021	57,579
Deferred revenue-gift cards	87,947	156,627
Accrued wages	32,945	29,678
Income taxes payable	3,508	2,494
Accrued taxes and licenses	24,835	21,997
Dividends payable	17,884	14,945
Other accrued liabilities	50,327	46,669
Total current liabilities	272,477	329,998
Long-term debt and obligation under capital lease, excluding current maturities	1,973	51,981

Stock option and other deposits	7,300	7,699
Deferred rent	46,285	42,141
Deferred tax liabilities, net	7,102	5,301
Other liabilities	48,391	42,112
Total liabilities	383,528	479,232
Texas Roadhouse, Inc. and subsidiaries stockholders’ equity:		
Preferred stock ($0.001 par value, 1,000,000 shares authorized; no shares issued or outstanding)	—	—
Common stock ($0.001 par value, 100,000,000 shares authorized, 71,545,237 and 71,168,897 shares issued and outstanding at September 25, 2018 and December 26, 2017, respectively)	72	71
Additional paid-in-capital	250,480	236,548
Retained earnings	675,909	602,499
Accumulated other comprehensive loss	(206)	(39)
Total Texas Roadhouse, Inc. and subsidiaries stockholders’ equity	926,255	839,079
Noncontrolling interests	15,043	12,312
Total equity	941,298	851,391
Total liabilities and equity	$ 1,324,826	$ 1,330,623

See accompanying notes to condensed consolidated financial statements.

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Texas Roadhouse, Inc. and Subsidiaries

Condensed Consolidated Statements of Income and Comprehensive Income

(in thousands, except per share data)

(unaudited)

	13 Weeks Ended		39 Weeks Ended	
	September 25, 2018	September 26, 2017	September 25, 2018	September 26, 2017
Revenue:				
Restaurant and other sales	$ 589,704	$ 536,341	$ 1,836,179	$ 1,661,821
Franchise royalties and fees	4,891	4,166	15,358	12,634
Total revenue	594,595	540,507	1,851,537	1,674,455
Costs and expenses:				
Restaurant operating costs (excluding depreciation and amortization shown separately below):				
Cost of sales	191,990	176,498	598,824	545,862
Labor	197,621	169,355	593,298	514,287
Rent	12,330	11,257	36,300	33,238
Other operating	91,946	83,679	279,182	254,176
Pre-opening	4,378	4,548	13,529	14,302
Depreciation and amortization	25,843	23,534	75,492	69,236
Impairment and closure	20	2	128	13
General and administrative	35,023	26,123	100,202	94,594
Total costs and expenses	559,151	494,996	1,696,955	1,525,708
Income from operations	35,444	45,511	154,582	148,747
Interest expense, net	168	500	810	1,211
Equity income from investments in unconsolidated affiliates	(381)	(359)	(1,150)	(1,149)
Income before taxes	35,657	45,370	$ 154,922	$ 148,685
Provision for income taxes	5,398	13,046	22,321	41,159
Net income including noncontrolling interests	30,259	32,324	$ 132,601	$ 107,526
Less: Net income attributable to noncontrolling interests	1,134	1,310	4,708	4,618
Net income attributable to Texas Roadhouse, Inc. and subsidiaries	$ 29,125	$ 31,014	$ 127,893	$ 102,908
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustment, net of tax of $54, ($55), $46 and ($82), respectively	(159)	88	(167)	131
Total other comprehensive (loss) income, net of tax	(159)	88	(167)	131
Total comprehensive income	$ 28,966	$ 31,102	$ 127,726	$ 103,039
Net income per common share attributable to Texas Roadhouse, Inc. and subsidiaries:				

Basic	$ 0.41	$ 0.44	$ 1.79	$ 1.45
Diluted	$ 0.40	$ 0.43	$ 1.78	$ 1.44
Weighted average shares outstanding:				
Basic	71,508	71,067	71,429	70,939
Diluted	72,006	71,532	71,906	71,449
Cash dividends declared per share	$ 0.25	$ 0.21	$ 0.75	$ 0.63

See accompanying notes to condensed consolidated financial statements.

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Texas Roadhouse, Inc. and Subsidiaries

Condensed Consolidated Statement of Stockholders' Equity

(in thousands, except share and per share data)

(unaudited)

	Shares	Par Value	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Texas Roadhouse, Inc. and Subsidiaries	Noncontrolling Interests	Total
Balance, December 26, 2017	71,168,897	$ 71	$ 236,548	$ 602,499	$ (39)	$ 839,079	$ 12,312	$ 851,391
Net income	—	—	—	127,893	—	127,893	4,708	132,601
Other comprehensive loss, net	—	—	—	—	(167)	(167)	—	(167)
Noncontrolling interests contribution	—	—	—	—	—	—	2,551	2,551
Contribution from executive officer	—	—	1,000	—	—	1,000	—	1,000
Distributions to noncontrolling interest holders	—	—	—	—	—	—	(4,481)	(4,481)
Acquisition of noncontrolling interest	—	—	(75)	—	—	(75)	(47)	(122)
Dividends declared ($0.75 per share)	—	—	—	(53,605)	—	(53,605)	—	(53,605)
Shares issued under share-based compensation plans including tax effects	580,861	1	(1)	—	—	—	—	—
Indirect repurchase of shares for minimum	(204,521)	—	(11,812)	—	—	(11,812)	—	(11,812)

tax withholdings								
Cumulative effect of change in accounting principle	—	—	—	(878)	—	(878)	—	(878)
Share-based compensation	—	—	24,820	—	—	24,820	—	24,820
Balance, September 25, 2018	71,545,237	$ 72	$ 250,480	$ 675,909	$ (206)	$ 926,255	$ 15,043	$ 941,298

See accompanying notes to condensed consolidated financial statements.

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Texas Roadhouse, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(in thousands)

(unaudited)

	39 Weeks Ended	
	September 25, 2018	September 26, 2017
Cash flows from operating activities:		
Net income including noncontrolling interests	$ 132,601	$ 107,526
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	75,492	69,236
Deferred income taxes	2,146	(5,647)
Loss on disposition of assets	4,339	3,490
Contribution from executive officer	1,000	—
Equity income from investments in unconsolidated affiliates	(1,150)	(1,149)
Distributions of income received from investments in unconsolidated affiliates	521	585
Provision for doubtful accounts	16	19
Share-based compensation expense	24,820	18,826
Changes in operating working capital:		
Receivables	41,676	31,129
Inventories	(30)	805
Prepaid expenses	315	1,689
Other assets	(6,582)	(5,729)
Accounts payable	918	(3,162)
Deferred revenue—gift cards	(68,680)	(59,302)
Accrued wages	3,267	3,541
Prepaid income taxes and income taxes payable	235	9,535
Accrued taxes and licenses	2,838	3,785
Other accrued liabilities	2,593	3,536
Deferred rent	4,144	4,158
Other liabilities	5,100	5,199
Net cash provided by operating activities	225,579	188,070
Cash flows from investing activities:		
Capital expenditures—property and equipment	(110,906)	(117,037)
Acquisition of franchise restaurants, net of cash acquired	—	(16,528)
Net cash used in investing activities	(110,906)	(133,565)
Cash flows from financing activities:		
Debt issuance costs	—	(476)
Proceeds from noncontrolling interest contribution	2,551	3,457
Distributions to noncontrolling interest holders	(4,481)	(4,042)
Proceeds from stock option and other deposits, net	14	438
Indirect repurchase of shares for minimum tax withholdings	(11,812)	(10,097)

Principal payments on long-term debt and capital lease obligation	(50,007)	(555)
Proceeds from exercise of stock options	—	1,485
Dividends paid to shareholders	(50,666)	(43,223)
Net cash used in financing activities	(114,401)	(53,013)
Net increase in cash and cash equivalents	272	1,492
Cash and cash equivalents—beginning of period	150,918	112,944
Cash and cash equivalents—end of period	$ 151,190	$ 114,436
Supplemental disclosures of cash flow information:		
Interest paid, net of amounts capitalized	$ 568	$ 948
Income taxes paid	$ 19,940	$ 37,271
Capital expenditures included in current liabilities	$ 9,415	$ 5,470

See accompanying notes to condensed consolidated financial statements.

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Texas Roadhouse, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

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

(unaudited)

(1) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Texas Roadhouse, Inc. ("TRI"), our wholly-owned subsidiaries and subsidiaries in which we have a controlling interest (collectively the "Company," "we," "our" and/or "us") as of September 25, 2018 and September 26, 2017 and for the 13 and 39 weeks ended September 25, 2018 and September 26, 2017.

As of September 25, 2018, we owned and operated 479 restaurants and franchised an additional 91 restaurants in 49 states and eight foreign countries. Of the 479 company restaurants that were operating at September 25, 2018, 460 were wholly-owned and 19 were majority-owned. Of the 91 franchise restaurants, 70 were domestic restaurants and 21 were international restaurants.

As of September 26, 2017, we owned and operated 455 restaurants and franchised an additional 85 restaurants in 49 states and six foreign countries. Of the 455 company restaurants that were operating at September 26, 2017, 437 were wholly-owned and 18 were majority-owned. Of the 85 franchise restaurants, 70 were domestic restaurants and 15 were international restaurants.

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

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

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our consolidated financial position, results of operations and cash flows for the periods presented. The unaudited condensed consolidated financial statements have been prepared in accordance with GAAP, except that certain information and footnotes have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission ("SEC"). Operating results for the 13 and 39 weeks ended September 25, 2018 are not necessarily indicative of the results that may be expected for the year ending December 25, 2018. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 26, 2017.

Our significant interim accounting policies include the recognition of income taxes using an estimated annual effective tax rate.

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(2) Recent Accounting Pronouncements

Revenue Recognition

(Accounting Standards Codification 606, "ASC 606")

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

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

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

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

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

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

	September 25, 2018		
	As Reported	Balances Without Adoption of ASC 606	Adoption Impact of ASC 606
Balance Sheet			
Liabilities			
Deferred tax liabilities, net	$ 7,102	$ 7,398	$ (296)
Other liabilities, non-current	48,391	47,223	1,168
Equity			
Retained earnings	$ 675,909	$ 676,781	$ (872)

	13 Weeks Ended September 25, 2018			39 Weeks Ended September 25, 2018		
	As Reported	Balances Without Adoption of ASC 606	Adoption Impact of ASC 606	As Reported	Balances Without Adoption of ASC 606	Adoption Impact of ASC 606
Income Statement						
Revenue						
Restaurant and other sales	$ 589,704	$ 590,928	$ (1,224)	$ 1,836,179	$ 1,840,678	$ (4,499)
Franchise royalties and fees	4,891	4,299	592	15,358	13,529	1,829
Costs and expenses						
Other operating	91,946	93,170	(1,224)	279,182	283,681	(4,499)
General and administrative	35,023	34,439	584	100,202	98,383	1,819
Provision for income taxes	5,398	5,396	2	22,321	22,317	4
Net Income	$ 29,125	$ 29,119	$ 6	$ 127,893	$ 127,887	$ 6

Statement of Cash Flows

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

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

Income Taxes

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

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

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Compensation – Stock Compensation

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

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

Leases

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

In February 2016, the FASB issued ASU 2016-02, Leases, which requires an entity to recognize a right-of-use asset and a lease liability for virtually all leases. This update also requires additional disclosures about the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 (our 2019 fiscal year). In March 2018, the FASB approved an amendment that allowed a modified retrospective approach and new required lease disclosures for all leases existing or entered into after either the beginning of the year of adoption or the earliest comparative period in the consolidated financial statements. We currently plan to adopt ASU 2016-02 using a modified retrospective approach as of the beginning of the year of adoption. We plan to take advantage of the transition package of practical expedients permitted within the new standard which will allow us to carryforward the historical lease classification. We also plan to elect the hindsight practical expedient to determine the reasonably certain lease term for existing leases.

We had operating leases with remaining rental payments of approximately $894.6 million as of September 25, 2018. The discounted minimum remaining rental payments will be the starting point for determining the right-of-use asset and lease liability. While we are still in the process of assessing the impact of this new standard on our consolidated financial position, results of operations and cash flows, we expect the adoption of this standard will have a material impact on our consolidated financial position due to the recognition of the right-of-use asset and lease liability related to operating leases. While the new standard is also expected to impact the measurement and presentation of elements of expenses and cash flows related to leasing arrangements, we do not presently believe there will be a material impact on our consolidated results of operations, cash flows, or the related notes.

Financial Instruments

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

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

Goodwill

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

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which simplifies the accounting for goodwill impairment and is expected to reduce the cost and complexity of accounting for goodwill. ASU 2017-04 removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. Instead, goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of the goodwill. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019 (our 2020 fiscal year) and will be applied on a prospective basis. Early adoption is permitted for interim and annual goodwill impairment tests performed on testing dates after January 1, 2017. We are currently assessing the impact of this new standard on our consolidated financial position, results of operations and cash flows.

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Fair Value Measurements

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

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

(3) Revenue

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

	13 Weeks Ended September 25, 2018	39 Weeks Ended September 25, 2018
Restaurant and other sales	$ 589,704	$ 1,836,179
Franchise royalties	4,249	13,069
Franchise fees	642	2,289
Total revenue	$ 594,595	$ 1,851,537

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

Other sales include the amortization of gift card breakage and fees associated with third party gift card sales. We record deferred revenue for gift cards that have been sold but not yet redeemed. When the gift cards are redeemed, we recognize restaurant sales and reduce deferred revenue. For some of the gift cards that are sold, the likelihood of redemption is remote. When the likelihood of a gift card's redemption is determined to be remote, we record a breakage adjustment and reduce deferred revenue by the amount never expected to be redeemed. We use historic gift card redemption patterns to determine when the likelihood of a gift card's redemption becomes remote and have determined that approximately 4% of the value of the gift cards sold by our company and our third party retailers will never be redeemed. This breakage adjustment is recorded consistent with the historic redemption pattern of the associated gift card. In addition, we incur fees on all gift cards that are sold through third party retailers. These fees are also deferred and recorded consistent with the historic redemption pattern of the associated gift cards. For the 13 and 39 weeks ended September 25, 2018, we recognized gift card fees, net of gift card breakage income, of approximately $1.2 million and $4.5 million, respectively. Total deferred revenue related to our gift cards is included in deferred revenue-gift cards in our unaudited condensed consolidated balance sheets and includes the full value of unredeemed gift cards less the amortized portion of the breakage rates and the unamortized portion of third party fees. As of September 25, 2018 and December 26, 2017, our deferred revenue balance related to gift cards was approximately $87.9 million and $156.6 million, respectively. This change was primarily due to the redemption of gift cards partially offset by the sale of additional gift cards. We recognized sales of approximately $12.9 million and $99.3 million for the 13 and 39 weeks ended September 25, 2018, respectively, related to the amount in deferred revenue as of December 26, 2017.

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

Franchise fees are all remaining fees from our franchisees including initial fees, upfront fees from international agreements, fees paid to our domestic marketing and advertising fund, and fees for supervisory and administrative services. Our franchise agreements typically require the franchisee to pay an initial, non-refundable fee. Subject to our approval and payment of a renewal fee, a franchisee may generally renew the franchise agreement upon its expiration. These initial fees and renewal fees are deferred and recognized over the term of the agreement. We also enter into area

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development agreements for the development of international Texas Roadhouse restaurants. Upfront fees from development agreements are deferred and recognized on a pro-rata basis over the term of the individual restaurant franchise agreement as restaurants under the development agreement are opened. Our domestic franchise agreement also requires our franchisees to remit 0.3% of sales to our system-wide marketing and advertising fund. These amounts are recognized as revenue as the corresponding franchise restaurant sales occur. Finally, we perform supervisory and administrative services for certain franchise restaurants for which we receive management fees, which are recognized as the services are performed. Total deferred revenue related to our franchise agreements is included in other liabilities in our unaudited condensed consolidated balance sheets and was approximately $1.2 million as of September 25, 2018 and December 26, 2017. We recognized revenue of approximately $0.1 million and $0.2 million for the 13 and 39 weeks ended September 25, 2018, respectively, related to the amount in deferred revenue as of December 26, 2017.

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

Long-term debt consisted of the following:

	September 25, 2018	December 26, 2017
Obligation under capital lease	$ 1,983	$ 1,990
Revolver	—	50,000
	1,983	51,990
Less current maturities	10	9
	$ 1,973	$ 51,981

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

The terms of the Amended Credit Agreement require us to pay interest on outstanding borrowings at the London Interbank Offered Rate ("LIBOR") plus a margin of 0.875% to 1.875% and to pay a commitment fee of 0.125% to 0.30% per year on any unused portion of the revolving credit facility, in each case depending on our leverage ratio, or the Alternate Base Rate, which is the highest of the issuing banks' prime lending rate, the Federal Reserve Bank of New York rate plus 0.50% or the Adjusted Eurodollar Rate for a one month interest period on such day plus 1.0%. In April 2018, we paid off our outstanding credit facility of $50.0 million. The weighted-average interest rate for the amended revolving credit facility as of September 25, 2018 and December 26, 2017 was 3.11% and 2.37%, respectively. As of September 25, 2018, we had $192.3 million of availability, net of $7.7 million of outstanding letters of credit.

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

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(5) Income Taxes

A reconciliation of the statutory federal income tax rate to our effective tax rate for the 13 and 39 weeks ended September 25, 2018 and September 26, 2017 is as follows:

	13 Weeks Ended		39 Weeks Ended	
	September 25, 2018	September 26, 2017	September 25, 2018	September 26, 2017
Tax at statutory federal rate	21.0 %	35.0 %	21.0 %	35.0 %
State and local tax, net of federal benefit	3.8	3.4	3.8	3.4
FICA tip tax credit	(8.3)	(7.1)	(9.1)	(7.1)
Work opportunity tax credit	(1.9)	(0.9)	(1.5)	(0.8)
Stock compensation	(1.4)	(0.9)	(1.4)	(2.0)
Net income attributable to noncontrolling interests	(1.2)	(1.1)	(0.8)	(1.1)
Officer compensation	2.3	0.1	1.4	0.1
Other	0.8	0.3	1.0	0.2
Total	15.1 %	28.8 %	14.4 %	27.7 %

Our effective tax rate decreased to 15.1% for the 13 weeks ended September 25, 2018 compared to 28.8% for the 13 weeks ended September 26, 2017. For the 39 weeks ended September 25, 2018, our effective tax rate decreased to 14.4% compared to 27.7% for the 39 weeks ended September 26, 2017. These decreases are driven by new tax legislation that was enacted in late 2017. As a result of the new tax legislation, significant tax changes were enacted including a reduction of the federal corporate tax rate from 35.0% to 21.0%. These changes were generally effective at the beginning of our 2018 fiscal year.

(6)Commitments and Contingencies

The estimated cost of completing capital project commitments at September 25, 2018 and December 26, 2017 was approximately $152.5 million and $150.0 million, respectively.

As of September 25, 2018 and December 26, 2017, we were contingently liable for $15.0 million and $15.6 million, respectively, for seven lease guarantees, listed in the table below. These amounts represent the maximum potential liability of future payments under the guarantees. In the event of default, the indemnity and default clauses in our assignment agreements govern our ability to pursue and recover damages incurred. No material liabilities have been recorded as of September 25, 2018 and December 26, 2017 as the likelihood of default was deemed to be less than probable and the fair value of the guarantees is not considered significant.

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	Lease Assignment Date	Current Lease Term Expiration
Everett, Massachusetts (1)(2)	September 2002	February 2023
Longmont, Colorado (1)	October 2003	